



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

DALLAS, TEXAS
75265-5906

November 12, 1997

Notice 97-104

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

SUBJECT

**Federal Reserve Standardized
Operating Circulars**

DETAILS

As announced in this Bank's Notice 97-77, dated September 25, 1997, new operating circulars are being issued to accommodate interstate branching and the new account structure. The circulars will now be uniform across Federal Reserve districts, which will make it easier for depository institutions to conduct business with multiple Reserve Banks.

The new circulars, which are contracts between a depository institution and its Reserve Bank, will become effective January 2, 1998. With the exception of the circular relating to net settlement arrangements, these circulars replace all existing operating circulars (or bulletins). Although the language included in the new circulars has changed, most agreements now on file with the Dallas Fed will remain valid. However, institutions that maintain reserve or clearing accounts with us or that may borrow from the discount window will need to execute new agreements relating to Operating Circular No. 1, "Account Relationships," and Operating Circular No. 10, "Lending." We will send copies of the new agreements to the appropriate staff at each institution soon and ask that they be completed and returned to us.

The new circulars will not result in significant changes for most institutions. To help identify the changes, we are including a summary for each new operating circular. The summaries give a brief description of the critical changes in, or highlight the key provisions of, the new circulars. Please take time to read these summaries.

For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

Please note that the Treasury has proposed to adopt revisions to 31 CFR Part 203. Since we have already incorporated those revisions in Circular No. 9, "Federal Tax Payments and Treasury Tax and Loan Depositories," the effective date for this circular will be January 2, 1998, or the effective date of Treasury's pending revisions, whichever is later.

As mentioned earlier, Operating Circular No. 11, "Net Settlement Arrangements," is not included in this package. The Federal Reserve is planning changes to this service in 1998. Until those changes have been finalized, the current Net Settlement Operating Circular, dated September 1991, will remain in effect. We will issue a new circular in 1998.

Since collection of noncash items is handled solely by the Jacksonville Branch of the Federal Reserve Bank of Atlanta, the Atlanta Bank will distribute copies of a new noncash operating circular to current senders and paying agents. Copies can be obtained from the Jacksonville Branch by calling (904) 632-1176. The Dallas Fed will continue to accept settlement entries for such transactions for senders and paying agents, or their correspondents, who maintain an account in this District, as specified in Operating Circular No. 1, "Account Relationships."

ENCLOSURES

Enclosed is a binder containing the new operating circulars, a set of tabs, and a table of contents. Also enclosed is a summary for each operating circular.

MORE INFORMATION

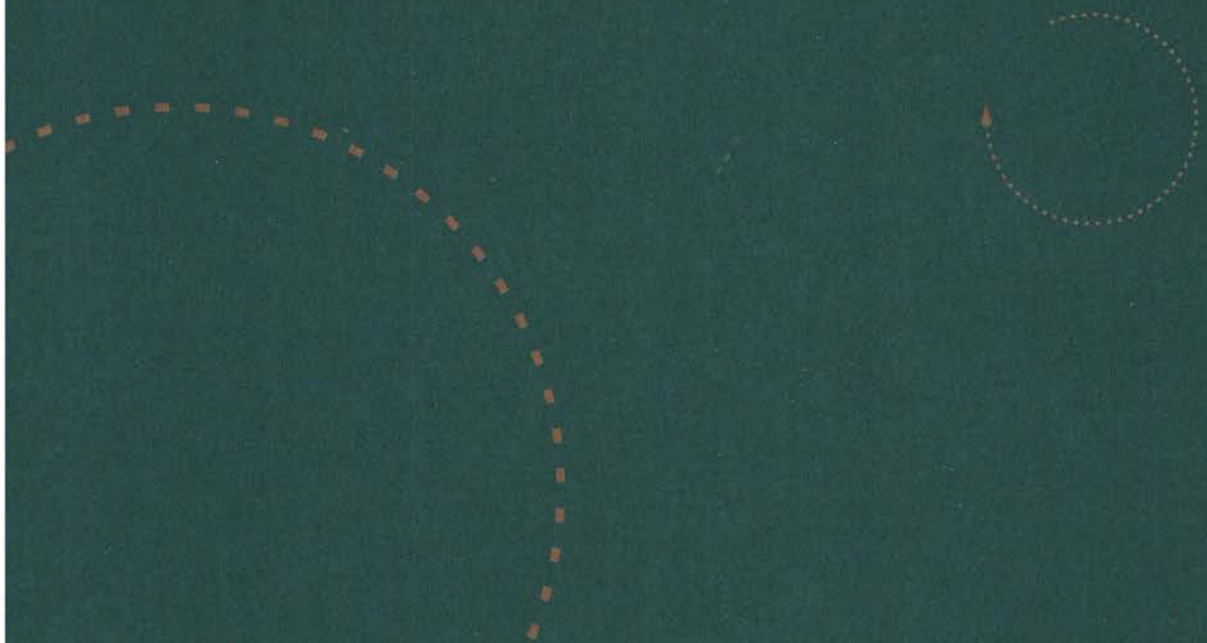
For more information about a particular operating circular, please call the number listed on the table of contents for that circular. Additional binders with operating circulars can be obtained for \$15.00 each. For more information about ordering a binder, contact the Public Affairs Department at (214) 922-5254.

Sincerely,

Helen C. Holcomb

Operating Circular

Federal Reserve Bank of Dallas



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**Account
Relationship**



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ACCOUNT RELATIONSHIPS

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1.0 INTRODUCTION

1.1 SCOPE

This operating circular and appendices ("Circular") establish the terms for opening, maintaining, and terminating master accounts with the Federal Reserve Bank of Dallas ("we" or "us").

This circular amends and supersedes all prior operating circulars that address opening, maintaining, or terminating accounts with any Reserve Bank. Each Reserve Bank has issued an Operating Circular No. 1 identical to this one.

Your master account is subject to Federal Reserve policies, such as those on payments system risk, reserve balances, and clearing balances, as they may be revised from time to time. You also should be familiar with, among others, Reserve Bank Operating Circular No. 10, Lending, and any other Reserve Bank operating circulars for the specific services to which you subscribe.

We can provide copies of these operating circulars, and of Appendices 1-6 of this Circular, on request.

1.2 DEFINITIONS

- a) **Master Account** means the record of financial transactions that reflects the financial rights and obligations of an account holder and the Reserve Bank with respect to each other, and where opening, intraday, and closing balances are determined.
- b) **Subaccount** means an information record of a subset of certain transactions that affect the master account. A subaccount does not reflect balances but does contain totals of debit and credit activity.
- c) **Correspondent** means an institution that has authorized the Reserve Bank to make debits and credits to its master account on behalf of one or more other

(respondent) institutions. The term also includes an institution that maintains reserve balances in its master account on behalf of one or more other (respondent) institutions.

- d) **Respondent** means an institution that settles the debits and credits for some or all of its non-Fedwire Reserve Bank transactions in the master account of another institution (correspondent). The term also includes a nonmember institution that maintains its required reserve balances in the master account of another institution (correspondent).

2.0 ACCOUNT RELATIONSHIPS

2.1 MASTER ACCOUNT

Except as provided below, a separately-chartered institution may maintain a single master account with only one Reserve Bank. This account shall be with the Reserve Bank in whose District the institution is located (see Section 2.2), and this Reserve Bank is known as the "Administrative Reserve Bank." The master account may be used to maintain required reserve balances and other funds or securities balances. Debits and credits arising from transactions conducted by the institution on its own behalf and/or on behalf of others, with or through any Reserve Bank, regardless of location, are posted to the master account.

An institution may have only one master account, except that:

- it may retain, for a transitional period not to exceed 12 months, the master account of a nonsurviving institution with which it has merged or consolidated. The Administrative Reserve Bank may restrict the use of such an account as the Administrative Reserve Bank deems necessary or appropriate;

- a U.S. branch or agency of a foreign bank, an Edge corporation, or an agreement corporation may maintain a single master account, or it may maintain a master account consolidated on a statewide basis for each state in which it has an office. See Section 204.3(i) of Regulation D; and

- we may, in our discretion, allow multiple master accounts in other situations.

If an institution is allowed to have multiple master accounts, any reference in this Circular to “master account” should be read as “master accounts.”

2.2 ELIGIBLE ACCOUNT HOLDERS

You may apply to open a master account with us if you are located in our Federal Reserve District and you are:

- a member bank, as defined in Section 1 of the Federal Reserve Act, 12 U.S.C. § 221;
- a depository institution, as defined in Section 19(b)(1)(A) of the Federal Reserve Act, 12 U.S.C. § 461(b)(1)(A). (Section 19(b)(1)(A) generally defines “depository institution” to include commercial banks, mutual savings banks, federal savings banks, savings and loan associations, credit unions, and bankers’ banks);
- a U.S. branch or agency of a foreign bank, as defined in Section 211.21(d) or (b) of Regulation K, 12 CFR § 211.21(d) or (b);
- an Edge or agreement corporation, as defined in Section 25A or 25 of the Federal Reserve Act, 12 U.S.C. §§ 611 *et seq.*, or §§ 601 *et seq.*; or
- any other entity authorized to apply to open a master account.

You are considered to be located in the Federal Reserve District specified in your charter or organizing certificate (or, if no such location is specified, in the District where your head office is located), unless you have been notified that the Federal Reserve Board has determined otherwise. See Section 204.3(b)(2)(ii) of Regulation D.

2.3 ESTABLISHING AN ACCOUNT

To establish a master account with us, you are expected to execute a Master Account Agreement (Appendix 1). By opening or maintaining a master account with us, you agree to be bound by all the provisions of this Circular and of all other Reserve Bank operating circulars that cover services that you obtain from any Reserve Bank, all as amended from time to time. All master accounts are subject to Reserve Bank approval.

A foreign banking institution must execute the Foreign Banking Institution Account Agreement and exhibits instead of the Master Account Agreement. The Foreign Banking Institution Account Agreement is distributed only on request.

2.4 SUBACCOUNTS

You may establish one or more subaccounts to accommodate your specific informational needs. To establish a subaccount, complete the Subaccount Designation (Appendix 2). If a new routing number (also known as an ABA number) is needed for a subaccount, refer to Section 2.7.

2.5 PASS-THROUGH RELATIONSHIPS

A pass-through relationship allows a non-member respondent to hold its required reserve balances with another institution (correspondent) that maintains a master account with a Reserve Bank.

Balances in the correspondent’s master account are the property of the correspondent and are subject to its sole order.

To establish a pass-through relationship, both the correspondent and the respondent must complete the Pass-Through Agreement (Appendix 3). All pass-through agreements are subject to Reserve Bank approval. We may terminate any pass-through relationship in which the correspondent is deficient in its recordkeeping or other responsibilities. See Section 204.3(i) of Regulation D for pass-through rules.

For a respondent's options in accessing Reserve Bank services, see Section 3.

2.6 AUTHORIZED SIGNATURES

If you wish to draw checks against your master account (Fed funds checks), you must provide us a signature card (Appendix 4) with the signature of each individual who is authorized to sign such a check. We are under no obligation to honor a check if the check is not signed by an individual listed on the signature card or if the account does not contain sufficient actually and finally collected funds to cover the debit and any other debits you owe to us or to any other Reserve Bank. We may pay a check drawn on the master account and signed by any individual listed on the signature card, even if the check directs payment to the order of that person or to any other employee or agent of the account holder, and even if the proceeds may be used for the personal benefit of any such person. See also Section 3.

2.7 ACCOUNT NUMBERS

We use your nine-digit routing number (also known as an ABA number) to identify your master account and to settle transactions processed at any Reserve Bank. We also use routing numbers to identify respondents and subaccounts. Under special circumstances, we may issue a customer identification number if you cannot otherwise obtain a routing number.

2.8 TERMINATING AN ACCOUNT OR RELATIONSHIP

Any Master Account Agreement, Pass-Through Agreement, Transaction Settlement Authorization, or Service Fee Settlement

Authorization that you sign is binding on your successors and assigns, and will continue in effect until amended or terminated as indicated below. You may terminate a master account no earlier than five business days following our receipt of your written notice to us. The notice should indicate the closing date and provide instructions for the transfer of any remaining balance in the account. We may close your master account or terminate our approval of a pass-through relationship at any time but will endeavor to give at least five business days' prior notice. The termination of a pass-through relationship will normally be effective on the last day of a maintenance period.

A respondent may terminate a Pass-Through Agreement, a Transaction Settlement Authorization, or a Service Fee Settlement Authorization no earlier than five business days following our receipt of written notice.

We or a correspondent may terminate a Pass-Through Agreement, a Transaction Settlement Authorization, or a Service Fee Settlement Authorization no earlier than the business day following our receipt of written notice from the correspondent, or the correspondent's written notice from us, except as otherwise specifically provided as to Check and ACH services in our Circulars Nos. 3 and 4.

Termination does not affect liability arising from transactions received before or on the effective date of the termination.

3.0 SETTLEMENT

3.1 SETTLEMENT

Your master account may be used to settle debits and credits arising from transactions you conduct with or through any Reserve Bank (regardless of location). Alternatively, you and a correspondent can provide us with a completed Transaction Settlement Authorization (Appendix 5), instructing us to settle some or all of your transactions in

the correspondent's master account. Exception: Fed funds checks and Fedwire funds and book-entry securities transfers must settle in your own master account. A separate Transaction Settlement Authorization is necessary for each correspondent/respondent relationship.¹ You remain responsible for settling for your transactions and associated fees if for any reason settlement through your correspondent fails.

The Transaction Settlement Authorization (Appendix 5) should be used to designate any subaccount or other transaction types that are not to follow the settlement path of the master account. Transactions recorded in a subaccount may not settle directly in a correspondent's master account.

We may debit a master account as provided by regulation, operating circular, agreement or applicable law.

If you are a respondent that maintains reserve balances with a correspondent in a pass-through relationship, but desire to settle directly for some or all Reserve Bank services, you may, with our approval, open your own master account with us for that purpose.

4.0 STATEMENTS AND REPORTS

4.1 STATEMENT OF ACCOUNT

We send a daily Statement of Account to each institution that maintains a master account with us. You, the account holder, are responsible for verifying the information on each daily statement and promptly notifying us of any error in the statement. If you fail to notify us of an error within 30

calendar days of the date of the entry, you are deemed to have approved the entry. We investigate any notice of error promptly and determine, in our discretion, whether an error actually occurred.

4.2 BILLING AND SETTLEMENT FOR SERVICE CHARGES

A monthly Statement of Service Charges is provided by the seventh business day after the end of each month. Service fees are computed on a calendar month basis, and are charged on the 15th day of the following month (or the next business day), appearing on the daily Statement of Account as FRB Service Charges. Charges can be debited to a correspondent's master account if authorized by a Service Fee Settlement Authorization (Appendix 6)¹. We reserve the right to accelerate the debiting of service charges.

You should notify us as soon as possible if you believe there is an error on your Statement of Service Charges. If you fail to do so within two calendar months of the day you receive the statement, you are deemed to have approved the service charge.

5.0 OVERDRAFTS

5.1 OVERDRAFT POLICY

An overdraft occurs when a master account has a negative balance at any time during the Reserve Bank's business day (daylight overdraft) or at the end of the Reserve Bank's business day (overnight overdraft). We expect you to have a non-negative balance in your master account at the end of each day, although we do allow daylight overdrafts under certain conditions.

1. You need not execute Appendix 5 or Appendix 6 if you have already provided us with a settlement designation, unless you wish to change that designation in some way. A designation executed prior to January 2, 1998, remains in effect until superseded, but is subject to the terms of this Circular beginning on that date.

5.2 COLLECTION OF OVERDRAFTS

An overdraft is due and payable immediately, without the need for a demand from us, at the earliest of the following times:

- at the end of our funds transfer business day for purposes of Fedwire (Regulation J, 12 CFR Part 210, Subpart B);
- when we deem ourselves insecure and give you notice thereof; and
- at the time you suspend payments or are closed.

To secure any overdraft, as well as any other obligation due or to become due to us or to any other Reserve Bank, you grant us a security interest in all of your assets in the possession of any Reserve Bank. In addition, we may, at any time and without demand or notice, set off and apply any deposits or other indebtedness we or another Reserve Bank holds for, or owes to, you, against any of your obligations or liabilities, even if contingent or unmatured, to us or to any other Reserve Bank. This right of set-off is in addition to any other rights we may otherwise have.

6.0 OTHER

6.1 DUTY OF CARE

Unless otherwise stated in this or another Reserve Bank operating circular, our liability to an institution is only for damages proximately suffered by the institution and caused by our failure to exercise ordinary care, and does not include lost profits, claims by third parties, or consequential or incidental damages, even if we have been informed of the possibility of such damages.

6.2 GOVERNING LAW

This Circular shall be construed in accordance with and governed by Federal Law, and the laws of the State in which our head office is located, to the extent such laws are not inconsistent with Federal law.

6.3 RIGHT TO AMEND

The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

Appendix 1

Date: _____
To: Federal Reserve Bank of _____
_____ Office
Attention: _____ Department

MASTER ACCOUNT AGREEMENT

We, the institution named below, agree to all the provisions of Operating Circular No. 1, Account Relationships, of the Federal Reserve Bank named above, and of all operating circulars of each Reserve Bank from which we obtain services, as they may be amended from time to time. The transactions and fees for services obtained through this account will settle in this account unless otherwise requested on a Transaction Fee Settlement Authorization or a Service Fee Settlement Authorization.

This agreement shall become effective on the date indicated below.

For provisions governing termination of this agreement, see Section 2.8 of Circular No. 1.

Name of Institution

Questions regarding the Account
may be directed to

Street Address

Printed Name and Title

City, State, Zip Code

Telephone Number

Official Signature

Date

Alternate:

Printed Name and Title

Printed Name and Title

Routing (ABA) Number

Telephone Number

Effective Date
(to be filled in by the Federal Reserve Bank
and a copy returned to the institution)

Date Received

Federal Reserve Bank Signature

Appendix 2

Date: _____
 To: Federal Reserve Bank of _____
 _____ Office
 Attention: _____ Department

SUBACCOUNT DESIGNATION

We hereby designate the following routing (ABA) number(s) to be a subaccount(s) of our master account. (Attach additional sheets as needed.)

 Name of Institution

 Street Address

 City, State, Zip Code

 Routing (ABA) Number

 Official Signature Date

 Printed Name and Title

 Telephone Number

Subaccount Routing Number	Subaccount Name	Subaccount Address	<i>For Questions regarding Subaccount Activity: Printed Name, Title, and Telephone Number</i>
1. 9999-9999-9	First Bank of America Illinois	1234 Illinois Avenue Suite 1040 Chicago, Ill 99999-9999	David Smith, Vice President (312) 999-9999
2.			
3.			
4.			
5.			

 Effective Date
 (to be filled in by the Federal Reserve Bank
 and a copy returned to the institution)

 Date Received

 Federal Reserve Bank Signature

Appendix 3

Date: _____
To: Federal Reserve Bank of _____
_____ Office
Attention: _____ Department

PASS-THROUGH AGREEMENT

We, the institutions named below, agree to all the provisions of Operating Circular No. 1, Account Relationships, of the Federal Reserve Bank named above and of all operating circulars of each Reserve Bank from which we obtain services, as they may be amended from time to time.

This agreement shall become effective for the reserve maintenance period beginning on the date indicated below.

For provisions governing termination of this agreement, see Section 2.8 of Circular No. 1.

Respondent Agreement

We elect to maintain our required reserve balances on a pass-through basis with the correspondent named below.

Correspondent Agreement

We agree to serve as correspondent for the respondent named below. The required reserve balances for this respondent will be commingled in our master account at the Reserve Bank.

Respondent

Name of Institution

Street Address

City, State, Zip Code

Official Signature Date

Printed Name and Title

Routing (ABA) Number

Correspondent

Name of Institution

Street Address

City, State, Zip Code

Official Signature Date

Printed Name and Title

Routing (ABA) Number

Effective Date
(to be filled in by the Federal Reserve Bank
and a copy returned to the institution)

Date Received

Federal Reserve Bank Signature

Appendix 4

Date: _____
To: Federal Reserve Bank of _____
_____ Office
Attention: _____ Department

OFFICIAL SIGNATURE CARD FOR FED FUNDS CHECKS

I hereby certify that the following is a true copy of a resolution adopted by the Board of Directors of _____, Name of Institution
at a meeting of the Board duly held on _____, at which a quorum was present and acting throughout, and that such Date
resolution is in conformity with the provisions of the charter and by-laws of the institution and that this resolution has not been modified and remains in effect.

Resolved, that any of the _____ officers listed below is authorized to sign checks drawn on our master account Number of
at the Federal Reserve Bank of _____ ("Fed funds checks").

In witness whereof I have hereunto subscribed my name.

Signature of Certifying Official*

Name and Title

Date

Signature of Certifying Official*

Name and Title

Date

* The certifying official must be the cashier, comptroller, secretary, or other officer of similar or higher rank. The official must have the authority to certify the statements in this document and may not be a person listed below. If the institution has a limited number of officers, then this latter requirement will be waived if two officials of the institution certify this document.

OFFICIAL SIGNATURES

Please type names in this space

Please sign in this space

Will Sign _____ Title _____

RULE OUT UNUSED SPACES

Name of Institution

Routing (ABA) Number

Street Address

City, State, Zip code

Effective Date
(to be filled in by the Federal Reserve Bank and a copy returned to the institution)

Date Received

Federal Reserve Bank Signature

Appendix 5

Date: _____
 To: Federal Reserve Bank of _____
 _____ Office
 Attention: _____ Department

TRANSACTION SETTLEMENT AUTHORIZATION

We, the institutions named below, agree to all the provisions of Operating Circular No. 1, Account Relationships, of the Federal Reserve Bank named above and of all operating circulars of each Reserve Bank from which we obtain services, as they may be amended from time to time.

The Reserve Bank is authorized to make debits and credits to the correspondent named below to settle transactions for the respondent named below for the following service categories. Transactions related to Fedwire funds and securities transfers and Fed funds checks cannot settle with a correspondent.

A separate Transaction Settlement Authorization is required for each correspondent/respondent settlement arrangement. Note: The service code is the first two digits of the IAS transaction code.

- | | | |
|--|---|---|
| 1. <input type="checkbox"/> ACH
Service Code 57 | 5. <input type="checkbox"/> Forward Check Collection
(other than Fed Funds Checks)
Service Code 15 | 9. <input type="checkbox"/> Return Checks
Service Code 30 |
| 2. <input type="checkbox"/> Capital
Service Code 66 | 6. <input type="checkbox"/> Loans
Service Code 82 | 10. <input type="checkbox"/> Savings Bonds
Service Code 70 |
| 3. <input type="checkbox"/> Definitive Securities Collection
Service Code 40
<input type="checkbox"/> a. Definitive Safekeeping
<input type="checkbox"/> b. Municipal Coupon and Bond | 7. <input type="checkbox"/> Net Settlement
Service Code 11 | 11. <input type="checkbox"/> Treasury or Government Agency Services
Service Code 08
<input type="checkbox"/> a. Food Coupons
<input type="checkbox"/> b. Treasury Tax & Loan
<input type="checkbox"/> c. EFTPS (non-TT&L customers) |
| 4. <input type="checkbox"/> Currency and Coin
Service Code 63 | 8. <input type="checkbox"/> Redemption or Interest
on Govt. or Agency Securities
(other than Securities Transfers)
Service Codes 20 and 27 | 12. <input type="checkbox"/> Account Charges (other than service fees)
Service Code 84 |

Additional settlement requirements or restrictions for this correspondent/respondent relationship are identified, as follows:

The settlement for service fees will (select one):

- Follow the transaction settlement shown above. (This is the method preferred by the Reserve Bank.) We, the correspondent named below, authorize the use of our earnings credits to offset the service charges selected for the respondent named below. Yes No
 Note: Service charges that settle with the correspondent will not be offset by the respondent's earnings credits.
- Follow the existing service fee settlement authorization (make no changes).
- Follow new settlement instructions. A new Service Fee Settlement Authorization must be attached.

This agreement supersedes authorizations previously executed by the named respondent for each service category selected above and is to become effective on _____ (date). Note: This notice must be received by the Reserve Bank at least five banking days prior to the requested date.

For provisions governing the termination of this authorization, see Section 2.8 of Circular No. 1.

Respondent

 Name of Institution

 Street Address

 City, State, Zip Code

 Official Signature Date

 Printed Name and Title

 Routing (ABA) Number

Correspondent

 Name of Institution

 Street Address

 City, State, Zip Code

 Official Signature Date

 Printed Name and Title

 Routing (ABA) Number

 Date Received
 10

 Federal Reserve Bank Signature

Appendix 6

Date: _____
To: Federal Reserve Bank of _____
_____ Office
Attention: _____ Department

SERVICE FEE SETTLEMENT AUTHORIZATION

We, the institutions named below, agree to all the provisions of Operating Circular No. 1, Account Relationships, of the Federal Reserve Bank named above and of all operating circulars of each Reserve Bank from which we obtain services, as they may be amended from time to time.

The Reserve Bank is authorized to make debits and credits to the correspondent named below to settle service charges for the respondent named below for the following services:

- | | | |
|---|---|--|
| 1. <input type="checkbox"/> ALL SERVICES | 7. <input type="checkbox"/> Forward Check Collection | 13. <input type="checkbox"/> Municipal Coupon and Bond |
| 2. <input type="checkbox"/> Accounting Information Services | 8. <input type="checkbox"/> Currency and Coin | 14. <input type="checkbox"/> Payor Bank Services |
| 3. <input type="checkbox"/> ACH | 9. <input type="checkbox"/> Electronic Access | 15. <input type="checkbox"/> Purchase & Sales |
| 4. <input type="checkbox"/> Book-Entry Securities | 10. <input type="checkbox"/> Electronic Enhanced Checks | 16. <input type="checkbox"/> Return Checks |
| 5. <input type="checkbox"/> Check Float | 11. <input type="checkbox"/> Funds Transfer | 17. <input type="checkbox"/> Other Services _____ |
| 6. <input type="checkbox"/> Check Transportation | 12. <input type="checkbox"/> Net Settlement | _____ |

We, the correspondent named below, authorize the use of our earnings credits to offset the service charges selected for the respondent named below. Note: Service charges that settle with the correspondent will not be offset by the respondent's earnings credits.

Yes No

The service charges selected above will follow the settlement of the correspondent named below, unless otherwise stated here:

This agreement supersedes authorizations previously executed by the named respondent for each service category selected above and is to become effective with the service fees for _____ (month and year). This notice must be received by the Reserve Bank by the last business day of that month.

For provisions governing termination of this authorization, see Section 2.8 of Circular No. 1.

Respondent

Name of Institution

Street Address

City, State, Zip Code

Official Signature Date

Printed Name and Title

Routing (ABA) Number

Correspondent

Name of Institution

Street Address

City, State, Zip Code

Official Signature Date

Printed Name and Title

Routing (ABA) Number

Date Received

Federal Reserve Bank Signature

Operating Circular

Federal Reserve Bank of Dallas



2 Cash Services



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1.0 SCOPE

This Circular contains the provisions that apply to an Institution's cash and food coupon transactions with a Federal Reserve Bank. An Institution that orders cash from, and/or deposits cash and/or food coupons with, a Federal Reserve Bank is, by such action, deemed to have agreed to all the provisions of this Circular, as amended from time to time. Each Federal Reserve Bank has issued an operating circular identical to this Circular.

2.0 DEFINED TERMS

For the purposes of this Circular, the following definitions apply:

2.1 "Account" means an Institution's, or its designated correspondent's, account on the books of a Federal Reserve Bank. See **Operating Circular No. 1, Account Relationships**.

2.2 "BEP" means the Bureau of Engraving and Printing of the Department of the Treasury.

2.3 "Business Day" means any day that we are open for conducting all or substantially all our banking functions, but excludes Saturdays, Sundays and holidays.

2.4 "Cash" means currency and coin.

2.5 "Cash services" means ordering cash from and/or depositing cash with a Federal Reserve Bank.

2.6 "Circular" means this Operating Circular No. 2, Cash Services, and any appendix, exhibit and supplement, as amended from time to time.

2.7 "COIN" —

2.7.1 "current" means coin that is suitable for continued circulation, does not show excessive wear or damage and can be identified readily as to genuineness and denomination;

2.7.2 "uncurrent" means coin that shows excessive wear due to natural abrasion, but that can be identified readily as to genuineness and denomination and is machine countable; and

2.7.3 "mutilated" means coin that has been bent or twisted out of shape, punched, clipped, plugged, fused or defaced but that can be identified as to genuineness and denomination.

2.8 "CURRENCY" —

2.8.1 "fit" means a note that is suitable for continued circulation and is sufficiently clean to allow its genuineness and denomination to be readily ascertained;

2.8.2 "unfit" means a note that is not suitable for further circulation because of its physical condition, such as torn, dirty, limp, worn or defaced;

2.8.3 "mutilated" means a note that has been damaged to the extent that one-half or less of the note remains, or its condition is such that its value is questionable and special examination by trained experts at the Department of the Treasury is required before any exchange is made;

2.8.4 "contaminated" means a note damaged by or exposed to a contaminant to the extent that it cannot be processed under normal operating procedures or may pose a health or safety risk; and

2.8.5 **“non-machineable”** means a note that is readily identifiable as to its face value and which does not pose a health or safety risk, but which you reasonably conclude cannot be processed on our currency processing equipment.

2.9 **“Institution” or “you” and “your”** means an entity that uses cash services provided by, or deposits food coupons with, a Federal Reserve Bank.

2.10 **“Our dock”** means a Federal Reserve Bank’s dock or a dock at an off-site coin terminal we have authorized.

2.11 **“We,” “us” and “our”** means one of the 12 Federal Reserve Banks and its branches.

3.0 OBTAINING CASH SERVICES

3.1 REQUIREMENTS FOR OBTAINING CASH SERVICES

To obtain cash services, you must:

- have an account on the books of a Federal Reserve Bank;
- have access to a communications system designated by us. You are required to maintain the confidentiality and security of any access control features, such as PINs, that we provide to you; and
- have arranged for armored carrier transportation for the cash. If armored carrier transportation is not available, you may, with our prior approval, use the U.S. Postal Service — registered mail (for currency or coin) and fourth class mail (for coin only) — as the means of transportation.

3.2 ORDER AND DEPOSIT FREQUENCY

Per endpoint, normal cash service is one deposit and one order of currency per week, and one deposit and one order of coin per week. We recognize that factors

such as volume and cost may require less frequent service to some endpoints and more frequent service to others.

We may, at our discretion, reduce cash orders to maintain currency and coin inventories. We may refuse cash deposits, defer or reverse credit and/or return deposits if you fail to comply with any of the terms of this Circular. Returns are at your risk and expense.

3.3 CROSS SHIPPING

If you deposit fit currency with us, you may not order currency of the same denomination from us within five business days prior to or following the deposit of that denomination. This practice, known as “cross shipping,” is not permitted at the depositing office level. When practicable, cross shipping should be minimized or eliminated at the depositing Institution level.

4.0 DEPOSITS OF CASH

4.1 CASH THAT MAY BE DEPOSITED

We accept for deposit only genuine U.S. currency and coin. We do not accept foreign or mutilated currency or coin.

You should forward counterfeit or unlawfully altered currency or coin directly to your local U.S. Secret Service office. If we detect counterfeit or unlawfully altered currency or coin in your deposit, we forward it to the Secret Service and charge your account for the difference.

4.2 DEPOSITS OF CURRENCY

You must bundle currency according to denomination. A bundle consists of 1,000 notes of the same denomination in ten equal straps. You should not deposit fit currency with us unless you accumulate a surplus.

You are responsible for piece counting, verifying for authenticity and assembling fit, unfit and non-machineable currency before depositing it with us.

Standard units for currency deposits are as follows:

Currency Deposits

Denomination	Standard Strap (100 notes) Dollar Amount	Standard Bundle (1,000 notes in 10 straps) Dollar Amount	Standard ABA Color Code
Ones	\$100	\$1,000	Blue
Twos	200	2,000	Green
Fives	500	5,000	Red
Tens	1,000	10,000	Yellow
Twenties	2,000	20,000	Violet
Fifties	5,000	50,000	Brown
Hundreds	10,000	100,000	Mustard

Each full strap must have only one strap around it. Straps must be **color-coded** to conform with existing standards of the American Bankers Association (“ABA”). Substraps, which are straps around less than 100 notes which are then combined under one strap of 100 notes, are not permitted.

- dollar amount of currency in the strap;
- identity of the persons who verified the strap; and
- date of verification.

When assembling currency into straps:

- remove any pin, clip, staple and/or rubber band;
- piece count and verify for authenticity the notes in each strap;
- do not mix notes of different denominations in the same strap;
- include only U.S. currency; under no circumstances should coin, food coupons, noncash coupons, securities, checks or other valuables be included; and
- face all notes portrait-side forward.

Each strap must be plainly marked with the following information:

- your name and ABA routing number, and the four-digit identification number of the depositing office. A strap not indicating an office identification number is deemed to be from your head office;

If you deposit currency in amounts exceeding an aggregate of \$50,000 **per week**, deposit in the following basic standard units:

- **full bundles** of the \$1, \$2, \$5, \$10 and \$20 denominations; and
- **full straps or bundles** of the \$50 and \$100 denominations.

If you deposit currency in amounts less than an aggregate of \$50,000 **per week**, or if you deposit currency no more frequently than once each month, deposit in the following units:

- **full bundles** of the \$1 denomination; and
- **full straps or bundles** of the \$2, \$5, \$10, \$20, \$50 and \$100 denominations.

The bags/containers containing your deposit must be securely sealed so that any unauthorized access is easily detected. Use a seal that cannot be compromised without detection and that bears your Institution's identification.

We may refuse a deposit if the integrity of a bag/container appears to have been compromised or if a seal does not effectively deter access to the contents of the bag/container.

4.3 MUTILATED CURRENCY

You should forward mutilated currency (with a letter stating the estimated value of the currency and an explanation of how the currency became mutilated) by Registered Mail, Return Receipt Requested, directly to the following address:

Department of the Treasury
Bureau of Engraving and Printing
OCS, Room 344 BEPA
Post Office Box 37048
Washington, D.C. 20013

The Director of the BEP is the final authority for the settlement of a mutilated currency claim. Information regarding mutilated currency is available on the Internet at www.bep.treas.gov.

4.4 CONTAMINATED CURRENCY

If you receive contaminated currency, you should obtain from your customer as much information regarding the type and extent of the contamination as possible and telephone us for further instructions.

4.5 DEPOSITS OF COIN

You must sort and separately sack coin according to its type (current or uncurrent) and denomination. We do not accept wrapped coin.

You are responsible for piece counting, verifying for authenticity and assembling coin before depositing it with us.

Standard units for coin deposits are as follows:

Coin Deposits

Denomination	Standard Unit Dollar Amount	Standard ABA Color Code
Pennies	\$50	Red
Nickels	200	Blue
Dimes	1,000	Green
Quarters	1,000	Orange
Halves	1,000	Buff
Dollars:		
Eisenhower	1,000	Gray
Susan B. Anthony	2,000	Gray

4.6 CURRENT COIN

Prepare a deposit of current coin as follows:

- piece count and verify the coin;
- do not mix coins of different denominations in the same bag;
- include only U.S. coin; under no circumstances should currency, food coupons, noncash coupons, securities, checks or other valuables be included;
- sack loose coin by denomination in canvas bags. Canvas bags should be in good condition. Sack Susan B. Anthony dollars separately from Eisenhower dollars;
- secure each bag with a lead or plastic seal bearing your Institution's identification; and
- tag each bag with a color-coded tag according to ABA standards, showing denomination, dollar amount, your name and ABA routing number and the four-digit identification number of the depositing office. A bag not indicating an office identification number is deemed to be from your head office.

The bags containing your deposit must be securely sealed so that any unauthorized access is easily detected. Use a seal

that cannot be compromised without detection and that bears your Institution's identification.

We may refuse a deposit if the integrity of a bag appears to have been compromised or if a seal does not effectively deter access to the bag's contents.

4.7 UNCURRENT COIN

Prepare uncurrent coin for deposit in the same manner as current coin. Each denomination of uncurrent coin must be in a separate bag with a tag clearly marked "UNCURRENT COIN."

4.8 MUTILATED COIN

Mutilated coin should be forwarded directly to the U.S. Mint at the following address:

United States Mint
Independence Mall
Post Office Box 400
Philadelphia, PA 19105

Mutilated coin is not redeemable at face value; it is redeemable only at its bullion (metal) value as established by the Director of the U.S. Mint.

4.9 CREDIT FOR DEPOSIT

We credit your account when we accept a cash deposit from you. Credit is subject to

adjustment for any difference, counterfeit or other irregularity we detect when we verify your deposit.

5.0 ORDERS FOR CASH

5.1 CASH PROVIDED

We fill a cash order only with U.S. currency and coin.

5.2 PROCEDURE TO ORDER

You may order cash by using:

- a communications system designated by us, such as the Federal Reserve's Fedline or one of our automated telephone cash systems; or
- in an emergency or other unusual circumstances only, facsimile (FAX) or telephone.

5.3 ORDERS FOR CURRENCY

Place a currency order in accordance with our ordering schedule. You are responsible for verifying the information in your order. If you submit an erroneous or late order, we may charge you for any resulting costs we incur. We cannot guarantee the type of currency (fit or new) used to fill an order.

Standard units for ordering currency are as follows:

Currency Orders

Denomination	Standard Strap (100 notes) Dollar Amount	Standard Bundle (1,000 notes in 10 straps) Dollar Amount	Standard ABA Color Code
Ones	\$100	\$1,000	Blue
Twos	200	2,000	Green
Fives	500	5,000	Red
Tens	1,000	10,000	Yellow
Twenties	2,000	20,000	Violet
Fifties	5,000	50,000	Brown
Hundreds	10,000	100,000	Mustard

If you order currency in amounts exceeding an aggregate of \$50,000 **per week**, order in the following basic standard units:

- **full bundles** of the \$1, \$2, \$5, \$10 and \$20 denominations; and
- **full straps or bundles** of the \$50 and \$100 denominations.

If you order currency in amounts less than an aggregate of \$50,000 **per week**, or if you order currency no more frequently than once each month, order in the following units:

- **full bundles** of the \$1 denomination; and
- **full straps or bundles** of the \$2, \$5, \$10, \$20, \$50 and \$100 denominations.

5.4 ORDERS FOR COIN

Place a coin order in accordance with our ordering schedule. You are responsible for verifying the information in your order. If you submit an erroneous or late order, we may charge you for any resulting costs we incur. We cannot guarantee the type of coin (current or new) used to fill an order.

Standard units for ordering coin are as follows:

Coin Orders

Denomination	Standard Unit Dollar Amount	Standard ABA Color Code
Pennies	\$50	Red
Nickels	200	Blue
Dimes	1,000	Green
Quarters	1,000	Orange
Halves	1,000	Buff
Dollars:		
Eisenhower	1,000	Gray
Susan B. Anthony	2,000	Gray

Since Eisenhower dollars are subject to availability, please call us before ordering them.

5.5 MINT COIN ORDER

For a large coin order, we can arrange for the coin to be shipped directly from the U.S. Mint to you or to another location, at no cost to you. Please contact us to make such arrangements.

When you request that a Mint shipment be sent directly to a third party, Department of the Treasury rules and regulations covering direct shipments of coin to an Institution apply.

5.6 CASH SHIPMENT VERIFICATION

You are responsible for verifying each cash shipment you receive from us¹. We will not honor any claim you make with respect to a shipment of cash that you have not verified in a manner acceptable to us. We suggest that:

- before accepting a cash shipment from an armored carrier, you count the bags/containers and verify the presence of our identification seal on them;
- you examine the integrity of the bags/containers and the seals. If the identification is missing or the seals or bags/containers are imperfect, notify us by telephone; and
- for currency contained in a clear plastic bag, **before opening the bag**, you verify the number of straps and bundles in the bag and check for our imprint on the seal. If a difference is detected or suspected, **do not open the bag**; instead, telephone us for further instructions.

For a shipment received and accepted from an armored carrier intact without any discernible discrepancy:

1. In addition to the procedures described in this section, we require, at a minimum, that you control and verify a cash shipment under dual custody.

- open the shipping bag/container and verify the contents. If there is a difference in your strap and bundle count, note the difference and telephone us immediately for further instructions. If there is a difference in your piece count, follow the instructions in section 6.0 (Handling Differences in Cash).

5.7 DEBIT FOR SHIPMENT

We debit your account when your cash shipment leaves our dock.

6.0 HANDLING DIFFERENCES IN CASH

6.1 NOTICE OF CLAIM

You must give us written notice of any claim for a difference in a cash shipment you receive from us. We must receive the notice within five business days (fifteen for coin) after you receive the cash shipment or we will not be liable for a difference and will not consider the claim. In addition, we will not be liable for and will not consider a claim for a difference if you have paid out uncounted cash received from us or if the claim is submitted by a third party. The notice must be provided on stationery bearing your letterhead and be signed by one of your officers. You must cooperate fully with us and promptly provide such assistance, information and documentation as we deem necessary in our investigation of a difference.

6.2 DIFFERENCE IN FIT CURRENCY

In your notice, provide the following information when reporting a difference in a fit currency shipment:

- amount of the difference, denomination of the difference and whether the difference is an over or short;
- total amount of the shipment;
- date you received the shipment;
- name of the armored carrier company that delivered the shipment;

- date of your verification; and
- identity of the persons who received and verified the shipment.

Along with the notice, enclose:

- the strap containing the difference;
- the entire shrink wrap or polybag;
- the shipping bag (if available);
- a copy of the shipping manifest; and
- the seal from the discrepant package (for a registered mail order).

6.3 DIFFERENCE IN NEW CURRENCY

The BEP determines whether or not to honor a claim regarding a shipment of new currency. In your notice to us, in addition to the information described in Section 6.2, provide the series and serial numbers and suffix letters of the missing or extra notes. Also provide the serial numbers of the notes preceding and following the missing or extra notes.

Along with the notice, enclose:

- the strap containing the difference;
- the entire BEP wrapping. A claim for a missing strap of 100 notes will not be honored if the discrepancy is discovered after the BEP shrink wrap and/or sealing bands have been partially or completely removed;
- shipping bag (if available); and
- copy of the shipping manifest.

6.4 DIFFERENCE IN COIN

In your notice, provide the following information when reporting a difference in a coin shipment:

- amount of the difference, denomination of the difference and whether the difference is an over or short;

- total amount of the shipment;
- date you received the shipment;
- name of the armored carrier company that delivered the shipment;
- date of your verification;
- number of foreign or mutilated coins; and
- identity of the persons who verified the shipment.

Along with the notice, enclose the denomination tag, seals and any other shipping tags from the bag containing the difference.

6.5 DISPUTE OF ADJUSTMENT

You must give us written notice if you dispute an adjustment we make to your cash deposits. The notice must be provided on stationery bearing your letterhead and be signed by one of your officers. The notice must be received by us within five business days of your receipt of the adjustment advice.

7.0 TRANSPORTATION OF CASH

7.1 TRANSPORTATION BY ARMORED CARRIER

You must contract directly with an armored carrier company for cash transportation service and notify us immediately in writing (signed by one of your officers) if you change your armored carrier. You must provide us with a list of names and sample signatures of the armored carrier personnel who are authorized to pick up cash shipments for you at our dock and you must require the armored carrier company to notify us in writing immediately of any changes to the list of authorized personnel. We will accept a deposit from and release a shipment to your armored carrier if we have previously authorized the carrier to access our dock. We may specify the dates and times when your armored carrier is authorized to have access to our dock.

7.2 DEPOSIT/SHIPMENT BY REGISTERED AND FOURTH CLASS MAIL

If you order cash to be shipped by registered mail, you must make arrangements with your local U.S. Postal Service to take delivery of the shipment. If you send currency by registered mail, do not identify the contents on the outside of the package. If you send coin by fourth class mail, contact us for details on sacking and mailing.

7.3 DOCK ACCESS SCHEDULE

Our dock is open to armored carriers every business day except Saturdays, Sundays and holidays. If a holiday falls on a Sunday, the next Monday is not a business day. The standard holidays we observe each year are:

Holiday	Observed On
New Years Day	January 1
Martin Luther King Jr.'s, Birthday	Third Monday in January
Presidents' Day	Third Monday in February
Memorial Day	Last Monday in May
Independence Day	July 4
Labor Day	First Monday in September
Columbus Day	Second Monday in October
Veterans' Day	November 11
Thanksgiving Day	Fourth Thursday in November
Christmas Day	December 25

The New Orleans Branch of the Federal Reserve Bank of Atlanta may close on Mardi Gras.

8.0 RESPONSIBILITIES FOR DEPOSITS AND SHIPMENTS OF CASH

You bear the risk of loss for a deposit of cash until we accept the deposit. For a cash shipment, you bear the risk of loss after the shipment is delivered to your armored carrier at our dock.

When we send you cash by registered mail, we purchase insurance on your behalf and at your expense. However, you bear the risk of loss for a cash shipment after we mail the shipment. If there is a loss, you have the rights of the insured party under that policy. The insurance policy may contain exclusions of coverage upon the occurrence of specified events or if you fail to notify us within a reasonable period of time after the date of mailing that a cash shipment has not been delivered to you.

9.0 FOOD COUPONS

9.1 GENERAL

We handle food coupons under an agreement between the United States Department of Agriculture ("USDA") and the Federal Reserve Banks, acting as fiscal agents of the United States. Deposits of food coupons are also subject to the regulations of the Food and Consumer Service ("FCS") of the USDA, contained in Part 278 of Title 7 of the Code of Federal Regulations. As to matters that the agreement or the regulations do not cover, Regulation J and this Circular apply.

9.2 WHO MAY DEPOSIT

We accept food coupons for redemption only from an Institution that maintains an account with us and that is insured by the Federal Deposit Insurance Corporation or under the Federal Credit Union Act and that has retail stores or wholesale food concerns in its membership.

9.3 FOOD COUPONS THAT WILL NOT BE ACCEPTED

You should send counterfeit or unlawfully altered food coupons directly to your

local U.S. Secret Service office. If we find counterfeit or unlawfully altered food coupons in a deposit, we deliver them to the Secret Service and charge your account for the difference.

You must not accept for redemption portions of a food coupon consisting of less than three-fifths of the whole coupon. Such food coupons must be returned by you to the retailer or wholesaler together with instructions to contact the local FCS field office for a determination as to their redemption value.

9.4 DEPOSIT FREQUENCY

Per endpoint, normal service is one deposit of food coupons per week. We recognize that factors such as volume and cost may require less frequent service to some endpoints and more frequent service to others.

We may refuse food coupon deposits, defer or reverse credit and/or return deposits if you fail to comply with any of the terms of this Circular. Returns are at your risk and expense.

9.5 DEPOSIT OF FOOD COUPONS

You must verify the amount of the coupons deposited for redemption by recording the verified amount on the Redemption Certificate (form FNS 278B) ("RC") submitted with the deposit. A food coupon deposit must contain the verified amount of food coupons being deposited, the completed RC and a completed Food Coupon Deposit Document (form FNS 521) ("FCDD").

Standard units for food coupon deposits are as follows:

Food Coupon Deposits

Denomination	Standard Strap (100 notes) Dollar Amount	Standard Bundle (1,000 notes in 10 straps) Dollar Amount	Standard ABA Color Code
Ones	\$100	\$1,000	Blue
Fives	500	5,000	Red
Tens	1,000	10,000	Yellow

Each full strap must have only one strap around it. Straps must be color-coded to conform with existing standards of the ABA. One strap containing less than 100 food coupons (a "nonstandard strap") is allowed for each denomination of food coupons in a deposit. Each nonstandard strap must be clearly marked with the dollar value of the coupons it contains. Substraps, which are straps around less than 100 food coupons which are then combined under one strap of 100 food coupons, are not permitted.

When assembling food coupons into straps:

- remove any pin, clip, staple and/or rubber band;
- piece count and verify for authenticity the food coupons in each strap;
- do not mix food coupons of different denominations in the same strap;
- include only food coupons; under no circumstances should currency, coin, noncash coupons, securities, checks or other valuables be included;
- verify that each food coupon shows on its back either an authorization number or the name of an authorized retail food store, meal service or wholesale food concern. Each food coupon must be canceled by the first bank that receives it by that bank indelibly marking "PAID" or "CANCELED" on the face of the food coupon. The first bank's name or identifier should be on the food coupon or the strap. Food coupons should not be endorsed by a bank; and
- face all food coupons portrait-side forward.

Each strap must be plainly marked with the following information:

- name and ABA routing number of your Institution and the four-digit identification number of the depositing office. A strap not indicating an office identification number is deemed to be from your head office;

- dollar amount of food coupons in the strap;
- identity of the persons who verified the food coupons; and
- date of verification.

Food coupon deposits should be packaged with the FCDD secured on the outside of the bag. For deposits shipped by registered mail, the FCDD should be placed inside this package.

Since food coupons are considered valuables, they must be shipped to us by either an armored carrier company or registered mail. We reserve the right to refuse any claim concerning a food coupon deposit that is not shipped by armored carrier or registered mail. You bear the risk of loss for food coupons in transit to us. You may wish to insure food coupon shipments.

Bags/containers containing your deposit must be securely sealed so that any unauthorized access is easily detected. Use a seal that cannot be compromised without detection and that bears your Institution's identification. We may refuse a deposit if the integrity of a bag/container appears to have been compromised or if a seal does not effectively deter access to the contents of the bag/container.

9.6 PREPARATION OF REDEMPTION CERTIFICATES

RCs are provided by the USDA to all food concerns authorized to accept food coupons and are preencoded by the USDA with an authorization number and a USDA routing and transit number.

Institutions submitting food coupons to us for redemption must verify the dollar amount of food coupons received from each food concern. The person performing the verification must enter the verified dollar amount on the food concern's RC in the space provided for that purpose, and then must sign, date and teller stamp the RC in the space provided for that purpose on the reverse of the RC. Verifications should be performed at the time the food concern makes its deposit.

Before depositing food coupons with us, each RC must be MICR encoded (Magnetic Ink Character Recognition) with the RC dollar value. Should a food concern submit an RC without preencoded numbers, you must, in addition to the dollar amount, encode on the RC both the USDA routing and transit number (000001009) and the food concern's authorization number (unique to the authorized food concern). RCs must not be encoded with your own ABA routing number. The MICR encoding must conform to both the ABA and the American National Standards for MICR encoding for check items.

9.7 PREPARATION OF FOOD COUPON DEPOSIT DOCUMENTS

Each food coupon deposit must be accompanied by a properly completed FCDD. The total number and dollar amount of each coupon denomination must be shown on the FCDD. Prepare one FCDD for each deposit of food coupons. Instructions for completing the FCDD are on the back of that document.

9.8 BALANCING DEPOSITS

The dollar value of the RC shown on the FCDD must equal the total dollar value of food coupons deposited. The value of the RC included in a deposit also must equal the value of the food coupons. All redeemed food coupons must be accompanied by the associated RC and FCDD.

9.9 CREDIT FOR DEPOSIT

We credit your account when we accept a food coupon deposit from you. Credit is subject to adjustment for any difference, counterfeit and other irregularity we find when we verify your deposit.

10.0 MISCELLANEOUS

10.1 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

This Circular supersedes all previous operating circulars related to currency, coin and food coupon services, including supplements or appendices thereto, issued by us prior to January 2, 1998.

10.2 AMENDMENT

We reserve the right to amend this Circular at any time without advance notice.

Operating Circular

Federal Reserve Bank of Dallas



3 Collection of
Cash Items
and Returned
Checks

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Operating Circular 3

COLLECTION OF CASH ITEMS AND RETURNED CHECKS

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1.0 GENERAL

1.1 Subpart A of Regulation J (12 CFR 210, Subpart A; "Regulation J") of the Board of Governors of the Federal Reserve System ("Board"), Subpart C of Regulation CC (12 CFR 229, Subpart C; "Regulation CC") of the Board, and this operating circular, its appendices, and our time and fee schedules (collectively "Circular") apply to the handling of all cash items that we accept for forward collection and all returned checks that we accept for return. This Circular includes instructions to paying, collecting, returning and depository banks for handling and paying items received from us. This Circular also covers related services we provide. This 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 Circular vary by agreement any inconsistent provisions of the Uniform Commercial Code or of Regulation CC, but only to the extent of the inconsistency.

1.2 Each Reserve Bank has issued a circular identical to this one, except for time and fee schedules, and provisions relating to special services.

1.3 The definitions of terms set forth or incorporated in Regulation J, including terms defined in Regulation CC, apply in this Circular, except as otherwise provided

in this Circular. We note that under the definitions in Regulation J:

- (a) **item** includes a cash item and a returned check;
- (b) **cash item** does not include a returned check; and
- (c) **returned check** includes a cash item, and a check as defined in Regulation CC, that is returned by a paying bank.

Many terms used in this Circular have specialized meanings that have developed through law, custom and commercial usage.

2.0 ITEMS WE HANDLE AS CASH ITEMS

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

- (a) Checks, including postdated checks, payable in a State,¹ and collectible at par;
- (b) Government checks, postal money orders, redeemed savings bonds, and food coupons²;
- (c) Other demand items, collectible at par in funds acceptable to the paying bank's Administrative Reserve Bank; and
- (d) Demand items payable outside of a State collectible at par in funds acceptable

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

2. Provisions governing the collection of Government checks, postal money orders and redeemed savings bonds are contained in Appendices A, B, and C of this Circular. Provisions governing the collection of food coupons are contained in our circular entitled "Cash Services."

to the last collecting Reserve Bank, that we are willing to accept as cash items ("foreign cash items")³.

2.2 When we accept an instrument for credit to ourselves or another Reserve Bank, we handle the instrument as a cash item if it qualifies as a cash item even though it is sent to us by a person other than a "sender," as defined in Section 210.2 of Regulation J.

3.0 ITEMS WE DO NOT HANDLE AS CASH ITEMS

3.1 A sender should not send to us any item if:

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

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

(c) The item consists of more than a single thickness of paper, 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, and we handle a photocopy as provided in paragraph 19;

(d) 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 (May, 1990), before we receive it with: (i) the routing number⁴ of the paying bank (or nonbank payor), and (ii) the dollar amount of the item (unless the sender has requested a special encoding service we provide). We handle such an item as a cash item, however, when we judge that special

circumstances justify such handling, and we handle a photocopy as provided in paragraph 19;

(e) The item does not (i) bear the routing number of the paying bank in fractional form in the upper right corner in at least 8-point type, or (ii) conform to the dimension standards of the American National Standard Specifications for Placement and Location of MICR Printing, X9.13 (May, 1990) (between 2 3/4 and 3 2/3 inches in width, and 6 and 8 3/4 inches in length). We handle such an item as a cash item, however, when we judge that special circumstances justify such handling, and we handle a photocopy as provided in paragraph 19; or

(f) The item has been dishonored two or more times.

3.2 We reserve the right to return an item if we 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. We do not handle an item in the amount of \$100,000,000 or more, and we reserve the right to return items in amounts of less than \$100,000,000 that in our judgment are intended to avoid the \$100,000,000 limit.

3.3 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 it back and return it to the sender. We do not have any responsibility for delay in handling as a cash item an item 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 Circular.

3. Provisions governing the collection of foreign cash items, including Canadian postal money orders payable in U.S. funds, are contained in Appendix D of this Circular.

4. The term "routing number" means a nine-digit number authorized by the Routing Number Policy of the American Bankers Association.

ADDRESS ON CASH ITEM

3.4 If we receive a cash item that does not state on its face the name and a city and state address of the paying bank consistent with the routing number on the item as provided in this paragraph, we reserve the right (i) to refuse to handle the item, and other items bearing the same routing number, or (ii) to present or send the item to any branch or office of the paying bank consistent with section 229.36(b) of Regulation CC. An address is consistent with a routing number if the address is both located in the same Reserve Bank check processing region as the address associated with the routing number in magnetic ink on the item and located in a Reserve Bank availability zone that provides the same (or slower) availability than the routing number address. We will give advance notice to a paying bank and to senders if we determine not to handle items under this paragraph, and we will give advance notice to a paying bank if we determine to present or send items to a branch or office address that is not associated with the routing number on the items.

4.0 DEFINITIVE SECURITIES; NONCASH ITEMS

4.1 Senders may send coupons from obligations of the United States and its agencies and instrumentalities to us for credit by us, as fiscal agent of the obligor, subject to final payment by 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.

4.2 Reserve Banks do not generally collect noncash items, but certain Reserve Banks collect definitive securities as non-cash items. A sender may send definitive municipal securities to the Jacksonville Branch of the Federal Reserve Bank of Atlanta for collection as noncash items, pursuant to its operating circular regarding this service. If a sender desires that we handle a noncash item (other than a security), the sender must first obtain the prior

approval of an official of this Reserve Bank's securities services department and execute an appropriate agreement with us.

5.0 PREPARATION OF CASH LETTERS AND RETURN LETTERS

5.1 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 routing number, if any.

5.2 Each sender (or paying or returning bank) should keep records that permit it to identify its depositor or indorser on a cash item or returned check in case the item is lost or destroyed and charged back to it. We do not usually keep copies or descriptions of items. We are not responsible for keeping records of items in end-point-sorted (fine sort) 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 reimbursement from another person for a sender's (or paying or returning bank's) costs or other loss, except as provided in Appendix A concerning Government checks.

5.3 We may require that cash items be separately sorted from returned checks, except as otherwise provided in our procedures. We reserve the right to require banks located in a city, town 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 categories of items to be sent to a specific office of this Reserve Bank. Our time schedules contain other instructions for sorting and listing items.

INDORSEMENTS

5.4 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 a 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 end-point-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

5.5

(a) We reserve the right to refuse to accept a deposit of a check if in our judgment 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 incurred by us (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check at the time of deposit.

(b) A bank issuing a check drawn on this Reserve 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 incurred by us (including attorneys' fees and expenses of litigation) as a result of the condition of the back of the check when issued.

6.0 SENDING OF ITEMS TO ANY RESERVE BANK

6.1 A sender (or a paying or returning bank) may send a cash item (or returned check) to any Reserve Bank unless directed otherwise by its Administrative Reserve Bank. The sender's Administrative Reserve Bank is deemed to have first handled a cash item sent by the sender to another Reserve Bank, under Section 210.4(b) of Regulation J. The paying bank's or returning bank's Administrative Reserve Bank is deemed to have first handled a returned check sent by the paying or returning bank to another Reserve Bank under Section 210.12(b) of Regulation J.

6.2 A sender's (or a paying or returning bank's) Administrative Reserve Bank may instruct another Reserve Bank, with respect to actions by the other Reserve Bank that may affect the Administrative Reserve Bank, relating to cash items and returned checks.

7.0 TIME SCHEDULES AND AVAILABILITY OF CREDIT

7.1 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, the sender's (or the paying or returning bank's) Administrative Reserve Bank gives immediate or deferred credit, as follows:

IMMEDIATE CREDIT

(a) Immediate credit at once qualifies as reserve for purposes of Regulation D in accordance with our circular entitled "Account Relationships" and is available for use by the sender (or the paying or returning bank) at one float-weighted posting time per time zone for most cash items, unless the sender (or the paying or returning bank) has chosen a unique set of fractions for each of the four time zones under our procedures. Credit for separate sorts of Government checks,

postal money orders, and redeemed savings bonds is available at 8:30 a.m. Eastern Time if we receive these items by our cut-off hour, or at 5:00 p.m. Eastern Time if we receive them by 4:00 p.m. Eastern Time. Credit for nonmachineable cash items and foreign items is available after the close of Fedwire.

DEFERRED CREDIT

(b) The amount entered as deferred credit does not qualify as reserve for purposes of Regulation D in accordance with our circular entitled "Account Relationships" and is not available for use by the sender (or the paying or returning bank) until the day specified in our time schedules and the posting time referred to in paragraph (a).

7.2 Because in many instances our time schedules do not show the actual time required for collection or return, advices of credit cannot be considered advices of actual payment on the dates credit is made 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. A Reserve Bank may charge back credit given for an item if it does not receive payment in actually and finally collected funds. A Reserve Bank also may refuse to permit a sender (or the paying or returning bank) to withdraw or otherwise use any credit (immediate or deferred), and may defer availability of credit, for a period of time that is reasonable under the circumstances, including a reasonable time for it to receive notice that another bank seeks to recover from it under Section 229.35(b) of Regulation CC.

7.3 For cash letters that we receive unsorted as to credit availability, credit may be deferred according to our time schedule for a mixed cash letter. For items sent with a Reserve Bank's permission to a relay station, credit is given based upon receipt of the items at the Reserve Bank. A Reserve Bank has no responsibility for an item lost in transit between a relay station and the Reserve Bank.

8.0 ROUTING NUMBERS; RECORDS

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

8.2 If in our judgment processing of an unencoded or misencoded cash item would be improved, we may encode on the item 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 accordingly, unless the sender has requested a special encoding service we provide.

8.3 In addition to the recordkeeping provisions of this Circular (see paragraph 5.2), Treasury regulations (31 CFR Part 103) require that banks keep legible records of many items. These regulations apply whether or not the item is capable of being photocopied.

9.0 SHIPMENT AND PRESENTMENT

9.1 We do not by this Circular or otherwise agree to present or send a cash item earlier than is required by Regulation J or 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 ten paying banks and to last at least three banking days.

9.2 A paying bank may request us to send cash items to an off-premise location, or it may arrange to pick up cash items at our premises. The paying bank is considered to

receive a cash item when it is delivered as requested, or when it is made available for pickup as arranged, whether or not the paying bank picks the item up at that time. A paying bank that desires that cash items be sent to an off-premise location in a different Reserve office territory from that where the paying bank must accept the items under Section 229.36(b) of Regulation CC, must arrange to transport them at its own expense.

9.3 We may commingle all items that are sent to or picked up by an agent on behalf of more than one bank, unless one of the banks requests a separate sort of its items.

10.0 SETTLEMENT FOR CASH LETTERS

10.1 A paying bank must settle with its Administrative Reserve Bank in accordance with Section 210.9(b) of Regulation J for all cash items that it receives⁵ from us and does not return within the deadline in that section. Settlement shall be made at par and by:

- (a) a debit to an account on the books of a Reserve Bank;
- (b) cash; or
- (c) in the discretion of the paying bank's Administrative Reserve Bank, any other form of payment.

10.2 Section 210.9(b) of 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 the paying bank's Administrative Reserve Bank by the later of:

- (a) 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

- (b) 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 immediately notify the Reserve Bank from which it received the item.

PAYING BANK CLOSES VOLUNTARILY

10.3 As provided in Section 210.9(b)(3) of Regulation J, a paying bank that closes voluntarily on a day that is a banking day for a Reserve Bank, so that the paying bank does not receive a cash item on that day, shall either settle for the amount of a cash item made available on that day, or compensate its Administrative Reserve Bank 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 a Reserve Bank. The proceeds for any settlement must be available to its Administrative Reserve Bank on either the day the cash item is made available or on the next day by the later of:

- (a) 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
- (b) 11:00 a.m. Eastern Time.

A list of standard Reserve Bank holidays, and of other holidays not considered voluntary ("mandatory nonstandard holidays"), is set forth in our time schedule. A Reserve Bank may charge the account on its 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 its Administrative Reserve Bank for the float associated with the item. The paying bank may elect to

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 cut-off hour it has established in accordance with the Uniform Commercial Code.

eliminate float by "as of" adjustment or may pay for the float by explicit charge. An item is available to the paying bank if we deliver it or are prepared to deliver it as if the paying bank were open. A paying bank that pays for an item made available to it, or compensates for the float associated with the item, is not considered to receive the item until its next banking day, such as for purposes of determining the deadline for return of the item. We do not charge a paying bank on a mandatory nonstandard holiday for items made available on that day.

RESERVE BANK CLOSED

10.4 If the paying bank's banking day of receipt is not a banking day for a Reserve Bank, settlement shall be made on the Reserve Bank's next banking day in accordance with Section 210.9(b)(4) of Regulation J. A Reserve Bank 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 the paying bank's Administrative Reserve Bank on such next banking day by the later of:

- (a) 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
- (b) 11:00 a.m. Eastern Time.

10.5 A subsequent collecting bank (other than a Reserve Bank) that receives settlement for a cash item shall make the proceeds available to the bank's Administrative Reserve Bank by the close of the Reserve Bank's banking day on the day the subsequent collecting bank receives the proceeds.

11.0 DESIGNATION OF SETTLEMENT ACCOUNT

11.1 Before sending a cash item or returned check to, or receiving a cash item or returned check from any Reserve Bank, a sender (or a paying, returning or depository bank) should designate to its Administrative Reserve Bank an account(s)

on a Reserve Bank's books to be used for settlement of cash items and returned checks, and identify the transactions to be settled through the account(s). If the sender or bank designates a correspondent bank's account, the correspondent bank must agree to that designation. If the account is on the books of another Reserve Bank, the other Reserve Bank must not object to the designation. A sender (or a paying, returning or depository bank) remains responsible under Regulations J and CC and our Circular for all transactions notwithstanding that it has designated a settlement account, including a settlement account maintained by a correspondent bank.

11.2 A settlement designation supersedes all prior inconsistent settlement designations. A designation of a settlement account in effect on the effective date of this Circular revision remains in effect until superseded, but is subject to the terms of this Circular beginning on that effective date. Unless a paying bank (or a sender, returning bank or depository bank) makes other arrangements for settlement, a Reserve Bank may charge against the bank's (or sender's) account the amount of a cash letter or item that the bank (or sender) receives from us.

11.3 By designating a settlement account, the sender or bank (or a correspondent bank, if any) authorizes the Reserve Bank that holds the account: (1) to debit to the account the amount of all cash letters, return letters and items received by the bank from a Reserve Bank; (2) to credit to the account the amount of all cash letters, return letters and items sent by the sender to a Reserve Bank; and (3) to debit and credit to the account the amount of all other transactions (including fees) with respect to cash letters, return letters and items, all in accordance with Regulations J and CC and the Reserve Banks' Circular.

11.4 The sender, bank or correspondent bank agrees to maintain to its credit in its account, consistent with Regulation J, a balance of actually and finally collected funds sufficient to cover charges under this Circular and all other charges to the account. A Reserve Bank assumes no responsibility for any obligations or rights

of a sender (or a paying, returning or depository bank) with respect to its correspondent bank, if any (or of an intermediary correspondent bank that is not an account holder, if any, with respect to its correspondent bank).

11.5 The sender (or a paying, returning or depository bank) may terminate a settlement designation by notice to the Reserve Bank that holds the account (and the Reserve Bank may terminate a settlement designation by notice to the sender or bank) effective five banking days after receipt of the notice or on a subsequent date specified in the notice. A correspondent bank (or an intermediary correspondent that is not an account holder, if any) may terminate a settlement designation by notice to the Reserve Bank that holds the settlement account effective on the banking day following the banking day of receipt of the notice by the Reserve Bank (or on a subsequent date specified in the notice). Such termination shall not affect the Reserve Bank's right to make entries with respect to cash letters, return letters or items processed by a Reserve Bank on the banking day of receipt of the notice.

12.0 CORRECTIONS; ADJUSTMENTS

12.1 A paying or depository bank may request a correction to its settlement for our cash letter or return letter by notifying us of an error in the letter. A paying bank may also request a correction if the paying bank returns an item on the banking day of receipt by the time set forth in Section 210.9(b) of Regulation J and notifies us of the return. Our circular entitled "Account Relationships" provides for corrections of accounting errors. Adjustments for warranty claims and missing or destroyed items are governed by paragraphs 18 - 19 of this Circular. Debits and credits for corrections/adjustments are made after the close of Fedwire, except that 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. We generally do

not process adjustments of One Dollar (\$1) or less.

13.0 TIME LIMITS AND LOCATIONS FOR CLAIMS AND ACTIONS

REVIEW OF STATEMENT

13.1 An account holder must promptly advise us in writing of an objection to an entry in the statement of account that we provide. An account holder that fails to advise us of its objection within thirty calendar days of the date of the entry is deemed to have approved the entry, and the statement of account is deemed finally adjusted, notwithstanding any longer period for filing suit. Any bank that has used the account for settlement and has handled the cash item or returned check to which the entry relates is also deemed to have approved the entry. 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

13.2 A bank must give us prompt notice of a claim for breach of warranty (see paragraph 18, footnote 7). Unless a bank gives us notice within thirty 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

13.3 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. 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.

FORUM FOR ACTION

13.4 Any action against a Reserve Bank for that Reserve Bank's acts, omissions or breaches of warranty relating to the handling of or settlement for an item must be brought (within the time limits specified in paragraph 13.3) in the United States District Court and Division where the office or branch of the Reserve Bank that committed the alleged act, omission or breach is located.

14.0 MISSENT CASH ITEMS

14.1 If we send to a bank, on the understanding that it is the paying bank, a cash item that does not contain either its routing number or its name 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.

14.2 A check, as defined in Section 229.2 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 bank shall handle a cash item on which it is identified only by routing number as a cash item drawn on it. The bank is encouraged to invalidate any erroneous use of its MICR routing number on the face of the item prior to return by obliterating only the start and stop symbols of the routing number (and by cancelling

any erroneous fractional routing number) to prevent redelivery to that paying bank.

15.0 RETURNED CHECKS

15.1 A paying bank may return a cash item to us for which it has previously made settlement to a Reserve Bank 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 18, footnote 8). A paying or returning bank may send to us a returned check that a Reserve Bank did not handle for forward collection only if it sends the returned check within the deadline of Regulation CC and the Uniform Commercial Code (see paragraph 18, footnote 8). A bank shall not intermingle returned checks with cash items except as provided in paragraph 5.3.

15.2 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 incurred by us (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.

15.3 We do not by this Circular, or otherwise, agree to handle a returned check more expeditiously than is required by Section 229.31 of Regulation CC, or 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 ten depository banks and to last at least three banking days.

15.4 A paying or returning bank that is unable to identify the depository bank on a returned check may send the check to us in accordance with Sections 229.30(b) or 229.31(b) of Regulation CC, if it received

the returned check from us. Such a check must not be sent as a qualified returned check.

PREPARATION OF RETURNED CHECKS

15.5 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 5 - 7 apply to the preparation and sending of, and the availability of credit for, returned checks.

QUALIFIED RETURNED CHECKS; IDENTIFICATION OF DEPOSITORY BANK

15.6 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' encoded in magnetic ink in position 44 of the MICR line; and
- (c) the identification of the depository bank by routing number in magnetic ink on a qualified returned check;

whether or not the amount or identification is consistent with any other information on the returned check. We reserve the right to test whether a qualified returned check is properly machine readable, and to handle a nonmachineable item as a raw return or to return it to the paying or returning bank. The paying or returning bank from which we receive the check agrees to indemnify us for any loss or expense incurred by us (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 qualified returned check that is not able to be processed on our automated check processing equipment or that does not pass our testing procedures.

SHIPMENT OF RETURNED CHECKS TO DEPOSITORY BANK

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

15.8 The Reserve Banks may send returned checks to a depository bank or its agent separately sorted from cash items, except as otherwise provided in their procedures.

PAYMENT FOR RETURNED CHECKS

15.9 A depository bank must pay its Administrative Reserve Bank in accordance with Section 229.32(b) of Regulation CC for a returned check that it has received⁶ from us. The proceeds of payment must be available to the depository bank's Administrative Reserve Bank in accordance with Sections 210.9(b) and 210.12(h) of Regulation J by the times set forth in paragraph 10 of this Circular, even if the depository bank receives the returned checks at a location and time different

6. A 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.

from the location and time where the depository bank receives cash items during forward collection.

15.10 A depository bank shall settle for returned checks in the same manner it settles for cash items it receives as paying bank. If we do not usually send cash items to the depository bank for payment, the depository bank shall settle by:

- (a) debit to an account on a Reserve Bank's books;
- (b) cash;
- (c) wire transfer; or
- (d) in the discretion of the depository bank's Administrative Reserve Bank, any other form of settlement.

Adjustments for returned checks are governed by paragraphs 12 and 18 of this Circular.

15.11 A subsequent returning bank (other than a Reserve Bank) that is paid for a returned check shall make the proceeds available to the bank's Administrative Reserve Bank by the close of our banking day on the day the subsequent returning bank receives the proceeds. The bank shall settle in the same manner as for cash items it receives as paying bank.

MISSSENT RETURNED CHECKS

15.12 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. The bank shall not send the returned check to us in a cash letter or return letter.

16.0 NOTICE OF NONPAYMENT

16.1 A paying bank that determines to return a check as defined in Regulation CC 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 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.

16.2 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 in this paragraph.

NOTICE OF NONPAYMENT SERVICES

16.3

(a) A paying bank may request us to provide notice of nonpayment on its behalf from a returned check (physical item service). 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 received by our cut-off hour on a banking day for us, and that are separately sorted and identified as checks for which notice is desired. We handle the returned checks as provided in Regulations J and CC and this Circular.

(b) A paying bank may request us to forward to the depository bank notice of nonpayment given by telephone to us

(telephone notice service). The request shall apply to all returned checks for which notice of nonpayment is telephoned to us and received by our cut-off hour on a banking day for us.

(c) A paying bank may request us to forward to the depositary bank notice of nonpayment given by Fedwire system in proper format, and received by our cut-off hour on a banking day for us (Fedwire System service).

16.4 Under our notice of nonpayment services, for a returned check or notice received by our applicable cut-off hour, we will provide notice of nonpayment to the depositary bank by 4:00 p.m. (local time for the depositary bank) on the day of receipt of the check or notice, or on the next banking day if that day is not a banking day for the depositary bank. We must receive the notice no later than our applicable cut-off hour on our second banking day following the banking day of receipt of the check by the paying bank for the paying bank to comply with its obligations under Section 229.33 of Regulation CC. For a returned check or notice received after our applicable cut-off hour, we will provide notice of nonpayment as if the check or notice had been received prior to our cut-off hour on our next banking day, and shall have no responsibility for loss caused by failure of the paying bank to meet our cut-off hour. The paying bank is responsible for providing notice of nonpayment to the depositary bank if the paying bank is unable to meet our cut-off hour. The paying bank's notice should indicate that the notice may be duplicated by us, if the paying bank has returned checks to us under our physical item service.

16.5 We provide our notice of nonpayment services under the standard of care and measure of damages set forth in Section 229.38 of Regulation CC.

OTHER PROVISIONS

16.6 Notice of nonpayment need 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. Notice of nonpayment need not be given for a check deposited in a depositary bank that does not maintain transaction accounts.

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

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

16.9 We have no responsibility for giving or correcting notice of nonpayment if notice is not properly given by the paying bank, except to the extent provided in our notice of nonpayment services.

16.10 Reserve Banks do not protest any returned check and will disregard any special instructions on protest noted on cash letters or otherwise transmitted with a cash item.

17.0 CHARGES

17.1 Our fee schedule shows the charges we impose for handling cash items, returned checks, notices of nonpayment, and for related services. A Reserve Bank may make the charge to the account maintained or used by the bank requesting the service, unless it makes other written arrangements with us.

18.0 ADJUSTMENTS FOR WARRANTY CLAIMS

18.1 If a bank has a claim against us for breach of a warranty with respect to a cash item or returned check received from us, it may request an adjustment from us in accordance with this paragraph 18.⁷ When 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 this paragraph 18. 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 18.5, footnote 8). A bank that receives a credit adjustment 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.

18.2 In handling any claim form under this paragraph 18, we determine only that the form is submitted timely and is substantially complete. 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 timeframe for handling an item.

CLAIM OF FORGED OR MISSING INDORSEMENT OR ALTERATION

18.3 A paying bank may request an adjustment based on a claim that the item bears a forged or unauthorized indorsement or lacks a necessary indorsement or is altered. A depository bank may request an adjustment based on a claim that the item is altered. An adjustment request must be sent without entry, and should include all documentation concerning the alleged breach of warranty, including an affidavit of forged indorsement, if appropriate. The requesting bank's Administrative Reserve Bank will credit the bank and a Reserve Bank will charge the bank from which the cash item or returned check was received only if the latter bank specifically authorizes a Reserve Bank 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

18.4 If a sender believes that the paying bank returned late (after the paying bank's deadline under the Uniform Commercial Code, Regulation J, and Section 229.30(c) of Regulation CC)⁸ a check in the amount of \$100.00 or more, the sender may dispute the return by furnishing us with the returned check and a signed statement that the bank believes that the paying bank returned the check late. This procedure may be used only once for each return, and only if the check has been handled by a Reserve Bank for forward collection or return. The statement must be in a format we prescribe and must be received by a Reserve Bank within two calendar months after the sender was charged for the

7. The 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.

8. This deadline is generally midnight of the banking day following the banking day of receipt of the check by the paying bank (Uniform Commercial Code §4-302 and Regulation J §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.

returned check. The sender's Administrative Reserve Bank will provisionally credit the amount of the returned check to the sender's account. A Reserve Bank will charge that amount to the account of, and send the returned check and statement to, the paying bank. The first Reserve Bank receiving a claim of late return may, in its discretion, refuse to handle it and return it to the sender.

18.5 The sender's Administrative Reserve Bank will revoke the credit given to the sender (and a Reserve Bank will recredit the paying bank) if:

(a) for any reason a Reserve Bank cannot obtain the amount of the credit from the paying bank; or,

(b) a Reserve Bank receives the returned check and a statement as provided below from the paying bank within twenty banking days of the Reserve Bank sending the check and the sender's statement to the paying bank. The paying bank's statement must be in a format we prescribe that is signed by an officer of the paying bank and:

(i) state that the paying bank returned the check within its deadline under the Uniform Commercial Code and Regulation J or Section 229.30(c) of Regulation CC, and

(ii) show the banking day of receipt and the date of return of the check by the paying bank.

The sender should recognize that this twenty-banking day period applies only to the paying bank, and does not include the time required for us (and another Reserve Bank) to process the statement. This adjustment procedure is offered as a convenience only. See paragraph 18.2.

**CLAIM OF AMOUNT ENCODING
ERROR OR CASH LETTER
TOTAL ERROR**

-Overencoded Item

18.6 A bank may request an adjustment based on a claim that the MICR encoded amount of a cash item or returned check is

greater than the true amount of the item, if the bank received the item from us and settled for it in the encoded amount. The request must be received by a Reserve Bank within six calendar months after the item was charged to the requesting bank and must provide information that the Reserve Banks require, 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) §3-114). The requesting bank's Administrative Reserve Bank will credit the bank in the amount of the difference between the encoded amount and the true amount of the item. A Reserve Bank will charge that amount, and send the documentation, to the bank from which we received the item.

-Underencoded Item

18.7 A bank may request an adjustment based on a claim that the MICR encoded amount of a cash item or returned check is less than the true amount of the item, if the bank sent the item to us and received settlement for it in the encoded amount. The request must be received by a Reserve Bank within six calendar months after the item was credited to the requesting bank, and must provide information that the Reserve Banks require, 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) §3-114). The requesting bank's Administrative Reserve Bank will provisionally credit the bank in the amount of the difference between the encoded amount and the true amount of the item. A Reserve Bank will charge that amount and send the documentation to, the paying or depository bank. However, the Administrative Reserve Bank reserves the right not to credit the requesting bank if a Reserve Bank is unable to charge the paying or depository bank.

18.8 The requesting bank's Administrative Reserve Bank will revoke part or all of the credit given to the bank, and a Reserve Bank will recredit the paying or depository bank, if a Reserve Bank receives a statement

as provided below from the paying or depositary bank, within twenty banking days of the Reserve Bank sending the documentation to the paying or depositary bank. The statement must be in a format we prescribe 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

(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

18.9

(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 18.6 - 18.8. A claim of a missing or destroyed item should be made under paragraph 19. A claim relating to any other cash letter listing error should be made as provided in paragraph 12.

(b) A paying bank should handle an item that contains the routing number of the bank as provided in paragraph 14 of this 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

18.10 In handling adjustments under this Circular, a Reserve Bank does 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 does a Reserve Bank charge another bank a fee for interest cost or expenses in handling adjustments resulting from breaches of warranty or negligence.

19.0 MISSING OR DESTROYED CASH ITEMS AND RETURNED CHECKS

MUTILATED CASH LETTERS AND RETURN LETTERS

19.1 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

19.2 A Reserve Bank will credit or refund the amount received for a cash item if the paying bank reports that it discovered during initial proving that the item is missing, or knows that the item was missing or destroyed in transit to the paying bank. A Reserve Bank will credit or refund the amount only if a Reserve Bank receives the report within five banking days from the date of the cash letter that listed the item.

19.3 The sender's Administrative Reserve Bank will charge back to the sender the amount of a cash item (a) that we discover to be missing, or (b) that a paying bank reports to be missing or destroyed as provided in paragraph 19.2.

HANDLING OF PHOTOCOPIES OF CASH ITEMS

19.4 We handle a correctly prepared photocopy as a cash item adjustment request if a Reserve Bank receives the photocopy and a copy of the advice of chargeback or request within twenty banking days from the day the Reserve Bank charged back the original item or requested the photocopy.

19.5 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) a Reserve Bank receives 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.

19.6 We present or send a photocopy as a cash item subject to all the rules as to payment and return of cash items, including return deadlines, except for the requirement of notice of nonpayment and as otherwise provided in this paragraph. A paying bank also has a limited right to return a photocopy as an adjustment request within twenty banking days of receipt if:

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

(b) 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 of the batch or package that contained the original and the sequence number of the original.

19.7 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 equivalent signed legend:

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

19.8 We assume no responsibility for determining whether a return of a photocopy is timely or 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 a report of a missing or destroyed cash item received by a Reserve Bank more than five banking days from the date of the cash letter only on a without entry basis. We undertake to handle reports and photocopies and make entries with respect to missing or destroyed cash items within a reasonable time after receipt, but not within the timeframes for handling an item.

RECEIPT OF BOTH PHOTOCOPY AND ORIGINAL OF CASH ITEM OR RETURNED CHECK

19.9 If a paying or depositary bank has paid an original item and subsequently receives from us and pays for a photocopy of the item, or has paid a photocopy and subsequently receives from us and pays the original item, that bank may request an adjustment from us within six calendar months of the date of our charge for the item. The bank must provide:

(a) the second item it received from us;

(b) a legible photocopy of the front and back of the item the bank received first; and

(c) the bank's source of receipt information (as specified in paragraph 19.6(b)) for both items.

RETURNED CHECKS DISCOVERED MISSING OR DESTROYED

19.10 A Reserve Bank will credit or refund the amount received for a returned check if a depository bank reports that it discovered during initial proving that the check was missing, or knows that the check was missing or destroyed in transit to the depository bank. A Reserve Bank will credit or refund the amount only if a Reserve Bank receives the report within five banking days from the date of the return letter that listed the check.

19.11 A Reserve Bank will 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 depository bank reports to be missing or destroyed as provided in paragraph 19.10.

HANDLING OF COPIES OF RETURNED CHECKS; NOTICES IN LIEU OF RETURN

19.12 We handle as a returned check adjustment request a legible copy of a returned check (front and back), or, if a copy is not available to the paying or returning bank, a written notice of nonpayment containing the information specified in Section 229.33 of Regulation CC. A copy includes a digitized reproduction of a returned check. If a Reserve Bank charged back the returned check to the paying or returning bank under paragraph 19.11 or requested the copy, a Reserve Bank must receive the copy or notice and a copy of the advice of chargeback or request within twenty banking days from the day the Reserve Bank charged back the returned check or requested the copy. 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 19.7. 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 has only a limited right to refuse a copy within twenty 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 bank's source of receipt information as specified in paragraph 19.6(b).

19.13 If a returned check letter is lost or destroyed in transit to the first processing Reserve Bank, we handle legible copies or notices of nonpayment, identified as Notices in Lieu of Return, in a copy returned check letter qualified for automated handling if (a) the copy returned check letter is identified as containing copies or notices of items from a lost or destroyed shipment, and (b) a Reserve Bank receives the copy 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 copy returned check letter to us unless it 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.

19.14 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 copy of a returned check, is correct. A copy 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 timeframes for handling an item.

20.0 RIGHT TO AMEND

20.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

Appendix A

GOVERNMENT CHECKS

1. We handle checks drawn on the United States Treasury ("Government checks") as cash items under Treasury Department Circular No. 21 (31 Code of Federal Regulations, Part 240). As to matters that circular does not cover, Regulation J, this Circular, and our time schedules apply.
2. We give immediate credit, subject to payment in actually and finally collected funds, for Government checks as provided in our time schedules. After we handle Government checks as fiscal agent of the United States under Treasury requirements, the checks are subject to examination and payment by the United States Treasury. We may reimburse a sender for its reasonable costs of reconstructing a Government check cash letter lost or destroyed in transit between Federal Reserve offices.
3. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to Government checks. If the United States Treasury refuses payment of a Government check upon first examination and returns the check, or a photocopy, to us as outlined in Treasury Department Circular No. 21, we charge back the amount of the check to the sender and credit that amount to the United States Treasury. We have no responsibility to the sender or another owner or holder for the nonpayment and return by the United States Treasury of a Government check or photocopy. The expeditious return and notice of nonpayment requirements of Regulation CC do not apply to a Government check, and the Government is not a paying bank under Regulation CC.
4. The United States Treasury is generally not required to pay a Government check unless it is negotiated to a financial institution within one year after the date of issue, as provided in Treasury Department Circular No. 21.
5. If the United States Treasury determines that a Government check has been paid over a forged or unauthorized indorsement, the United States 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 Department 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. 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 not later than one year after presentment of the check. Under 31 U.S.C. 3712, the United States Treasury may also direct this Bank to withhold from a presenting bank credit for Government checks to facilitate collection of amounts owed by the presenting bank.

Appendix B

POSTAL MONEY ORDERS

1. We handle postal money orders (United States postal money orders; United States international postal money orders; domestic-international postal money orders) as cash items under an agreement between the United States Postal Service and the Reserve Banks as depositaries and fiscal agents of the United States pursuant to authorization of the Secretary of the Treasury. As to matters that agreement does not cover, Regulation J, this Circular, and our time schedules apply.
2. We give immediate credit for postal money orders as provided in our time schedules. The credit becomes final as between us and the sender when we debit the amount of the money orders against the general account of the United States Treasury under symbol numbers assigned by it.
3. The agreement between the United States Postal Service and the Reserve Banks provides that:
 - (a) the United States Postal Service may make no claim against or through a Reserve Bank for refund or otherwise with respect to a postal money order debited against the general account of the United States Treasury (other than a claim based on the negligence of a Reserve Bank);
 - (b) the United States Postal Service will deal directly with the bank or the party against which the claim is made; and
 - (c) the Reserve Banks will assist the United States Postal Service in asserting the claim, including making any relevant evidence in their possession available to the United States Postal Service. Section 210.12 of Regulation J, relating to the return of cash items by paying banks, does not apply to postal money orders.

Appendix C

REDEEMED SAVINGS BONDS AND SAVINGS NOTES

1. 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 (31 Code of Federal Regulations, Part 321). As to matters that circular does not cover, Regulation J, this Circular, and our time schedules apply.
2. Savings Bonds sent to us as cash items may be sent in a mixed cash letter containing checks and other cash items, or in a separately sorted cash letter containing only redeemed Savings Bonds. Each cash letter must show the name, address, and the routing number of the sender, the date of delivery to the Reserve Bank, the total number of pieces transmitted, the value of each of the bundles 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.
3. Each Savings Bond sent to us must have the redemption value of the Savings Bond 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 number 000090007 must be MICR-encoded in the routing number field on all pre-1985 Savings Bonds which do not contain a preprinted MICR-encoded routing 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 routing number field. A Savings Bond must not be MICR-encoded with any other data in any field other than the auxiliary "On-U's" field, and must not be MICR-encoded in the "On-U's" field for any reason.
4. We give immediate credit, subject to payment and adjustment upon audit by the United States 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 United States Treasury. We make an adjustment required by the United States Treasury 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.
5. Savings Bonds submitted in separately sorted cash letters are not subject to cash item deposit/processing charges. We forward paying agent fees received from the United States Treasury 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 clearing house method under 31 Code of Federal Regulations, Part 210. Inquiries regarding Savings Bonds submitted in separately sorted cash letters should be directed to Federal Reserve Bank of Cleveland, Pittsburgh Branch, P. O. Box 867, Pittsburgh, Pennsylvania, 15230-0867.
6. Savings Bonds submitted in a mixed cash letter are subject to cash item deposit/processing charges. No paying agent fees will be paid for Savings Bonds submitted in a mixed cash letter. Inquiries concerning Savings Bonds submitted in a mixed cash letter should be directed to the sender's local Reserve Bank office.
7. 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 Bureau of the Public Debt or a Federal Reserve Bank.

Appendix D

FOREIGN CASH ITEMS

1. We handle items payable in Canada, including Canadian postal money orders payable in U.S. funds, and we may handle other items payable outside of a State ("foreign items"), as cash items in accordance with Regulation J, this Circular and this Appendix. This Circular, however, is not binding on a bank outside of a State to which we or a subsequent collecting bank send a foreign cash item. For example, provisions regarding off premises presentment, payment, return, notice of nonpayment, adjustments and photocopies are not binding on a paying bank outside of a State.
2. We require separate sorts of foreign cash items payable in U.S. funds and those payable in foreign funds, and we may impose other requirements in our procedures. For a foreign cash item payable in U.S. funds, we give deferred credit for the full face amount 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 set forth in our procedures. Credit is available after the close of Fedwire. In handling a foreign cash item, we act solely as agent for collection. The sender bears all risk of exchange rate fluctuation during the processing of a foreign cash item. Senders should recognize that credit is provisional and that the time for return of foreign items may vary under foreign law.
3. If we receive a returned foreign cash item that we have handled for collection, we, any subsequent returning bank, and the depository bank shall handle the item as a returned check under Regulations CC and J and this Circular.

Appendix E

ELECTRONIC CHECK PRESENTMENT SERVICES

1.0 GENERAL

- 1.1 This Appendix sets forth the terms under which we provide certain electronic check presentment services to a paying bank. These services generally entail the presentment of a check via electronic transmission of data obtained from its MICR-line. The check itself is kept by a Reserve Bank or delivered subsequent to the electronic presentment. We may also, from time to time, offer other electronic presentment services by special agreement.
- 1.2 This Appendix constitutes a special collection agreement as authorized by Regulation J and an electronic presentment agreement as authorized by Regulation CC. The services we provide under this Appendix are performed in conjunction with the services we provide pursuant to our Circular entitled "Collection of Cash Items and Returned Checks" ("Circular"), and are also governed by Regulation J, Regulation CC, and our circular entitled "Electronic Access".
- 1.3 As used in this Appendix, unless the context otherwise requires:
- (a) **copy** means a microfilm, image or other reproduction of a document. An image means a digitized reproduction. A copy of an eligible item includes the front and back of the item.
 - (b) **eligible item** means a cash item drawn on, or payable at or through, the Paying Bank that (i) contains in the MICR-line the symbol, routing number or account number designating the item as an eligible item, (ii) is in an amount less than the cut-off amount, if any, agreed to by this Reserve Bank and the Paying Bank, and (iii) otherwise complies with all other eligibility requirements that we may specify. A photocopy can be an eligible item. **Eligible item** includes MICR-line information with respect to such an item that we receive from another Reserve Bank.
 - (c) **MICR-line information** means the information inscribed in the MICR-line on an eligible item. Except as provided in paragraph 1.3(d) below, MICR-line information transmitted under this Appendix constitutes a presentment notice under the Uniform Commercial Code, and an item under the Uniform Commercial Code, Regulation J and our Circular, and may constitute a check as defined in Regulation CC.
 - (d) **over-the-counter item** means an eligible item that has already been presented to the Paying Bank, and that is delivered to us for processing under this Appendix. The electronic transmission of MICR-line data obtained from an over-the-counter item does not constitute presentment of the item, and we are not a collecting bank with respect to such item.
 - (e) **Paying Bank** means a paying bank that subscribes to an electronic check presentment service, and includes its agent for receiving presentment.
 - (f) **record**, when referring to MICR-line information on an eligible item, means to reproduce the information in a form suitable for electronic transmission.
 - (g) **transmit** or **transmission** means sending MICR-line information electronically to the Paying Bank or making such information available in a file that can be accessed electronically by arrangement with the Paying Bank.

- 1.4 In each electronic check presentment service, a Reserve Bank records MICR-line information for each eligible item and we present the item to the Paying Bank by transmitting to it the recorded MICR-line information. A Reserve Bank may also perform other check services for eligible items, such as repair or key entry services, fine sort services and same-day settlement services. The special procedures for each electronic check presentment service are set forth in this Appendix and in documentation that we may publish.

2.0 BASIC SERVICE

- 2.1 A Reserve Bank records MICR-line information obtained from each eligible item and we transmit the information to the Paying Bank, together with our sequence number for each item, the total dollar amount of the items for which information is being transmitted, and the date the information was recorded. We transmit MICR-line information in accordance with our time schedule on each of our banking days that we receive an eligible item. If the Paying Bank is closed on a day that is a banking day for us, we make the information available for transmission on that day in accordance with Section 210.9(b) of Regulation J.
- 2.2 The Paying Bank shall establish a cut-off hour no earlier than 2:00 p.m. (local time for the Paying Bank) for receipt of MICR-line information. The Paying Bank shall manage its electronic connection so as to permit us to transmit MICR-line information to it in a timely manner throughout the day. MICR-line information is deemed to be received at the time of transmission if it is not actually received because of the failure of the Paying Bank to so manage its electronic connection. The Paying Bank shall give us prompt notice of its failure to receive MICR-line information on a day that is a banking day for both the Paying Bank and us.
- 2.3 For purposes of Regulation J, Regulation CC and our Circular, the receipt of MICR-line information obtained from an eligible item (other than an over-the-counter item) by the Paying Bank constitutes presentment of the item. The Paying Bank waives any right it may have with respect to exhibition or production of an eligible item presented under this Appendix.
- 2.4 If we are unable for any reason to transmit MICR-line information, we may elect to handle any affected eligible items outside of the terms of this Appendix. If we elect to do so, we will handle the eligible items (other than over-the-counter items) as cash items pursuant to our Circular entitled "Collection of Cash Items and Returned Checks", and any issue relating to the items will be governed by that Circular.

3.0 SETTLEMENT

- 3.1 A Reserve Bank debits the account maintained or used by the Paying Bank for the total dollar amount of eligible items whose MICR-line information we have transmitted to the Paying Bank that day, as provided in Regulation J and our Circular. If a Reserve Bank does not receive payment in actually and finally collected funds for an eligible item and exercises its right of charge-back under Section 210.13 of Regulation J, a Reserve Bank may remove the item from its retention files and return it.

4.0 RESERVE BANK WARRANTIES AND LIABILITY

- 4.1 We warrant that MICR-line information we transmit to the Paying Bank under this Appendix accurately represents the information inscribed on the MICR-line of the eligible item, except as provided in this paragraph. If a Reserve Bank repairs or key enters MICR-line information for an

eligible item because it has difficulty in recording the information, we warrant only that such MICR-line information accurately represents the amount and routing number information as it appears on the item. Notwithstanding any provision of Regulation CC or state law, we do not warrant the accuracy of the account number or check number information that we transmit to the Paying Bank. The Paying Bank is encouraged to validate the accuracy of the account number and check number information it receives from us. If another Reserve Bank records the MICR-line information that we transmit to the Paying Bank, the other Reserve Bank makes the same warranty to us.

- 4.2 A Reserve Bank's recording, transmitting, repairing or key entering MICR-line information shall not constitute a breach of any warranty imposed by law with respect to alteration of an item. In addition, a Reserve Bank is not responsible for determining whether an eligible item is properly payable, including but not limited to determining:
- (a) the genuineness of the signature of any drawer appearing on an eligible item;
 - (b) whether any or all required signatures appear on an eligible item;
 - (c) whether an eligible item is stale;
 - (d) whether an eligible item is postdated;
 - (e) whether an eligible item is properly indorsed or bears genuine indorsements;
 - (f) whether a stop payment order has been issued for an eligible item; and
 - (g) whether an eligible item is a photocopy and, if so, whether it has been prepared and submitted in proper fashion.
- 4.3 With respect to any claim arising out of a Reserve Bank's recording and transmission of MICR-line information to a Paying Bank, the Reserve Bank's liability is governed by Regulation J. With respect to any other action taken or service performed pursuant to this Appendix, a Reserve Bank acts only as agent or subagent of the Paying Bank. The Reserve Bank that transmits the MICR-line information to the Paying Bank is liable only to the Paying Bank and only for its breach of the warranties expressly set forth herein, or for the lack of good faith or failure to exercise ordinary care of another Reserve Bank that records the MICR-line information. If another Reserve Bank records the MICR-line information that we transmit to the Paying Bank, the other Reserve Bank is liable only to us, and only for its breach of the warranties expressly set forth herein, or for its own lack of good faith or failure to exercise ordinary care. The Paying Bank shall give us prompt written notice of any claim by or against it that may give rise to a claim against us.

5.0 INDEMNIFICATION BY PAYING BANK

- 5.1 The Paying Bank shall indemnify, hold harmless and defend a Reserve Bank from any claim, demand, loss, liability, or expense (including attorneys' fees and expenses of litigation) made against it by any person, or incurred by it, in connection with its performance of services hereunder as agent or subagent of the Paying Bank, but excluding any claim, demand, loss, liability or expense that results from its failure to exercise ordinary care or act in good faith. The Paying Bank's indemnification obligation specifically extends to, but is not limited to, claims, demands, loss, liability or expense arising in connection with any allegation that a Reserve Bank has acted as a collecting bank in handling an over-the-counter item, and shall survive the termination of services provided under this Appendix.

6.0 FEES

- 6.1 Fees for our electronic presentment services are set forth in a fee schedule that we publish and amend from time to time. A Reserve Bank charges the fees to the account maintained or used by the Paying Bank.

7.0 TERMINATION

- 7.1 We or the Paying Bank may terminate the services provided under this Appendix by giving not less than ten calendar days prior written notice to the other party. In addition, we may immediately terminate the services provided hereunder by notice to the Paying Bank, if we, in our sole discretion, determine that the financial condition of the Paying Bank poses a risk to us if we continue to provide the services.
- 7.2 We may refuse to accept an item for electronic presentment to the Paying Bank if we believe the Paying Bank has failed to comply with the terms of this Appendix, Regulation J, Regulation CC, or our Circular. In addition, if at any time we, in our sole discretion, determine that the amount of one or more eligible items is excessive in relation to the financial condition of the Paying Bank, we may refuse to handle any such item under this Appendix.

8.0 MISCELLANEOUS

- 8.1 If the Paying Bank or a Reserve Bank is delayed in acting beyond the time limits under this Appendix because of interruption of communication or computer facilities, suspension of payments by a bank, war, emergency conditions, failure of equipment, or other circumstances beyond its control, the time for acting is extended for the time necessary to complete the action, if the party exercises such diligence as the circumstances require.
- 8.2 It is the responsibility of the Paying Bank to ensure that it has obtained all necessary resolutions, signature cards and authorizations from customers whose items will be processed pursuant to this Appendix. The Paying Bank is also responsible for obtaining all necessary approvals from its Board of Directors and from the appropriate governing or regulatory bodies before receiving services hereunder.
- 8.3 The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.

Appendix E1

TRUNCATION SERVICE

1.0 GENERAL

- 1.1 This Appendix, together with our Appendix entitled "Electronic Check Presentment Services", sets forth the terms of our Truncation Service.

2.0 SERVICE DESCRIPTION

- 2.1 For a Paying Bank subscribing to our Truncation Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) return an eligible item at the Paying Bank's request (paragraph 5);
 - (b) retain an eligible item for sixty days or a longer period agreed to by us and the Paying Bank (paragraph 6);
 - (c) retain a microfilm or image copy of the eligible item for seven years (paragraph 6); and
 - (d) respond to a request for information from the Paying Bank with respect to an eligible item (paragraph 7).

3.0 DEFINITIONS

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires:
- (a) **instruction to return** means a notice of dishonor or nonpayment; and
 - (b) **request for information** means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 COPIES

- 4.1 A Reserve Bank makes a microfilm or image copy of the front and back of each eligible item.

5.0 RETURN OF ELIGIBLE ITEMS

- 5.1 If the Paying Bank wishes to return an eligible item that we have presented electronically, it must deliver to us an instruction to return the item. The instruction must be delivered using a method that we prescribe and must be received by us within the deadline for return set forth in the Uniform Commercial Code and Regulation J or Regulation CC. The instruction must contain the MICR-line information that we transmitted to the Paying Bank with respect to the item, the date the information was recorded, our sequence number for the item, and the reason for return.

- 5.2 For purposes of the Uniform Commercial Code, Regulations J and CC, and our Circular, our receipt of an instruction to return an eligible item constitutes return of the item by the Paying Bank. As a returning bank, the Reserve Bank that retains the eligible item will then return the item. A Reserve Bank will give credit in accordance with our availability schedules, to the account maintained or used by the Paying Bank for such purpose.
- 5.3 An instruction to return an item of \$2,500 or more also serves as a request for a Reserve Bank to give notice of nonpayment to the depository bank under Section 229.33 of Regulation CC. For a notice of nonpayment to be delivered to the depository bank by 4:00 p.m. local time for the depository bank, we must receive the instruction no later than our cut-off hour for such instructions on that day.
- 5.4 A Reserve Bank assumes no responsibility for determining whether the Paying Bank has acted in a timely fashion in returning an item or providing notice of nonpayment to a depository bank.

6.0 RETENTION OF PAID ITEMS

- 6.1 A Reserve Bank retains an eligible item that has not been returned for sixty calendar days from the date on which we first transmit the MICR-line information, or a longer period agreed to by us and the Paying Bank ("Retention Period"). During the Retention Period, we make the eligible item available to the Paying Bank as provided herein. A Reserve Bank destroys the eligible item after expiration of the Retention Period, unless the Paying Bank requests us to deliver the eligible item to it because it desires to retain it for a longer period.
- 6.2 A Reserve Bank retains a microfilm or image copy of an eligible item for seven years (or a longer period required by law and set forth in our procedures) from the date on which we first transmit the MICR-line information ("Storage Period"). During the Storage Period, we make the microfilm or image copy available to the Paying Bank as provided herein. A Reserve Bank destroys the microfilm or image copy after expiration of the Storage Period.
- 6.3 Upon termination of services hereunder, a Reserve Bank, at our discretion, either:
 - (a) retains all items and microfilm or image copies of items then being held for the Paying Bank for the remainder of the Retention or Storage Period; or
 - (b) delivers all such items and copies to the Paying Bank.

7.0 REQUESTS FOR INFORMATION

- 7.1 During the Retention or Storage Period for an eligible item, the Paying Bank may submit a request for information with respect to the item. The request must contain the recorded MICR-line information, the date the information was recorded, and our sequence number for the item. If we receive a request by our cut-off hour for such requests on a banking day for us, we will respond to the request by sending the copy, item or information to the Paying Bank by the time we specify on either that day or on our next banking day. We may respond after our next banking day if the request is received later in the retention or storage period for the item, or if the request covers a large number of items. A request for information submitted before the eligible item has been finally paid does not constitute dishonor of the item.
- 7.2 A Reserve Bank makes available an eligible item or a copy only as provided in the preceding paragraph, or in response to the order of a court of competent jurisdiction, a grand jury subpoena, or other legal process. If we believe that a Reserve Bank may be compelled to provide an item or a

copy to other than the Paying Bank, we will notify the Paying Bank. It is the Paying Bank's responsibility to assert any defense to production. The Paying Bank is responsible for the cost of producing any item or copy as well as the cost of defending against such production.

8.0 WARRANTY

- 8.1 A Reserve Bank warrants that an eligible item processed hereunder will be held by it in accordance with this Appendix and will not be sent to the Paying Bank except as provided herein.

Appendix E2

MICR PRESENTMENT PLUS SERVICE

1.0 GENERAL

- 1.1 This Appendix, together with an Appendix entitled "Electronic Check Presentment Services", sets forth the terms of our MICR Presentment Plus Service under which we ship an eligible item to a Paying Bank an agreed number of days (more than one day) after electronic presentment is made.

2.0 SERVICE DESCRIPTION

- 2.1 For a Paying Bank subscribing to our MICR Presentment Plus Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) return an eligible item at the Paying Bank's request (paragraph 4);
 - (b) ship the eligible item to the Paying Bank (paragraph 5);
 - (c) respond to a request for information with respect to an eligible item (paragraph 6); and
 - (d) if requested by the Paying Bank, and agreed to by us, retain a microfilm or image copy of the eligible item for seven years as provided in Appendix E1.

3.0 DEFINITIONS

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires:
- (a) instruction to return means a notice of dishonor or nonpayment; and
 - (b) request for information means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 RETURN OF ELIGIBLE ITEMS

- 4.1 If the Paying Bank wishes to return an eligible item that we have presented electronically, but that we have not yet shipped to the Paying Bank, it must deliver to us an instruction to return the item. The instruction must be delivered using a method that we prescribe and must be received by us within the deadline for return set forth in the Uniform Commercial Code and Regulations J and CC, but in no event will an instruction be effective if it is received after our cut-off hour for such instructions. The instruction must contain the MICR-line information that we transmitted to the Paying Bank with respect to the item, the date the information was recorded, our sequence number for the item, and the reason for return.
- 4.2 For purposes of the Uniform Commercial Code, Regulations J and CC, and our Circular, our receipt of an instruction to return an eligible item constitutes return of the item by the Paying Bank if we receive the instruction prior to the time specified in paragraph 4.1. As a returning

bank, a Reserve Bank will then return the item. A Reserve Bank will give credit in accordance with our availability schedules, to the account maintained or used by the Paying Bank for such purpose.

- 4.3 A properly submitted instruction to return an item of \$2,500 or more also serves as a request for a Reserve Bank to give notice of nonpayment to the depositary bank under Section 229.33 of Regulation CC. For a notice of nonpayment to be delivered to the depositary bank by 4:00 p.m. local time for the depositary bank, we must receive the instruction no later than our cut-off hour on that day.
- 4.4 A Reserve Bank assumes no responsibility for determining whether the Paying Bank has acted in a timely fashion in returning an item or providing notice of nonpayment to a depositary bank.

5.0 SHIPMENT OF ITEMS

- 5.1 We will ship an eligible item processed under this Appendix to the Paying Bank an agreed number of days (more than one day) following the day on which we transmitted the MICR-line information with respect to the item to the Paying Bank.

6.0 REQUESTS FOR INFORMATION

- 6.1 A Paying Bank may request information with respect to an eligible item if we receive the request no later than our cut-off hour for such requests. The request must contain the recorded MICR-line information from the item, the date the information was recorded, and our sequence number for the item. We will respond to the request by sending the copy, item or information to the Paying Bank by the time we specify on either the banking day of receipt of the request or on our next banking day. We may respond after our next banking day if the request is received later in the retention or storage period for the item, or if the request covers a large number of items. A request for information submitted before the eligible item has been finally paid does not constitute dishonor of the item.

7.0 ITEM NOT AVAILABLE

- 7.1 The Paying Bank is advised that after a prescribed time on an agreed number of days following the day we transmit MICR-line information with respect to an eligible item, the item may be in transit between our office and the Paying Bank, or may otherwise be unavailable, and the item and the information it contains may not become available until the Paying Bank actually receives the item.
- 7.2 If the Paying Bank does not, for any reason, receive an eligible item that has been presented electronically, we will, on request, assist the paying Bank in requesting a copy of the item from a prior collecting bank.

Appendix E3

MICR PRESENTMENT SERVICE

1.0 GENERAL

- 1.1 This Appendix, together with the Appendix entitled "Electronic Check Presentment Services", sets forth the terms of our MICR Presentment Service under which an eligible item is shipped to a Paying Bank on the day or on the day after electronic presentment is made.

2.0 SERVICE DESCRIPTION

- 2.1 For a Paying Bank subscribing to our MICR Presentment Service, a Reserve Bank will, in addition to recording MICR-line information from an eligible item and presenting the item by transmission of the MICR-line information:
- (a) ship the eligible item to the Paying Bank (paragraph 4);
 - (b) respond to a request for information with respect to an eligible item (paragraph 5); and
 - (c) if requested by the Paying Bank, and agreed to by us, retain a microfilm or image copy of the eligible item for seven years as provided in Appendix E1.

3.0 DEFINITIONS

- 3.1 In addition to the definitions set forth in the Appendix, unless the context otherwise requires, **request for information** means a request that we: (i) provide additional information with respect to an eligible item, (ii) transmit a facsimile or image copy of an eligible item, or (iii) make available an eligible item or a copy thereof.

4.0 SHIPMENT OF ITEMS

- 4.1 We will ship an eligible item processed under this Appendix to the Paying Bank on the day, or on our banking day following the day, we transmit MICR-line information with respect to the item to the Paying Bank.

5.0 REQUESTS FOR INFORMATION

- 5.1 A Paying Bank may request information with respect to an eligible item if we receive the request no later than our cut-off hour for such requests before we ship the item to the Paying Bank. The request must contain the recorded MICR-line information from the item, the date the information was recorded, and our sequence number for the item. We will respond to the request by sending the copy, item or information to the Paying Bank by the time we specify on either the banking day of receipt of the request or on our next banking day. A request for information submitted before the eligible item has been finally paid does not constitute dishonor of the item.

6.0 ITEM NOT AVAILABLE

- 6.1 The Paying Bank is advised that after a prescribed time on the day we transmit MICR-line information with respect to an eligible item, the item may be in transit between our office and the Paying Bank, or may otherwise be unavailable, and the item and the information it contains may not become available until the Paying Bank actually receives the item. The Paying Bank's deadline for return of an item is not extended because the item and the information it contains does not become available to the Paying Bank until after that deadline. In such a case, the Paying Bank would be required to determine whether to return the item without access to the item and the information it contains. If the Paying Bank determines to return the item, it must send to us an instruction to return the item setting forth the MICR-line information that we transmitted to the Paying Bank with respect to the item, the date the information was recorded, our sequence number for the item, and the reason for the return. The instruction must be delivered by a method we prescribe and must be received by us within the deadline for return set forth in the Uniform Commercial Code and Regulations J and CC, and by our cut-off hour for instructions to return. We will give credit to the Paying Bank, and trace the item and charge it back to our prior indorser.
- 6.2. If the Paying Bank does not, for any reason, receive an eligible item that has been presented electronically, we will, on request, assist the Paying Bank in requesting a copy of the item from a prior collecting bank.

Appendix F

OTHER CHECK SERVICES

1.0 GENERAL

1.1 This Appendix sets forth the terms under which we provide certain check services to paying banks. These services include electronic check information services, MICR enhancement services, image services and presentment point services. Other check services that we may provide from time to time are also governed by the terms of this Appendix, unless otherwise provided by special agreement. Services provided hereunder are performed in conjunction with the services provided pursuant to our circular entitled "Collection of Cash Items and Returned Checks" ("Circular"), but are governed by that Circular only to the extent that this Appendix does not apply. These services may also be governed by our circular entitled "Electronic Access".

Definitions

- 1.2 Unless the context otherwise requires, terms not defined in this Appendix have the meanings set forth or incorporated in Regulation J, and:
- (a) **eligible item** means a cash item drawn on, or payable at or through, a Paying Bank, and that complies with the eligibility requirements we specify;
 - (b) **fine sort item** means an eligible item included in a fine sort cash letter;
 - (c) **image** means a digitized representation of the front and back of an eligible item, including a photocopy or computer generated reproduction of the image;
 - (d) **MICR-line information** means the information inscribed in the MICR-line on an eligible item;
 - (e) **nonmachineable item** means an eligible item that has been rejected from automated processing equipment;
 - (f) **over-the-counter item** means an eligible item that has already been presented to the Paying Bank and that is delivered to us for processing under this Appendix. We do not act as a collecting bank with respect to such an item;
 - (g) **Paying Bank** means a paying bank that subscribes to a check service hereunder, and includes its agent for receiving items, information or images;
 - (h) **record** means to reproduce MICR-line information in a form suitable for electronic transmission;
 - (i) **same-day settlement item** means a check (as defined in Regulation CC) presented to the Paying Bank under our presentment point service in accordance with section 229.36(f) and other provisions of Regulation CC;
 - (j) **transmit** or **transmission** means sending information or an image electronically to the Paying Bank or making information or an image available in a file that can be accessed electronically by an arrangement with the Paying Bank. Transmission does not constitute presentment of an item except as provided in Appendix E.

- 1.3 A Paying Bank may request us to perform services hereunder by submitting a written request. The procedures for each service are set forth in this Appendix and in documentation that we publish.

2.0 ELECTRONIC CHECK INFORMATION SERVICES

Key Account Totals Service

- 2.1 We prepare a listing of the total dollar amount and number of eligible items that we process each banking day for each customer account that the Paying Bank designates. If requested, we also include the total dollar amount and number of fine sort items, nonmachineable items, same-day settlement items and over-the-counter items. We provide this listing in paper form or by electronic connection, facsimile or telephone. If requested, we reject items with missing or unreadable account numbers, or we may provide repair or key entry services.

MICR Information Service

- 2.2 We record MICR-line information from eligible items that we process each banking day. If requested, we also include information from fine sort items, nonmachineable items, same-day settlement items and over-the-counter items. We provide the information to the Paying Bank on magnetic tape or by transmission, usually when we send the items. If requested, we reject items with missing or unreadable account numbers, tran code or auxiliary on-us field, or we may provide repair or key entry services.

Selected MICR Account Information

- 2.3 We provide the MICR Information Service for accounts or ranges of accounts that the Paying Bank designates.

3.0 MICR ENHANCEMENT SERVICES

Custom Pocket Sort

- 3.1 We provide a separately sorted cash letter for each customer account that the Paying Bank designates.

Account Number Verification

- 3.2 We use a mathematical algorithm supplied by the Paying Bank to test the accuracy of MICR-line information, and provide the results to the Paying Bank.

4.0 IMAGE SERVICES

Basic Image Capture Service

- 4.1 A Reserve Bank captures the image of eligible items processed each banking day, and we provide the image to the Paying Bank. If requested, we also include images of fine sort items, nonmachineable items, same-day settlement items and over-the-counter items. This service may be combined with the following image services.

Image Archival Service

- 4.2 We retain images captured under our basic image capture service in accordance with our retention schedule.

Image Bulk Delivery Service

- 4.3 We retrieve images from our image archival service and provide them to the Paying Bank on a predetermined schedule.

Recurring Image Retrieval Service

- 4.4 Upon request by the Paying Bank, we retrieve and transmit to the Paying Bank selected images from our image archival service on a predetermined schedule.

Nonrecurring Image Retrieval Service

- 4.5 Upon request by the Paying Bank, we retrieve and communicate selected information regarding a selected eligible item or transmit a selected image from our image archival service.

5.0 PRESENTMENT POINT SERVICES

Primary Presentment Point Service

- 5.1 When a Paying Bank designates one of our offices as a primary presentment point for same-day settlement items, the Paying Bank designates that office as the presentment point for all collecting banks for same-day settlement items that bear 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 for a paying bank that has not requested a presentment point service, we collect the items as fine sort cash items under our Circular; our receipt of such checks does not constitute presentment. We will, upon request, provide a list of Paying Banks for which we act as primary presentment point. A Paying Bank that wishes to terminate its designation of us as a presentment point, should first notify collecting banks that are using us as a primary presentment point for the Paying Bank.

Alternate Presentment Point Service

- 5.2 When a Paying Bank designates one of our offices as an alternate presentment point for a designated collecting bank for same-day settlement items, 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 for a Paying Bank that has not requested either (a) an alternate presentment point service with respect to the collecting bank from which we receive the items, or (b) a primary presentment point service, we collect the items as fine sort cash items under our Circular; our receipt of such checks does not constitute presentment.

General

- 5.3 Collecting banks should directly contact a Paying Bank that has designated us as a presentment point, prior to presenting checks at this Reserve Bank, concerning any requirements for such presentment the Paying Bank has established. All items delivered to an office of this Reserve Bank as a presentment point for a Paying Bank must be separately packaged from items delivered to us for

collection. The package must be labeled "same-day settlement" and must designate the names of both the presenting bank and the Paying Bank. Items are considered presented to the Paying Bank only when they are delivered to the location we specify for delivery of same-day settlement items.

- 5.4 We time-stamp each package presented to a Paying Bank at our premises, provide verification of receipt to the presenting bank's delivery agent, store the items for pick-up by the Paying Bank, and provide verification of the time of delivery to the Paying Bank. If the Paying Bank requests, we 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 items.
- 5.5 We do not act as a collecting bank in providing presentment point services to a Paying Bank. We have 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. We have no responsibility for arranging for settlement or adjustment by the Paying Bank for items presented, for arranging delivery of the items to the Paying Bank, or for arranging for return of the items.
- 5.6 Collecting banks should not include same-day settlement items or other items presented to Paying Banks in settlement sheets listing items deposited for collection by us. If we receive checks identified as same-day settlement items by means of transportation arranged by a Reserve Bank, such as the Interdistrict Transportation System, we collect the items as fine-sort cash items under our Circular; our receipt of such checks does not constitute presentment.

6.0 LIABILITY

- 6.1 In providing services under this Appendix to a Paying Bank, we have no responsibility or liability to any person other than the Paying Bank, and are liable to the Paying Bank only for our own lack of good faith or failure to exercise ordinary care in providing the service. We expressly disclaim all warranties, express, statutory or implied, with respect to information we provide, 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 eligible item, reduced by an amount which 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. We do not act as a collecting bank in providing services under this Appendix, regardless of whether we indorse over-the-counter items.
- 6.2 We do not verify customer account information, MICR-line information or special sorts we provide to a Paying Bank. It is the Paying Bank's responsibility either 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.
- 6.3 If we are delayed in acting beyond time limits under this Appendix because of interruption of communication or computer facilities, suspension of payments by a 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.

7.0 INDEMNIFICATION BY PAYING BANK

- 7.1 By requesting services under this Appendix, a Paying Bank agrees to indemnify, hold harmless and defend this Reserve Bank for any claim, demand, loss, liability or expense (including attorneys' fees and expenses of litigation) made against us by any person, or incurred by us, in connection with

our performance of services hereunder, but excluding any claim, demand, loss, liability or expense that results from our failure to exercise ordinary care or act in good faith. The Paying Bank's indemnification obligation specifically extends to, but is not limited to, claims, demands, loss, liability or expense arising in connection with (i) any claim that we acted as collecting bank with respect to a same-day settlement item or an over-the-counter item, regardless of whether we have indorsed the item, or (ii) 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. The Paying Bank's indemnification obligation shall survive termination of the services provided under this Appendix.

8.0 RECORDS

8.1 We make available to the Paying Bank records of our processing of same-day settlement items and over-the-counter items in connection with other check services. If we believe that we may be compelled to provide such records 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 should be produced, to assert any defense to such production, and to pay all associated costs.

9.0 FEES

9.1 Fees for our check services are set forth in a fee schedule that we publish and amend from time to time. A Reserve Bank charges the fees to the account maintained or used by the Paying Bank.

10.0 TERMINATION AND AMENDMENT

10.1 We or the Paying Bank may terminate a service provided under this Appendix by giving not less than ten calendar days prior written notice to the other party. The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.

Operating Circular

Federal Reserve Bank of Dallas



4 Automated
Clearing
House Items

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AUTOMATED CLEARING HOUSE ITEMS

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1.0 GENERAL

1.1 This operating circular, its appendices and our time and fee schedules (collectively "Circular") govern the clearing and settlement of commercial automated clearing house (ACH) credit and debit items (including credit items subject to Article 4A) by the Federal Reserve Banks, sending banks, and receiving banks. Government ACH items are governed by Appendix D to this Circular. Each Reserve Bank has issued a Circular identical to this one.

1.2 This Circular is issued pursuant to Sections 4, 11A, 13, 16 and 19 of the Federal Reserve Act and related statutes. With respect to items other than credit items subject to Article 4A, this Circular is binding on a sending bank that sends items to a Reserve Bank, a receiving bank that receives items from a Reserve Bank, an account holder that has agreed to settle for items under this Circular, and another party interested in an item that agrees to this Circular or that is otherwise bound by it.

1.3 The provisions of Article 4A of the Uniform Commercial Code are incorporated in this Circular with respect to credit items subject to Article 4A. In the event of inconsistency between the provisions of this Circular and Article 4A with respect to such a credit item, the provisions of this Circular shall control. As regards credit items subject to Article 4A, this Circular is an operating circular as referred to in Section 4A-107, and is not a funds transfer system rule as defined in Article 4A. Nevertheless, this Circular governs the rights and obligations of parties to a funds transfer subject to Article 4A to the same extent as if this Circular were a funds transfer system rule. Under Article 4A, this Circular is binding on parties to an item besides the sending and receiving banks if the parties have notice that the Reserve Banks' funds transfer system might be used

for the transaction and that this Circular will apply, unless those other parties have agreed otherwise.

1.4 The following rules and agreements, as amended from time to time, are incorporated in this Circular as applicable ACH rules with respect to items, regardless of whether the sending bank or receiving bank is a member of an ACH association:

(a) The Operating Rules of the National Automated Clearing House Association (NACHA), unless other rules apply under subparagraph (b).

(b) The Operating Rules of regional ACH Associations that are members of NACHA, to the extent such rules (i) bind both the sending bank and the receiving bank, or (ii) in the case of a transaction involving a nonmember(s) of an ACH association, generally apply to transactions within the region where the sending bank and receiving bank are located.

Not incorporated in this Circular as applicable ACH rules are provisions that:

(a) are in conflict with applicable law;

(b) with respect to credit items subject to Article 4A, are in conflict with provisions of Article 4A that may not be varied;

(c) limit the applicability of the ACH rules to members of an ACH association;

(d) require dues or fees (other than a reasonable fee for copies of the ACH rules);

(e) require execution of agreements by participating banks (such as settlement or indemnity agreements);

(f) govern arbitration of disputes among participants; or

(g) provide for payment of legal expenses to an ACH association in suits against the association.

This Circular does not affect the applicability of these provisions to members of the ACH association. This Circular preempts or supersedes the applicable ACH rules or other arrangements among parties to ACH items only to the extent that the provisions of those arrangements are inconsistent with this Circular.

2.0 DEFINITIONS

2.1 As used in this Circular:

(a) **account** means an account with reserve and/or clearing balances on the books of a Federal Reserve Bank. A sub-account is an information record of a subset of transactions that affect an account, and is not a separate account.

(b) **actually and finally collected funds** means cash or any other form of payment that is, or has become, final and irrevocable.

(c) **Administrative Reserve Bank** means the Reserve Bank in whose District an entity is located, as determined under the procedure described in 12 CFR 204.3(b)(2), even if the entity is not otherwise subject to that section.

(d) **applicable ACH rules** means the rules and agreements designated in this Circular as applicable to designated ACH transactions. See paragraph 1.4.

(e) **Article 4A** means Article 4A of the Uniform Commercial Code as set forth in Appendix B of Regulation J, 12 CFR Part 210, Subpart B. It includes provisions of Article 1 referred to in Article 4A as approved from time to time by the National Conference of Commissioners on Uniform State Laws and the American Law Institute.

(f) **as of adjustment** means a debit or a credit, for reserve or clearing balance

maintenance purposes only, applied to the account of a sending or receiving bank in lieu of an interest charge or payment.

(g) **automated clearing house or ACH** means a facility that clears debit and credit items for banks.

(h) **bank** means (i) a depository institution as defined in Section 19(b) of the Federal Reserve Act (12 U.S.C. 461(b)); (ii) a branch or agency of a foreign bank maintaining reserves under Section 7 of the International Banking Act of 1978 (12 U.S.C. 347d, 3105); (iii) a department, agency, instrumentality, independent establishment, or office of the United States, or a wholly owned or controlled Government corporation; or (iv) another entity for which a Reserve Bank directly provides ACH services.

(i) **banking day** means the part of a day during which a Reserve Bank, account holder, sending bank or receiving bank is open for the receipt, processing or transmission of items. See Appendix B for the Reserve Banks' ACH banking day. With respect to a credit item subject to Article 4A, **banking day** means a funds transfer business day.

(j) **credit item** means an item a sending bank sends to a Reserve Bank for debit to the sending bank's settlement account and for credit to a receiving bank's settlement account. Unless otherwise expressly stated, the term includes a credit item subject to Article 4A.

(k) **credit item subject to Article 4A** means a credit item that is a payment order as defined in Article 4A. The term does not include an ACH credit transaction any part of which is governed by the Electronic Fund Transfer Act, as amended, an inter-Reserve Bank settlement wire, or a non-dollar message such as a zero dollar return, prenotification, notification of change, or automated enrollment.

(l) **debit item** means an item a sending bank sends to a Reserve Bank for credit

to the sending bank's settlement account and for debit to a receiving bank's settlement account.

(m) **effective date** means the date for settlement that a sending bank specifies in an item. See paragraph 8.

(n) **effective date window** means the minimum and maximum period of days after the Reserve Bank's processing date within which the effective date must fall to receive desired settlement. See paragraph 8.

(o) **item** means an instruction for the payment of money that is handled by a Reserve Bank for processing or settlement under its ACH Circular. **Item** does not include: (i) an **item** as defined in Section 210.2 of Regulation J that is handled under Subpart A governing the collection of checks and other items; (ii) a **payment order** as defined in Section 210.26 of Regulation J that is handled under Subpart B governing funds transfers through Fedwire; (iii) a payment instruction subject to 31 CFR Parts 210 or 370, or other Treasury Department regulations governing Federal payments by the ACH method; or (iv) a wire transfer of securities by a Reserve Bank. Unless the context otherwise requires, the term includes both a credit item and a debit item.

(p) **receiving bank** means a bank designated in an item to receive the item from a Reserve Bank. With respect to a credit item subject to Article 4A, the term receiving bank may include a beneficiary as defined in Article 4A.

(q) **sending bank** means a bank designated in an item as sending the item to a Reserve Bank.

(r) **servicing Reserve Bank** means the Reserve Bank which is a sending or receiving bank's primary contact for communications relating to ACH items. The servicing Reserve Bank is usually the bank's Administrative Reserve Bank.

(s) **settlement account** means the account at a Reserve Bank that the sending bank or receiving bank maintains, or a correspondent bank's account that the sending bank or receiving bank uses, to settle items.

(t) **settlement date** means the date for settlement of an item as provided in this Circular.

3.0 SENDING CREDIT AND DEBIT ITEMS

3.1 A sending bank that maintains or uses a settlement account at a Reserve Bank may send an item to any Reserve Bank, provided the receiving bank maintains or uses a settlement account for ACH items at a Reserve Bank. A sending bank may designate a sending point as its agent to send items to a Reserve Bank. The sending point is not a sender or receiving bank as defined in Article 4A, or a party to the item, in acting as agent of a sending bank.

3.2 For purposes of this Circular and Article 4A, the sending bank is deemed to have sent an item to its Administrative Reserve Bank, regardless of which Reserve Bank holds the sending bank's settlement account, maintains its electronic connection or receives the item. No Reserve Bank, other than the sending bank's Administrative Reserve Bank and the receiving bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank under Article 4A.

3.3 The sending bank's or receiving bank's Administrative Reserve Bank may instruct another Reserve Bank concerning the other Reserve Bank's handling of or settlement for an ACH item for purposes of managing the Administrative Reserve Bank's risk.

3.4 An item must be in the media the Reserve Banks prescribe and in the format prescribed by the applicable ACH rules.

4.0 SECURITY PROCEDURES

4.1 The security procedures a Reserve Bank offers to verify the authenticity of the source of an item are described in Appendix A of this Circular. Before sending an item to a Reserve Bank, a sending bank must execute an agreement with its servicing Reserve Bank in the form of Appendix A1, copies of which are available from the Reserve Banks. If a sending bank sends an item through an agent, the agent must also execute an agreement in the same form. A sending bank is deemed to agree to any security procedure used in sending an item to a Reserve Bank.

4.2 Each sending and receiving bank shall prevent any disclosure, except on a "need to know" basis, of any aspects of the security procedures agreed to by it with its servicing Reserve Bank. The sending or receiving bank shall notify its servicing Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

5.0 SENDING BANK'S AGREEMENTS

5.1 By sending an item to a Reserve Bank, the sending bank:

- (a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;
- (b) authorizes the Reserve Banks to process the item in accordance with this Circular;
- (c) authorizes the Reserve Bank holding the sending bank's settlement account to debit the amount of a credit item, or credit the amount of a debit item, to the sending bank's settlement account on the settlement date; and
- (d) agrees to indemnify each Reserve Bank processing or settling for the item

for any loss or expense (including attorneys' fees and expenses of litigation) incurred by the Reserve Bank as a result of any action taken with respect to the item by the Reserve Bank in accordance with its Circular.

5.2 The agreements, authorizations and indemnity in paragraph 5.1 do not limit any other agreement, authorization or indemnity, not inconsistent with paragraph 5.1, made by a sending bank to a receiving bank, a Reserve Bank or another person.

PREFUNDING

5.3 A sending bank's Administrative Reserve Bank may require a sending bank to execute the prefunding agreement in the form of Appendix C, copies of which are available from the Reserve Banks, and to give the Reserve Bank prior notice of, and to sort separately by settlement date, credit and debit items to be sent to any Reserve Bank. The sending bank's Administrative Reserve Bank also may require the sending bank to provide prefunding for, and may substitute itself for the sending bank's settlement obligation with respect to, a credit item in accordance with the agreement if a Reserve Bank judges that there may not be sufficient funds in the sending bank's settlement account on the settlement date to cover the sending bank's obligations.

6.0 PROCESSING OF ITEMS

6.1 The Reserve Banks process items in accordance with the applicable ACH rules and this Circular. A Reserve Bank may reject, or may impose conditions to its processing of, any item for any reason. A Reserve Bank will not act on instructions in an item other than information required by format specifications in applicable ACH rules. If a Reserve Bank notifies a sending bank of the receipt of a suspected duplicate file or any other problem, the Reserve Bank will not process the file without approval by the sending bank or its agent. Except as expressly provided in this Circular, a Reserve Bank does not have or assume any responsibility for a sending or receiving bank's compliance with applicable ACH rules. A Reserve Bank may

record by audio recording device any telephone call relating to an item.

6.2 The Reserve Banks send an acknowledgment to the sending bank that a Reserve Bank has received ACH files by electronic transmission and has performed limited processing of the files, as provided in applicable ACH rules. An acknowledgment does not mean that a Reserve Bank has accepted, and will not reject, the items contained in the files. The sending bank is responsible for verifying the information in the acknowledgment and notifying the servicing Reserve Bank immediately of any discrepancy, and for notifying the servicing Reserve Bank promptly of nonreceipt of an acknowledgment. See paragraph 19.

6.3 A sending bank must designate the receiving bank for an item by routing number. A Reserve Bank is not responsible for the accuracy of a routing number contained in and/or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list or file. A Reserve Bank may process an item on the basis of a routing number of a receiving bank appearing in any form on the item when received. A Reserve Bank is not responsible for any loss or delay resulting from acting on the number, whether or not the number is consistent with any other designation of the receiving bank on the item, if the Reserve Bank does not know of the inconsistency in designation. For purposes of Article 4A, an identifying number of a branch of a domestic bank is deemed to be the identifying number of the bank.

7.0 DELIVERY OF ITEMS

7.1 By prior arrangement with a receiving bank, a Reserve Bank sends items by electronic means to the receiving bank, or to a location designated by the receiving bank. In emergency circumstances, the Reserve Bank sends items as arranged with the receiving bank, or by the same means and to the same location to which it sends cash items for the receiving bank. If the

receiving bank requests that items be sent to or made available for pick-up by another person, that person is the receiving bank's agent and is not a sender or receiving bank as defined in Article 4A or a party to an item in acting as agent of the receiving bank. A receiving bank should promptly advise its servicing Reserve Bank by telephone if it does not receive items by the expected date.

7.2 A receiving bank must manage its electronic connection so as to permit it to receive items in a timely manner throughout the day. A receiving bank that does not receive items in a timely manner because it fails to so manage its electronic connection, or because of emergency circumstances beyond the control of a Reserve Bank, is required to settle for the items with a Reserve Bank on the settlement date, but is not considered to receive the items for purposes of the deadline for return, if the items are available timely for electronic transmission by a Reserve Bank to the receiving bank, or for pick-up at a Reserve Bank by the receiving bank. The receiving bank may choose next day debit with as of adjustment or explicit charge for float in lieu of settling on the settlement date for debit items.

7.3. For purposes of this Circular and Article 4A, the receiving bank is deemed to have received an item from its Administrative Reserve Bank, regardless of which Reserve Bank holds the receiving bank's settlement account, maintains its electronic connection or sends the item to the receiving bank. No Reserve Bank, other than the receiving bank's Administrative Reserve Bank and the sending bank's Administrative Reserve Bank, is a party to the item or a sender or receiving bank under Article 4A. See paragraphs 3.2 and 3.3.

8.0 TIME SCHEDULES, SETTLEMENT DATES AND EXTENSIONS OF TIME LIMITS

8.1 The ACH items time schedule (Appendix B) shows the banking days and the closing hours for a Reserve Bank to receive credit and debit items of various

classes for immediate or next day settlement. The time schedule also shows the effective date window for classes of items and provisions for settlement for various effective dates.

8.2 The Reserve Banks process items in accordance with their processing schedules, and send them to the receiving bank on or before the settlement date. If, because of circumstances beyond a Reserve Bank's control, it is delayed beyond the applicable time limit in acting on an item (other than a credit item subject to Article 4A), the time for acting is extended for the time necessary to complete the action, provided the Reserve Bank exercises such diligence as the circumstances require.

9.0 DESIGNATION OF SETTLEMENT ACCOUNT

9.1 Prior to sending an item to (or receiving an item from) a Reserve Bank, a sending bank (and a receiving bank) must designate to its Administrative Reserve Bank a settlement account(s) on a Reserve Bank's books, and identify the transactions to be settled through the account(s). If the bank designates a correspondent bank's account, the correspondent bank must agree to that designation. If the settlement account is on the books of another Reserve Bank, the other Reserve Bank must not object to the designation. A correspondent bank whose account is used by a sending or receiving bank for settlement of items, and a Reserve Bank, other than the sending or receiving bank's Administrative Reserve Bank, that holds the settlement account, does not thereby become a sender or receiving bank as defined in Article 4A, or a party to an item. A sending or receiving bank remains responsible under this Circular for all transactions, notwithstanding that it has designated a settlement account, including a settlement account maintained by a correspondent bank.

9.2 A Reserve Bank may charge against a sending or receiving bank's account the amount of the bank's ACH transactions, unless the bank makes other arrangements for settlement.

9.3 By designating a settlement account, a bank (or a correspondent bank, if any) authorizes the Reserve Bank that holds the settlement account: (1) to debit to its account on the settlement date the amount of credit items sent by the bank to a Reserve Bank, the amount of debit items sent to the bank by a Reserve Bank, and the amount of Government ACH debit items sent to the bank by a Reserve Bank; (2) to credit to its account on the settlement date the amount of debit items sent by the bank to a Reserve Bank, the amount of credit items sent to the bank by a Reserve Bank, and the amount of Government ACH credit items sent to the bank by a Reserve Bank; and (3) to debit and credit to its account the amount of other transactions (including fees, unless otherwise agreed) with respect to ACH items and Government ACH items as provided in this Circular.

9.4 The bank (or a correspondent bank, if any) agrees to maintain to its credit in its account, consistent with paragraph 10 of this Circular, a balance of actually and finally collected funds sufficient to cover charges under this Circular and all other charges to its account. The Reserve Banks assume no responsibility for any obligations or rights of a bank with respect to its correspondent bank, if any (or of an intermediary correspondent that is not an account holder, if any, with respect to its correspondent account holder).

9.5 By designating a settlement account, and in consideration of the processing and settlement by the Reserve Banks of items sent to and/or received by the bank and other sending and receiving banks, the bank (and its correspondent bank, if any) agrees to the Reserve Banks' Circular entitled "ACH Items" and to the applicable ACH rules, each as amended from time to time, for the benefit of all parties interested in the items.

9.6 A settlement designation supersedes all prior inconsistent designations with respect to items. The sending or receiving bank may terminate a settlement designation by written notice to the Reserve Bank that holds the account (and the Reserve Bank may terminate a settlement designation by written notice to the bank) effective

five banking days after receipt of the notice or on a subsequent date specified in the notice. A correspondent bank (or an intermediary correspondent that is not an account holder, if any) may terminate a settlement designation by written notice to the Reserve Bank that holds the settlement account, effective only for ACH items to be settled on and after the banking day following the banking day of receipt of the notice, or on a later date specified in the notice. A sending or receiving bank must designate another settlement account if its correspondent bank suspends payment or is closed, if the authority to charge the correspondent's account is terminated, or if the correspondent's Administrative Reserve Bank judges, in its discretion, that there will not be sufficient funds in the account on the settlement date to cover an item.

10.0 SETTLEMENT

10.1 A sending or receiving bank's settlement obligation is owed to its Administrative Reserve Bank, even if it has designated an account on another Reserve Bank's books for settlement. Settlement with the Reserve Bank that holds the settlement account is deemed to be settlement with the sending or receiving bank's Administrative Reserve Bank.

10.2 On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits (or credits) that account in the amount of a credit (or debit) item, and the Reserve Bank that holds the receiving bank's settlement account credits (or debits) the receiving bank's account in the amount of the credit (or debit) item. Settlement for credit items must be made by the sending bank at the time provided in Appendix B, and credit for credit items is available for withdrawal or other use by the receiving bank at that time, subject to the provisions of this Circular. Settlement for debit items must be made by the receiving bank at the time provided in Appendix B, and credit for debit items is available for withdrawal or other use by the sending bank at that time, subject to the provisions of this Circular.

OVERDRAFTS

10.3 No account holder (whether a sending or receiving bank, or a correspondent bank) has a right to an overdraft in its account. If an overdraft occurs, the overdraft shall be due and payable immediately without the need for a demand by the Reserve Bank at the earliest of the following times:

- (a) at the end of the Reserve Bank's funds transfer business day for purposes of Fedwire (Regulation J, 12 CFR 210, Subpart B);
- (b) at the time the Reserve Bank, in its discretion, deems itself insecure and gives notice thereof to the account holder; or
- (c) at the time the account holder suspends payments or is closed.

10.4 An account holder shall have in its account, at the time an overdraft is due and payable, a balance of actually and finally collected funds sufficient to cover the aggregate amount of all its obligations to the Reserve Bank, whether the obligations result from an item for which the account holder is obliged to settle or otherwise. If an account holder incurs an overdraft in its account, the account is subject to any applicable overdraft charges, regardless of whether the overdraft has become due and payable.

SECURITY AGREEMENT

10.5 To secure any overdraft, as well as any other obligation due or to become due to its Administrative Reserve Bank, an account holder grants to that Reserve Bank a security interest in all of the account holder's assets in the possession of, or held for the account of, any Reserve Bank. The security interest attaches when an overdraft or other obligation becomes due and payable.

10.6 An Administrative Reserve Bank may take any action authorized by law to recover the amount of an overdraft that is due and payable, including but not limited to the exercise of rights of set-off, the realization on any available collateral, and any

other rights it may have as a creditor under applicable law. If a sending or receiving bank uses a correspondent's account for settlement, the Reserve Bank may also, in its discretion, recover the unpaid balance of the sending or receiving bank's obligation with respect to an item from the sending or receiving bank, respectively, without prior notice or demand.

REVOCAION OF SETTLEMENT

10.7 If the Reserve Bank that holds the settlement account judges, in its discretion, that there may not be sufficient funds in the account on the settlement date to cover a credit item (including a credit item subject to Article 4A) or a debit item, the Reserve Banks may cease processing the item and may refuse to settle for it. The Reserve Banks may also cease processing or refuse to settle for an item if they receive notice of the suspension or closing of the sending or receiving bank. If the Reserve Banks cease processing or refuse to settle for an item, they will notify the sending bank and a receiving bank to which the item has been sent.

11.0 AVAILABILITY OF CREDIT

DEBIT ITEMS

11.1 Credit given for a debit item by the Reserve Bank that holds the sending bank's settlement account is available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) on the settlement date, subject to paragraph 10.7, this paragraph, and other provisions of this Circular. The Reserve Bank may refuse to permit the use of credit given for a debit item if it judges that there may not be sufficient funds in the sending bank's settlement account to cover chargeback or return of the item. If a Reserve Bank does not receive actually and finally collected funds in settlement of a debit item at or before 8:30 a.m. ET on the banking day following the settlement date, the Reserve Banks that hold the sending and receiving banks' settlement accounts may reverse the debit and credit previously made in settlement of the item by 8:30 a.m. ET, and will notify the

sending and receiving banks (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

CREDIT ITEMS

11.2 Credit given by the Reserve Bank that holds the receiving bank's settlement account for a credit item (including a credit item subject to Article 4A) is available for use and may qualify as reserve for purposes of Regulation D (12 CFR Part 204) on the settlement date, subject to paragraph 10.7, this paragraph, and other provisions of this Circular. If a Reserve Bank does not receive actually and finally collected funds in settlement of a credit item at or before 8:30 a.m. ET on the banking day following the settlement date, the Reserve Banks that hold the sending and receiving banks' settlement accounts may reverse the debit and credit previously made in settlement of the item by 8:30 a.m. ET, and will notify the sending and receiving banks (or a correspondent bank whose account a bank uses for settlement) as soon as possible.

12.0 RECEIVING BANK'S AGREEMENTS

12.1 A receiving bank, by maintaining or using an account with a Reserve Bank for settlement of items or by accepting an item from a Reserve Bank:

- (a) agrees to comply with the applicable ACH rules and agrees that those rules govern the relationships among the sending bank, the receiving bank and other parties interested in the item and covered by those rules;
- (b) agrees to process the item in accordance with this Circular;
- (c) authorizes the Reserve Bank holding the receiving bank's settlement account to credit the amount of a credit item, or debit the amount of a debit item, to the receiving bank's settlement account on the settlement date; and

(d) agrees to indemnify each Reserve Bank processing or settling for the item for any loss or expense (including attorneys' fees and expenses of litigation) incurred as a result of a breach of the foregoing agreements or of any action taken by the Reserve Bank in accordance with its Circular.

12.2 The agreements, authorization and indemnity in paragraph 12.1 do not limit any other agreement, authorization or indemnity, not inconsistent with paragraph 12.1, made by a receiving bank to a sending bank, a Reserve Bank or another person.

13.0 REVOCATION OF ITEMS

13.1 A sending bank or prior party may not amend or revoke an item after it has been received by a Reserve Bank, except as provided in applicable ACH rules.

13.2 A Reserve Bank may cancel items by initiating a reversing batch of items in accordance with applicable ACH rules if it discovers that a Reserve Bank sent a duplicate or erroneous batch of items. The Reserve Bank will notify the sending bank accordingly. Nothing in this Circular constitutes a waiver by any Reserve Bank of a right of recovery under the applicable law of mistake and restitution.

14.0 RETURN OF ITEMS AND FUNDS

14.1 A receiving bank may return a debit or credit item to any Reserve Bank in accordance with the applicable ACH rules and by the closing hour set forth in the ACH time schedule. The receiving bank is accountable for the amount of a debit item if the returned item is not received by that closing hour. A Reserve Bank will convert a paper return item or a telephone return debit item to automated form as provided in Appendix B.

14.2 The Reserve Banks process a returned item they receive from a receiving bank and send it or make it available to the sending

bank in accordance with the provisions of this Circular governing the processing of items. On the settlement date, the Reserve Bank that holds the sending bank's settlement account debits or credits that account in the amount of a returned debit or credit item, and the Reserve Bank that holds the receiving bank's settlement account credits or debits that account in the amount of the returned debit or credit item at the time provided in Appendix B, subject to the provisions of this Circular governing the settlement for items.

14.3 A receiving bank should keep records that permit it to identify the source of receipt of items. By sending a returned debit item to a Reserve Bank, a receiving bank: (a) agrees on request to provide records showing whether it received the debit item from a Reserve Bank, and (b) if it did not receive the debit item from a Reserve Bank, agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the returned debit item from the sending bank.

14.4 If a receiving bank sends an adjustment entry for an unauthorized debit item to a Reserve Bank in accordance with applicable ACH rules, the receiving bank agrees to indemnify the Reserve Banks for loss resulting from a Reserve Bank's failure to receive the amount of the adjustment from the sending bank, whether or not the receiving bank received the debit item from a Reserve Bank.

15.0 DISPUTED RETURNS

15.1 If a sending bank disputes the propriety of a returned item one time in accordance with applicable ACH rules, the Reserve Bank(s) that holds the sending bank's and the receiving bank's settlement accounts will provisionally settle for the disputed return, subject to receipt of funds from the receiving bank. If the receiving bank disputes the sending bank's claim in accordance with applicable ACH rules, the Reserve Bank(s) will reverse the provisional settlement for the disputed return, subject to receipt of funds from the sending bank.

16.0 ADVICES OF CREDIT AND DEBIT; REPORTING OF ERRORS

16.1 A Reserve Bank provides, in a statement, advices of credit and debit to an account holder for items for which the account holder has agreed to settle. An advice of credit indicates that credit has been given, subject to the provisions of this Circular. A Reserve Bank also, on request, provides advices to a person other than the bank or its correspondent, as the bank's agent, in accordance with paragraph 7 of this Circular.

16.2 A Reserve Bank properly executes a credit item subject to Article 4A if it sends an advice of credit as requested by the receiving bank. A sending or receiving bank (and a correspondent bank, if any) agree that a reasonable time to notify its servicing Reserve Bank concerning an unauthorized or erroneously executed item is within thirty calendar days after the bank (or correspondent) receives an advice of debit. Notice after that time may constitute the failure to exercise ordinary care, precluding the recovery by the bank of interest (with respect to a credit item subject to Article 4A) and other damages (with respect to other items).

16.3 In addition to the requirement for prompt notice under paragraph 16.2 and Sections 4A-204 and 4A-304 of Article 4A, a sending or receiving bank (or a correspondent account holder, if any) shall notify its servicing Reserve Bank immediately if it learns of or discovers, from any source other than an advice of debit from the Reserve Bank, the possibility of error or lack of authority in the transmission or processing of an item. See also paragraph 4.

17.0 RECORDS

17.1 Each sending and receiving bank should keep records that permit it to resolve questions that arise concerning the handling of items, and to resend items if a Reserve Bank notifies it that the items have been

lost because of a computer outage or other reason. A Reserve Bank keeps records of items processed for only one year after the settlement date.

18.0 FEES

18.1 The ACH Fee Schedule shows the charges imposed for processing and settlement of items. A Reserve Bank may make the charge to the sending bank's account or receiving bank's account, or as otherwise agreed.

19.0 NON-VALUE MESSAGES

19.1 The Reserve Banks handle a message that does not result in an accounting entry, such as a prenotification or notification of change, in the same manner as an item except that no funds are transferred. A Reserve Bank's liability for damage caused by its failure to exercise ordinary care, or by its own or its employees' willful misconduct, in processing a non-value message may not exceed the amount of any fee paid to a Reserve Bank for the message.

20.0 RESERVE BANK LIABILITY; ITEM OTHER THAN CREDIT ITEM SUBJECT TO ARTICLE 4A

LIMITATIONS ON LIABILITY

20.1 With respect to an item other than a credit item subject to Article 4A:

(a) a Reserve Bank is responsible or liable only to a sending bank, a receiving bank or another Reserve Bank, and only for its own failure to exercise ordinary care, or for its own or its employees' willful misconduct;

(b) a Reserve Bank does not act as the agent or subagent of another bank or person and is not liable for the insolvency, neglect, misconduct, mistake or default of another bank or person;

(c) a Reserve Bank does not make any warranty with respect to an item it processes or settles for under this Circular; and

(d) no person may make a claim against a Reserve Bank for loss resulting from the Reserve Bank's processing of or settling for an item after one year from the settlement date of the item. If a bank (or correspondent bank, if any) does not send written objection to an advice of debit to its servicing Reserve Bank within thirty calendar days after receipt of the advice, it is deemed to approve the debit on its own behalf (and on behalf of a sending or receiving bank using the account for settlement, if any).

MEASURE OF DAMAGES

20.2 The measure of damages for a Reserve Bank's failure to exercise ordinary care, or for its own or its employees' willful misconduct, is as follows:

(a) for a credit item (including a returned credit item but excluding a credit item subject to Article 4A), its liability is limited to damages that are attributable directly and immediately to the failure to exercise ordinary care or to the willful misconduct, and does not include damages that are attributable to the consequences of such conduct, even if such consequences were foreseeable at the time of such conduct.

(b) for a debit item (including a returned debit item), its liability for its failure to exercise ordinary care is limited to the amount of the item reduced by an amount that could not have been realized by the use of ordinary care. Where there is willful misconduct with respect to a debit item, the measure of damages includes other damages that are attributable directly and immediately to the willful misconduct, but does not include damages that are attributable to the consequences of such misconduct, even if such consequences were foreseeable at the time of such misconduct.

21.0 RESERVE BANK LIABILITY; CREDIT ITEM SUBJECT TO ARTICLE 4A

LIABILITY

21.1 A Reserve Bank's liability with respect to a credit item subject to Article 4A is governed by Article 4A, except as otherwise provided in this Circular. A Reserve Bank is not liable with respect to a credit item subject to Article 4A for any damages other than those payable under Article 4A. A Reserve Bank shall not agree to be liable for consequential damages with respect to a credit item subject to Article 4A under Section 4A-305(d) of Article 4A.

AS OF ADJUSTMENTS

21.2 A Reserve Bank may, in its discretion, satisfy its or another Reserve Bank's obligation to pay compensation in the form of interest under Article 4A by:

(a) providing an as of adjustment to a sending or receiving bank in an amount equal to the amount on which interest is to be calculated multiplied by the number of days for which interest is to be calculated; or

(b) paying compensation in the form of interest to a sending bank, receiving bank or another party to the item that is entitled to such payment, in an amount calculated in accordance with Section 4A-506 of Article 4A.

21.3 If a sending or receiving bank that receives an as of adjustment in the form of a credit, or an interest payment, is not the party entitled to compensation under Article 4A, the bank shall pass through the benefit of the adjustment or payment by making an interest payment (as of the day the adjustment or payment is made) to the party entitled to compensation. The interest payment that is made to the party entitled to compensation shall not be less than the value of the as of adjustment or interest payment that was provided by the Reserve Bank to the sending or receiving bank. The party entitled to compensation may agree to accept compensation in a form

other than a direct interest payment, if the alternative form of compensation is not less than the value of the interest payment that otherwise would be made.

21.4 A Reserve Bank may make an as of adjustment pursuant to paragraph 21.2 as follows:

(a) The Reserve Bank will normally process and apply an as of adjustment to the reserve maintenance period during which the transaction giving rise to the obligation to pay interest occurred, so that there will be no impact on aggregate reserves. If the Reserve Bank determines that is not feasible, in its sole discretion, it will process and apply the as of adjustment to the current reserve period.

(b) If an as of adjustment would be applied to one of the last three days of a reserve maintenance period, the Reserve Bank may apply it to either the current or future reserve maintenance periods.

(c) If a Reserve Bank delays execution of a credit item subject to Article 4A (see Section 4A-305(a) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was not debited at the appropriate time, the Reserve Bank will make an offsetting as of debit adjustment to the sending bank's account.

(d) If a Reserve Bank misdirects a credit item subject to Article 4A (see Sections 4A-303(c) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the account of the bank that should have received the order. If agreed by the bank that received the misdirected order, the Reserve Bank will make an offsetting as of debit adjustment to the receiving bank's account.

(e) If a Reserve Bank sends a credit item subject to Article 4A in an amount less than the amount that was intended (see Sections 4A-303(b) and 4A-305(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the receiving bank's account. If the sending bank was

not debited in the appropriate amount, the Reserve Bank will make an as of debit adjustment to the sending bank's account.

(f) If a Reserve Bank issues a duplicate credit item subject to Article 4A or a credit item subject to Article 4A that is in an amount more than was intended (see Sections 4A-303(a) and 4A-305(b) of Article 4A), and if the sending bank's account was not debited in the appropriate amount, the Reserve Bank may make an as of credit adjustment to the sending bank's account. If agreed by the receiving bank, the Reserve Bank will make an as of debit adjustment to the receiving bank's account.

(g) If a Reserve Bank delays rejection of a credit item subject to Article 4A (see Sections 4A-209(b) and 4A-210(b) of Article 4A), the Reserve Bank may make an as of credit adjustment to the sending bank's account.

(h) A Reserve Bank will apply offsetting as of adjustments to the same reserve maintenance periods to the extent feasible.

22.0 FORUM FOR ACTION

22.1 Any action against a Reserve Bank for that Reserve Bank's acts or omissions relating to the clearing of or settlement for an ACH item must be brought in the United States District Court and Division where the office or branch of the Reserve Bank that committed the alleged act or omission is located.

23.0 RECOVERY BY RESERVE BANK

23.1 If an action or proceeding is brought against a Reserve Bank based on:

(a) an alleged breach of (or an alleged failure to have the authority to make) any of the authorizations and agreements referred to in paragraphs 5.1 and 12.1 of this Circular by the sending or receiving

bank, or an alleged breach of the applicable ACH rules by the sending bank, the receiving bank or another Reserve Bank; or

(b) any action by the Reserve Bank in accordance with its Circular;

the Reserve Bank may recover from the sending bank, the receiving bank or the other Reserve Bank, as the case may be, any amount the Reserve Bank is required to pay under a final judgment or decree, together with interest, and the amount of attorneys' fees and other expenses of litigation incurred.

23.2 The Reserve Bank may recover the amount stated in paragraph 23.1 by charging the sending or receiving bank's account (or if the item was received from, sent to, or settled through another Reserve Bank, by charging the other Reserve Bank), if:

(a) the Reserve Bank has made timely written demand on the sending bank, receiving bank, or other Reserve Bank to assume defense of the action or proceeding; and

(b) no other arrangement for payment acceptable to the Reserve Bank has been made.

A Reserve Bank that has been charged under this paragraph may recover from the sending or receiving bank in the manner and under the circumstances set forth in this paragraph. A Reserve Bank's failure to avail itself of the remedy provided in this paragraph does not prejudice its enforcement in any other manner of the indemnity agreements referred to in paragraphs 5.1 and 12.1.

24.0 RIGHT TO AMEND

24.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

Appendix A

ACH SECURITY PROCEDURES

1.0 GENERAL

- 1.1 The Reserve Banks offer the following security procedures to each sending bank that is authorized to send ACH items to a Reserve Bank, for the purpose of verifying the authenticity of the source of the ACH items. The security procedures are not used to detect an error in the transmission or the content of the ACH items.

2.0 LEVEL ONE SECURITY PROCEDURE

- 2.1 The Level One Security Procedure is available to any bank that sends or receives ACH items by means of an encrypted leased or dial up communications line between its computer and a Reserve Bank's computer utilizing a hardware/software system certified by a Reserve Bank.
- 2.2 The Level One Security Procedure is incorporated in the hardware and software associated with the computer. In general, the procedure includes access controls such as identification codes and confidential passwords that allow a customer to access the Reserve Banks' system, and also encryption of ACH items during the transmission process. The procedure is more specifically described in the Computer Interface Protocol Specifications (CIPS) and the Fedline Users Guide and the Reserve Banks' security administration manual, which are available from each Reserve Bank.

3.0 LEVEL TWO SECURITY PROCEDURE

- 3.1 The Level Two Security Procedure is available to any bank that sends ACH items to a Reserve Bank by electronic transmission that does not include both encryption and access controls. It is also used when a bank that normally sends ACH items under the Level One Security Procedure defined above is unable to do so because of an equipment or communications failure or other circumstances.
- 3.2 In the case of electronic transmission of ACH items, the Level Two Security Procedure is incorporated in the transmission process and, in general, includes either access controls or encryption. When ACH items are sent by magnetic tape, diskette, or electronic transmission that does not include either encryption or access controls, the Level Two Security Procedure includes a procedure whereby the sending bank or its agent provides file control information — i.e., file ID, debit and credit dollar amounts, and entry/addenda count — to a Reserve Bank and then the Reserve Bank compares that information against the file(s) it actually receives. The control information may be provided by:
 - a) voice response if the voice response system contains an access security feature;
 - b) a telephone call using codewords; or
 - c) a transmittal register or a telephone call. When the control information is provided by this means, it will be verified by a call back from the Reserve Bank.

Appendix A1

ACH SECURITY PROCEDURE AGREEMENT

Date: _____

To: Federal Reserve Bank of _____

_____ Office

Attention: Manager, ACH Operations

We agree to the provisions of the Federal Reserve Banks' Operating Circular entitled "Automated Clearing House Items" and its appendices ("Circular"), as amended from time to time.

If we use an encrypted communications line with access controls for the transmission of ACH items to a Reserve Bank, we choose the Level One Security Procedure offered by the Reserve Banks as generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. We also agree that this procedure will be used if we receive ACH items by means of an encrypted electronic communications line with access controls. This security procedure will be used for the purpose of verifying that ACH items were sent or received by us.

If we use a method other than an encrypted communications line with access controls for the transmission of ACH items, we reject the Level One Security Procedure and choose the Level Two Security Procedure generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by the Reserve Banks. This security procedure will be used for the purpose of verifying that ACH items were sent by us. We understand that the Level Two Security Procedure may be deemed commercially reasonable pursuant to Section 4A-202(c) of Article 4A.

Whenever we use a Reserve Bank's Level Two Security Procedure, we agree to be bound by any ACH item, whether or not authorized, sent in our name and accepted by a Reserve Bank in compliance with such procedure.

We understand that the Level One and Level Two Security Procedures will not be used to detect any error in the transmission or content of ACH items.

We also understand and agree that the security procedures established by this Agreement may be changed only by an amendment to Appendix A or other written agreement. The Agreement may not be changed by an oral agreement or by a course of dealing or custom.

Name of Bank/Agent
Authorized Signature

Appendix B

ACH ITEMS TIME SCHEDULE

1.0 BANKING DAY; CLOSING TIMES; SETTLEMENT TIMES

- 1.1 This time schedule shows the Reserve Banks' banking day for processing ACH items, the closing times for receipt of ACH files for settlement on the dates set forth in this Appendix, and the times for settlement of ACH items.
- 1.2 **Banking Day.** The Reserve Banks' banking day for receipt of ACH items is from 3:00 a.m. ET to 2:59 a.m. ET on the next calendar day.¹
- 1.3 **Closing Times**²

	Immediate Settlement³ (Returns and NACS Items)	Next-day Settlement⁴ (All Items)
Automated Items	2:00 p.m. ET	3:00 a.m. ET
Voice Response Returns and Telephone Return Debit Items of \$2,500 or more	1:30 p.m. ET	8:00 p.m. ET
Paper Returns and NOCs	8:00 a.m. ET	

- 1.4 **Settlement Times.** Credit items are settled at 8:30 a.m. ET. Debit items are settled at 11:00 a.m. ET. Immediate settlement items are settled at 5:00 p.m. ET.

-
1. Reserve Banks process and transmit files up until 6:00 a.m. ET on the calendar day on which the banking day ends. Certain other times apply before and after weekends and holidays. All times listed are Eastern Time.
 2. Closing times represent the end of the deposit window. Files must be completely received (e.g., data transmission fully concluded) by the closing time. Sending banks should coordinate the beginning of their transmission within the window to ensure completion by the closing time. Deposits of 500,000 items or more must be received one-half hour earlier than the indicated deadline. Sending banks using non-electronic means for transmission, due to contingency situations, may be required to submit tapes at earlier deadlines.
 3. Immediate Settlement (same-day settlement) means settlement on the same banking day as received. Immediate settlement is applicable only to returns and NACS (National Association of Check Safekeeping) items. Items received after the immediate settlement deadline will be settled the next banking day.
 4. Next-day settlement means settlement on the next banking day, except as provided in this Appendix.

2.0 EFFECTIVE DATE WINDOWS

- 2.1 Items (other than returns, notifications of change (NOCs) and NACS items) should specify an effective date within the following effective date windows, computed from the Reserve Banks' banking day of receipt.

<u>Class</u>	<u>Effective Date Window</u>
Credit Items	One or Two Banking Days
Debit Items	One Banking Day Only

Items received with an effective date later than the effective date window will be returned to the sender.

3.0 SETTLEMENT DATES

- 3.1 Items with an effective date of one banking day are settled on the Reserve Banks' banking day following the banking day of receipt. Items with an effective date of two banking days are settled on the second banking day following receipt. The settlement date for immediate settlement items (returns and NACS items) is the banking day of receipt.
- 3.2 If an effective date is not specified, or if an item specifies an effective date the same as or earlier than the Reserve Banks' banking day of receipt, the settlement date is the banking day following receipt. If an item specifies a settlement date that is a standard Reserve Bank holiday, the settlement date is the next banking day for the Reserve Banks.
- 3.3 If an item specifies a settlement date that is not a banking day for the sending bank or the receiving bank, settlement is effected, with respect to that party, as follows:

Debit Items:

Sending bank closed: Credit sending bank's account on settlement date.

Receiving bank closed: Debit receiving bank's account on settlement date, or receiving bank may choose next day debit with as of adjustment or explicit charge for float.

Credit Items:

Sending bank closed: Debit sending bank's account on settlement date.

Receiving bank closed: Credit receiving bank's account on settlement date.

The receiving bank is not considered to receive an item made available to it on the day it is closed until its next banking day for purposes of determining the deadline for return.

4.0 STANDARD HOLIDAYS

4.1 The Reserve Banks' banking days include all days except the following standard holidays:⁵

All Saturdays,
All Sundays,
New Year's Day (January 1),
Martin Luther King's Birthday (third Monday in January),
President's Day (third Monday in February),
Memorial Day (last Monday in May),
Independence Day (July 4),
Labor Day (first Monday in September),
Columbus Day (second Monday in October),
Veteran's Day (November 11),
Thanksgiving Day (fourth Thursday in November), and
Christmas Day (December 25).

If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.

5. The New Orleans Branch of the Federal Reserve Bank of Atlanta may close on Mardi Gras.

Appendix C

AGREEMENT CONCERNING PREFUNDING OF ACH CREDIT ORIGINATIONS BY SENDING BANK

1.0 GENERAL

- 1.1 If a sending bank experiences financial difficulties and fails to settle for ACH credit items, there is a significant risk of loss to other participants in the ACH system and a significant risk of disruption of the ACH system. In order to reduce the risk of loss or disruption, a sending bank that has been identified as presenting a high risk of disruption to the payments system agrees to take steps to permit its ACH credit items to be monitored and to be settled at the time of receipt by the sending bank's Administrative Reserve Bank.

Accordingly, this Bank and the sending bank agree as follows:

2.0 DEFINITIONS

- 2.1 For all purposes of this Agreement:

Sending bank means a sending bank that has been identified by its Administrative Reserve Bank as having financial difficulties, and that has agreed to the terms of this Agreement by executing the letter attached as Appendix C1 or C2.

Notice of Origination means a written or electronic statement showing, by settlement date, the total amount of all credit items to be originated and the total amount of all debit items to be originated by the sending bank for a given ACH cycle.

Prefund means to pay, in actually and finally collected funds, to the sending bank's Administrative Reserve Bank, the total amount of all ACH credit originations shown on a Notice of Origination prior to sending the item to a Reserve Bank for processing.

3.0 NOTICE OF ORIGATION

- 3.1 The sending bank shall deliver to its Administrative Reserve Bank a Notice of Origination by a prescribed time prior to sending items to a Reserve Bank.
- 3.2 If a sending bank submits a Notice of Origination and subsequently discovers the Notice to be in error, the sending bank shall submit a revised Notice to its Administrative Reserve Bank as soon as possible.
- 3.3 The Notice of Origination shall include all credit items originated through any Reserve Bank, agent or ACH operator.
- 3.4 The sending bank's Administrative Reserve Bank from time to time may verify the accuracy of the Notice of Origination by comparing the Notice to the credit and debit items actually originated. It may point out discrepancies and require explanations. If the sending bank submits inaccurate

Notices of Origination, the Reserve Banks may elect to refuse to process ACH credit transactions originated by the sending institution, or may elect to refuse to provide ACH or net settlement services to the institution.

4.0 PREFUNDING OF ACH CREDITS

- 4.1 From time to time, the sending bank's Administrative Reserve Bank may, in its discretion, by notice to the sending bank, require that the sending bank irrevocably make available to its Administrative Reserve Bank, in actually and finally collected funds, the total amount of all ACH credit transactions originated shown on the Notice of Origination prior to the time a Reserve Bank processes the items (to Prefund). Unless the sending bank indicates that it will Prefund in another way and actually does so, the sending bank authorizes its Administrative Reserve Bank, prior to any Reserve Bank processing the items, to deduct from the sending bank's (or its correspondent's) account the amount needed to Prefund the ACH credits.
- 4.2 If the sending bank fails or refuses to Prefund the full amount of its ACH credit transactions originated in a cycle, the Reserve Banks may, in their discretion, refuse to process items that have not been Prefunded or may process the items reserving the right to cease settling for the items on the settlement date. If the sending bank only partially Prefunds the amount of its ACH credit transactions originated and does not indicate which items have been Prefunded, the Reserve Banks may, in their sole discretion, determine which items shall be considered to have been Prefunded, or may refuse to settle for all the items.
- 4.3 If the sending bank Prefunds the ACH credit transactions originated, its obligation to settle in respect of the Prefunded ACH credit transactions originated up to the amount of the Prefunding shall be automatically satisfied and discharged and replaced by an irrevocable obligation of its Administrative Reserve Bank to settle for the Prefunded items on the settlement date.

5.0 MISCELLANEOUS

- 5.1 The Reserve Banks reserve the right to defer the availability of some or all of the credit arising from ACH debit items originated by the sending bank.
- 5.2 If the amount of Prefunding exceeds the total amount of ACH credit transactions actually originated by the sending bank, the sending bank's Administrative Reserve Bank shall return the excess to the sending bank.
- 5.3 To the extent of any inconsistency between this Agreement and the Circular, the provisions of this Agreement shall govern.
- 5.4 The sending bank indicates its agreement to the terms of this Agreement by executing a letter in the form of Appendix C1. If the sending bank elects to Prefund using the account of a correspondent bank on the books of a Reserve Bank, the sending bank and the correspondent bank must both execute a letter in the form of Appendix C2.
- 5.5 The correspondent bank may terminate its authorization to charge its settlement account by notice in writing to the Manager, Accounting Operations. The notice shall be effective only as to items to be settled on and after the banking day following the banking day of receipt of the notice, or on a later date specified in the notice.
- 5.6 The Reserve Banks reserve the right to amend this Agreement at any time without prior notice.

Appendix C1

SENDING BANK PREFUNDING AGREEMENT

Date: _____

To: Administrative Reserve Bank

Attention: Manager, Accounting Operations

We agree to the terms of Appendix C to your Operating Circular entitled "Automated Clearing House Items" as it may be amended from time to time. We agree to Prefund ACH credit transactions originated as required by you from time to time and authorize you to deduct the amount of the required Prefunding from our reserve or clearing account prior to the time we originate ACH credit items.

Name of Sending Bank
Authorized Signature

Sample

Appendix C2

SENDING BANK PREFUNDING AGREEMENT AND
CORRESPONDENT BANK AGREEMENT

Date: _____

To: Sending Bank's Administrative Reserve Bank

Attention: Manager, Accounting Operations

A. Sending Bank Agreement

We (the "sending bank") agree to the terms of Appendix C to your Operating Circular entitled "Automated Clearing House Items" as it may be amended from time to time. We agree to Prefund the ACH credit transactions that we originate as required by you from time to time and designate the following as our correspondent bank for the purpose of providing an account from which the amount of the required Prefunding may be deducted.

Name of Sending Bank
Authorized Signature

B. Correspondent Bank Agreement

We agree to act as Correspondent Bank for the above sending bank. We authorize the Reserve Bank holding our account to deduct from our account from time to time the amount of any required Prefunding prior to the time the sending bank originates ACH credit items.

Name of Correspondent Bank
Authorized Signature

Appendix D

GOVERNMENT ACH ITEMS

1. The Reserve Banks handle ACH items for which an agency of the Federal Government is the sending bank or the receiving bank (Government ACH items) as fiscal agents of the United States under Treasury Department regulations, including 31 CFR Parts 210, 203 and 370, and Treasury procedures. As to matters those regulations and procedures do not cover, this Circular applies. The rules and procedures may differ as between commercial and Government ACH items, and as between Government ACH items of different types.
2. A Reserve Bank makes the amount of all credit items sent to a receiving bank available for withdrawal or other use by the receiving bank at 8:30 a.m. Eastern Time. A Reserve Bank may cease acting on a Government ACH item at any time upon direction of the Treasury Department, and will so notify the bank.
3. Unless expressly authorized in writing by the Treasury Department, a sending bank shall not, under any circumstances, send a debit item designating the Government as receiving bank.
4. A Reserve Bank shall not have or assume any responsibility or liability to any person other than the Treasury Department.

Operating Circular

Federal Reserve Bank of Dallas



5 Electronic
Access

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1.0 GENERAL

1.1 INTRODUCTION

This operating circular ["Circular"] sets forth the terms under which you [a depository institution or other authorized institution] may access certain services provided by us, the Federal Reserve Bank of Dallas, or by any other Reserve Bank, and under which you may send certain data to or receive certain data from us or any other Reserve Bank, by means of electronic connection(s).

For purposes of this Circular, an "electronic connection" refers to communication facilities, other than telephone voice-response systems, used to exchange data between your computer(s) [which term includes computer and facsimile terminal(s)] and our computer(s).

1.2 ELECTRONIC CONNECTION SERVICES

The services which may be accessed using electronic connections include, for example,

- transfers of funds and securities;
- commercial and governmental automated clearing house transactions;
- electronic presentment of checks;
- notifications of nonpayment of checks;
- orders for cash and savings bonds;
- bids for Treasury securities;
- our sending of data (such as check information, federal tax payment advices, and statements of account) to you; and
- your sending of data (such as check information, statistical/financial reports and Treasury Tax and Loan reports) to us.

We may from time to time offer other services using electronic connections.

If you submit statistical reports or other information to us by electronic connection, you must use electronic submissions exclusively, unless you are unable to do so and you notify us prior to submitting data by other means. You shall maintain a hard copy duplicate of all required statistical or other information (such as FR 2900) that you submit electronically. The duplicate shall contain an official signature certifying that the information contained therein is correct. The duplicate shall be retained for at least five years, subject to inspection by us, by your primary regulator, and (for TT&L reports) by the Treasury Department.

1.3 OTHER CIRCULARS; YOUR AGREEMENT

Each Reserve Bank has issued a Circular No. 5 identical to this one. This Circular supersedes all previous Reserve Bank operating circulars governing electronic access issued prior to January 2, 1998. It does not, however, supersede the operating circulars, regulations, or instructions governing particular types of transactions, but only governs the use of electronic connections to effect such transactions. By accessing any services from any Reserve Bank, or by sending any data to or receiving any data from any Reserve Bank, by means of any electronic connection, you agree to all the provisions of this Circular.

1.4 PRIOR APPROVAL FOR ELECTRONIC CONNECTIONS

Our prior written approval is required before

- (a) you use an electronic connection for access to any of our services or to send any data to us;

(b) you share the use of an electronic connection with another institution, or have any other party act as your agent in sending or receiving transfers or other messages; or

(c) you sublicense, assign, or transfer any of your rights, duties, or obligations under this Circular.

2.0 PARTICIPANT'S EQUIPMENT AND SOFTWARE

2.1 HARDWARE/SOFTWARE COMPATIBILITY

You are responsible for maintaining compatibility of your computer(s) and associated equipment and software with our requirements (which we may amend from time to time) and for maintaining your own equipment. We reserve the right to approve your equipment and software for compatibility.

3.0 COMMUNICATION LINES

3.1 AVAILABLE ELECTRONIC CONNECTION LINES

You may choose, where available, an electronic connection that utilizes a dial (or switched), multi-drop leased, or dedicated ("point-to-point") leased circuit. If the volume of data sent or received exceeds our guidelines for a type of line, we may require an upgrade, such as from a dial to a multi-drop leased circuit.

4.0 FRB-SUPPLIED EQUIPMENT AND SOFTWARE

4.1 DELIVERY, INSTALLATION, REPAIRS, ALTERATIONS

We may arrange for the delivery and installation of modems, encryption devices, and other equipment necessary for electronically connecting your computer(s) to us, and we will repair or replace as soon as

practicable any such equipment that malfunctions. Our equipment may not be altered, encumbered, relocated, or removed, except with our prior written approval.

4.2 ELECTRONIC CONNECTION TO NETWORK; SOFTWARE

We provide, on request, either Computer Interface Protocol Specifications, product specifications, or software (including updates, modifications, and documentation) to enable your computer to connect to our network. We may provide one copy of our software for each computer directly connected to our network and one copy for each terminal used for data entry and export to a computer directly connected to our network. We grant you a non-exclusive, non-transferable license to use our software for the purposes stated in this circular. We also supply logon identification ["logon IDs"], encryption keys, and user manuals, and may provide training to your employees in the use of our software.

4.3 SOFTWARE LICENSES

We warrant that we have the right to license or sublicense our software, and we shall indemnify and hold you harmless from any loss or expense arising from any claim that our software infringes a patent, copyright, trademark, or other proprietary right of any third party, if we are given prompt written notice of the claim, if we have sole control of the defense of the claim and of any settlement negotiations, and if you cooperate fully with us in the defense and negotiations.

4.4 ELECTRONIC CONNECTION RESTRICTIONS

You shall not, except with our prior written consent,

(a) modify, add to, transfer, reverse assemble, or reverse compile our software;

(b) use our software other than on a computer(s) for access to our network, or on a terminal(s) used for entry of data which is to be exported to such a computer; all such computers and terminals should be located on your premises;

(c) copy our software except for use consistent with subparagraph (b) and except for back-up purposes; all copies shall include our copyright and proprietary notices externally in the distribution medium and internally in machine-readable form; or

(d) remove any copyright notices contained in our software.

4.5 OUR OBLIGATION IN CASE OF EQUIPMENT OR SOFTWARE MALFUNCTION

Our equipment and software are furnished strictly on an "as-is" basis. We do not warrant that operation of our equipment or software will meet your planned applications, that our equipment or software will be compatible with your equipment, or that all equipment or software defects can be corrected. Our sole obligation in the event of a malfunction in our equipment or software is to provide reasonable assistance in resolving problems, or to replace defective or damaged equipment or software that you return to us. THE OBLIGATIONS AND THE WARRANTY SET FORTH IN THIS PARAGRAPH AND IN PARAGRAPHS 4.1 AND 4.3 ARE EXCLUSIVE AND IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING BUT NOT LIMITED TO IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND ANY OTHER WARRANTY ARISING BY STATUTE OR FROM A COURSE OF DEALING OR USAGE OF TRADE.

4.6 UNAUTHORIZED DISCLOSURE OR USE OF SOFTWARE

Our software includes trade secrets and proprietary information of this Reserve Bank and others, which may or may not be copyrighted or patented. Disclosure of our software would likely cause us immediate and irreparable damage for which there may be no adequate remedy at law. You shall treat our software and documentation as confidential information, protecting it with at least the same degree of care you use to

protect your own confidential information. You shall take all necessary steps to enforce this obligation with your employees and agents, and shall immediately notify us by telephone, with written confirmation, of any unauthorized disclosure or use of our software of which you are aware, and shall use your best efforts to prevent further unauthorized disclosure or use.

4.7 OUR VIRUS PROTECTION

Our software is provided either on diskettes or through data transmission facilities. The diskettes have been duplicated by ourselves or by outside suppliers whom we believe use equipment protected by commercially reasonable technology to prevent the introduction of viruses and other defects. We test random samples of diskettes obtained from vendors, using virus-detection software that we believe is commercially reasonable. However, it is not feasible for us to test all such diskettes, and our virus-detection software may not detect all viruses or other defects. Our data transmission facilities are also protected by what we believe is commercially reasonable technology to prevent the introduction of viruses and other defects.

4.8 YOUR VIRUS PROTECTION

You shall take all commercially reasonable precautions to prevent the introduction of computer viruses or other defects that might disrupt the operations of our, or other institutions', computers.

5.0 RISK AND LIABILITY IN USE OF ELECTRONIC CONNECTIONS

5.1 RESPONSIBILITY FOR ACCESS CONTROL FEATURES

You acknowledge that your electronic connection and the software, diskettes, encryption keys, logon IDs, passwords, and other access control features can be used to originate funds and other value messages as well as non-value messages. You assume sole responsibility and entire risk of use and operation of your electronic connection and related items, and you agree that we,

or any other Reserve Bank, may act on any message that we receive through an electronic connection and that we authenticate as yours under our procedures, to the same extent as though we have received a written instruction bearing the manual signature of one of your duly authorized officers. It is also agreed that we are not liable for delays, errors, or omissions in the transmission of messages to or from you, resulting from imperfections in the equipment or lines or otherwise beyond our control.

5.2 OUR LIABILITY

Paragraph 5.1 does not relieve us from responsibility for our own failure to exercise ordinary care or to act in good faith. However, our liability under this Circular is strictly limited to damages proximately suffered by you and does not extend to lost profits, claims by third parties, or other consequential or incidental damages, even if we have been informed of the possibility of such damages.

5.3 COMPLIANCE WITH OUR SECURITY PROCEDURES

You shall conform to the security procedures, operating instructions, guidelines, and specifications for interconnection that we specify from time to time. We make no warranties with respect to such procedures and specifications, or otherwise in connection with the use of an electronic connection.

5.4 CONFIDENTIALITY OF OUR SECURITY PROCEDURES

You agree to keep our security procedures confidential and not disclose them to third parties, or to your employees except on a "need to know" basis. You shall notify us immediately by telephone, with written confirmation, of any suspected fraud, infringement, or security breach relating to your electronic connection(s).

5.5 MANAGEMENT OF ELECTRONIC CONNECTIONS

You should manage your electronic connection(s) so as to permit us to send transfers and messages to you on a timely basis

throughout the day. We are not responsible for any delay in sending a transfer or other message to you (or for notifying any party of such a delay), if the delay results from your failure to so manage your connection(s).

5.6 CONTINGENCY PLANS FOR DISRUPTION OF ELECTRONIC CONNECTIONS

Problems with hardware, software, or data transmission may on occasion delay or prevent our sending or receiving payments or other data electronically. Accordingly, you should be prepared to send or receive payments or other data by other means.

6.0 FEES AND TAXES

6.1 ELECTRONIC ACCESS SERVICE FEES

Our fees for electronic access services (including, for example, installation support, training, and connection) are published separately, and are subject to change on thirty (30) calendar days' notice. If we are your Administrative Reserve Bank (i.e., if you are located in this Federal Reserve District), we charge these fees to your (or your correspondent's) account on our books. If you are located in another Federal Reserve District, your Administrative Reserve Bank charges these fees to your (or your correspondent's) account on its books.

6.2 OFF-LINE FEES DUE TO EQUIPMENT FAILURE

If because of a failure of your equipment either we or you revert to an off-line procedure, we reserve the right to charge our off-line fees.

6.3 LIABILITY FOR TAXES

You are liable for the payment of any taxes, however designated, levied on your possession or use of equipment or software we have supplied, including without limitation state and local sales, use, value-added, and property taxes.

7.0 TERMINATION AND AMENDMENT

7.1 TERMINATING THE ELECTRONIC ACCESS AGREEMENT

You may terminate your agreement to participate through electronic connections in services, and your agreement to the terms of this Circular, on thirty (30) calendar days' advance written notice. We may terminate your authority to use an electronic connection on similar notice. We may also terminate your authority and take possession of our equipment and software at any time if we believe that you are in violation of this Circular.

7.2 RETURN OF OUR EQUIPMENT AND SOFTWARE

Upon termination, you shall promptly return all Reserve Bank-supplied equipment and software (including software documentation), and delete any installed copies of such software. Your obligations pertaining to confidentiality and nondisclosure shall survive any termination of your agreement to this Circular.

7.3 AMENDMENT OF CIRCULAR

We reserve the right to amend this Circular at any time without prior notice.

Operating Circular

Federal Reserve Bank of Dallas



6 Funds
Transfers
through
Fedwire

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Operating Circular 6

FUNDS TRANSFERS THROUGH FEDWIRE

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1.0 SCOPE

1.1 Subpart B of Regulation J ("Regulation J") of the Board of Governors of the Federal Reserve System (12 CFR Part 210, Subpart B) and this Circular apply to funds transfers through Fedwire. This Circular is issued in conformity with Section 210.25 of Regulation J and is an operating circular as referred to in Section 4A-107 of Article 4A of the Uniform Commercial Code. By sending a Payment Order, receiving a Payment Order or receiving a credit with respect to a Payment Order to an account maintained or used at a Reserve Bank the sender, receiving bank, or beneficiary agrees to all the provisions of this Circular, as amended from time to time. In addition, it is binding on other parties to a funds transfer any part of which is carried out through Fedwire to the same extent that Regulation J is binding on those parties. Capitalized terms are defined in Paragraph 2.

1.2 Each Reserve Bank has issued a Circular No. 6 identical to this one.

2.0 DEFINITIONS

2.1 Unless otherwise stated in this Circular, a term defined in Regulation J, including a term defined in Article 4A to the extent consistent with Regulation J, has the same meaning in this Circular.

2.2 Administrative Reserve Bank with respect to an entity means the Reserve Bank in whose District the entity is located.

2.3 Beneficiary's Account for purposes of Subpart B of Regulation J and this Circular refers to the beneficiary's Master Account.

2.4 Master Account means an account with reserve and/or clearing balances on the books of a Reserve Bank.

2.5 On-line refers to the transmission of a Payment Order directly to or from a Reserve Bank by electronic data transmission, excluding oral transmission by telephone.

2.6 Payment Order for the purpose of Subpart B of Regulation J, Article 4A and this Circular, includes only messages:

(a) designated as type code 10 (funds transfer), 15 (foreign transfer), or 16 (settlement transaction); and

(b) designated as subtype code 00 (structured funds transfer), 02 (reversal of transfer), 08 (reversal of a prior day transfer), 20 (as of adjustment), or 32 (funds transfer honoring request for funds).

2.7 Receiving Bank's Account for purposes of Subpart B of Regulation J and this Circular refers to the receiving bank's Master Account.

2.8 Sender's Account for purposes of Subpart B of Regulation J and this Circular refers to the sender's Master Account.

2.9 Subaccount is an information record of a subset of transactions that affect a Master Account. It is not a separate account or a Master Account.

3.0 ISSUANCE OF ORDERS

3.1 A Payment Order must be in the medium and format the Reserve Banks prescribe. A Reserve Bank will not act on instructions in a Payment Order other than information required by the format specifications. The Reserve Banks are not responsible for the accuracy of a routing number contained in or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if

the routing number becomes inaccurate after the effective date of the publication, list, or automated file.

4.0 LOCATION OF SENDERS, RECEIVING BANKS, AND BENEFICIARIES

4.1 For purposes of Regulation J, Article 4A and this Circular, a sender, receiving bank or beneficiary is located in the Federal Reserve District as determined under the procedure described in 12 C.F.R. Part 204 even if the sender, receiving bank, or beneficiary would not otherwise be subject to Part 204. A foreign central bank sender or beneficiary is located in the Second Federal Reserve District.

5.0 ROLES OF THE RESERVE BANKS INVOLVED IN A FUNDS TRANSFER THROUGH FEDWIRE

5.1 For purposes of Regulation J, Article 4A and this Circular, when a sender sends a Payment Order over Fedwire, the sender is deemed to have sent it to the Reserve Bank holding its Master Account regardless of which Reserve Bank maintains the sender's on-line connection or receives the sender's off-line Payment Orders.

5.2 For purposes of Regulation J, Article 4A and this Circular, when a receiving bank or beneficiary receives a Payment Order over Fedwire, the receiving bank or beneficiary is deemed to have received the Payment Order from the Reserve Bank holding its Master Account regardless of which Reserve Bank maintains the receiving bank's or beneficiary's on-line connection or sends the receiving bank an off-line Payment Order.

5.3 A Reserve Bank, other than the Reserve Bank(s) holding the Master Accounts affected by a Payment Order, that handles the Payment Order is not a party to the funds transfer in any way including as an intermediary bank or as the beneficiary's bank. When handling an off-line transfer, however, that Reserve

Bank is liable as if it were a receiving bank under this Circular for losses recoverable under Article 4A and this Circular resulting from its handling of the Payment Order.

5.4 An Administrative Reserve Bank may instruct any other Reserve Bank concerning the other Reserve Bank's handling of a Payment Order affecting a Master Account on a Reserve Bank's books.

6.0 IDENTIFYING NUMBER

6.1 For purposes of Regulation J and Article 4A, an identifying number of a branch of a bank that is an intermediary bank, the beneficiary's bank or the beneficiary shall be deemed to be the identifying number of the intermediary bank, the beneficiary's bank, or the beneficiary. A Reserve Bank that executes a Payment Order that contains an identifying number of a branch of a bank complies with the sender's Payment Order when it issues a conforming Payment Order identifying the bank or credits the Master Account of the bank.

7.0 SECURITY PROCEDURES

7.1 The security procedures offered by the Reserve Banks to verify the authenticity of a Payment Order are described in Appendix A of this Circular. Before issuing a Payment Order to or receiving a Payment Order from a Reserve Bank, a sender or receiving bank must execute an agreement with the Reserve Bank holding its Master Account in the form shown in Appendix A-1.

7.2 Each sender and receiving bank shall prevent any disclosure, except on a "need to know" basis, of any aspects of the security procedures agreed to by it with the Reserve Bank holding its Master Account. The sender or receiving bank shall notify that Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

7.3 The security agreement set forth in Appendix A binds the sender or receiver of a Payment Order, the account holding Reserve Bank, and any Reserve Bank to which the sender or receiver has an on-line connection or through which the sender sends, or the receiver receives, off-line transfers. A sender is deemed to agree to a security procedure used in issuing a Payment Order to us.

8.0 RECEIPT, ACCEPTANCE, AND EXECUTION OF PAYMENT ORDERS

8.1 If an on-line sender does not receive an acknowledgment of receipt of a Payment Order it issues over Fedwire, the sender should notify the Reserve Bank holding its Master Account promptly.

8.2 If a Reserve Bank notifies a sender that a Payment Order has been lost because of computer outage or other reason, the sender should be prepared to resend the Payment Order.

8.3 The Reserve Banks may record by audio recording device any telephone call relating to a Payment Order.

8.4 An on-line receiving bank must manage its communications connection so as to permit it to receive on a timely basis a Payment Order sent to it during its funds transfer business day. If a receiving bank fails to manage its communications connection in such a manner, a Reserve Bank may limit any attempts to send a Payment Order to the receiving bank's computer. In such a case, the Reserve Bank shall be deemed to have executed the Payment Order when it is available for the receiving bank. The receiving bank should dial into the Reserve Bank's computer when its connection is reestablished.

8.5 A receiving bank, whether off-line or on-line, shall indemnify a Reserve Bank for any loss incurred by the Reserve Bank as a result of the receiving bank's delay in receiving a Payment Order, if the delay results from the bank's failure to be able

to receive Payment Orders from the Reserve Bank during the funds transfer business day.

8.6 The Reserve Banks do not assume any responsibility for completion of a funds transfer on the day requested, except as provided in Regulation J.

9.0 AS OF ADJUSTMENTS

9.1 A sender's or receiver's Administrative Reserve Bank may make an as of adjustment pursuant to Section 210.32(b) of Regulation J as follows:

(a) An as of adjustment will normally be processed and applied to the reserve maintenance period during which the transaction giving rise to the obligation to pay interest occurred, so that there will be no impact on aggregate reserves. If the Administrative Reserve Bank determines that this procedure is not feasible, in its sole discretion, it will process and apply the as of adjustment to the current reserve period.

(b) If an as of adjustment would be applied to one of the last three days of a reserve maintenance period, the Administrative Reserve Bank may apply it to either the current or future reserve maintenance periods.

(c) If a Reserve Bank delays execution of a Payment Order (see Section 4A-305(a) of Article 4A), the appropriate Administrative Reserve Bank may make an as of credit adjustment to the receiving bank's Master Account. If the sender was not debited at the appropriate time, its Administrative Reserve Bank will make an offsetting as of debit adjustment to the sender's Master Account.

(d) If a Reserve Bank misdirects a Payment Order (see Sections 4A-303 and 4A-305(b) of Article 4A), the appropriate Administrative Reserve Bank may make an as of credit adjustment to the Master Account of the bank that should have received the order. If agreed to by the

bank that received the misdirected order, its Administrative Reserve Bank will make an offsetting as of debit adjustment to the receiving bank's Master Account.

(e) If a Reserve Bank issues a Payment Order in an amount less than the amount that was intended (see Sections 4A-303(b) and 4A-305(b) of Article 4A), the appropriate Administrative Reserve Bank may make an as of credit adjustment to the receiving bank's Master Account. If the sender was not debited in the appropriate amount, its Administrative Reserve Bank will make an as of debit adjustment to the sender's Master Account.

(f) If a Reserve Bank issues a duplicate Payment Order or a Payment Order that is in an amount more than was intended (see Sections 4A-303(a) and 4A-305(b) of Article 4A), the appropriate Administrative Reserve Bank may, if the sender's Master Account was not debited in the appropriate amount, make an as of credit adjustment to the sender's Master Account. If agreed to by the bank that received the order, its Administrative Reserve Bank will make an as of debit adjustment to the receiving bank's Master Account.

(g) If a Reserve Bank delays rejection of a Payment Order (see Sections 4A-209(b) and 4A-210(b) of Article 4A), the appropriate Administrative Reserve Bank may make an as of credit adjustment to the sender's Master Account.

(h) An Administrative Reserve Bank will apply offsetting as of adjustments to the same reserve maintenance periods to the extent feasible.

10.0 TRANSFER HOURS AND EXTENSIONS

10.1 For purposes of determining a Reserve Bank's rights and obligation under Regulation J, Article 4A and this Circular, each Reserve Bank's funds transfer business day is 12:30 a.m. Eastern Time to 6:30 p.m. Eastern Time regardless of the Reserve

Bank's geographic location or time zone. A Reserve Bank satisfies its obligations under Regulation J, Article 4A and this Circular, if, upon acceptance of a Payment Order, a Reserve Bank executes the order or pays the beneficiary of the order on the same funds transfer business day that it received the Payment Order even if it is not the same calendar day.

10.2 The time schedule contained in Appendix B to this Circular, shows the Reserve Banks funds transfer business days and the latest hour on each funds transfer business day ("cut-off hour") by which a Reserve Bank will execute a Payment Order received on that funds transfer business day. The Reserve Banks may, in their discretion, extend a cut-off hour or a funds transfer business day.

10.3 A sender, receiving bank, or beneficiary requiring an extension of Fedwire operating hours should contact its Administrative Reserve Bank as soon as possible. A request for an extension received less than twenty minutes before the scheduled Fedwire closing time will not be granted. An extension may be granted only if:

(a) there is a failure of Reserve Bank and/or Fedwire network equipment; or

(b) there is a significant operating problem at a bank or major dealer; and, as a result,

(c) the extension is deemed necessary, in the Administrative Reserve Bank's view, to prevent a significant market disruption (*i.e.*, the dollar value of delayed transfers exceeds \$1 billion).

10.4 When requesting an extension, the requestor will be required to state the dollar amount and volume of unprocessed Payment Orders and to assess the severity of any operating problems.

10.5 Every extension of Fedwire is broadcast electronically to all Reserve Banks and all high-volume senders.

11.0 ADVICES OF CREDIT AND DEBIT; REPORTING OF ERRORS

11.1 The Reserve Banks provide advices of credit by electronic data transmission to on-line receiving banks that receive Payment Orders or notices over Fedwire. The Reserve Banks provide advices of credit by telephone to off-line receiving banks that receive Payment Orders or notices over Fedwire. The Reserve Banks do not give telephone advices of credit for transfers identified as type code 16 settlement transactions to off-line receiving banks unless the receiving bank has notified the Reserve Bank holding its Master Account in writing that it maintains an account for another bank or has otherwise requested telephone advice for these transfers. A Reserve Bank also provides an advice of credit to a receiving bank in its Master Account statement and provides an advice of debit to a sender in its Master Account statement.

11.2 The Reserve Banks send advices of credits to the office of the receiving bank specified by the receiving bank. A Reserve Bank has properly executed a Payment Order if, at the request of the receiving bank, the Reserve Bank sends the advice of credit representing the Payment Order to an office of the receiving bank other than the office of the receiving bank identified in the Payment Order by an identifying number.

11.3 In addition to the requirement for prompt notice under Section 210.28 of Regulation J and Sections 4A-204 and 4A-304 of Article 4A, a sender or receiving bank shall notify the Reserve Bank holding its Master Account immediately if it learns of or discovers, from any source other than an advice of debit from a Reserve Bank, the possibility of error or lack of authority in the transmission or processing of a Payment Order. A receiving bank must also notify the Reserve Bank holding its Master Account immediately of any discrepancy between a Payment Order or advice of credit sent by a Reserve Bank to the receiving bank by telephone or electronic data transmission and an advice of credit subsequently mailed or delivered by a Reserve Bank to the receiving bank.

12.0 INFORMATION ENTRIES

12.1 Any information recorded in a Subaccount of a sender, receiving bank, or beneficiary is for information purposes only and does not effect payment for purposes of Regulation J, Article 4A or this circular.

13.0 NON-VALUE MESSAGES

13.1 The Reserve Banks handle messages that do not generate an accounting entry by the Fedwire system, designated as a sub-type code 01 (request for reversal), 07 (request for reversal of prior day transfer), 31 (request for credit transfer), 33 (refusal of request for funds), or 90 (service message). These messages are not Payment Orders, but are subject to the Reserve Banks' format and media requirements, security procedures and time and fee schedules. This Circular does not impose any obligation on the recipient to respond to a request for reversal or credit transfer. A Reserve Bank's liability for damage caused by its failure to exercise ordinary care or act in good faith in processing a non-value message shall not exceed the amount of any fee paid to a Reserve Bank for the message.

14.0 CANCELLATION AND AMENDMENT OF PAYMENT ORDERS

14.1 By requesting cancellation or amendment of a Payment Order, the sender may be liable under Section 4A-211 of Article 4A unless the request states "NO INDEMNITY".

15.0 CHARGES

15.1 The fees imposed for funds transfer services are listed in the Reserve Banks' fee schedules as amended from time to time.

15.2 The Master Account of the sender, receiving bank, and beneficiary is debited for fees associated with funds transfers over Fedwire. These fees may be offset against earning credits.

16.0 EMERGENCY CONDITIONS

16.1 On-line senders, receiving banks, and beneficiaries are responsible for developing their own contingency and recovery plans, such as back-up computer and operations facilities, to ensure their ability to continue Fedwire operations in the event of equipment failure or other operational interruption. The Reserve Banks assume no responsibility for providing any back-up access facilities.

16.2 In the event of an emergency or failure of a Reserve Bank's computer or operations facilities, Payment Orders may be delayed until the emergency or failure is resolved. During extended disruptions, the Reserve Bank's Fedwire operations may be relocated to a back-up site. Senders, receiving banks, and beneficiaries should refer to the Reserve Bank's contingency guidelines regarding their requirements and responsibilities during contingency operations.

16.3 On-line senders, receiving banks and beneficiaries should be prepared to reconcile their positions up to the point of the failure under the Reserve Bank's instructions.

16.4 The Reserve Bank will notify On-line senders, receiving banks and beneficiaries of an operating problem at another Reserve Bank and, should the problem be deemed critical, will give instructions.

17.0 MULTIPLE MASTER ACCOUNTS

17.1 Under certain circumstances a sender, receiving bank or beneficiary may have multiple Master Accounts at its Administrative Reserve Bank and/or one or more Master Accounts at Reserve Banks other than its Administrative Reserve Bank.

17.2 Notwithstanding any provision of this Circular, during any period when a sender, receiving bank or beneficiary is authorized to maintain multiple Master Accounts, any debit or credit made pursuant to this Circular will be made to the Master Account associated with the identifying number used in the Transfer.

18.0 RIGHT TO AMEND

18.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

19.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

19.1 This Circular amends and supersedes all prior Reserve Bank operating circular on funds transfers through Fedwire including any supplements or appendices thereto issued prior to January 2, 1998.

Appendix A

FUNDS TRANSFER SECURITY PROCEDURES

1.0 GENERAL

- 1.1 The following security procedures are offered by the Reserve Banks to each sender that is authorized to send a payment order to a Reserve Bank, and to each receiving bank that receives a payment order from a Reserve Bank, for the purpose of verifying the authenticity of a payment order or a communication amending or canceling a payment order (collectively a "payment order"). The security procedures are not used to detect errors in the transmission or the content of the payment order.

2.0 ON-LINE SECURITY PROCEDURE

- 2.1 The On-Line Security Procedure is available to any bank that issues or receives a payment order by means of an encrypted dedicated or dial-up communications line between its computer and a Reserve Bank's computer utilizing a hardware/software system certified by a Reserve Bank.
- 2.2 The On-Line Security Procedure is incorporated in the hardware and software associated with the computer. In general, the procedure includes access controls such as an identification code and a confidential password that allows a customer to access the Fedwire funds transfer system, and also includes encryption of a payment order during the transmission process. The procedure is more specifically described in the Computer Interface Protocol Specifications (CIPS), the Fedline Users Guide and the Fedline Local Security Administrator Guide, which are available from a Reserve Bank.

3.0 OFF-LINE SECURITY PROCEDURE

- 3.1 The Off-Line Security Procedure is available to any bank that issues or receives a payment order orally by telephone. It is also used when a bank that normally issues or receives a payment order by means of an encrypted dedicated or dial-up communications line using the On-Line Security Procedure is unable to do so because of an equipment or communications failure or other circumstances.
- 3.2 In general, when a payment order is issued, the Off-Line Security Procedure involves the use of an identification code by an employee of the sender and may involve a call back or listen back procedure by a Reserve Bank. When the bank is acting as a receiving bank, the security procedure involves the use of an identification code provided by a Reserve Bank to an employee of the receiving bank, and the receiving bank is required to call the Reserve Bank back to authenticate the payment order before making the proceeds available to its customer or otherwise acting with respect to the payment order.
- 3.3 The names of the employees of the sender or receiving bank who are authorized to authenticate or issue a payment order must be provided to the Administrative Reserve Bank by the bank. The list of authorized employees must be in writing and must be signed by an individual vested with authority to conduct business on behalf of the sender or receiving bank.

Appendix A-1

FUNDS TRANSFER SECURITY PROCEDURE AGREEMENT

To be typed on the depository institution's letterhead

(Date)

Attention: Manager, Funds Transfer Department
Administrative Reserve Bank (or other Reserve Bank
holding the Master Account)

We agree to the provisions of your Operating Circular No. 6 and its appendices A and B ("Circular"), as amended from time to time.

If we use an encrypted communications line with access controls for the transmission or receipt of a payment order to or from a Reserve Bank, we choose the On-Line Security Procedure offered as generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by you. This security procedure will be used for the purpose of verifying that a payment order or a communication amending or canceling a payment order (collectively a "payment order") was issued or received by us.

If we use the telephone to orally transmit or receive a payment order to or from a Reserve Bank, we reject the On-Line Security Procedure offered by you and choose the Off-Line Security Procedure generally described in Appendix A to the Circular, as such security procedure may be modified from time to time by you. This security procedure will be used for the purpose of verifying that a payment order was issued or received by us.

We understand that the Off-Line Security Procedure may be deemed commercially reasonable pursuant to Section 4A-202(c) of Article 4A.

Whenever we use your Off-Line Security Procedure, we agree to be bound by any payment order, whether or not authorized, issued in our name and accepted by a Reserve Bank in compliance with such procedure.

We understand that the On-Line and Off-Line Security Procedures will not be used to detect an error in the transmission or content of a payment order.

We also understand and agree that the security procedures established by this Agreement may be changed only by an amendment to Appendix A or other written agreement. The Agreement may not be changed by an oral agreement or by a course of dealing or custom.

Name of sender/receiving bank/agent

Authorized signature

Appendix B

TIME SCHEDULE FOR FUNDS TRANSFERS THROUGH FEDWIRE¹

ON-LINE TRANSFERS

Opening of Fedwire ²	12:30 a.m. (ET)
Cut-off Hour for Foreign Payment Orders ³	5:00 p.m. (ET)
Cut-off Hour (other than Settlement Payment Orders) ⁴	6:00 p.m. (ET)
Cut-off Hours for Settlement Payment Orders ⁴	6:30 p.m. (ET)

OFF-LINE TRANSFERS

Opening of Fedwire ²	9:00 a.m. (ET)
Cut-off Hour for Foreign Payment Orders ³	4:30 p.m. (ET)
Cut-off Hour (other than Settlement Payment Orders) ⁴	5:30 p.m. (ET)
Cut-off Hours for Settlement Payment Orders ⁴	6:00 p.m. (ET)

-
1. For purposes of determining a Reserve Bank's rights and obligation under Regulation J, Article 4A and this Circular, each Reserve Bank's funds transfer business day is 12:30 a.m. Eastern Time to 6:30 p.m. Eastern Time regardless of the Reserve Bank's geographic location or time zone. The Reserve Banks' funds transfer business days include all days except the following standard holidays that are observed by Reserve Banks: All Saturdays, All Sundays, New Year's Day (January 1), Martin Luther King's Birthday (third Monday in January), Presidents' Day (third Monday in February), Memorial Day (last Monday in May), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (second Monday in October), Veterans' Day (November 11), Thanksgiving Day (fourth Thursday in November), and Christmas Day (December 25). If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.
 2. The Reserve Banks may decide, in their sole discretion, to open or close Fedwire at an earlier time, or extend Fedwire, to facilitate special market needs.
 3. A foreign payment order is for a transfer to a foreign central bank or other international agency having an account at the Federal Reserve Bank of New York, and must be designated by type code 15.
 4. A settlement payment order sent during the settlement period must be designated by type code 16. A settlement payment order is a payment order in which the originator and the beneficiary are each either (i) a bank subject to Federal Reserve reserve requirements (whether or not it actually maintains reserves), or (ii) a participant in a net settlement arrangement approved by a Reserve Bank as an eligible originator or beneficiary of a settlement payment order sent during the settlement period.

Appendix C

WIRE TRANSFERS OF FUNDS AND/OR BOOK-ENTRY SECURITIES FEDWIRE THIRD PARTY ACCESS ARRANGEMENTS

1.0 STATEMENT OF AGREEMENT

1.1 This Appendix C to Operating Circular No. 6 on Funds Transfers Through Fedwire establishes the terms of the agreement under which a depository institution (Participant) holding a Master Account with a Reserve Bank may designate a Service Provider (and Pass-Through Service Provider, if applicable, collectively referred to as Service Provider) to perform one or more of the following functions: origination, transmission and receipt of a Funds Transfer, to or from the Participant's Master Account, and/or a Securities Transfer to or from the Participant's Securities Account. A debit/credit related to the Transfer is posted to the Master Account and/or Securities Account as the case may be. A Participant or Service Provider engaged in activities covered by this Appendix shall comply with the Policy Statement on Payments System Risk of the Board of Governors of the Federal Reserve System (Board).

2.0 DEFINITIONS

2.1 As used in this Appendix:

- (a) **Affiliated** means that (i) at least 80 percent of the voting stock of both the Participant and its Service Provider are commonly owned, or, (ii) either the Participant or its Service Provider owns at least 80 percent of the voting stock of the other.
- (b) **Credit Limit** means (i) an individual customer transfer limit established for a customer by the Participant; and/or (ii) a transfer limit established by the Participant for the Participant's own Transfers ("bank-to-bank" Transfers).
- (c) **Fedwire** is the system operated by the 12 Federal Reserve Banks for the electronic transfer of funds and book-entry securities.
- (d) **Funds Transfer(s)** means a payment order or non-value message originated or received over Fedwire.
- (e) **Responsible Reserve Bank** means the Reserve Bank with supervisory responsibility for a Participant's parent bank holding company. The Responsible Reserve Bank is selected based upon where the bank holding company is headquartered.
- (f) **Securities Account** means a book-entry securities account maintained by the Participant at a Reserve Bank.
- (g) **Securities Transfer** means a transfer of book-entry securities over Fedwire.
- (h) **Transfer** means a Funds Transfer or a Securities Transfer.

2.2 Terms defined in Subpart B of Regulation J and Operating Circular 6 have the same meaning when used in this Appendix.

3.0 GENERAL

- 3.1 The Participant shall provide to its Administrative Reserve Bank a Letter of Authorization containing the information described in Exhibit 1 or Exhibit 1A (Foreign Service Providers) to this Appendix before participating in a third party access arrangement covered by this Appendix.
- 3.2 The Participant may authorize a Service Provider to act as the Participant's agent for initiating, transmitting and/or receiving a Funds Transfer where the Participant is the transferor or transferee. Any such Funds Transfer sent by the Service Provider is an authentic and fully authorized Funds Transfer as if it were sent in writing and signed by a duly authorized officer of the Participant. Notwithstanding the operational routing of any such Funds Transfer through the Service Provider, the Reserve Bank holding the Master Account of the Participant will make any debit or credit entry relating to the Funds Transfer. Fedwire Funds Transfers are subject to the requirements of the Board's Regulation J (12 CFR Part 210, Subpart B), and the Reserve Banks' Operating Circulars on Funds Transfers Through Fedwire and on Electronic Access.
- 3.3 The Participant may also authorize the Service Provider to act as the Participant's agent for initiating, transmitting and/or receiving a Securities Transfer to or from the Securities Account, if the requirements of this Appendix have been complied with. Any debit or credit of funds with respect to a Securities Transfer will be made to the Master Account. Any securities transferred from or received for the Participant will be debited or credited, as the case may be, to the Securities Account. The provisions of the Reserve Banks' Operating Circular on Book-Entry Securities Account Maintenance and Transfer Services apply to Securities Transfer third party access arrangements.

4.0 RESPONSIBILITIES OF THE PARTICIPANT

- 4.1 The Participant shall ensure that the Service Provider complies with the provisions of this Appendix and any other relevant operating circular(s) of the Reserve Bank as well as any policy or regulation of the Board with respect to the wire transfer of funds, book-entry securities, electronic access and payments system risk. However, the use of a third party access arrangement, and the provision of these services by the Service Provider to the Participant, shall in no way affect or diminish any obligation or duty of the Participant.
- 4.2 The Participant shall retain full responsibility for management of its Master Account with respect to both its intraday and overnight positions. Any overdraft incurred is a binding obligation of the Participant to the Reserve Bank holding its Master Account. The Participant shall timely monitor during the business day, funds and/or securities transfer activity handled for it by a Service Provider.
- 4.3 The Participant shall maintain an adequate audit program to review any third party access arrangement at least annually. The audit program should include a review of and determination that the transactions handled by a Service Provider meet the requirements set forth in this Appendix.
- 4.4 The Participant shall maintain adequate back-up facilities and procedures to process Transfers in case of an operating outage or other development affecting the adequacy of the service. The contingency back-up requirement can be met through back-up procedures and facilities provided either by the Service Provider or the Participant. The Participant is not relieved of this responsibility because it contracts with a Service Provider.

- 4.5 If the Service Provider is not Affiliated with the Participant, the Participant must be able to process Transfers if the Participant is unable to continue operating under the third party access arrangement (for example, if the Responsible Reserve Bank or the Participant's primary supervisor terminates the third party access arrangement). This back-up requirement can be satisfied by (a) retaining the capability to perform the functions internally that have been delegated to the Service Provider; (b) making arrangements with an alternate Service Provider to take over these functions in the event that the arrangement must be terminated; or (c) by another means acceptable to the Responsible Reserve Bank.
- 4.6 If a back-up arrangement involves a substitute Service Provider, that substitute Service Provider must have agreed to the terms of this Appendix.

5.0 APPROVAL OF INDIVIDUAL TRANSFERS/CREDIT LIMITS

- 5.1 A Transfer sent by the Service Provider on behalf of the Participant shall either (a) be individually authorized and approved by the Participant, or (b) be sent by the Service Provider against a Credit Limit that has been approved by the Participant and communicated to the Service Provider. The Participant shall periodically review the appropriateness of the established Credit Limits.
- 5.2 Where the Participant uses a Service Provider but does not individually authorize and approve each Transfer, the Service Provider must have procedures in place and the operational capability to ensure that a Funds Transfer that would exceed the established Credit Limit is not permitted without first obtaining the Participant's specific authorization. In the case of a Securities Transfer, the Service Provider must have the operational capability and procedures in place to reverse an incoming Securities Transfer that exceeds an established Credit Limit, unless the Service Provider notifies the Participant of the incoming Securities Transfer and the Participant expressly directs the Service Provider not to reverse the Securities Transfer.

6.0 AUTHORIZATION FOR THIRD PARTY ACCESS ARRANGEMENT

- 6.1 The Participant's board of directors shall authorize the role and responsibilities of an unaffiliated Service Provider, (see Exhibit 2 to this Appendix for an acceptable model). In third party access arrangements using Credit Limits, the Participant's board of directors shall approve (a) the intraday overdraft limit for the activity to be processed by the Service Provider (see the Federal Reserve's Guide to the Payment System Risk Policy for acceptable model), and (b) the Credit Limits for any inter-affiliate funds transfer (see Exhibit 3 to this Appendix for an acceptable model).
- 6.2 If the Participant is a U.S. branch of a foreign bank whose board of directors has a more limited role in the bank's management than a U.S. board, the role and responsibilities of the Service Provider should be reviewed by senior management at the foreign bank's head office that exercises authority over the foreign bank equivalent to the authority exercised by a board of directors over a U.S. depository institution. Senior management of the head office should make the approvals required by paragraph 6.1.
- 6.3 The third party access arrangement must be consistent with the principles of corporate separateness and must not violate any state or federal law restrictions on branching.

7.0 MISCELLANEOUS PROVISIONS

- 7.1 The Service Provider must demonstrate the capability to separate Transfers sent or received by the Service Provider as a Participant's agent from other Transfers sent or received by the Service Provider for itself or for any other Participant.
- 7.2 The initiation, transmission or receipt of a Transfer by the Service Provider constitutes the initiation, transmission or receipt of the Transfer by the Participant for purposes of authorizing the Reserve Bank to debit or credit the Master Account or Securities Account, as the case may be.
- 7.3 A Service Provider participating in an arrangement subject to this Appendix shall be subject to examination by the appropriate federal depository institution regulatory agency(ies).
- 7.4 If the Participant and the Service Provider are not affiliated and the Service Provider is located within the United States, the Participant and the Service Provider each warrant that the Service Provider is (i) a depository institution, (ii) an independent company subject to examination pursuant to the Bank Service Corporation Act (12, U.S.C. §1867), by virtue of providing bank services, or (iii) is otherwise subject to examination by a federal bank regulator.
- 7.5 The Participant shall obtain, and upon request submit to its Administrative Reserve Bank, a written affirmation from its primary supervisor(s) that the supervisor(s) does not object to the third party access arrangement.
- 7.6 A Service Provider, whether or not Affiliated with the Participant, shall:
 - (a) initiate, transmit and receive a Transfer without altering the terms of the Transfer unless the alteration was previously approved by the Participant;
 - (b) verify the completeness and acceptability of each Transfer instruction; and
 - (c) initiate or input and release each Transfer instruction as directed by the Participant.

8.0 ADDITIONAL REQUIREMENTS FOR ARRANGEMENTS INVOLVING FOREIGN SERVICE PROVIDERS

- 8.1 In addition to all other relevant terms stated in this Appendix, a Participant that wants to establish an arrangement involving a Service Provider located outside the United States ("Foreign Service Provider") shall comply with the additional terms listed in this paragraph.
- 8.2 The Participant and the Foreign Service Provider shall maintain an adequate audit program that addresses Fedwire operations. Such program shall assess, at least on an annual basis, the sufficiency of internal and data security controls, credit-granting processes, operational procedures, contingency arrangements, and compliance with applicable laws and regulations. Audit reports shall be available, in English, to the Participant's Responsible Reserve Bank and the Participant's primary U.S. supervisor(s).
- 8.3 The Participant and the Foreign Service Provider shall make all policies, procedures, and other documentation relating to Fedwire operations, including those related to internal controls and data security requirements, available to the Participant's Responsible Reserve Bank and the Participant's primary U.S. supervisor(s) in English.

- 8.4 The Foreign Service Provider shall be subject to the supervision of a home/host country bank supervisor.
- 8.5 The Participant and the Foreign Service Provider shall permit the Participant's primary U.S. supervisor(s) to conduct an on-site review of the Fedwire operations at the Foreign Service Provider at any time upon reasonable notice.

9.0 INDEMNIFICATION

- 9.1 The Participant and the Service Provider shall defend, indemnify, and hold the Reserve Banks harmless against any claim, loss, cost or expense, including, but not limited to, attorneys' fees and expenses of litigation, resulting from the third party access arrangement or the acts or omissions of either the Participant or the Service Provider or their agents except, however, for any claim, loss, cost or expense arising solely out of a Reserve Bank's failure to exercise ordinary care.

10.0 TERMINATION

- 10.1 The Service Provider may terminate its participation in a third party access arrangement by giving 30 days' prior written notice to the Administrative Reserve Bank and the other party(ies). The Participant may terminate its participation in a third party access arrangement at any time provided that the Participant has an alternative processing arrangement in place and prior written notice is given to the Administrative Reserve Bank and the other party(ies). The Administrative Reserve Bank reserves the right, without prior notice, to terminate any arrangement covered by this Appendix.

11.0 GOVERNING LAW

- 11.1 The terms of this Appendix shall be construed according to and governed by federal law, and the law of the state where the head office of the Administrative Reserve Bank is located, to the extent such law is not inconsistent with federal law.
- 11.2 The provisions of this Appendix are binding on the legal representatives, successors and assigns of the parties to a third party access arrangement.

12.0 AMENDMENT

- 12.1 The Reserve Bank reserves the right to amend this Appendix at any time without prior notice.

Exhibit 1

LETTER OF AUTHORIZATION¹

Attention: Manager, Funds Transfer Department and/or Securities Transfer Department

We agree to the terms contained in Appendix C to your Operating Circular No. 6, and have complied with all of its prerequisites to establish a third party access arrangement with respect to [wire transfers of funds and/or book-entry securities transfers]. The third party access arrangement is more fully described as follows: [describe how transfers will be handled for the Participant by each Service Provider, including procedures to ensure that a Service Provider cannot permit or initiate a transfer that would exceed an individual customer credit limit without first obtaining the Participant's permission; a description of the Service Provider's operational capability to ensure that the aggregate transfer activity of the Participant does not result in a daylight overdraft over the Participant's cap; procedures and back-up facilities adequate to cover equipment failure or termination of the Service Provider arrangement; and procedures by which the Participant will monitor transfers being made on its behalf].

[Insert, as applicable, name of Service Provider and Substitute or Pass-through Service Provider], the Service Provider(s), [is(are)/is not(are not) an affiliate of this depository institution, as defined in Appendix C to Operating Circular No. 6].² [If the Service Provider(s) is(are) not affiliated with the Participant note the date on which the Participant's board of directors approved the role and responsibilities of the Service Provider with respect to this third party access arrangement.] [If the third party access arrangement involves the use of credit limits and board of director approval is required pursuant to Paragraph 6.1 of the Appendix, note the date of which the Participant's board of directors approve the credit limit(s).]

The Service Provider(s) shall act as the Participant's agent(s) for the purpose of initiating, transmitting and receiving transfers where the Participant is the transferor or transferee. Any such transfer constitutes an authentic and fully authorized transfer as if it were sent in a writing signed by a duly authorized officer of the Participant.

This third party access arrangement will allow [name of Participant] to comply with all applicable state and federal laws and regulations governing it, including, retaining and making accessible records in accordance with the regulations adopted under the Bank Secrecy Act.

This third party access arrangement is consistent with the principles of corporate separateness and does not violate any state or federal law restrictions on branching.

-
1. To be typed on the letterhead of the depository institution holding the Account.
 2. Include here information concerning whether each Service Provider is or is not an affiliate of the Institution.

The Service Provider(s) may terminate the Agreement by written or telegraphic notice to the Participant and to the Manager of your Funds Transfer Department and/or your Securities Transfer Department if book-entry securities transfers are conducted under this arrangement, which notice shall be effective 30 days after receipt. The Participant may terminate the Agreement at any time by written or telegraphic notice to the Service Provider(s) and to the Manager of your Funds Transfer Department and/or your Securities Transfer Department if book-entry securities transfers are conducted under this arrangement, which notice shall be effective as soon as an alternate processing arrangement is in place.

Name of Participant

By: _____

Title: _____

Date: _____

Name of Service Provider

By: _____

Title: _____

Date: _____

Name of Pass-Through Service Provider³

By: _____

Title: _____

Date: _____

Name of Substitute Service Provider³

By: _____

Title: _____

Date: _____

3. Only include these signature lines if applicable.

Exhibit 1A¹

LETTER OF AUTHORIZATION²

Attention: Electronic Payments Officer, Funds Transfer Department
and/or Securities Transfer Department

We agree to the terms contained in Appendix C to your Operating Circular No. 6, and have complied with all of its prerequisites to establish a third-party access arrangement with respect to [wire transfers of funds and/or book-entry securities transfers]. The third-party access arrangement is more fully described as follows: [describe how transfers will be handled for the Participant by each Service Provider, including procedures to ensure that a Service Provider cannot permit or initiate a transfer that would exceed an individual customer credit limit without first obtaining the Participant's permission; a description of the Service Provider's operational capability to ensure that the aggregate transfer activity of the Participant does not result in a day-light overdraft over the Participant's cap; procedures and back-up facilities adequate to cover equipment failure or termination of the Service Provider arrangement; and procedures by which the Participant will monitor transfers being made on its behalf.]

[Insert, as applicable, name of Service Provider and Substitute or Pass-through Service Provider], the Service Provider(s), [is (are)/is not (are not) an affiliate of this depository institution, as defined in Appendix C to Operating Circular No.6].³ [If the Service Provider(s) is (are) not affiliated with the Participant note the date on which Participant's board of directors approved the role and responsibilities of the Service Provider with respect to this third-party access arrangement.]⁴ [If the third-party access arrangement involves the use of credit limits and board of director approval is required pursuant to Paragraph 6.1 of the Appendix, note the date on which the Participant's board of directors approved the credit limit(s).]

[Insert, as applicable, name a/Service Provider and Substitute or Pass-through Service Provider] is (are) located in [Insert name of the country in which the Service Provider is located] and organized under the laws of [insert name of the country where Service Provider is incorporated or organized]. [Service Provider] is subject to supervision by [name of banking institution or organization which is responsible for the supervision and regulation of the Service Provider.] We understand that approval of this third-party access arrangement is contingent upon a determination by the Federal Reserve System that the [Service Provider]'s home/host country supervision is sufficiently comprehensive.

The Service Provider(s) shall act as the Participant's agent(s) for the purpose of initiating, transmitting and receiving transfers when the Participant is the transferor or transferee. Any such transfer constitutes an authentic and fully authorized transfer as if it were sent in a writing signed by a duly authorized officer of the Participant. This third-party access arrangement will allow [name of Participant] to comply with all applicable state and federal laws and regulations governing it, including retaining and making accessible records in accordance with the Bank Secrecy Act and the regulations promulgated thereunder. We agree to make available to you and [name of Participant's primary U.S. supervisor], in English, all policies, procedures and other

-
1. For use in arrangements involving a Service Provider located outside the United States.
 2. To be typed on the letterhead of the depository institution holding the Account.
 3. Include here information concerning whether each Service Provider is or is not an affiliate of the Institution.
 4. In cases where a U.S. branch of a foreign bank wishes to be a Participant and its board of directors has a more limited role in the bank's management than a U.S. board, the roles and responsibilities of the Service Provider should be reviewed by senior management at the foreign bank's head office that exercises authority over the foreign bank equivalent to the authority exercised by a board of directors over a U.S. depository institution.

documentation relating to Fedwire operations, including those related to internal controls and data security requirements. We further agree to permit [name of Participant's primary U.S. supervisor] to conduct on-site reviews of the Fedwire operations at [name of Service Provider]. We understand that approval of this third-party access arrangement is also conditioned upon your review of both [Participant]'s and [Service Provider]'s Fedwire policies and procedures, as well as [Service Provider]'s Fedwire-related operations.

This third-party access arrangement is consistent with the principles of corporate separateness and does not violate any state or federal law restrictions on branching.

The Service Provider(s) may terminate the Agreement by written or telegraphic notice to the Participant and to the Manager of your Funds Transfer Department and/or your Securities Department if book-entry securities transfers are conducted under this arrangement, which notice shall be effective 30 days after receipt. The Participant may terminate the Agreement at any time by written or telegraphic notice to the Service Provider(s) and to the Manager of your Funds Transfer Department and/or your Securities Transfer Department if book-entry securities transfers are conducted under this arrangement, which notice shall be effective as soon as an alternative processing arrangement is in place.

Name of Participant

Name of Service Provider

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

Name of Pass-Through Service Provider⁴

Name of Substitute Service Provider⁵

By: _____

By: _____

Title: _____

Title: _____

Date: _____

Date: _____

5. Only include these signature lines if applicable.

Exhibit 2¹

MODEL RESOLUTION AUTHORIZING OPERATIONAL RELOCATION OF WIRE TRANSFER OF FUNDS AND/OR BOOK-ENTRY SECURITIES ACTIVITY TO A SERVICE PROVIDER

I hereby certify that the following resolutions were duly adopted at a meeting of the [type of governing body, e.g., board of directors of the official name of institution], the (Participant), duly authorized and existing under the laws of _____, which meeting was duly called and held on the _____, day of _____, 19____, at which meeting a quorum was present, and that these resolutions are now in full force and effect and are not in conflict with any provisions in the certificate of incorporation or bylaws of the Participant, or with applicable law.

1. RESOLVED, that [Insert the title of authorized officers] of the Participant, and their successors in office, be, and any [Insert appropriate number] of them, is/are authorized to enter into an arrangement with [Insert name of service provider and pass-through service provider, as applicable] (Service Provider(s)) and the Federal Reserve Bank of _____ (Reserve Bank), by which the Service Provider(s) may on behalf of the Participant [originate and/or receive a funds transfer from or to the Participant's Master Account] and/or [order the transfer of book-entry securities held in the Participant's book-entry securities accounts, and/or accept delivery of book-entry securities into the Participant's book-entry securities accounts.]
2. RESOLVED, that the Participant shall defend, indemnify and hold the Reserve Banks harmless from any claim, loss, or expense sustained (including, but not limited to, attorney's fees and litigation costs) arising out of or resulting from a Reserve Bank's handling of funds and/or securities transfers under the arrangement, other than loss or expense caused solely by the failure of a Reserve Bank to exercise ordinary care.
3. RESOLVED, that the Reserve Bank is authorized to debit/credit the Participant's Master Account according to instructions received from the Service Provider(s) even if a debit associated with a transfer of [funds or book-entry securities] results in an overdraft in the Participant's Master Account. Should any debit to the Participant's Master Account result in an overdraft, the Participant is hereby authorized to incur the indebtedness and shall be indebted to the Reserve Bank for the overdraft.
4. RESOLVED, that as a part of the arrangement, the Service Provider(s) must agree that [it (they) will not send to the Reserve Bank any transfer of funds or book-entry securities that has not been individually authorized and approved by the Participant] or [it (they) will not send to the Reserve Bank any transfer that would exceed the limits adopted by the Participant from time to time and communicated to the Service Provider(s)]²

-
1. This exhibit provides an example of board of director approval that would satisfy the approval requirement set forth in Paragraph 6. A participant is not required to submit a board of directors' resolution.
 2. The limits referred to include the sender net debit cap and specific limits on transfers to affiliates, and the specific customer credit limits. The sender net debit caps and limits on transfers to affiliates must be approved by the board of directors in other resolutions. The customer credit limits may be adopted by the board or may be established under the Institution's ordinary procedures for establishing credit limits.

5. RESOLVED, that these resolutions and all of the powers and authorizations hereby granted or confirmed shall continue in full force and effect until written notice of their revocation shall have been given to and received by the Reserve Bank.

IN WITNESS WHEREOF, I have hereunder subscribed my name.

Dated: _____, 19____

Signature of certifying official

Name and Title³

Sample

3. Cashier/Comptroller/Secretary.

Exhibit 3¹

MODEL RESOLUTION — INTER-AFFILIATE TRANSFERS

The following resolutions were duly adopted at a meeting of the [type of governing body, e.g., board of directors or trustees] of the [official name of participant], (Participant), duly authorized and existing under the laws of _____, which meeting was held on the _____, day of _____, 19_____, and that these resolutions are now in full force and effect and are not in conflict with any provisions in the certificate of incorporation or bylaws of the Participant, or with applicable law.

RESOLVED, that whenever, during the business day of the Federal Reserve Bank of _____ (Reserve Bank), the Participant fails to maintain a balance of funds in its Master Account at the Reserve Bank sufficient to cover the amounts of funds transfers, or other debits charged to the Master Account, the Participant shall be indebted to the Reserve Bank to the extent that the balance of such account is negative, and that the Participant is hereby authorized to incur such indebtedness.

RESOLVED, that the Participant is authorized to extend credit during the day to [insert name of affiliate] by transferring to [insert name of affiliate]'s account at the Reserve Bank. The aggregate amount of the credit that may be extended to [insert name of affiliate] on any day shall not exceed an amount equal to the entire balance of funds in the Participant's Master Account at the Reserve Bank, plus an amount that is not greater than the Participant's net debit cap adopted by the Participant and approved by the Reserve Bank under the policy regarding risks on payment systems adopted by the Board of Governors of the Federal Reserve System, and reduced by the amount of any outstanding indebtedness of the Participant to the Reserve Bank.

RESOLVED, that these resolutions and all of the powers and authorizations hereby granted or confirmed shall continue in full force and effect until written notice of their revocation shall have been given to and received by the Reserve Bank, or for one year, whichever occurs earlier.

IN WITNESS WHEREOF, I have hereunder subscribed my name.

Dated: _____, 19_____

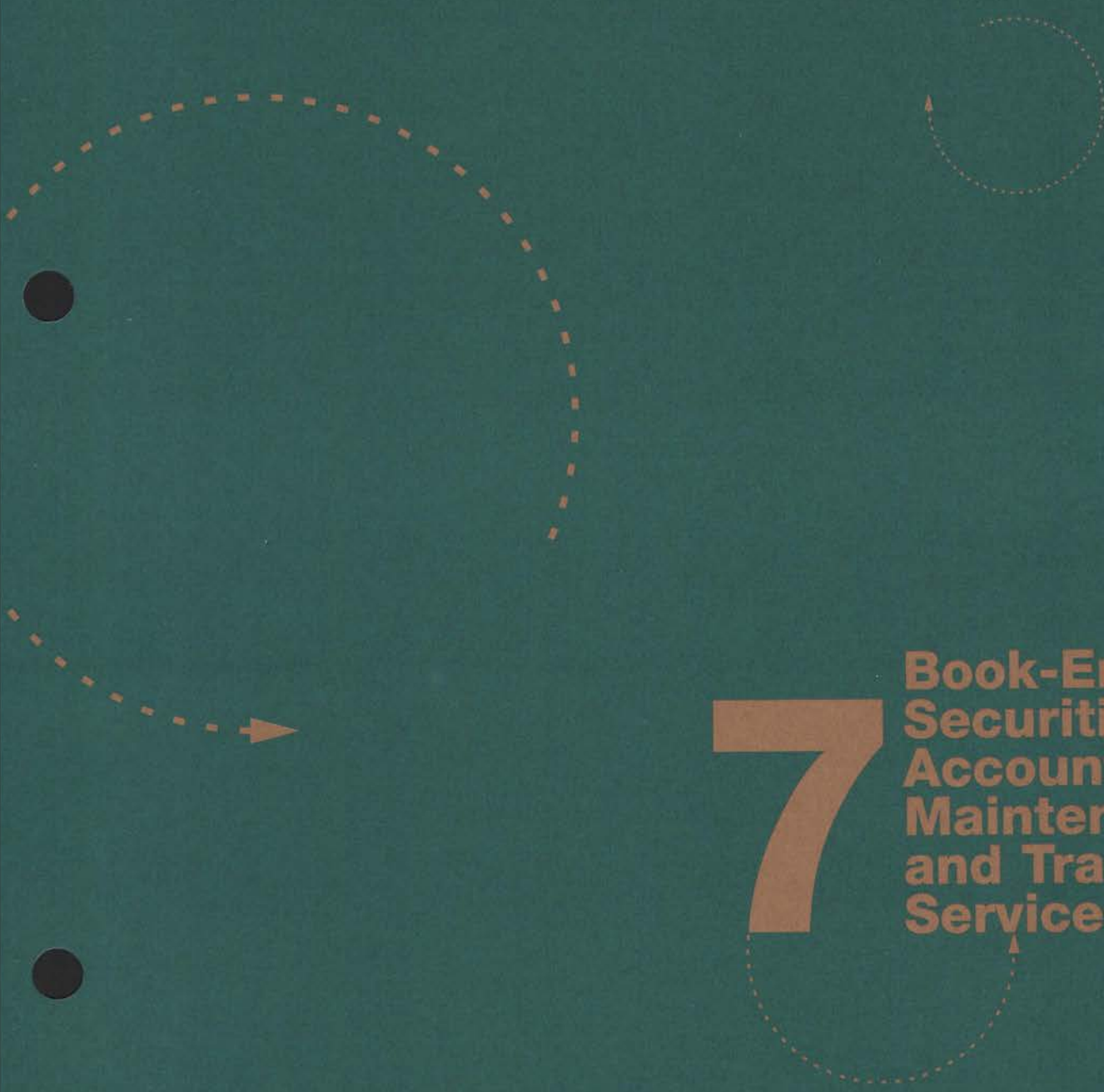
Signature of certifying official

Name and Title²

-
1. This exhibit provides an example of board of director approval that would satisfy the approval requirement set forth in Paragraph 6. A participant is not required to submit a board of directors' resolution.
 2. Cashier/Comptroller/Secretary.

Operating Circular

Federal Reserve Bank of Dallas



7 Book-Entry
Securities
Account
Maintenance
and Transfer
Services

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Operating Circular 7

BOOK-ENTRY SECURITIES ACCOUNT MAINTENANCE AND TRANSFER SERVICES

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1.0 PURPOSE, SCOPE AND EFFECT OF THIS CIRCULAR

1.1 This Operating Circular ("Circular") sets forth the terms under which the Federal Reserve Bank of Dallas maintains Securities Accounts and effects Transfers of Book-Entry Securities for Participants. By maintaining a Securities Account, a Participant agrees to all the provisions of this Circular, as amended from time to time. Capitalized terms are defined in Paragraph 3.

1.2 Each Reserve Bank has issued a Circular No. 7 identical to this one.

2.0 GOVERNING REGULATIONS

2.1 This Circular incorporates by reference the current provisions of the regulations listed in Appendix A as such regulations are amended from time to time.

3.0 DEFINITIONS

3.1 For purposes of this Circular, the following definitions apply.

3.2 **Administrative Reserve Bank** with respect to a Participant means the Reserve Bank in whose District the Participant is located.

3.3 **Board** means the Board of Governors of the Federal Reserve System.

3.4 **Book-Entry Security** means a marketable security issued in electronic form by the United States Government (the "Treasury"), any agency or instrumentality thereof, certain international organizations, or others, that the Reserve Banks

have determined is eligible to be held in a Securities Account and is eligible for Transfer.

3.5 **Fedwire** means the electronic facility operated by the Reserve Banks for maintaining Securities Accounts and for effecting Transfers.

3.6 **Free Transfer** means a Transfer that does not involve any credit or debit to a Master Account other than a transaction fee.

3.7 **Master Account** means an account with reserve and/or clearing balances on the books of a Reserve Bank. A Master Account is a Funds Account for purposes of the regulations listed in Appendix A. A Master Account does not contain Book-Entry Securities.

3.8 **On-Line Access** means a connection for the transmission of a Transfer Message directly to or from a Reserve Bank by electronic data transmission, excluding facsimile and oral transmission by telephone.

3.9 **On-Line Participant** means a Participant with On-Line Access.

3.10 **Off-line Access** means a connection other than On-Line Access for sending and receiving Transfer Messages to or from a Reserve Bank such as by written, facsimile, or telephone voice instruction.

3.11 **Off-line Participant** means a Participant with Off-line Access.

3.12 **Participant** means an entity that maintains a Securities Account with a Reserve Bank in the entity's name. Subject to the Reserve Banks' and the Board of Governor's risk reduction policies, where applicable, entities authorized by law, regulation, policy, or agreement to be Participants include:

- (a) depository institutions as defined in Section 19(b)(1)(A) of the Federal Reserve Act, as amended (12 U.S.C. §461(b)(1)(A));
- (b) agencies and branches of foreign banks as defined in Section 1(b) of the International Banking Act of 1978, as amended (12 U.S.C. §§3101(1) and (3));
- (c) member banks of the Federal Reserve System pursuant to Regulation H issued by the Board (12 C.F.R. Part 208);
- (d) the Treasury and any entity specifically authorized by Federal statute to use the Reserve Banks as fiscal agents or depositories;
- (e) entities designated by the Secretary of the Treasury in accordance with Section 15 of the Federal Reserve Act (12 U.S.C. §391);
- (f) foreign central banks, foreign monetary authorities, foreign governments, and certain international organizations;
- (g) entities authorized under Section 25, Paragraph 3, and Section 25A of the Federal Reserve Act (12 U.S.C. §§601 (Third), 611); and
- (h) any other entity authorized by a Reserve Bank to use Fedwire Book-Entry Securities services.

3.13 Receiver means the Participant receiving a Book-Entry Security as a result of a Transfer.

3.14 Reserve Bank means one of the 12 Federal Reserve Banks and its branches.

3.15 Restricted Securities Account means a Securities Account used for pledging Book-Entry Securities to a pledgee on the books of a Reserve Bank in accordance with this Circular.

3.16 Securities Account means an account at a Reserve Bank containing Book-Entry Securities.

3.17 Sender means the Participant sending a Transfer Message.

3.18 Transfer means the electronic movement over Fedwire of a par amount of Book-Entry Securities by debit to the designated Securities Account of the Sender and by credit to the designated Securities Account of the Receiver, or by debit to one Securities Account of a Participant and credit to another Securities Account of that same Participant, in which case that Participant is both a Sender and a Receiver. A Transfer is either a Free Transfer or a Transfer Against Payment.

3.19 Transfer Message means an instruction of a Participant to a Reserve Bank to effect a Transfer.

3.20 Transfer Against Payment means a Transfer that is effected with a credit to the Master Account of the Sender and a debit to the Master Account of the Receiver, for the amount of the payment.

3.21 Unrestricted Securities Account means a Securities Account used to maintain Book-Entry Securities for a Participant and does not include a Restricted Securities Account.

4.0 SECURITIES ACCOUNT MAINTENANCE

4.1 SECURITIES ACCOUNT LOCATION AND IDENTIFICATION OF THE ADMINISTRATIVE RESERVE BANK

4.1.1 A Participant may have one or more Securities Accounts at its Administrative Reserve Bank, subject to the terms required by the Administrative Reserve Bank. Securities Accounts may be restricted or unrestricted.

4.1.2 A Participant's Administrative Reserve Bank is the Reserve Bank in whose district the Participant is located. For purposes of this Circular, a Participant is located in the Federal Reserve District

as determined under the procedure described in 12 C.F.R. Part 204 even if the Participant would not otherwise be subject to Part 204. A foreign central bank Sender or Receiver is located in the Second Federal Reserve District.

4.2 UNRESTRICTED SECURITIES ACCOUNTS

4.2.1 A Participant may hold Book-Entry Securities it owns, as well as Book-Entry Securities it holds for the account of its customers, in one or more Unrestricted Securities Accounts. Regardless of the combination or number of Unrestricted Securities Accounts maintained by a Participant, all Book-Entry Securities held in an Unrestricted Securities Account are held by a Reserve Bank for, and subject to, the sole order of the Participant.

4.2.2 A Reserve Bank does not reflect in its records any interest of a Participant's customers in Book-Entry Securities held by the Reserve Bank for the Participant in an Unrestricted Account, and is not responsible for the accuracy or content of the records of a Participant with respect to Book-Entry Securities held by the Participant for the account of its customers. A Participant shall not represent to its customers that the Reserve Bank's records reflect the interests of the Participant's customers.

4.2.3 Any name used by a Participant or a Reserve Bank to identify an Unrestricted Securities Account is for convenience only and does not alter the Reserve Bank's right to treat the Participant as exclusively entitled to exercise the rights and powers with respect to the Book-Entry Securities in such Securities Accounts.

4.3 RESTRICTED SECURITIES ACCOUNTS

4.3.1 A Participant may hold Book-Entry Securities pledged as collateral in one or more Restricted Securities Accounts. Credits of Book-Entry Securities to, and debits from, Restricted Securities Accounts may require the intervention of the Reserve Bank and may require the approval of the pledgee.

4.3.2 Restricted Securities Accounts include, but are not limited to, the following:

(a) Restricted Securities Accounts in which the Reserve Bank holds Book-Entry Securities in its individual capacity:

(i) as collateral for advances (including extension of intra-day credit) by the Reserve Bank to the Participant;

(ii) as collateral to secure the exercise of trust powers within a state or deposits of funds of public entities (including states, municipalities, and other political subdivisions — see Appendix C);

(iii) as collateral for bankruptcy funds on deposit with the Participant pursuant to 11 U.S.C. §345; and

(iv) for such other purposes as the Reserve Bank may designate; and

(b) Restricted Securities Accounts in which a Reserve Bank holds Book-Entry Securities in its capacity as fiscal agent of the United States:

(i) as collateral to secure balances held by the Participant in Treasury Tax and Loan accounts under 31 C.F.R. Part 203, as amended from time to time (Treasury Circular 92);

(ii) as collateral for revenues and funds of the United States, and any funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents, or employees pursuant to 31 C.F.R. Part 202, as amended from time to time (Treasury Circular 176);

(iii) as security in lieu of a surety on penal or other bonds, pursuant to 31 C.F.R. Part 225, as amended from time to time (Treasury Circular 154); and

(iv) for such other purposes as the Secretary of the Treasury may approve, subject to Treasury circulars or other relevant instructions.

4.3.3 Proceeds of Book-Entry Securities, including interest payments on Book-Entry Securities, held in a Restricted Securities Account at maturity or call may be held by a Reserve Bank in a non-interest-bearing account until substitute collateral is posted or the pledge is released.

5.0 TERMS OF ACCESS

5.1 Each Participant is responsible for all access to, and all debits and credits to, its Securities Accounts and its Master Account. A Participant may use the services of a third-party service provider, as described in and subject to Appendix C to Operating Circular No. 6 on Funds Transfers Through Fedwire and the Board's payment system risk reduction policies.

5.2 A Participant must maintain a Master Account at a Reserve Bank to be a Sender or a Receiver of Transfers Against Payment; the Administrative Reserve Bank reserves the right: (1) to require a Participant to maintain a balance in its Master Account or to pledge collateral sufficient at all times to cover Transfers Against Payment for which the Participant is the Receiver, (2) to limit a Receiver to Free Transfers, or (3) to limit Transfers Against Payment or to reject Transfer Messages.

5.3 A Participant that does not have or is not permitted to have a Master Account in its own name may only be a Sender or a Receiver of Free Transfers, and must designate a correspondent (on a form provided by the Administrative Reserve Bank) with a Master Account on a Reserve Bank's books which shall be credited for principal and interest payments on Book-Entry Securities, and debited for transaction fees as described in Paragraph 14; a Reserve Bank will reject Transfer Messages for Transfers Against Payment to a Participant that does not have a Master Account or that is only permitted to be a Receiver of Free Transfers.

6.0 THE ROLES OF THE RESERVE BANKS IN A BOOK-ENTRY SECURITIES TRANSFER

6.1 A Participant's Administrative Reserve Bank may instruct any other Reserve Bank concerning the other Reserve Bank's handling of a Transfer Message affecting the Participant's Securities Account(s) and Master Account.

7.0 EXECUTION OF TRANSFERS

7.1 DEBITS AND CREDITS

7.1.1 Book-Entry Securities are credited to a Participant's Securities Account in accordance with Reserve Bank policies and, when relevant, the regulations and policies of the issuers of the Book-Entry Securities, including whenever a Participant:

(a) is a Receiver, or receives Book-Entry Securities moved from the TREASURY DIRECT System (described at 31 C.F.R. Part 357.20 *et seq.*) to its Securities Account;

(b) purchases Book-Entry Securities on original issue; or

(c) converts eligible definitive securities to book-entry form or from one book-entry form to another book-entry form (*e.g.*, stripping and reconstituting).

7.1.2 Book-Entry Securities are debited to a Participant's Securities Account in accordance with Reserve Bank policies, and when relevant the instruction of the issuer, including whenever:

(a) a Reserve Bank effects a Transfer for a Participant that is a Sender, or a Participant requests that Book-Entry Securities be moved into the TREASURY DIRECT System;

(b) Book-Entry Securities held in a Securities Account mature or are called for redemption; or

(c) a Participant converts eligible Book-Entry Securities to bearer or registered definitive securities or from one book-entry form to another book-entry form (e.g., stripping and reconstituting).

7.1.3 The Sender's Master Account is credited and the Receiver's Master Account is debited for the amount specified by the Sender in any Transfer Against Payment sent by the Sender.

7.1.4 The Sender and the Receiver of a Transfer irrevocably authorize and instruct the Reserve Bank(s) involved in the Transfer to debit the Sender's designated Securities Account and credit the Receiver's designated Securities Account for the par amount of the Book-Entry Securities, and to credit the Sender's Master Account and debit the Receiver's Master Account for the payment in the case of a Transfer Against Payment.

7.1.5 If a Transfer is returned in accordance with this Circular, the Sender and the Receiver of the Transfer irrevocably authorize and instruct the Reserve Bank(s) involved in the Transfer to debit and credit the Sender's and the Receiver's Securities Accounts and their corresponding Master Accounts in order to offset any debits or credits previously made in connection with the Transfer.

7.2 CONDITIONS OF ACCESS

7.2.1 The Reserve Banks provide Participants with On-line Access or Off-line Access but reserve the right to terminate a Participant's access without prior notice.

7.2.2 The Reserve Banks may record by audio recording device any telephone call relating to a Transfer.

7.2.3 A Participant, whether on-line or off-line, shall indemnify the Reserve Banks for any loss incurred by a Reserve Bank as a result of the Participant's delay in sending or receiving a Transfer, if the delay results from the Participant's failure to be able to send or receive a Transfer to or from the Reserve Banks.

7.2.4 On-Line Access. An On-line Participant must manage its access in order to receive timely acknowledgment of credits and debits to its Securities Accounts and its Master Account during Fedwire operating hours. If a Participant fails to manage its communications connection in such a manner, a Reserve Bank may limit any attempts to send acknowledgments of credits and debits to the Participant's computer. In such cases, the Participant should dial into the Reserve Bank's computer when its connection is reestablished.

7.2.5 Off-line Access

(a) A Sender must provide Transfer Messages, and a Receiver must provide anticipated receipt instructions, in writing, by facsimile transmission, or by telephone under an authorized name on file with the appropriate Reserve Bank handling the off-line Transfers. The Reserve Bank shall call the Participant's place of business to verify a Transfer Message or other instruction and may require verification of all Transfer Messages or other instructions through codeword.

(b) For Unrestricted Securities Accounts, if a Receiver has not given anticipated receipt instructions the Transfer will be reversed as promptly as possible.

(c) For Restricted Securities Accounts, if a Receiver has not given anticipated receipt instructions and confirmation of the instruction cannot be obtained, the Transfer may be reversed.

7.3 FORMAT AND CONTENT OF TRANSFER MESSAGES

7.3.1 A Transfer Message must be in the media and format the Reserve Banks prescribe. A Reserve Bank will not act on instructions in a Transfer Message other than information required by the format specifications. The Reserve Banks are not responsible for the accuracy of a routing number contained in or verbally supplied from a publication, list or automated file issued or maintained by a Reserve Bank if the routing number becomes inaccurate after the effective date of the publication, list, or automated file.

7.3.2 A Transfer Message must use the identifying number of the Sender and the Receiver associated with its head office in the Administrative Reserve Bank's District or, for a Sender or Receiver authorized to have Securities Account(s) with multiple Reserve Banks, the appropriate identifying number associated with the Securities Account on the books of a Reserve Bank other than the Administrative Reserve Bank. If the appropriate identifying number is not used, the Transfer will be rejected.

7.3.3 If a Transfer Message does not designate which Securities Account of the Receiver is to be credited, the Transfer will be rejected.¹

7.3.4 A Reserve Bank is entitled to rely on any Transfer Message or instruction (whether or not authorized) that it reasonably believes to be genuine.

8.0 SECURITY PROCEDURES

8.1 A Participant shall prevent any disclosure, except on a "need to know" basis, of any aspects of the security procedures agreed to by it with a Reserve Bank. The Participant shall notify a Reserve Bank immediately if the confidentiality of these security procedures is compromised, and shall act to prevent the security procedure from being further compromised.

9.0 SETTLEMENT OF BOOK-ENTRY SECURITIES TRANSFERS

9.1 Finality. Unless a Transfer is rejected in accordance with this Circular, all debits and credits in connection with a Transfer become final at the time the debits and credits are posted to both the Sender's and the Receiver's Securities Accounts and, in the case of Transfer Against Payment, their corresponding Master Accounts. Notice of the Transfer is conclusive evidence that the debit(s) and credit(s) were made. Transfers may be reversed only by a separate Transfer effected by a Transfer Message using the reversal code, or Transfers may be returned by the Administrative Reserve Bank in accordance with Paragraph 7.2.5(b). A Reserve Bank reserves the right to debit or credit Securities Accounts (without further authorization or instruction) to correct any Transfer errors.

9.2 Subject to Paragraph 4.3.3, and unless otherwise instructed by the issuer, the Reserve Bank credits payments of principal and interest on Book-Entry Securities to the Participants (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account on the due date (or the next business day, if the payment date falls on a weekend or holiday) to the extent there are available funds of the issuer.

9.3 Credits of principal and interest payments on Book-Entry Securities to a Master Account are final, subject only to a Reserve Bank's right to debit or credit the Master Account (without further authorization or instruction) to correct any payment errors.

1. Until the Federal Reserve Bank of New York converts to the National Book-Entry System (NBES), a Transfer Message that does not designate which Securities Account of the Receiver is to be credited, sent to a Receiver located in the Second Federal Reserve District, will result in a credit to the Securities Account designated as a default by the Receiver. Similarly, a Transfer Message sent by a Sender in the Second Federal Reserve District that does not designate which Securities Account of the Receiver should be credited, will result in a credit to the Securities Account designated as a default by the Receiver.

10.0 LIMITATIONS ON TRANSFERS OF BOOK-ENTRY SECURITIES

10.1 GENERAL RESTRICTIONS ON TRANSFERS

10.1.1 Transfers are not authorized on or after the date of maturity of a particular issue, or on or after the redemption date of a bond or note that has been called for redemption. Certain issues may contain restrictions which do not allow Transfers for a specified time period prior to maturity.

10.1.2 A Reserve Bank will not accept instructions from a Sender (or a Receiver) to credit (or debit) a correspondent's Master Account for a payment in connection with a Transfer Against Payment.

10.2 AMOUNT LIMITATIONS ON TRANSFERS

10.2.1 There is a par amount maximum of \$50 million for Transfers (the "Limit"). The Limit applies to all Transfers, as well as to transfers with the Federal Reserve's Open Market Desk, except as provided in Paragraph 10.2.2. A Reserve Bank will reject a Transfer Message with a par amount greater than the Limit.

10.2.2 The Limit on Transfers does not apply to:

- (a) transactions, including the original issuance of Book-Entry Securities and requests to strip and reconstitute Book-Entry Securities, to or from a Reserve Bank in its capacity as fiscal agent of the United States, Federal and Federally-sponsored agencies, or international organizations; and
- (b) Debits or credits to Restricted Securities Accounts on a Reserve Bank's books.

10.2.3 Participants should establish procedures to ensure that large Transfers are not delayed until late in the day. Specifically, each Participant should encourage its customers to provide delivery instructions to it

as soon as practical after a trade is executed and to deliver Book-Entry Securities as soon as (par amount) lots of Book-Entry Securities at the Limit are in position.

10.3. IMPROPER USE OF THE REVERSAL CODE

10.3.1 A Participant must not send a Transfer Message for the first time during the reversal period by using the reversal code. A Receiver of such an improper Transfer that is unable to reverse it by a reversing Transfer Message to the Sender may request an as-of adjustment as discussed in Paragraph 13.1.

10.3.2 No misuse of the reversal code has occurred if a Transfer effected by a Transfer Message sent initially and properly during the origination period using the origination code is reversed one or more times by a Transfer Message using the reversal code. However, a Reserve Bank will not handle any request for compensation arising from such a use of the reversal code; this must be handled directly by the Sender and the Receiver.

11.0 TRANSFER HOURS AND EXTENSIONS

11.1 A Reserve Bank effects Transfers in accordance with the schedule of operating hours in Appendix B. However, the Reserve Banks may decide in their sole discretion to open or close Fedwire at an earlier time, or to extend Fedwire, to facilitate special market needs. The Reserve Banks may also close Fedwire early on certain days when the United States Government securities market observes partial- or full-day holidays. Annually, the Reserve Banks will issue a notice identifying these early close days, and, in addition, will issue a reminder to all Participants approximately two weeks in advance of each early close day.

11.2 A Participant requiring an extension of Fedwire operating hours should contact its Administrative Reserve Bank as soon as possible. A request for an extension

received less than twenty minutes before the scheduled Fedwire closing time will not be granted. An extension may be granted only if:

- (a) there is a failure of Reserve Bank and/or Fedwire network equipment;
- (b) there is a significant operating problem at a bank or major dealer; or
- (c) the extension is deemed necessary, in the Administrative Reserve Bank's view, to prevent market disruption (i.e., the dollar value of delayed transfers exceeds \$500,000,000).

11.3 When requesting an extension, the Participant will be required to state the dollar amount and volume of unprocessed Transfer Messages and to assess the severity of any operating problems.

11.4 Every extension of Fedwire is broadcast electronically to all Reserve Banks and all On-line Participants.

12.0 NOTICES

12.1 The Reserve Bank sends to a location specified by a Participant a notice following each credit or debit to the Participant's Securities Account(s). The notice is not a negotiable or a transferable receipt but is merely confirmation of a completed Transfer. The Reserve Bank sends an On-line Participant an electronic notice, and an Off-Line Participant a printed notice, of each debit or credit to its Securities Account(s). The Reserve Bank also attempts to notify an Off-Line Participant by telephone of each debit or credit.

12.2 After 3:30 p.m. eastern time (absent an extension of Fedwire), each On-line Participant is provided with:

- (a) a summary of funds debited or credited to the Participant's Master Account as a result of Transfers Against Payment; and

- (b) a summary of net balances for each Book-Entry Security issue for which there was activity.

12.3 Each Participant also receives information detailing principal and/or interest payments credited to its (or its correspondent's) Master Account.

12.4 A Participant must notify the Reserve Bank in writing of an exception to any notice, summary, or statement as soon as possible (in no event later than 10 calendar days from the date of the notice, summary, or statement).

13.0 REQUESTING AS-OF ADJUSTMENTS

13.1 A Participant may request that its Administrative Reserve Bank make an as-of adjustment for improper use of the reversal code, and for delays and operational errors caused by a Reserve Bank. The Participant must submit written documentation supporting the request within two business days of the transaction giving rise to the request.

14.0 TRANSFER AND SECURITIES ACCOUNT MAINTENANCE FEES

14.1 FEES

14.1.1 The fees imposed for non-Treasury Book-entry Securities services are listed in the Reserve Banks' fee schedule as amended from time to time. Fees are not assessed for the following Restricted Securities Accounts, nor for Transfers affecting the following Restricted Securities Accounts: Treasury Tax and Loan (TT&L), Loans and Discounts, and Circular 176.

14.2 BILLING OF FEES

14.2.1 The Participant's (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account is debited for fees for Treasury

Book-Entry Securities daily. These fees are assessed by Treasury and may not be offset against earnings credits.

14.2.2 Fees for Book-Entry Securities other than Treasury Book-Entry Securities are billed monthly and debited to the Participant's (or, subject to prior written agreement on a form provided by a Reserve Bank, its correspondent's) Master Account. These fees may be offset against earnings credits.

14.2.3 A Participant that does not have a Master Account is not relieved of its liability for any fees it incurs by using Fedwire.

15.0 EMERGENCY CONDITIONS

15.1 FAILURE OF A PARTICIPANT'S EQUIPMENT

15.1.1 On-line Participants are responsible for developing their own contingency and recovery plans, such as back-up computer and operations facilities, to ensure their ability to continue Fedwire operations in the event of equipment failure or other operational interruption. The Reserve Banks assume no responsibility for providing any back-up access facilities for Participants.

15.2 FAILURE OF RESERVE BANK EQUIPMENT

15.2.1 In the event of an emergency or failure of a Reserve Bank's computer or operations facilities, Transfers may be delayed until the emergency or failure is resolved. During extended disruptions, the Reserve Bank's Fedwire operations may be relocated to a back-up site. Participants should refer to the Reserve Bank's contingency guidelines regarding Participant requirements and responsibilities during contingency operations.

15.2.2 On-line Participants should be prepared to reconcile their positions up to the point of the failure under the Reserve Bank's instructions.

15.2.3 A Reserve Bank will notify On-line Participants of an operating problem at another Reserve Bank and, should the problem be deemed critical, will give instructions to On-line Participants.

16.0 LIMITATIONS ON LIABILITY

16.1 The Reserve Banks are not liable for the insolvency, neglect, misconduct, mistake, or default of any other entity or person, including a Participant. Except as otherwise specifically provided herein, the account-holding Reserve Bank is liable only for the actual direct loss sustained by the immediate Participants to a transaction proximately caused by the Reserve Banks' failure to exercise ordinary care or act in good faith: with respect to Reserve Bank liability to such Participants, only the Reserve Bank holding the Sender's account is liable to the Sender and only the Reserve Bank holding the Receiver's account is liable to the Receiver. The amount of a Reserve Bank's liability to a Participant is limited to no more than the dollar amount of the transaction plus reasonable interest and incidental expenses, unless the Participant's claim is based on delay of a transaction in which case the Reserve Bank's liability is limited to reasonable interest and incidental expenses. In no event shall a Reserve Bank be liable for consequential, indirect, incidental or special damages (including lost profits), however derived, and regardless of whether the Reserve Bank has been informed of the possibility thereof.

16.2 In addition to the liability of an account-holding Reserve Bank, a Reserve Bank handling an off-line Transfer is liable to its immediate Participant for the actual direct losses resulting from the Reserve Bank's handling of the Transfer, that are proximately caused by the Reserve Bank's failure to exercise ordinary care or act in good faith, subject to the first, third, and fourth sentences of Paragraph 16.1.

16.3 The Administrative Reserve Bank may in its discretion satisfy an obligation of any of the Reserve Banks to pay interest hereunder by providing an as-of adjustment or by paying compensation.

17.0 MULTIPLE MASTER ACCOUNTS

17.1 Under certain circumstances a Participant may have multiple Master Accounts at its Administrative Reserve Bank with each Master Account having associated Securities Accounts and/or one or more Master Accounts at Reserve Banks other than its Administrative Reserve Bank with each Master Account having associated Securities Accounts.

17.2 Notwithstanding any provision of this Circular, during any period when a Participant is authorized to maintain Securities Accounts at multiple Reserve Banks, any debit or credit made pursuant to this Circular will be made to the Securities Account and Master Account associated with the identifying number of the Participant used in the Transfer.

18.0 RIGHT TO AMEND

18.1 The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

19.0 EFFECT OF THIS CIRCULAR ON PREVIOUS CIRCULARS

19.1 This Circular amends and supersedes all prior Reserve Bank operating circulars on book-entry securities account maintenance and transfer services including any supplements or appendices thereto issued prior to January 2, 1998.

Appendix A

APPLICABLE REGULATORY CITATIONS GOVERNING BOOK-ENTRY SECURITIES OF AGENCIES, INSTRUMENTALITIES, AND ESTABLISHMENTS OF THE UNITED STATES

- 12 C.F.R. Part 615, Subpart O (Farm Credit System).
- 12 C.F.R. Part 615, Subpart R (Farm Credit System Financial Assistance Corporation).
- 12 C.F.R. Part 615, Subpart S (Federal Agricultural Mortgage Corporation).
- 12 C.F.R. Part 912 (Federal Home Loan Banks).
- 24 C.F.R. Part 81 Subpart H (Federal Home Loan Mortgage Corporation).
- 24 C.F.R. Part 81, Subpart H (Federal National Mortgage Association).
- 12 C.F.R. Parts 912, 950.4 (Financing Corporation).
- 12 C.F.R. Part 1511 (Resolution Funding Corporation).
- 31 C.F.R. Part 354 (Student Loan Marketing Association).
- 18 C.F.R. Part 1314 (Tennessee Valley Authority).
- 31 C.F.R. Part 357, Subpart B (United States Department of the Treasury).

Appendix B

FEDWIRE OPERATING HOURS FOR BOOK-ENTRY SECURITIES TRANSFERS¹

ON-LINE TRANSFERS

Opening of Fedwire ²	8:30 a.m. (ET)
Closing Time for Transfer Originations ²	3:15 p.m. (ET)
Closing Time for Transfer Reversals ²	3:30 p.m. (ET)
Closing Time for Repositions Against Payment ³	4:30 p.m. (ET)
Closing Time for Repositions Free of Payment ³	7:00 p.m. (ET)

OFF-LINE INSTRUCTIONS

Begin accepting instructions	9:00 a.m. (ET)
Cut-off for accepting instructions for current days processing ⁴	1:30 p.m. (ET) ⁵
Cut-off for accepting instructions for future days processing	4:00 p.m. (ET) ⁵

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1. The Reserve Banks observe standard legal holidays which include: All Saturdays, All Sundays, New Year's Day (January 1), Martin Luther King's Birthday (third Monday in January), President's Day (third Monday in February), Memorial Day (last Monday in May), Independence Day (July 4), Labor Day (first Monday in September), Columbus Day (second Monday in October), Veterans' Day (November 11), Thanksgiving Day (fourth Thursday in November), and Christmas Day (December 25). If January 1, July 4, November 11, or December 25 fall on a Sunday, the next following Monday is a standard Reserve Bank holiday.
 2. The Reserve Banks may decide, in their sole discretion, to open or close Fedwire at an earlier time, or extend Fedwire, to facilitate special market needs. Reserve Banks may also close Fedwire early on certain days when the United States Government securities market observes partial- or full-day holidays. Annually this Bank will issue a notice identifying these early close days and, in addition, will notify all Participants of each scheduled early closing approximately two weeks in advance of the closing.
 3. Only available in NBES. "Reposition against payment" means the transfer of Book-Entry Securities against payment between two accounts of the same Participant.
 4. An attempt will be made to process Off-line instructions received after the cut-off time, but cannot be guaranteed. The requesting Participant will be notified if the Transfer is not effected.
 5. A Reserve Bank, in its sole discretion, may extend this cutoff hour.

Appendix C

CUSTODY AGREEMENT FOR BOOK-ENTRY SECURITIES

This Appendix sets forth the terms under which this Bank holds Book-Entry Securities in custody for the benefit of a state or local government or unit thereof to which the securities have been pledged. Unless otherwise agreed in writing between this Bank and a Pledgee, this Appendix applies only to Book-Entry Securities pledged for the purposes specified in Paragraphs 4.3.2(a)(ii) of this Operating Circular (“Circular”). This Appendix constitutes an agreement, as described in the Applicable Regulations, regarding the security interest of a non-Participant in Book-Entry Securities held by a Participant on the books of this Bank. Each Reserve Bank has issued an Appendix C to Circular No. 7 identical to this one.

1.0 DEFINITIONS

In addition to the terms defined in the Circular, the terms defined in this Paragraph have the following meanings when used in this Appendix.

- (a) **Applicable Regulations** means the regulations of issuers of Book-Entry Securities listed in Appendix A to this Circular.
- (b) **Collateral Transaction** means the pledge of Book-Entry Securities by a Pledgor to a Pledgee; the release of Pledged Securities to a Pledgor; or the substitution of the same par value amount of new Pledged Securities for existing Pledged Securities that are released to the Pledgor.
- (c) **Pledged Security** means a Book-Entry Security that is held in a Restricted Securities Account.
- (d) **Pledgee** means the state or local government or unit thereof, to which Book-Entry Securities have been pledged.
- (e) **Pledgor** means the Participant that has pledged the Book-Entry Securities.

2.0 GOVERNING LAW

- 2.1 The Bank provides custodial services in accordance with Paragraph 4.3.2(a)(ii) of the Circular and this Appendix. The Bank’s rights and obligations in providing custodial services pursuant to this Appendix are governed solely by the Circular, this Appendix, and the Applicable Regulations.
- 2.2 Pledgor and Pledgee warrant that a pledge of Book-Entry Securities marked on the books of the Bank under the provisions of this Appendix is in accordance with applicable law. If any provision of any bond, security or pledge agreement between Pledgor and Pledgee, or any subsequent waiver, modification or amendment of such agreement, imposes any duties on this Bank that are inconsistent with the provisions of this Appendix, the provisions of this Appendix govern. Provisions of state law that are inconsistent with, or in addition to, the provisions of this Appendix are not binding on this Bank unless otherwise agreed in writing.
- 2.3 Under the Applicable Regulations, the security interest of a Pledgee is perfected by this Bank’s marking the security interest on its books, and the security interest has priority over any other interest in the Pledged Securities, other than a security interest of the United States.

3.0 ESTABLISHMENT OF RESTRICTED SECURITIES ACCOUNT

- 3.1 This Bank will establish a Restricted Securities Account for the benefit of a Pledgee once the Pledgee has agreed to the terms of this Appendix and has provided such other information as may be required by the Bank. Existing Pledgees may be required to execute a new agreement with the Bank but, in the absence of such new agreement, are deemed to have agreed to the provisions of this Appendix by continuing to hold Pledged Securities with the Bank. Forms for this purpose are available from the Bank.
- 3.2 By initiating a Collateral Transaction, a Pledgor agrees to all the provisions of this Appendix, as amended from time to time.

4.0 COLLATERAL TRANSACTIONS

- 4.1 A Collateral Transaction is initiated by the Pledgor and, except for the pledge of new Pledged Securities, requires the prior approval of the Pledgee or its authorized representative. Collateral Transaction requests and Pledgee authorizations are subject to verification procedures the Bank specifies from time to time.
- 4.2 If a Pledged Security is unacceptable as collateral to a Pledgee, the Pledged Security will not be released to the Pledgor without the authorization of the Pledgee. The Bank assumes no responsibility to determine if a Pledged Security is acceptable to the Pledgee.
- 4.3 A Pledgee may provide the Bank with written standing instructions to permit substitutions of like par value amounts of Pledged Securities without the consent of the Pledgee. A substitution transaction involving a lesser par value amount of Pledged Securities requires Pledgee authorization for the release of Pledged Securities. In the case of a substitution involving a pay-down Book-Entry Security, par value refers to the outstanding book value of the securities at the time of a substitution transaction.
- 4.4 The Bank issues a confirmation to the Pledgee and the Pledgor for each Collateral Transaction. The confirmation is conclusive evidence of the Collateral Transaction reflected therein.

5.0 INTEREST PAYMENTS AND OTHER PROCEEDS

- 5.1 Pursuant to Paragraph 9.2 of the Circular, the Bank credits payments of interest on the Pledged Securities to the Pledgor until the Bank receives (i) a written certification from the Pledgee or its authorized representative that the Pledgor is in default under any underlying pledge or security agreement between the Pledgor and the Pledgee, and (ii) written instructions directing the Bank to hold the interest payments. The Bank holds the interest payments in a non-interest-bearing account until collected in accordance with Paragraph 6 of this Appendix.
- 5.2 The Bank holds proceeds of Pledged Securities (other than interest payments) in a non-interest-bearing account, pursuant to Paragraph 4.3.3 of the Circular, until:
 - (a) Pledged Securities are deposited in substitution for the proceeds or the proceeds are released in accordance with Paragraph 4 of this Appendix; or
 - (b) the proceeds are collected in accordance with Paragraph 6 of this Appendix.

6.0 COLLECTION OF PLEDGED SECURITIES AND PROCEEDS

- 6.1 If the Pledgee or its authorized representative certifies in writing to the Bank that the Pledgor is in default under any underlying pledge or security agreement between the Pledgor and the Pledgee, and certifies that the Pledgee has satisfied any notice or other requirement to which the Pledgee is subject, the Pledgee may instruct the Bank in writing to transfer specific amounts and issues of Pledged Securities and, if applicable, specific amounts of interest payments or other proceeds of Pledged Securities not previously credited to the Pledgor or otherwise released, to designated accounts on the books of this Bank or another Reserve Bank.
- 6.2 Promptly after receiving such certifications and instructions, the Bank will make the transfer instructed by the Pledgee.
- 6.3 The Bank is not required to obtain the consent of the Pledgor for any such transfer and assumes no responsibility for determining the validity of a Pledgee's declaration of the Pledgor's default or of the underlying pledge or security agreement between the Pledgor and the Pledgee.

7.0 PROHIBITED ACTS

- 7.1 Notwithstanding any other provision of this Appendix or the Circular to the contrary, the Bank is not required to perform any act directed or required by the Pledgee if the Bank is prohibited from performing the act by law or by court order.

8.0 LIMITATIONS ON BANK'S LIABILITY AND DUTIES

- 8.1 The Bank is liable only for the actual direct loss sustained by a pledgee or pledgor proximately caused by the Reserve Bank's failure to exercise ordinary care or act in good faith in performing its duties under this Appendix. In no event shall the Reserve Bank be liable for consequential, indirect, incidental or special damages (including lost profits), however derived, and regardless of whether the Reserve Bank has been informed of the possibility thereof. Both the Pledgee and the Pledgor release and forever discharge the Bank from all other claims, demands, and liability of the Pledgee or the Pledgor, or both, in connection with the Bank's performance of its duties under this Appendix and indemnify the Bank for any claims of other parties, including costs of litigation and reasonable attorneys' fees, with respect to Pledged Securities held by the Bank.
- 8.2 In particular, but not exclusively, the Bank has no duty to:
 - (a) act as escrow agent or in any other capacity not expressly provided for in this Appendix;
 - (b) determine the validity of the pledge of securities by the Pledgor to the Pledgee, including whether any required bond, pledge, or security agreement has been executed;
 - (c) monitor the value of a Pledged Security, or the declining book value of a pay-down Pledged Security subsequent to its pledge, or ensure that the type, amount, or value of a Pledged Security is that which is required under state or local law;
 - (d) verify ownership, validity, or legality of the Pledged Securities;
 - (e) pay assessments as provided under state or local law;
 - (f) give notice of maturity, call, exchange offer, or the like, affecting the Pledged Securities;

- (g) carry insurance against loss of the Pledged Securities; or
- (h) inquire into the existence or continuance of the powers or authority of a public official who is the Pledgee or is acting for the Pledgee or the successors in office to or any person represented to the Bank as authorized to act on behalf of the Pledgee. However, the Bank may require a certificate from the proper authority showing that the public official, or any person represented to the Bank as authorized to act on behalf of the Pledgee, is and continues to be so authorized.

9.0 DISPUTES

In the event of notice of a conflicting claim with respect to Pledged Securities, the Bank may hold the Pledged Securities, including interest and proceeds, pending settlement of the dispute either by agreement of the parties or by order of a court of competent jurisdiction.

10.0 TERMINATION OF AGREEMENT OR PLEDGE SECURITIES ACCOUNT

- 10.1 The Bank or the Pledgee may terminate this Agreement and close any Restricted Securities Account established under this Appendix by giving not less than 30 calendar days advance written notice of termination to the other party and to the Pledgor.
- 10.2 The Bank may release Pledged Securities held by the Bank to the Pledgor at the end of the 30 day period. However, if, within the 30 day period, the Bank (a) receives written instructions from the Pledgor to otherwise dispose of the Pledged Securities and (b) the Pledgee's separate written approval thereof, the Bank will dispose of the Pledged Securities in accordance with these instructions.
- 10.3 If, by reason of a merger or otherwise, a Pledgor's Book-Entry Securities account is transferred to another Reserve Bank, the Pledged Securities held by this Bank will be transferred to the other Reserve Bank, with 30 calendar days prior notice to affected Pledgees. If Pledged Securities are transferred to this Bank pursuant to this provision, this Bank will hold the Pledged Securities pursuant to the terms of this Appendix and the existing Pledgee Agreement with the transferor Reserve Bank but may require a new Pledgee agreement.

11.0 FEES

The Pledgor shall pay any fees for services provided under this Appendix, as announced by the Bank from time to time.

12.0 AMENDMENT

The Reserve Banks reserve the right to amend this Appendix at any time without prior notice.

Operating Circular

Federal Reserve Bank of Dallas



8

Collateral

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**Operating
Circular
8**

COLLATERAL

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1.0 PURPOSE, SCOPE AND EFFECT OF THIS CIRCULAR

1.1 This **Collateral Operating Circular** ("Circular") specifies, in **Section 2**, the purposes for which the Federal Reserve Bank of Dallas ("this Reserve Bank"), in its individual capacity and as Fiscal Agent of the United States, holds collateral as custodian for the benefit of the pledgee to which the collateral has been pledged.

1.2 This Circular also contains, in **Section 4**, provisions under which this Reserve Bank holds collateral in definitive form for the purposes specified in **Subsections 2.4, 2.5 2.6, 2.7 and 2.8** of this Circular.

1.3 By requesting this Reserve Bank to hold collateral as custodian for the benefit of a pledgee, a pledgor agrees to accept and be bound by all the terms of this Circular and applicable Treasury regulations, as amended from time to time.

1.4 Nothing contained in this Circular shall be construed as restricting the statutory authority of the Secretary of the Treasury, or his designee (the "Secretary"), to direct this Reserve Bank to provide fiscal agency and depository services. In the event of any conflict or inconsistency between the terms of this Circular and any directions from the Secretary, the Secretary's directions shall govern.

1.5 In the event of any conflict or inconsistency between this Circular and a Treasury regulation or other operating circular issued by this Reserve Bank regarding collateral held by this Reserve Bank as custodian, such Treasury regulation or other operating circular shall govern.

1.6 Each Federal Reserve Bank has issued an operating circular identical to this Circular.

2.0 PURPOSES FOR WHICH COLLATERAL MAY BE HELD

This Reserve Bank holds collateral as custodian for the following purposes:

2.1 Pledged to this Reserve Bank or to another Federal Reserve Bank to secure repayment of an advance made to the pledgor or to secure repayment of any other indebtedness (including intraday or overnight overdrafts and any penalties and fees thereon) of the pledgor to a Federal Reserve Bank. See this Reserve Bank's Operating Circular No. 10.

2.2 Pledged to secure a deposit of funds of a public entity (including a state, municipality or other political subdivision). See this Reserve Bank's Operating Circular No. 7 and Appendix C thereto.

2.3 Pledged to a public official to qualify an institution to exercise trust powers. See this Reserve Bank's Operating Circular No. 7 and Appendix C thereto.

2.4 Pledged to secure bankruptcy funds on deposit with the pledgor pursuant to 11 U.S.C. §345 and 31 CFR Part 225 (Treasury Circular 154), each as amended from time to time.

2.5 Pledged to secure balances held by the pledgor in a Treasury Tax and Loan account pursuant to 31 CFR Part 203 (Treasury Circular 92), as amended from time to time. See this Reserve Bank's Operating Circular No. 9.

2.6 Pledged as security in lieu of a surety or sureties on a penal or other bond pursuant to 31 CFR Part 225 (Treasury Circular 154), as amended from time to time.

2.7 Pledged to secure revenues and funds of the United States and funds the deposit of which is subject to the control or regulation of the United States or any of its officers, agents or employees, held by the pledgor pursuant to 31 CFR Part 202 (Treasury Circular No. 176), as amended from time to time.

2.8 Pledged for such other purposes as this Reserve Bank or the Secretary may designate.

3.0 DEFINITIONS

For purposes of **Section 4** of this Circular, the following definitions apply:

3.1 “**Collateral**” means the property, including securities in definitive form only, in which the Pledgor has granted a security interest to the Pledgee.

3.2 “**Pledgee**” means the United States or another entity to which Collateral is pledged.

3.3 “**Pledgor**” means an entity which has pledged Collateral held in a Restricted Account.

3.4 “**Restricted Account**” means an account at a Federal Reserve Bank (i) used to hold Collateral; or (ii) in which is recorded the receipt of an advice of custody evidencing that Collateral is held by or for the Pledgor subject to the security interest of the Pledgee.

4.0 TERMS

4.1 The following provisions set forth terms pursuant to which this Reserve Bank holds Collateral in a Restricted Account for the purposes specified in Subsections 2.4, 2.5, 2.6, 2.7 and 2.8 of this Circular. Additional terms, as set forth in Treasury regulations and related documentation available from this Reserve Bank, may also apply.

4.2 The Pledgor warrants and agrees that:

(a) it is authorized under its charter and bylaws or similar chartering documents and under the laws of its chartering authority to grant to the Pledgee the security interest in the Collateral, and such grant of the security interest does not and will not violate the terms of any lien or pledge agreement, any other agreement or any law, regulation, instrument, judgment or decree binding on the Pledgor or the Collateral;

(b) it is authorized under its charter and bylaws or similar chartering documents and under the laws of its chartering authority to accept and agree to be bound by this Circular, and such acceptance and agreement does not and will not violate the terms of any other agreement or applicable law;

(c) it has sufficient rights in the Collateral to grant to the Pledgee the security interest in the Collateral and, as of the time of the grant to the Pledgee of the security interest, each part of the Collateral is free and clear from any other assignment, security interest, pledge, lien or encumbrance, including any financing statement or other document filed in any public office, that is superior to the claim of the Pledgee; and thereafter the Pledgor will not assign, pledge, encumber or otherwise transfer any interest in, nor create or suffer the creation of any lien against, any of the Collateral without the Pledgee’s prior written approval;

(d) Collateral may be used to satisfy any claim which the Pledgee has against the Pledgor;

(e) it will duly execute and deliver financing statements and such instruments and documents, and do such acts and things, as the Pledgee may at any time reasonably request in order to enforce, perfect and protect its security interest in the Collateral and its rights and remedies with respect to the Collateral;

(f) the information regarding the Collateral contained in all forms or other statements given to the Pledgee is true and complete, and the Pledgor will immediately notify the Pledgee of any change in such information;

(g) it will allow the Pledgee to inspect all records of the Pledgor relating to the Collateral and to make and take away copies of such records; and

(h) it will promptly notify the Pledgee of any claim, action or proceeding affecting title to any portion of the Collateral, and, at the request of the Pledgee, appear in and defend, at the Pledgor's expense, any such action or proceeding.

4.3 If the Pledgor fails to perform any covenant, duty or agreement in accordance with its terms, the Pledgee may, but shall not be obligated to, perform or attempt to perform such covenant, duty or agreement on behalf of the Pledgor, and any amount expended by the Pledgee in such performance or attempted performance shall at the request of the Pledgee be promptly paid by the Pledgor to the Pledgee.

4.4 Regarding the shipment of Collateral:

(a) The Pledgor bears the entire risk of loss of or damage to Collateral in transit to and from this Reserve Bank.

(b) This Reserve Bank does not maintain insurance on shipments of Collateral which it makes except for limited mail insurance on shipments of Collateral consisting of securities that are transferable by delivery, at values determined by this Reserve Bank and at the expense of the party on whose behalf the shipment is made. This Reserve Bank does not maintain insurance on Collateral which it or another custodian holds.

(c) All postage, insurance costs and other out-of-pocket expenses incurred by this Reserve Bank in the shipment

of Collateral on behalf of a party will be the responsibility of that party. The party on whose behalf expenses are incurred by this Reserve Bank authorizes this Reserve Bank to debit such party's, or its designated correspondent's, account for all such expenses.

4.5 This Reserve Bank assumes no liability hereunder except for its performance of the obligations provided in this Circular. This Reserve Bank is responsible only for the exercise of that degree of care with respect to the Collateral in its custody as it exercises with respect to its own property. The Pledgor indemnifies this Reserve Bank for any claims of other parties with respect to Collateral held by this Reserve Bank as custodian.

4.6 Unless otherwise agreed in writing, this Reserve Bank is not obligated to perform or not perform any act with respect to Collateral. In particular, but not exclusively, this Reserve Bank has no obligation to:

(a) act as escrow agent or in any other capacity not expressly provided for in this Circular;

(b) determine the validity of the pledge of Collateral by the Pledgor to the Pledgee, including whether any required bond, pledge or security agreement has been executed;

(c) pay assessments as provided under state or local law; or

(d) inquire into the existence or continuance of the powers or authority of a public official who is the Pledgee or is acting on behalf of the Pledgee or the successors in office to any person represented to the Reserve Bank as authorized to act on behalf of the Pledgee. However, the Reserve Bank may require a certificate from the proper authority showing that the public official, or any person represented to the Reserve Bank as authorized to act on behalf of the Pledgee, is and continues to be so authorized.

**5.0 PROCEDURES
APPLICABLE TO
PLEDGES OF
COLLATERAL**


Refer to this Reserve Bank's *Collateral Operating Procedure* for a detailed description of the procedures pursuant to which this Reserve Bank holds Collateral for the benefit of a pledgee.

6.0 RIGHT TO AMEND

This Reserve Bank may amend this Circular at any time without advance notice.

Operating Circular

Federal Reserve Bank of Dallas



9 Federal Tax
Payments
and Treasury
Tax & Loan
Depositaries




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Operating Circular 9

FEDERAL TAX PAYMENTS AND TREASURY TAX AND LOAN DEPOSITARIES

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1.0 SCOPE

This Circular contains the provisions under which the Reserve Banks, as fiscal agents and depositories of the United States, handle and process federal tax deposits (paper tax deposits (FTDs) and electronic tax deposits), and administer the Treasury Department's Treasury Tax and Loan program. Each Reserve Bank has issued an Operating Circular No. 9 identical to this one.

2.0 GOVERNING LAW AND REGULATIONS

This Circular is issued in accordance with 12 U.S.C. § 391 and 31 CFR Part 203, Payment of Federal Taxes and the Treasury Tax and Loan Program. The processing of deposits of federal taxes and maintenance of Treasury Tax and Loan accounts pursuant to this Circular are subject to Part 203 as well as any other applicable regulations issued by the Treasury Department. The Treasury Financial Manual for Treasury Tax and Loan Depositories (TFM) supplements the regulations and the Treasury Department may from time to time provide additional forms of guidance. 31 CFR §§ 203.2(x) and 203.8 incorporate by reference the terms of this Circular and provide that the terms of this Circular are binding on a financial institution electing to process tax deposits and/or maintain a TT&L account. The terms of this Circular supersede any inconsistent terms contained in Article 4A of the Uniform Commercial Code. It is an "operating circular" within the meaning of Article 4A, section 4A-107.

3.0 DEFINITIONS

3.1 The following definitions apply to the terms as used in this Circular. In addition, these definitions are supplemented by those contained in 31 CFR § 203.2.

3.2 Administrative Reserve Bank (ARB) is the Reserve Bank of the district where the financial institution is located. A financial institution is deemed located in the same district it would be deemed located for purposes of Regulation D (12 CFR § 204.3(b)(2)) (normally the district where its head office is located), even if the financial institution is not otherwise subject to Regulation D.

3.3 Electronic tax deposits are federal tax deposits made via the Electronic Federal Tax Payment System (EFTPS) as defined and described in 31 CFR Part 203.

3.4 Managing Reserve Bank (MRB) is the Reserve Bank that manages a depository's TT&L account and carries the TT&L account on its books. As provided in section 4.4, the MRB is the institution's ARB, except with respect to inter-district temporary secondary accounts.

3.5 Note balance is an open-ended interest-bearing balance maintained on the books of the MRB representing a note-option TT&L depository's current net amount of federal tax deposits retained by the depository and Treasury investments made under the TT&L program.

3.6 Paper tax deposits are federal tax deposits made using a federal tax deposit coupon (FTD) rather than through the EFTPS.

* This Circular is effective the later of January 2, 1998, or the effective date of the Treasury's pending revisions to 31 CFR Part 203 (see Notice of Proposed Rulemaking dated September 30, 1996; 61 F.R. 51186).

3.7 Treasury Tax and Loan (TT&L) account is a record of transactions on the books of a TT&L depository's MRB reflecting tax deposits made by the depository, Treasury investments made under the TT&L program, and withdrawals (transfers to the Treasury's General Account). Settlement for TT&L transactions is made through the institution's Federal Reserve account at its MRB or, if approved, that of its designated correspondent.

3.8 Non-TT&L financial institution is a financial institution that may process electronic federal tax deposits, but is not a TT&L depository and, therefore, may not process paper tax deposits or maintain a TT&L account or note balance.

4.0 DESIGNATION AS A DEPOSITORY AND ESTABLISHMENT OF A TT&L ACCOUNT

4.1 GENERAL

A financial institution may process electronic tax deposits without being designated a TT&L depository. To be eligible to process paper tax deposits as well as electronic tax deposits and participate in the TT&L program under either the remittance option or note option, a financial institution must be designated by its ARB as a TT&L depository.

4.2 APPLICATION FOR DESIGNATION

In order to qualify as a TT&L depository, a financial institution must:

- meet the requirements set forth in 31 CFR §§ 203.3 and 203.4
- file FMS Form 458 (Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depository) (Appendix A);
- file FMS Form 459 (Resolution Authorizing the Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depository) (Appendix B);

- submit a copy of the excerpts of its Board of Directors minutes that reflect the authorization to be a TT&L depository; and

- if electing note option, have the authority to maintain a note balance at a Reserve Bank the balance of which is payable to the Treasury on demand without previous notice of intended withdrawal.

4.3 NOTICE OF DESIGNATION AND CANCELLATION OF DESIGNATION

4.3.1 Notice of Designation. Upon approval of the application-agreement by its ARB, the ARB will notify the applicant of its designation as a TT&L depository. Receipt of the notification completes the depository's qualification and creates an agreement between it and the Treasury Department under which the depository agrees to be bound by all the terms and provisions of 31 CFR Part 203, the TFM, Volume IV, and this Circular.

4.3.2 Cancellation of Designation. A depository's designation as a TT&L depository may be canceled at any time by its MRB or ARB. If a depository desires to terminate its participation in the TT&L program, it may request in writing that its MRB cancel its designation as a TT&L depository. Cancellation is normally effective within 5 business days after receipt of the notice by its MRB. A depository that cancels its designation as a TT&L depository may continue to process electronic tax deposits as a non-TT&L financial institution, but cannot participate in the Treasury's investment program.

4.4 TT&L ACCOUNT AND INTERSTATE BRANCH BANKING

4.4.1 Single TT&L Account at ARB. Except as provided in Paragraph 4.4.2, a depository may have only one TT&L account which can only be held on the books its ARB. Therefore, a financial institution seeking designation as a TT&L depository must file FMS Forms 458 and 459 with its ARB.

4.4.2 Temporary Secondary TT&L Accounts Following Expansion.

Notwithstanding the preceding paragraph, if a TT&L depository is merged into another TT&L depository, the surviving depository may maintain the non-survivor's TT&L account for up to 12 months after the effective date of the merger. The survivor assumes all rights and obligations of the non-survivor. A temporary secondary TT&L account is managed by the Reserve Bank that managed the non-survivor's TT&L account. If the temporary secondary TT&L account is at a Reserve Bank other than the survivor's ARB, that other Reserve Bank will manage the temporary secondary account as MRB on behalf of the ARB. A temporary secondary TT&L account is subject to the same terms and conditions as a primary TT&L account except 100% of the temporary secondary TT&L account and 100% of maximum note balance related to that account must be fully collateralized without regard to deposit insurance coverage.

5.0 TAX DEPOSITS

5.1 AUTHORITY

Any financial institution may process electronic tax deposits at the direction of taxpayers. In order to process paper tax deposits (FTDs) a financial institution must be designated a TT&L depository. A current listing of eligible federal taxes can be obtained from the MRB or an IRS Service Center office.

5.2 ELECTRONIC TAX DEPOSITS

5.2.1 Future-Day Payment Methods.

Most business taxpayers are able to report tax liability information at least one day prior to the designated tax due date. The electronic reporting and payment mechanisms available to these taxpayers are referred to as future-day payment mechanisms. The payment mechanisms for future-day transactions are ACH debit entries and ACH credit entries. Treasury Financial Agents (TFAs) designated by the Treasury process future-day deposits (receive ACH credits and initiate ACH debits). All deposits made using ACH

are governed by the National Automated Clearing House Association Rules, except to the extent such rules are inconsistent with the rules contained in this Circular or regulations of the Treasury Department.

5.2.1.1 ACH Debit Entries. With an ACH debit entry, the taxpayer must report tax information directly to the TFA by at least the day prior to the designated tax due date. The TFA initiates the ACH debit entry one day prior to the tax due date. If a deposit is timely made, the MRB debits the Federal Reserve account of the taxpayer's financial institution or approved correspondent and credits the Treasury on the tax due date. A tax deposit made by an ACH debit entry is subject to Operating Circular No. 4 (Automated Clearing House Items) to the extent such rules are not inconsistent with 31 CFR Part 203 or this Circular.

5.2.1.2 ACH Credit Entries. With an ACH credit entry, the taxpayer must request its financial institution to originate an ACH credit entry for payment of the taxpayer's business taxes. Taxpayer requests must be made at least one day in advance of the designated tax due date to ensure settlement on the tax due date. The financial institution must originate the ACH credit entry no later than the applicable ACH processing deadline. (For more information regarding ACH deadlines and transaction processing, refer to Operating Circular No. 4 (Automated Clearing House Items)). To ensure the Treasury receives timely tax deposit information for cash management purposes, the financial institution is encouraged to deliver its credit origination files by 11:00 p.m. ET, the day prior to the designated tax due date.

5.2.1.3 Tax Investments Under Future-Day Payment Methods. For a note-option depository, a tax investment amount equal to the ACH transactions settling that day for federal taxes is credited to the financial institution's note balance and its Federal Reserve account at the MRB (or that of its correspondent). Tax investments for ACH entries generally have the same posting time as the ACH transactions (8:30 a.m. ET for credit files, 11:00 a.m. ET for debit files). A Remittance-option or non-TT&L institution does not receive a tax investment.

5.2.1.4 *Correspondent/Respondent Relationships Under Future-Day Payment Methods (ACH vs. TT&L).* If a note-option depository uses a different correspondent for its ACH transactions than for its TT&L transactions, debits for its ACH transactions to pay for its customer's federal taxes are made to its ACH correspondent. Tax investment credits, which are equal to the financial institution's ACH transactions settling that day for federal taxes, are made to its TT&L correspondent. (See Paragraph 8.1 for general provisions regarding settlement for TT&L transactions and designation of a correspondent for settlement of TT&L transactions).

5.2.2 Same-Day Payment Methods.

Same-day payment methods are available to taxpayers who are unable to report tax liability information at least one day prior to the designated tax due date. The payment methods for same-day transactions include Fedwire Value transfers, Fedwire Non-Value transactions, and Direct Access transactions, all of which must be received by 2:00 p.m., MRB head office local zone time. For example, if a taxpayer located in California pays its taxes through a California branch of a New York financial institution, the cutoff would be 2:00 p.m., ET; because the Federal Reserve Bank of New York would be the institution's MRB (except as provided in section 4.4.2 for temporary secondary TT&L accounts). Transactions received after this 2:00 p.m. cutoff time are returned to the sender. In addition, returned messages may result in the IRS assessing a penalty to the taxpayer. If the delay is caused by the financial institution, a late fee may be charged to the financial institution.

5.2.2.1 *Fedwire Value Transfer.* With the Fedwire Value transfer option, the financial institution initiates the tax payment transaction at the direction of the taxpayer. A Fedwire Value transfer must be processed by a financial institution using a Fedwire 1000 message subject to Subpart B of Regulation J (12 CFR Part 210) and Operating Circular No. 6 (Funds Transfers Through Fedwire). A Fedwire Value transfer received by the Electronic Tax Application is deemed received by the MRB. A note-option depository does not retain use of the funds for tax deposits made via Fedwire Value

transfers. The MRB debits the financial institution's Federal Reserve account and credits the Treasury.

5.2.2.2 *Fedwire Non-Value Transaction.* With Fedwire Non-Value transactions, the financial institution initiates the tax payment transaction at the direction of the taxpayer. A Fedwire Non-Value transaction must be processed by a financial institution using a Fedwire 1090 message with an IRS product code and a third party structured format. A Fedwire Non-Value message received by the Electronic Tax Application is deemed received by the MRB. A note-option depository retains use of the funds as part of their note balance. For a remittance-option or non-TT&L financial institution, the MRB debits its Federal Reserve account, or that of its approved correspondent, and credits the Treasury at the end of the day (after the close of Fedwire). Fedwire Non-Value transactions are not subject to Regulation J, 12 CFR Part 210.

5.2.2.3 *Direct Access Transaction.* With Direct Access transactions, the financial institution initiates the tax payment transaction at the direction of the taxpayer. A Direct Access transaction must be processed by a financial institution to its MRB by electronic means that facilitate a direct interface with the Electronic Tax Application. A Direct Access message received by the Electronic Tax Application is deemed received by the MRB. A note-option depository retains use of the funds as part of its note balance. For a remittance-option or non-TT&L financial institution, the MRB debits its Federal Reserve account, or that of its approved correspondent, and credits the Treasury at the end of the day (after the close of Fedwire). Direct Access transactions are not subject to Regulation J, 12 CFR Part 210.

5.2.3 Reversal of Electronic Tax Deposits for Failure to Receive Final Funds. If the MRB does not receive actually and finally collected funds in settlement of tax deposits processed as ACH credit or debit entries or through the Fedwire non-value or Direct Access payment methods, the MRB may reverse the debits and credits until 8:30 a.m. MRB head office local zone time the day following the date

the deposit was made. The MRB notifies the sending institution of the reversal. Same day deposits also are subject to cancellation and reversal in accordance with 31 CFR § 203.13(e).

5.3 PAPER TAX DEPOSITS

5.3.1 Tax Deposit Forms. A depository should accept a paper tax deposit only if the deposit is accompanied by the appropriate pre-inscribed tax deposit form (FTD coupon) on which the amount of the deposit has been entered properly in the space provided. A depository should not accept from a taxpayer a paper tax deposit without a FTD coupon or a photocopied reproduction of a FTD coupon, or if the pre-inscribed taxpayer information on the FTD coupon belongs to one taxpayer and has been manually altered/corrected with another taxpayer's information. A depository should advise a taxpayer that does not have the required FTD coupons to obtain them from the local IRS District Office or the IRS Service Center where the taxpayer's returns are filed.

A financial institution must maintain adequate records of all deposits of federal taxes to enable it to identify and reconstruct all deposits. For this purpose, the depository must maintain a record for each deposit showing the date of deposit, the taxpayer identification number, the amount of the deposit, the type of tax deposited, and the tax-period ending date. At the request of the Internal Revenue Service or the MRB, the depository must provide the MRB with the pertinent information concerning the deposit within a reasonable period of time (normally not to exceed 2 weeks).

5.3.2 Forwarding Daily Deposits. Each depository processing paper tax deposits, including any branches of such depository, must forward the paper tax deposit data to the depository's MRB. The date of the advice of credit (IRS Form No. 2284) (AOC) and the dates on the supporting taxpayer's deposit forms must be the same. AOC data must be received by the MRB no later than 2:00 p.m. of the MRB's business day following the date inscribed on the AOC. AOC data may be forwarded to the MRB electronically. The depository must

forward the designated IRS copy of the AOC along with the taxpayers' FTD coupons to the Internal Revenue Service Center responsible for the area in which the depository is located.

5.3.3 Transmission of AOCs by a Third Party. A depository may appoint an agent to transmit its AOCs, make balance inquiries, and otherwise deal with its TT&L account on its behalf, by executing an Electronic TT&L Depository Agency Agreement (Appendix C).

6.0 DIRECT AND SPECIAL DIRECT INVESTMENTS

6.1 TREASURY INVESTMENT PROGRAM

Treasury regulation 31 CFR Part 203 provides a note-option TT&L depository the option to participate in the direct investment and special direct investment features of the Treasury's investment program. Under these programs, excess Treasury funds are directly invested with note-option depositories that elect to participate.

6.2 DIRECT INVESTMENTS

A depository wishing to receive direct investments must submit a completed "TT&L Depository Offer to Receive Direct Investments" (Appendix D) to its MRB. The MRB notifies the depository of the effective date of its qualification. The MRB adds direct investments to the depository's TT&L note balance and credits its Federal Reserve account or that of its approved correspondent. The difference between a depository's specified maximum note balance and its actual note balance equals its "capacity" for accepting direct investments. Direct investments are distributed solely on the basis of capacity and are distributed among depositories according to one of the following types of notification arrangements.

6.2.1 One-Day Prior Notice. Each depository participating under the one-day prior notice procedure receives notice of a direct investment one business day prior to receiving the credit to its note balance.

A depository electing this option, however, is not eligible to receive funds distributed via the same-day notice procedure.

6.2.2 Same-Day Notice. Each depository participating under the same-day notice procedure is eligible to receive funds distributed under either option. Notice of an investment distributed under the same-day notice procedure is received on the same day and at the same approximate time as the funds are credited to its note balance.

Interest begins accruing on direct investments when the funds are added to the note balance. Funds received by a depository under direct investment procedures are not differentiated from any other part of the depository's note balance. Therefore, these funds are subject to call on the same basis as any other part of the note balance under the call procedures applying to the depository's class. Depositories are classified according to annual credit flow and deposit liability, total assets, or maximum balance. The classification scheme and call procedures are specified in the TFM, Volume IV.

6.3 SPECIAL DIRECT INVESTMENTS

6.3.1 Special Direct Investment Program. A depository must participate in the direct investment program in order to be eligible to receive special direct investments (SDIs). SDIs are similar to direct investments, except that a depository collateralizes SDIs with collateral held in an off-premise collateral (OPC) arrangement. The depository must qualify to secure borrowings (advances) from discount window under the off-premises (Borrower-in-Custody) procedures.

6.3.2 Application to Participate in SDIs. A depository wishing to participate in SDIs must submit a completed Application Form for Special Direct Investments (Appendix E) and a completed Agreement to Secure Special Direct Investment (Appendix F). The MRB notifies a qualified depository of acceptance and provides instructions to establish the OPC arrangement. When terms of the arrangement are satisfied, the depository will start receiving SDIs placed by Treasury.

6.3.3 Placement of SDIs. SDIs are distributed on the basis of capacity. Capacity for SDIs is defined as the difference between (a) the dollar amount of collateral (taken at the pledged value of the collateral) that the depository has pledged under the OPC arrangement and (b) the amount of TT&L funds already being secured by the collateral pledged under the OPC arrangement. As with direct investments, SDIs are distributed pursuant to either the one-day prior notice procedure or same-day notice procedure in accordance with the depository's election. A depository electing the one-day prior notice procedure is not eligible to receive funds distributed pursuant to the same-day notice procedure.

Announcements of SDIs and withdrawals of SDIs are made by the same call-notice practices used for withdrawals from and placement of funds in Class C category TT&L note balances. (See the TFM, Volume IV, for the classification scheme and call procedures). SDIs are added to a depository's note balance as of the calendar day the funds are placed to the depository's credit. Interest begins accruing on SDIs as of that date and is calculated in the same manner as all other interest on funds in the note balances. SDIs are withdrawn within 21 days after placement. When SDIs are withdrawn, the funds are specifically identified by placement date.

7.0 COLLATERAL

7.1 GENERAL

7.1.1 General Collateral Requirements. A designated TT&L depository must pledge collateral, under the terms prescribed in 31 CFR Part 203, the TFM, and this Circular, for all amounts to be credited to its TT&L account that are in excess of recognized insurance coverage and, for a note-option depository, its total note balance. Additional details regarding pledge procedures and valuation of collateral is provided in the Federal Reserve System Collateral Procedures Manual, which can be obtained from the MRB.

7.1.2 Acceptable Collateral. Except as provided below, collateral for TT&L and note balances may be transferable securities of any of the types approved by the Treasury and identified in the TFM. The values applied to TT&L collateral shall be consistent with the Federal Reserve System guidelines for acceptance of the same types of securities when pledged at the discount window.

7.1.3 Custody of Collateral. Collateral is reflected on the books of the MRB; but may be deposited with an approved third- or fourth-party custodian pursuant to an appropriate custodial agreement or, with respect to definitive collateral, another Reserve Bank. Custodial agreements and a listing of authorized third- and fourth- party custodians are available from the MRB. The FRS Collateral Procedures Manual provides additional detail regarding such arrangements. If the TT&L depository elects to have definitive collateral held by an authorized third- or fourth-party custodian, the related trust receipts should be sent directly to its MRB.

7.2 REMITTANCE OPTION

7.2.1 Paper Tax Deposits. A remittance-option depository must fully collateralize all paper tax deposits that are in excess of recognized insurance coverage on the date the taxes are received. Paper tax deposits settle on the day after the tax due date, enabling the depository to have overnight use of tax deposit funds.

7.2.2 Electronic Tax Deposits. Under this option, electronic tax deposits settle at the Treasury's General Account on the designated tax due date. Because a remittance-option depository does not have overnight use of funds, no collateral is required.

7.3 NOTE OPTION

7.3.1 General. A note-option depository is required to establish a note balance maximum limit, normally not less than \$25,000. A note-option depository, other than a direct investment participant, is required

to fully collateralize its note balance maximum limit at all times. A depository should provide the MRB at least one business day's prior notice of changes to its note balance maximum limit. In addition, a note-option depository must collateralize all tax deposits in excess of recognized insurance coverage received that day (in-transit paper federal tax deposits). All tax dollars collected using same-day (except for value Fedwire) and future-day payment mechanisms are credited to a note-option depository's note balance and included in the calculation of collateral requirements.

7.3.2 Direct Investments. A direct investment depository shall set a maximum balance for direct investment purposes higher than the peak TT&L balance normally generated by the depository's tax deposit inflow, and normally not less than \$125,000 (\$25,000 under note option and \$100,000 under direct investment program). A direct investment participant normally is not required to pledge collateral in an amount equal to the pre-established maximum balance. A direct investment depository must stand ready to pledge, no later than the day the direct investment is placed, additional collateral up to its specified maximum balance to cover the total note balance, including funds received through direct investment procedures. If a direct investment participant has frequent collateral deficiencies, it may be placed under sanction and, among other things, required to fully collateralize its maximum balance at all times. (See Paragraph 9.1 for additional detail regarding sanctions and penalties).

7.3.3 Special Direct Investments. Special direct investments (SDIs) are secured by eligible TT&L collateral that is held by the depository in an off-premise collateral (OPC) arrangement. The types of collateral eligible for OPC arrangements are identified in the TFM. If it deems it necessary, the MRB, on behalf of the Treasury, may at any time take possession of collateral pledged to secure SDIs, require substitute collateral, withdraw SDIs, and/or suspend the placement of SDIs with a depository.

7.4 WARRANTIES AND COVENANTS OF DEPOSITARY

By accepting the benefits of participation in the TT&L program and pledging collateral under the program, each TT&L depositary agrees to the terms of this Circular and, with respect to definitive collateral, Operating Circular No. 8 (Collateral). Each depositary warrants that it has the right to pledge collateral free and clear of any claim, encumbrance, or superior security interest of any kind and without the consent or approval of any regulatory or governmental authority. Each depositary covenants: (a) not to transfer to, or grant, any third party any rights in or to the pledged collateral or create any other security interest in, mortgage, or otherwise encumber pledged collateral or permit it to be or become subject to any encumbrance of any kind; (b) to promptly provide all information, documents or other cooperation relating to the pledged collateral or the perfection of a security interest in the collateral; (c) to promptly notify its MRB of any change, of facts or otherwise, affecting any warranty or covenant made by depositary in connection with the pledged collateral; and (d) to promptly notify its MRB of any claim or action of any type affecting pledged collateral and, at its MRB's or ARB's request, appear and defend at depositary's expense any such claim or action. Depositary further covenants that if any pledged collateral is in any manner converted by its issuer or maker into another type of property all such property shall become part of the pledged collateral and shall be promptly delivered to its MRB. If any depositary fails to perform any duty with respect to pledged collateral, its MRB may, but is not obligated to, perform such duty on behalf of depositary and any costs it incurs in doing so shall be reimbursed by the depositary. If conflicting claims to pledged collateral arise, its MRB may hold the collateral and retain any income therefrom pending resolution of the controversy. Nothing in this Circular limits pledgee's other statutory or contractual rights or remedies. If a financial institution has multiple TT&L accounts the ARB has the right to offset any losses in one of the accounts with any excess collateral pledged for any other account of the financial institution.

8.0 SETTLEMENT AND ADJUSTMENTS

8.1 SETTLEMENT THROUGH A FEDERAL RESERVE ACCOUNT

Settlement for TT&L transactions is made via charges to a Federal Reserve account. A financial institution may designate a correspondent for settlement through the correspondent's Federal Reserve account by submitting a Transaction Authorization Settlement Form (Appendix 5 to Operating Circular No. 1 (Account Relationships)) to its MRB. An institution that does not maintain its own Federal Reserve Account, must arrange for settlement through a correspondent's Federal Reserve account.

By processing tax deposits, a Remittance-option depositary or non-TT&L financial institution authorizes the MRB to charge the applicable Federal Reserve account: (1) on the settlement date for an electronic payment; and (2) on the day that the AOC data is received by the MRB for a paper tax deposit (which may not be processed by a non-TT&L financial institution). Similarly, by participating in the TT&L program, a depositary authorizes the MRB to charge the applicable Federal Reserve account for withdrawals (calls) from its TT&L account, deposits that exceed collateral requirements, note balances that exceed maximum balances (ceilings), and payments for interest or late charges due to the Treasury.

8.2 ADJUSTMENTS

8.2.1 Paper Tax Deposits. An adjustment may be requested by a depositary in writing or may be discovered and initiated by the IRS. The Internal Revenue Service Center notifies the MRB of any adjustment to be made due to an error on an Advice of Credit for paper tax deposits. Upon notification, the MRB makes the appropriate adjustment to the depositary's TT&L account and any corresponding charges to the applicable Federal Reserve account. The MRB processes all adjustments for purposes of calculating interest and late charges.

8.2.2 Electronic Tax Deposits. Correction of an ACH entry may be made in accordance with the NACHA rules. A financial institution may request the MRB to cancel/return a same-day deposit before the 2 p.m. deadline. After the 2 p.m. deadline, an adjustment to a same-day deposit may only be made at the discretion, and with the approval, of the IRS.

9.0 RESERVE BANK ADMINISTRATION OF TT&L ACCOUNTS

9.1 MONITORING

As fiscal agent and depository of the United States, the MRB will administer TT&L accounts. If the MRB determines that a depository is in violation of its agreement with the Treasury (e.g., concerning the timely remittance of Advices of Credit or collateral security requirements) it notifies the depository, indicating the terms of its agreement with the Treasury and any action that may be taken by or on behalf of the Treasury.

The MRB reviews each depository's collateral position against its existing balance on a daily and monthly basis. A depository is notified when a deficiency is detected. After giving the depository initial warning, the MRB is authorized to impose collateral sanctions; including, for example, requiring the depository to: (a) collateralize, at a minimum, 125% of the average daily amount of funds-in-transit (more if 125% is not sufficient to prevent the deficiencies); (b) transfer funds to the MRB on the same day they are received by the depository; or (c) transmit mid-day AOCs to the MRB to be processed by the MRB the same day. If a depository incurs deficiencies while on sanction, the MRB may assess a charge in an amount equal to the federal funds rate multiplied by the total deficiencies. The TFM contains additional procedural details regarding collateral deficiency sanctions and penalties.

A financial institution will be informed if a deposit does not comply with the provisions of this Circular, 31 CFR Part 203, or the TFM. Failure to comply with these provisions may result in the termination of the agreement between the depository and the Treasury and, therefore, the disqualification of the financial institution as a depository, pursuant to 31 CFR Part 203.

9.2 CHANGE OF OPTION

A depository may change the options under which it administers its TT&L account by submitting a TT&L Depository Election of Option form (Appendix G) not less than 5 business days before the beginning of the monthly reporting cycle for which the change is to be effective (i.e., the first Thursday of the month).

10.0 MISCELLANEOUS

10.1 EFFECT OF THIS CIRCULAR

This Circular sets forth the conditions under which the Reserve Banks, as fiscal agents and depositories of the United States Treasury, process federal tax deposits and maintain Treasury Tax and Loan Accounts. By submitting tax deposits, acting as a depository or otherwise seeking the benefit of the TT&L program, a financial institution agrees to all the terms of this Circular, as amended from time to time. This Circular amends and supersedes all prior Reserve Bank operating circulars, including any appendices and supplements, relating to the TT&L program. Current signed agreements between a Reserve Bank and any financial institution pertaining to the TT&L program remain in effect and are supplemented by this Circular, the terms of which supersede any inconsistent terms in any such signed agreement.

10.2 RIGHT TO AMEND

The Reserve Banks reserve the right to amend this Circular at any time without prior notice.

Appendix A

FINANCIAL INSTITUTION AGREEMENT AND APPLICATION FOR DESIGNATION AS A TREASURY TAX AND LOAN DEPOSITARY

To: The Federal Reserve Bank of _____, Fiscal Agent of the United States. The undersigned financial institution, _____, a _____,
Name of Institution Type of Institution

(hereafter "Depositary"), hereby applies for designation as a Treasury Tax and Loan Depositary in order to maintain and administer a separate account known as a Treasury Tax and Loan account and/or, if applicable, to maintain a note balance. This application is made pursuant to 31 C.F.R. Part 203, as amended from time to time, which is incorporated by reference herein, and is authorized by due action of its _____ as evidenced by Resolutions of such body, submitted with this application.
Type of Governing body

To support its application, the Depositary hereby certifies that it possesses under its charter and regulations issued by its chartering authority: (a) either general or specific authority to maintain a Treasury Tax and Loan account and/or, if applicable, a note balance, from which the balances are payable on demand without previous notice of intended withdrawal; (b) either general or specific authority to pledge collateral to secure funds in the Treasury Tax and Loan account and/or, if applicable, the note balance; and (c) it is otherwise eligible under 31 C.F.R. Part 203, as amended from time to time.

The Depositary hereby agrees as follows:

1. To perform Depositary services for the United States Government in accordance with the provisions of 31 C.F.R. Part 203, as amended from time to time, and all instructions issued pursuant thereto.
2. To pledge securities as collateral security in the classes and amounts and under the terms and conditions as prescribed in 31 C.F.R. Part 203, as amended from time to time, and all instructions issued pursuant thereto.

The Depositary represents and warrants that any securities it pledges hereunder are owned by it free and clear of all liens, charges and claims. If the Federal Reserve Bank, as Fiscal Agent of the United States, agrees that such pledged securities may be held by a third party custodian, or under an extended custody agreement, the Depositary agrees to be bound by any provisions applicable to the Depositary that are set forth in the agreement entered into by the Federal Reserve Bank and the approved custodian(s), as amended from time to time. The Depositary further agrees that the Federal Reserve Bank's issuance of instructions to a custodian stating that the Federal Reserve Bank releases its interest in certain securities, will terminate the Federal Reserve Bank's responsibility with regard to such securities. The Depositary indemnifies the Federal Reserve Bank and the United States Government from any claims with regard to such securities arising thereafter.

3. That if the Depositary fails to pay, when due, the whole or any part of the funds received by it for credit to its Treasury Tax and Loan account, and/or if applicable, its note balance; or otherwise violates or fails to perform any of the terms of this agreement, or fails to pay when due amounts owed to the United States or the United States Treasury; or if the Depositary is closed for business by regulatory action or by proper corporate action, or in the event that a receiver, conservator, liquidator or any other officer is appointed; then the Secretary of the Treasury, with or without notice or demand, may redeem or sell, at either public or private sales, or otherwise collect the proceeds of all or part of the collateral, including additions and substitutions; and apply the proceeds, after deducting all necessary expenses of such redemptions or sales, to the payment of funds received by the Depositary, or other indebtedness of the Depositary to the United States by reason of the above-mentioned authorization; or to satisfy any claims of the United States against the Depositary.

4. That the rights are in addition to any other rights provided by law, Treasury regulation, or agreement, which the Secretary of the Treasury may exercise, through such agents as the Secretary may designate.
5. To comply with all the requirements codified in 31 C.F.R. Part 203, as amended from time to time, and all instructions issued pursuant thereto.

The Depository agrees that upon execution by the Federal Reserve Bank of _____, acting as Fiscal Agent of the United States, this document shall evidence the agreement entered into between the Secretary of the Treasury and the Depository.

As part of this application, the Depository makes the following initial election of an option, but it is recognized that this initial election is subject to change in accordance with 31 C.F.R. Part 203, as amended from time to time.

- Note Option (under which Treasury invests in obligations of the Depository, as evidenced by open-ended interest-bearing notes);
- Remittance Option (under which funds equivalent to the amount of deposits credited by a Treasury Tax and Loan Depository to its Treasury Tax and Loan account will be withdrawn by the Federal Reserve Bank of its district immediately upon notification to the Federal Reserve Bank of such deposits);

Signed on behalf of the corporate officer of the Depository who certifies he/she is duly authorized to execute this document and to elect the option indicated as evidenced by the attached resolutions of the

Governing Body

Name of Financial Institution

Street Address

City or Town, State

[SEAL]

Print or Type Name and Title of Authorized Officer

By: _____
Signature

Telephone Number

Date

DESIGNATION

The undersigned, on behalf of the Federal Reserve Bank of _____, acting as Fiscal Agent of the United States, hereby designates _____ as a Treasury Tax and Loan Depository under the terms of this application commencing on the date indicated below.

Federal Reserve Bank of _____
as Fiscal Agent of the United States.

By: _____
Name and Title of Official

Date

Sample

Appendix B

RESOLUTION AUTHORIZING THE FINANCIAL INSTITUTION AGREEMENT AND APPLICATION FOR DESIGNATION AS A TREASURY TAX AND LOAN DEPOSITARY

This is to certify, that at a meeting of the of the _____ undersigned financial
institution, _____, a _____, which meeting
was duly called and held on the _____ day of _____, 19 _____, a quorum being present,
and that the following resolutions were duly adopted; and are reflected in the attached minutes of the meeting.

1. That, after review of the FMS Form 458, "Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depository," in accordance with the provisions of 31 C.F.R. Part 203, "Treasury Tax and Loan Depositories," as amended, this financial institution is authorized to apply for designation as a Treasury Tax and Loan Depository in order to maintain and administer a separate account known as a Treasury Tax and Loan account and/or, if applicable, a note balance.
2. That, _____ of the undersigned financial
institution is hereby authorized and directed: to apply for designation as a Treasury Tax and Loan Depository by execution of the FMS Form 458, "Financial Institution Agreement and Application for Designation as a Treasury Tax and Loan Depository"; to select the initial election of option called for in said agreement and application; and to submit said agreement and application to the Federal Reserve Bank of _____.
3. Resolved, that the Officers whose name(s) are on file in the Federal Reserve Bank of the undersigned financial institution is/are hereby authorized from time to time to deposit collateral to secure Treasury Tax and Loan deposits with the Federal Reserve Bank of _____, as Fiscal Agent of the United States, or with such agents of the Federal Reserve Bank as the Federal Reserve Bank may designate. The financial institution agrees to pledge securities, of the classes and amounts and under the terms and conditions prescribed in 31 C.F.R. Part 203, as amended from time to time, and any supplements or procedural instructions issued pursuant thereto, as collateral security in such amounts as may be required by the Secretary of the Treasury. The said officers are further authorized to withdraw any or all of the collateral so deposited, and further, to make substitutions and exchanges in the said collateral at such times as is deemed necessary as consistent with 31 C.F.R. Part 203, as amended from time to time.
4. That this resolution and attachment, and the corresponding Form 458, are official records of the institution and will be maintained continuously as such.

In witness whereof, I have hereunto signed my name and affixed the seal of this financial institution.

Name of Financial Institution

Address

Name and Title of Certifying Officer *

Sample

* The officer certifying this resolution shall have such authority and shall not be designated under numbered paragraphs 2 or 3 hereof.

Appendix C

ELECTRONIC TREASURY TAX AND LOAN DEPOSITARY
AGENCY AGREEMENT

ADVICES OF CREDIT

The Agent identified below is authorized to transmit electronically to the Federal Reserve Bank of _____ (“Reserve Bank”) advices of credit regarding deposits to be credited to Principal’s Treasury Tax and Loan memorandum account, and to make balance inquiries and otherwise deal with Principal’s TT&L account at Reserve Bank in the same manner as Principal may deal with the account. Reserve Bank shall act on Agent’s entries and instructions with respect to Principal’s account activity until the Reserve Bank receives notice of termination as specified below. Principal is fully responsible for all actions of agent.

The Agency relationship is effective _____, but in no event less than 5 business days after receipt of this notice by Reserve Bank. This notice supersedes, and serves as cancellation notice of, any agency agreements previously executed by Principal and submitted to Reserve Bank. Either Principal or Agent may cancel this Authorization by providing written notice to Reserve Bank. Such cancellation will be effective within 5 days of receipt of such notice by Reserve Bank.

Name of “Principal”

Name of “Agent”

Routing Transit Number

Routing Transit Number

Location

Location

Authorized Signature

Authorized Signature

Print or Type Name and Title

Print or Type Name and Title

Date

Date

Appendix D

TREASURY TAX AND LOAN DEPOSITARY OFFER TO RECEIVE DIRECT INVESTMENTS

To: Federal Reserve Bank of _____ as Fiscal agent of the United States (the "Reserve Bank").

1. The undersigned financial institution, a Treasury Tax and Loan Depository designated in accordance with 31 C.F.R. Part 203 (the "Offeror") offers to receive from the Treasury Direct Investments in its note in accordance with the term contained in Section 2060 of the *Treasury Financial Manual for Treasury Tax and Loan Depositories* and in accordance with the notice arrangement specified in paragraph 2 below. Offeror agrees that, upon credit of an amount of a Direct Investment to its note, such amount shall be subject to the provisions of 31 C.F.R. Part 203 without regard to its origin as a Direct Investment.
2. Offeror offers to accept Direct Investments pursuant to the following notice arrangement. Both arrangements are available to all class of note option depositaries. Please check one:

 One-day prior notice only.

 Both same-day notice and one-day prior notice.
3. The maximum balance of Offeror's note balance shall be \$ _____.
4. Offeror agrees that:
 - a. Offeror may prospectively revoke its offer to receive Direct Investments by submitting written notice to that effect to the Reserve Bank. Such revocation is effective upon receipt by the Reserve Bank.
 - b. An Offeror that is a class "C" depository may not change its previously selected notice arrangement except by execution of a new Offer to Receive Direct Investments and delivery thereof to the Reserve Bank.
 - c. Offeror may change the maximum balance of its note balance only under procedures established by the Reserve Bank for that purpose.
 - d. Offeror shall pledge collateral as prescribed in Section 2060 of the *Treasury Financial Manual for Treasury Tax and Loan Depositories*.
5. Offeror shall accept, as additions to its note balance, all amounts allocated to it in accordance with the allocation formula described in Section 2060 of the *Treasury Financial Manual for Treasury Tax and Loan Depositories*. Offeror expressly waives any right to decline to accept such amounts for so long as this offer remains in effect.
6. Offeror agrees that any reference in this offer to 31 C.F.R. Part 203 or the *Treasury Financial Manual for Treasury Tax and Loan Depositories* includes any future changes in those documents, if and when such changes are made.

Name of Financial Institution

RTN

Address

By: _____
Signature Date

Typed Name and Title

Title

The foregoing offer is hereby accepted and Offeror is qualified to receive Direct Investments effective

_____ .

Federal Reserve Bank of _____
as Fiscal Agent of the United States.

By: _____
Signature

Title

Date

Sample

Appendix E

APPLICATION FORM FOR SPECIAL DIRECT INVESTMENTS

Offer to Receive Special Direct Investments Secured by Collateral Retained in Possession of the Treasury Tax and Loan Depository and Application to Act as Off-Premises Custodian of Collateral Securing Special Direct Investments.

To: The Federal Reserve Bank of _____ as Fiscal Agent of the United States (the "Reserve Bank").

1. The undersigned financial institution, a Treasury Tax and Loan Depository designated according to 31 C.F.R. 203 (the "Offeror"), (a) offers to receive from the U.S. Department of the Treasury Special Direct Investments in its note balance according to the terms contained in IV TFM 1-2065 and according to the notice arrangement specified in paragraph 6 below, and (b) hereby makes application to qualify to act as an off-premises Custodian of Collateral to secure funds made available as Special Direct Investments.

As an off-premises custodian, the Offeror applies to hold for the Reserve Bank the collateral enumerated in IV TFM 1-2065 as collateral security for funds invested with the Offeror as Special Direct Investments.

2. The Offeror agrees that:
 - (a) Upon the credit of a Special Direct Investment to its note balance, such amount will be subject to the provisions of 31 C.F.R. 203 and will be secured by collateral retained in the possession of the Offeror.
 - (b) Special Direct Investments will be secured under the terms of the "Agreement to Secure Special Direct Investments with Collateral Security Retained in the Possession of the Pledging Tax and Loan Depository."
 - (c) Funds made available to the Offeror as Special Direct Investments will be available for periods not to exceed 21 days at a time. Funds placed as Special Direct Investments may be withdrawn on demand without previous notice, just as are all funds in Tax and Loan Accounts.
 - (d) The placement of funds as a Special Direct Investment causes the security interest in the collateral retained in the possession of the Offeror to attach. Such attachment will remain in effect until the withdrawal by the Treasury, through the Reserve Bank, of the total amount of funds placed and identified as being a Special Direct Investment.
 - (e) The Offeror may prospectively revoke its offer to receive Special Direct Investments by submitting a written notice to that effect to the Reserve Bank. Such revocation is effective only upon receipt by the Reserve Bank and only to the extent provided in the Security Agreement.
 - (f) The Offeror cannot change its previously selected notice arrangement (see paragraph 6) except by execution of another copy of this offer form delivered to the Reserve Bank.
 - (g) The Offeror can change the amount of collateral pledged under this arrangement under procedures established by the Reserve Bank for that purpose. If any such change would reduce the amount of collateral pledge by the depository to an amount less than the minimum amount required for eligibility as stated in IV TFM 1-2065, the contract evidenced by this document will be rescinded by mutual agreement.

(h) This Offer and Application may be accepted or denied solely at the discretion of the Reserve Bank. If accepted, the Reserve Bank will indicated its acceptance on a copy of this offer form, which will be returned to the Offeror.

(i) Any reference in the Offer to 31 C.F.R. 203 or IV TFM 1-2000 includes any future changes in those documents, as and when such changes are effective.

3. The Offeror expressly agrees to accept as additions to its note balance all amounts allocated to it according to the allocation formula described in IV TFM 1-2065. The Offeror expressly waives any right to decline to accept such amounts for so long as this offer remains in effect.

4. In support of this offer, the Offeror has attached two executed copies of the Security Agreement.

5. The Offeror has regular audits, the results of which are reported directly to its board of directors or trustees. Such audits include verification of collateral deposited with or held by the Offeror for various purposes.

6. The Offeror offers to accept Special Direct Investments under the following notice arrangements, which are both available to all classes of note option depositaries. Please check one:

One-day prior notice; or

Both same-day notice and 1-day prior notice.

7. The Offeror hereby establishes the initial value of the collateral to be held under the Security Agreement, valued according to 31 C.F.R. 203 or according to the value assigned by the Reserve Bank to the same type of collateral when pledged to secure borrowings from the Reserve Bank under its off premises arrangements as \$ _____.

IN WITNESS WHEREOF, the undersigned has caused this Offer and Application to be executed by the officer named below, who is duly authorized to make this Offer and Application.

Name of Financial Institution

RTN

Address

By: _____
Signature Date

Typed Name and Title

The foregoing Offer and Application is hereby accepted and the Offeror is qualified to receive Special Direct Investments, effective upon completion of pledging requirements specified in the Security Agreement.

Federal Reserve Bank of _____
as Fiscal Agent of the United States.

By: _____
Signature

Name and Title

Date

Sample

Appendix F

AGREEMENT TO SECURE SPECIAL DIRECT INVESTMENTS

Agreement made this _____ day of _____, 19 ____, between _____
Name of Depository
(the "Depository"), _____, a Treasury Tax
Address of Depository
and Loan Depository and the Federal Reserve Bank of _____, acting as the fiscal agent
of the United States (the "Reserve Bank").

WHEREAS, the Reserve Bank will from time to time make funds available to the Depository as Special Direct Investments ("Investments") according to 31 C.F.R. 203;

WHEREAS, the Reserve Bank requires that, in order to secure the Investments made available, together with interest accruing thereon, the Depository grants the Reserve Bank a security interest in collateral and further requires that the security interest be perfected; and

WHEREAS, temporary possession of such collateral security by the Depository is in the mutual interests of the Depository and the Reserve Bank;

NOW THEREFORE, the Depository and the Reserve Bank agree as follows:

1. The Depository shall pay to the Reserve Bank the sum of Investments outstanding to the Depository from time to time, as shown on the books of the Reserve Bank, according to the terms of 31 C.F.R. 203 and IV TFM 1-2000, as amended from time to time.
2. As security for the repayment of any Investments, any interest accruing on such Investments, and any costs and expenses incurred by the Reserve Bank in the collection and enforcement of the Investments and any other indebtedness of the Depository, the Depository grants to the Reserve Bank a security interest in and assigns and pledges to the Reserve Bank, the collateral now or hereafter owned by the Depository and described in advices of custody delivered to the Reserve Bank (and any proceeds of such collateral). The Depository also assigns and pledges to the Reserve Bank, and grants to the Reserve Bank a security interest in, all documents regarding the collateral, including without limitation, promissory notes, bonds, mortgages, deed of trust, appraisals or opinions of value, title insurance policies and their proceeds, mortgage insurance policies (including Federal Housing Administration Insurance and Veterans Administration guarantees) and their proceeds, abstracts, advices of credit, repayment records, and credit agreements.
3. The Depository shall deliver to the Reserve Bank of an advice of custody fully describing the collateral covered by this Agreement. The description of each item of collateral covered by this Security Agreement must include, at a minimum, (1) the name of the obligors, (2) the name in which the collateral is registered, (3) any CUSIP number or other account number identification, (4) the face value, and the current amount outstanding if different, (5) the issue date, (6) the maturity date, (7) the rate of interest, as appropriate, (8) the State and County where any real property securing the collateral is located, (9) the address of the Depository at which the collateral is held and (10) the purpose of the pledge; that is, to secure SDIs under the terms of 31 C.F.R. 203.15 - for TT&L/SDI. Other descriptive information as specified from time to time by the Reserve Bank must also be provided.
4. A duly authorized officer of the Depository must manually sign or endorse each advice of custody covering collateral in which a security interest is granted by this Agreement. Each such advice of custody is binding on the Depository, its successors and assigns.

5. The Depositary warrants and covenants with respect to each item of collateral that:
 - (a) the Depositary has full, fee simple title, free of any claim or lien that is superior to the security interest of the Reserve Bank, with full right to deliver, pledge, assign, and transfer the interests of owners in the collateral;
 - (b) the Depositary will not transfer, assign, or encumber the collateral without the prior written consent of the Reserve Bank;
 - (c) the collateral is of a kind described in IV TFM 1-2065;
 - (d) the Depositary will neither perform any act that will impair the Reserve Bank's security interest in the collateral nor fail to perform any act necessary to avoid impairment of the Reserve Bank's security interest in the collateral;
 - (e) the Depositary will, at the Depositary's cost and expense, defend any action that may affect the Reserve Bank's security interest in, or the Depositary's title to the collateral; and
 - (f) each mortgage securing any mortgage note or bond included in the collateral has been recorded in the depositary's favor in proper form and in the proper place for recording the borrower's interest in the particular real property described in the mortgage.
6. The Reserve Bank may file or record any document that the Reserve Bank deems necessary to perfect its security interest in any item of collateral. At the Reserve Bank's request, the Depositary shall reimburse the Reserve Bank for any expense incurred by the Reserve Bank in perfecting its security interest in the collateral, including, but not limited to, the cost of recording assignments of mortgages, filing financing statements, and obtaining lien searches. At the Reserve Bank's request, the Depositary also shall reimburse the Reserve Bank for any expense incurred in assembling, transporting, safekeeping, or managing collateral pledged to the Reserve Bank.
7. The Depositary will exercise ordinary care with respect to each item of collateral in which a security interest is granted by the Agreement, and will indemnify and hold the Reserve Bank harmless from any damages, liabilities, costs, expenses, or losses of any kind arising from any damages, liabilities, costs, expenses, or losses of any kind arising from Depositary's breach of any term of this Agreement.
8. The Depositary agrees that each item of collateral subject to a security interest granted by this Agreement will be deemed to be in the possession of the Reserve Bank as if it had been deposited at the premises of the Reserve Bank, and that the Reserve Bank may, at any time during normal business hours of the Depositary and without advance notice, inspect the collateral, the premises of the Depositary where the collateral is kept, and all data, records, or other information pertaining to the collateral.
9. The Reserve Bank will assign a collateral value to each item of collateral in which a security interest is granted by this Agreement according to 31 C.F.R. 203.15 or according to the value assigned by the Reserve Bank to the same type of collateral when pledged to secure borrowing from the Reserve Bank under its off-premises arrangements.
10. Upon notice of acceptance by the Reserve Bank of this Agreement, the Depositary will provide to the Reserve Bank advices of custody that cover each item of collateral in which a security interest is granted by this Agreement and that meet all the requirements of this Agreement. Periodically thereafter, as required by the Reserve Bank, but no less frequently than annually, the Depositary will provide the Reserve Bank (credit and discount function) with a certification of the Depositary's internal auditor that each item of collateral in which a security interest is granted by this Agreement meets each requirement of this Agreement.

11. The Reserve Bank may refuse to accept a security interest in any collateral that the Reserve Bank, in its discretion, deems unacceptable.
12. The Depository warrants with respect to each item of collateral that:
 - (a) the collateral has not been classified by examiners at the most recent examination of the Depository;
 - (b) the collateral is not more than 60 days past due;
 - (c) the collateral has not been commented on adversely by internal or external auditors in the course of an audit of the Depository; and
 - (d) the collateral has not been commented on adversely or placed in nonaccrual status by the Depository's review procedure.
13. When the Depository can no longer make a warranty required by paragraph 5 or 12 of this Agreement with respect to an item of collateral, the Depository will immediately notify the Reserve Bank of the fact and substitute for the item of collateral an item of collateral of at least equal value by which all required warranties can be made.
14. The Depository will conspicuously mark its records in a manner satisfactory to the Reserve Bank to indicate that each item of collateral in which a security interest is granted by this Agreement is subject to such a security interest. The Depository will, at the request of the Reserve Bank, segregate each item of collateral in which a security interest is granted by this Agreement from other collateral security in the Depository's possession. The Depository will upon demand by the Reserve Bank and without advance notice, immediately surrender to the Reserve Bank, or its designee, all collateral that is subject to security interests granted by this Agreement.
15. The Depository will not, without the prior written approval of the Reserve Bank, release or withdraw any collateral in which a security interest is granted by this Agreement.
16. The Depository will, at the request of the Reserve Bank and as otherwise agreed, promptly provide to the Reserve Bank statements of current balances and any other information pertaining to collateral in which security interests are granted by this Agreement.
17. If the Depository fails to fully perform any of its obligations under this Agreement or if it fails to fully repay any investments or any interest thereon on demand by the Reserve Bank, the Reserve Bank or its assigns may sell each or any item of collateral subject to a security interest granted by the Agreement at public or private sale. The Depository hereby appoints the Reserve Bank or its assigns as the Depository's attorney-in-fact to conduct such sale and to execute any and all documents and to give all notices to third parties necessary to effectuate a legal conveyance of said collateral with full right, title, and authority to sign the name of the Depository to any such document as attorney-in-fact. The Reserve Bank may, in its discretion, take all lawful steps to collect sums due upon or in connection with any or all collateral subject to a security interest granted by this Agreement, and in case of payment, may discharge and satisfy of record the collateral as fully as the Depository could do if acting for itself. The powers of attorney herein granted are coupled with an interest and are irrevocable, and full power of substitution is granted to the assignee or holder. The Depository hereby ratifies and confirms all that the said attorney or its assigns may lawfully do or cause to be done in the exercise of the power of attorney herein granted.
18. The rights, remedies, power, security interests, and liens of the Reserve Bank arising under this Agreement or under law or regulation shall continue unimpaired, and the Depository shall be and will remain obligated in accordance with the terms of this Agreement, notwithstanding the partial exercise by the Reserve Bank of any right, remedy or substitution or addition of parties, compromise, or other indulgence granted by the Reserve Bank or the assignee of the Reserve Bank hereunder, and the Depository

hereby waives all notice of any delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consents to be bound thereby as fully and effectively as if the Depository had expressly agreed thereto in advance.

19. This Agreement is binding upon the successors and assignees of the Depository, including any receiver appointed under Federal or State law, and will inure to the benefit of the Reserve Bank, its successors, and assignees.
20. Each security interest in an item of collateral granted by the Depository under this Agreement secures, and the Depository will pay upon demand by the Reserve Bank, all expenses (including, but not limited to, attorney's fees for legal services of every kind) of, or incidental to, the custody, preservation, care, use, sale or collection of, or realization upon, any items of collateral in which a security interest is granted by this Agreement, or in any way relating to enforcement or protection of the Reserve Bank's rights under this Agreement or law or regulation.
21. The Depository will promptly notify the Reserve Bank of each and every exception to a representation previously made by the Depository regarding an item of collateral subject to a security interest granted by this Agreement, without regard to the manner of discovery of the exception.
22. The Depository will, at the request of the Reserve Bank, take any and all action including, but not limited to, assignment or endorsement of an item of collateral subject to a security interest granted by this Agreement, required from time to time by the Reserve Bank to better assign, transfer, validate, and perfect Reserve Bank's security interest in an item of collateral subject to the security interest granted by this Agreement.
23. The terms of this Agreement as interpreted in any written instructions issued by the Reserve Bank, will prevail in the event of any inconsistency between its terms and the terms of any advice of custody or other notice issued by the Depository.
24. The Depository does not assign to the Reserve Bank any of its obligations under any item of collateral subject to a security interest granted by this Agreement.
25. This Agreement continues in full force and effect, and is binding on the Depository, its legal representatives, successors and assigns, until all obligations of the Depository to the Reserve Bank arising from this Agreement, whether now existing or hereafter arising, have been fully satisfied and discharged. If at any time all obligations of the Depository to the Reserve Bank under this Agreement have been satisfied, this Agreement will be equally applicable to any new obligations of the Depository thereafter arising under this Agreement until written notice of revocation of the Agreement shall be actually received by the Reserve Bank. No such written notice of revocation will release the Depository or affect in any manner the rights, remedies, powers, security interests, and liens of the Reserve Bank with respect to the collateral in which security interests are granted by this Agreement and have arisen prior to actual receipt by the Reserve Bank of such written notice of revocation and full satisfaction and discharge of all obligations of the depositary. Before any such revocation, the Depository will deliver to the Reserve Bank each item of collateral subject to a security interest under this Agreement, if any obligation secured by the collateral would be due and owing to the Reserve Bank as of the close of the Depository's banking day on the date of termination.
26. The Reserve bank may terminate this Agreement at any time without advance notice.
27. This Agreement is effective on the date it is signed by the Reserve Bank.

IN WITNESS WHEREOF, the undersigned has caused this Offer and Application to be executed by the officer named below, who is duly authorized to make this Offer and Application.

Name of Financial Institution

RTN

By: _____
Signature of Authorized Officer and Date

Name and Title of Authorized Officer

The Agreement is accepted and the Depository is qualified to receive Special Direct Investments according to the terms specified herein.

Federal Reserve Bank of _____
as Fiscal Agent of the United States.

By: _____
Authorized Signature

Name and Title

Date

Sample

Appendix G

TT&L DEPOSITORY ELECTION OF OPTION FORM

To: The Federal Reserve Bank of _____, acting as Fiscal Agent of the United States.

The undersigned financial institution, a Treasury tax and loan depository designated in accordance with 31 C.F.R. Part 203, hereby elects, pursuant to 31 C.F.R. Part 203 and as of the effective date of the Treasury Tax and Loan Investment Program, to administer a Treasury tax and loan account under the option checked below, or hereby elects to have its designation revoked. In addition, by the signature affixed below, the undersigned financial institution expressly agrees to function its Treasury tax and loan account in accord with the provisions of 31 C.F.R. Part 203, the provisions of any instructions or supplements issued thereunder, and with any amendments hereafter made to such regulations, instructions or supplements.

Note Option (under which funds debited from a depository's Treasury tax and loan account are added by the Treasury to its investment in obligations of the depository, as evidenced by open-ended interest-bearing notes; see 31 C.F.R. 203.2(j) and 203.9).

or

Remittance Option (under which funds equivalent to the amount of deposits credited by a Treasury tax and loan depository to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank of its district immediately upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits; see 31 C.F.R. 203.2(n) and 203.10).

or

Termination (see 31 C.F.R. 203.15(b))

IN WITNESS WHEREOF the undersigned has caused the signature of the officer below-named, duly attested, to be affixed hereto this _____ day of _____, 19 ____, intending to be legally bound hereby.

Name of Financial Institution

RTN

Signature *

Typed Name and Title

*The officer signing here shall not be the officer signing the attestation.

ATTESTATION: I hereby attest that _____, the _____ of

Typed Name

Title

_____, has full authority to execute this form and fully to bind the

Name of Financial Institution

Name of Financial Institution

Name of Financial Institution

Date

By: _____
Signature of Other Authorized Officer and Date

Name and Title

Sample

Operating Circular

Federal Reserve Bank of Dallas



10 Lending

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Operating Circular 10

LENDING

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CREDIT AND SECURITY TERMS

1.0 SCOPE

1.1 The operating circular ("Circular") sets forth the terms under which a member bank, depository institution, foreign bank acting through a United States branch or agency, and any other entity may, in accordance with the Federal Reserve Act ("Act") and regulations of the Board of Governors, obtain Advances from, incur Obligations to, or pledge Collateral to a Reserve Bank. Each Reserve Bank has issued an operating circular no. 10 identical to this one.

2.0 DEFINED TERMS

2.1 The following capitalized terms used in the Circular, including its exhibits and appendices, have the meanings defined below:

(a) **Account** means a master account, as defined in the Bank's Account Relationships Circular, at a Reserve Bank.

(b) **Advance** means an extension of credit to the Borrower, whether in the form of a loan or a discount, including any renewal or extension thereof.

(c) **Advance Repayment Amount** means the amount of an Advance, plus all accrued and unpaid interest.

(d) **Bank** means this Federal Reserve Bank.

(e) **Board of Governors** means the Board of Governors of the Federal Reserve System.

(f) **Borrower** means an Institution that incurs an Obligation to the Bank.

(g) **Business Day** means any day the Bank is open for conducting all or substantially all its banking functions, but excludes a Saturday, Sunday, or Federal public holiday.

(h) **Collateral** means:

(i) all the Borrower's right, title, and interest in property (wherever located, now owned or hereafter acquired), including, but not limited to, accounts, chattel paper, inventory, equipment, instruments, investment property, general intangibles, payment intangibles, documents, deposit accounts, commercial tort claims, real property, and intellectual property, and which is (a) identified on a Collateral Schedule; or (b) identified on the books or records of a Reserve Bank as Pledged to the Bank; or (c) for which a financing statement has been filed;

(ii) if the Borrower's property identified in subparagraph (i) is itself secured, all the Borrower's right, title, and interest in the underlying collateral;

(iii) all cash and non-cash proceeds and all amounts paid or payable under or in connection with all of the foregoing, including, but not limited to, interest, dividends, insurance, rents, and refunds; and

(iv) all documents, books and records, including programs, tapes, and related electronic data processing software, evidencing or relating to any or all of the foregoing.

(i) **Collateral Schedule** means a statement of Collateral Pledged to secure an Obligation.

(j) **Event of Default** means any of the following:

- (i) the Borrower fails to repay or satisfy any Obligation when due;
- (ii) the Borrower defaults in any of its obligations under the Lending Agreement or under any other instrument or agreement delivered or executed in connection with the Lending Agreement or under any other agreement with the Bank or another Reserve Bank;

(iii) the Borrower becomes insolvent, or an assignment for the benefit of creditors occurs, or a receiver, custodian, conservator, or the like is appointed for the Borrower or for any of its United States or foreign branches or agencies, or the Borrower's business is suspended, or the Borrower is closed (other than a routine relocation or voluntary closing of an office), or the like;

(iv) the Borrower commences a proceeding to challenge the validity or binding effect of its obligations under the Lending Agreement;

(v) the Borrower creates an encumbrance upon Collateral, or a levy, judicial seizure, or attachment is placed thereon;

(vi) any warranty, representation, or covenant made or deemed to be made by the Borrower under or in connection with the Lending Agreement is breached at any time or is materially incorrect when made or deemed to be made; or

(vii) whenever the Bank deems itself insecure with respect to the financial condition of the Borrower or the Borrower's ability to perform its obligations hereunder.

(k) **Indebtedness** means the total of the Borrower's intraday or overnight overdrafts in its Account(s) and any penalties and charges thereon.

(l) **Institution** means an entity that incurs Indebtedness or is eligible to request an Advance under either the Act or regulations of the Board of Governors.

(m) **Lending Agreement** means the Circular's Credit and Security Terms, any Collateral Schedules, and any exhibit and appendix to the Circular executed by the Borrower.

(n) **Obligation** means:

(i) Advance Repayment Amount;

(ii) Indebtedness;

(iii) any other liability of the Borrower to the Bank or any other Reserve Bank, whether due or to become due; and

(iv) any expense the Bank or its designee(s) may incur to obtain, preserve and/or enforce the Bank's security interest, collect any or all of the foregoing, or assemble, transport, maintain or preserve Collateral (including, without limitation, taxes, assessments, insurance premiums, repairs, reasonable attorneys' fees, rent, transportation, storage costs, and expenses of sale).

(o) **Pledge** means to grant, assign, pledge and/or transfer a possessory lien and/or security interest.

(p) **Reserve Bank** means any one of the Federal Reserve Banks, including the Bank, and their respective branches.

2.2 Except as defined above and unless the context requires otherwise:

(a) all terms that are defined in the Act or Regulation A of the Board of Governors have the same meanings as in that Act and Regulation, respectively, when used in the Circular; and

(b) all terms that are not defined in the Act or Regulation A, but which are defined in the Uniform Commercial Code ("U.C.C.") in effect in the State

where the Bank's head office is located, have the same meanings as in such U.C.C. when used in the Circular.

3.0 ADVANCE

3.1 A request for an Advance should be made to the Bank in a timely fashion. An Advance must be secured by Collateral acceptable to the Bank. The Bank reserves the right, in its sole discretion, to require the Borrower to apply for an Advance in writing or execute a promissory note and/or additional relevant agreements or documents at any time with respect to an Advance.

3.2 After an Advance is approved, the Bank will credit the amount of the Advance to an Account agreed upon by the Borrower and the Bank. The credit is made available after the close of Fedwire on the day that the Advance is approved by the Bank. If the Borrower requests an earlier credit, the Bank may approve and process the credit earlier.

4.0 INTEREST

4.1 As indicated in Regulation A, the interest rate applicable to any Advance varies with the type of Advance. Interest accrues from the day the Advance is credited to the Account designated by the Borrower and is payable at the applicable rate in effect on that day, except that if the interest rate changes while an Advance is outstanding, the new rate applies as of the day on which the rate change is effective. Interest is computed on the basis of 365 days in a year.

4.2 If all or any portion of an Advance Repayment Amount is not paid when due (whether by acceleration or otherwise), interest on the unpaid portion of the Advance Repayment Amount is payable at a rate of five percentage points higher than the applicable rate then in effect until the unpaid Advance Repayment Amount is paid in full.

5.0 REPAYMENT OF ADVANCE

5.1 The Borrower promises to pay an Advance Repayment Amount when due in immediately available and finally collected funds. An Advance Repayment Amount is due:

- (a) on demand; or
- (b) if no demand is made, on the due date and time specified by the Bank in writing (provided that if such date falls on a day that is not a Business Day, the due date is extended to the next Business Day), except that, if no due date and time is specified, then an Advance Repayment Amount is due on the Business Day following the day the Advance was made and at the same time the Advance was credited; or
- (c) regardless of whether a demand is made, immediately upon the occurrence of any Event of Default described in Paragraph 2.1(j)(iii), (iv) or (vii), without prior demand or notice by or any action by the Bank; or
- (d) regardless of whether a demand is made, at the Bank's option, upon the occurrence of any other Event of Default; or
- (e) at the Bank's option, immediately, without demand or notice, if the Borrower, in whole or in part, is acquired, merged, dissolved, or nationalized, or sells or otherwise disposes of substantially all of its assets, or the Borrower is taken over in any other way by any other person or entity.

5.2 The Account Relationships Circular of the Reserve Bank maintaining the Borrower's Account where Indebtedness is incurred governs when such Indebtedness is due. If the Bank demands payment of an Advance Repayment Amount, all Indebtedness and other Obligations are due immediately, without prior demand or notice.

5.3 The Borrower waives any right to presentment, notice of dishonor, protest, and any other notice relating to payment of the Advance Repayment Amount and Indebtedness.

5.4 The Borrower may prepay an Advance (together with accrued and unpaid interest on the amount being prepaid), in whole or in part, without penalty.

5.5 The Bank or the appropriate Reserve Bank will debit the Borrower's Account for the Advance Repayment Amount when it is due. If the Borrower requests an earlier debit, the Bank may approve and process the debit earlier. If the Borrower does not have an Account, the Borrower must make arrangements satisfactory to the Bank for paying the Advance Repayment Amount.

5.6 If the Borrower knows or should have known that the Account has insufficient immediately available and finally collected funds when payment of any Advance Repayment Amount or Indebtedness is due, the Borrower must make arrangements satisfactory to the Bank for repaying such amount accordingly.

6.0 GRANT OF SECURITY INTEREST

6.1 For value received and in consideration of the Bank permitting the Borrower to obtain Advances or incur Indebtedness, the Borrower Pledges to the Bank a continuing security interest in, lien on, and right of set-off against Collateral to secure any Obligation, whether now existing or arising in the future.

6.2 As further security for any Obligation, whether now existing or arising in the future, the Borrower Pledges to the Bank all the Borrower's right, title, and interest in property, whether now owned or hereafter acquired, in the possession or control of the Bank or any other Reserve Bank, including but not limited to investment property (including securities and security entitlements), items in process of collection and their proceeds, and any balance to the

credit of the Borrower with a Reserve Bank, but excluding any investment property which the Borrower may not encumber under applicable law.

7.0 COLLATERAL

7.1 An Advance Repayment Amount must be secured by Collateral acceptable to the Bank. If required by the Bank, the Collateral must be identified on a Collateral Schedule in the form and manner specified by the Bank. Collateral Schedules must be kept current and must be updated in accordance with the Bank's instructions.

7.2 Unless the Bank agrees otherwise, the Borrower must transfer or deliver, or cause to be transferred or delivered, Collateral to the Bank or its custodian. Collateral must be transferred or delivered in the form and manner specified by the Bank. With respect to any item of Collateral not delivered or transferred to the Bank or its custodian, the Borrower shall hold such item of Collateral in trust for the Bank until the Collateral is delivered or transferred in accordance with the Bank's instructions.

7.3 The Bank may, in its sole discretion, allow Collateral to be held by another Reserve Bank as custodian for the Bank.

7.4 The Bank may, at any time it deems necessary to adequately secure any Obligation, request the Borrower to replace any item of Collateral or to Pledge additional Collateral acceptable to the Bank, and the Borrower shall promptly do so.

7.5 Except for book-entry securities held on a Reserve Bank's books, the Bank has no duty to collect any income accruing on Collateral or to preserve any rights relating to Collateral.

7.6 The Bank may, at any time:

- (a) file financing statements (including a photocopy of the Lending Agreement), amendments thereto, and continuation statements, as the Bank deems appropriate, with or without the Borrower's signature;

(b) endorse or assign as the Borrower's agent any item of Collateral;

(c) cause uncertificated securities to be transferred to the Bank or its nominee as pledgee;

(d) take any action the Borrower is required to take or that otherwise is necessary to obtain, preserve, and/or enforce the Bank's security interest, and maintain or preserve the Collateral, all without notice to the Borrower;

(e) inspect Collateral held by the Borrower and copy any relevant records and/or documents; and

(f) temporarily release Collateral in the Bank's possession or control to the Borrower, without releasing the Bank's rights therein.

7.7 The Borrower bears the risk of loss for any Collateral held in the Borrower's possession or in transit to or from the Bank. The Borrower also bears the risk of any accidental loss or damage to Collateral in the Bank's possession to the extent the Bank exercised reasonable care.

7.8 Unless an Event of Default occurs or the Bank expressly directs otherwise, any proceeds, dividend, interest, rent, proceeds of redemption, and/or any other payment received by the Borrower regarding any Collateral may be retained by the Borrower. If the Bank directs that any of the foregoing be paid to the Bank, the Borrower shall remit those payments, or cause such payments to be remitted, promptly to the Bank and, until receipt by the Bank, such payments are deemed to be held in trust for the Bank.

7.9 At the Borrower's request, the Bank may release Collateral:

(a) which the Bank determines is not necessary to adequately secure all outstanding Obligations;

(b) for which the Borrower has provided substitute Collateral acceptable to the Bank; or

(c) after the Bank has verified, in accordance with its normal customs and procedures, that all Obligations have been unconditionally repaid in full and that the Borrower is not currently in default under another agreement with the Bank or any other Reserve Bank.

8.0 MAINTENANCE OF LENDING DOCUMENTS

8.1 The documents specified below ("FRB Lending Documents") must be maintained continuously as official records of the Borrower. The documents listed in subparagraphs (a) and (b) shall at all times be kept together in one place (in the case of a foreign Borrower, at the office of its branch or agency in the Federal Reserve District in which the Borrower may obtain an Advance or incur Indebtedness), while the documents listed in subparagraphs (c), (d) and (e) may be kept in any accessible and secure location on the Borrower's premises. The FRB Lending Documents mean:

(a) a copy of the Lending Agreement, including any amendment or supplement, and if the Borrower has entered into any other agreement with a Reserve Bank in connection with the Lending Agreement, a copy of such agreement;

(b) the certified copy of the relevant portion of the minutes of the meeting at which the Borrower's governing body adopted the borrowing resolutions, with a copy of the resolutions attached;

(c) a copy of current Collateral Schedule(s);

(d) a current statement of outstanding Advances and Indebtedness; and

(e) a copy of any promissory note executed by the Borrower in favor of any Reserve Bank for any outstanding Advance(s) or Indebtedness.

9.0 REPRESENTATIONS AND WARRANTIES

9.1 The Borrower represents and warrants that:

(a) under applicable law, the regulations and policies of its chartering and/or licensing authority, and its charter, bylaws, or similar governing documents, and pursuant to authorization by its governing body, it is authorized to execute and perform its obligations under the Lending Agreement, obtain Advances from, incur Indebtedness to, or Pledge Collateral to a Reserve Bank;

(b) the Lending Agreement is valid and binding and enforceable in accordance with its terms;

(c) the Borrower has rights in Collateral and, except as noted in the Collateral Schedule, its title to Collateral is free of any adverse claim, lien, security interest and restriction on transfer or pledge ("Adverse Claim") except as created by the Lending Agreement, and the Borrower will maintain Collateral free of all Adverse Claims as long as Collateral remains Pledged hereunder;

(d) the Borrower has obtained any necessary approval or consent before Pledging Collateral, each item of Collateral is freely transferable by assignment or negotiation, and, except as otherwise disclosed by the Borrower in the Collateral Schedule, each item of Collateral for which principal or interest is payable is current and is not past due, on nonaccrual status, restructured, criticized, or classified;

(e) except as otherwise noted in the Collateral Schedule, each mortgage securing any mortgage note or bond included in Collateral has been recorded in accordance with applicable law, and the Borrower's security interest therein has been properly perfected and any assignment to the Bank that is required by law to be recorded, is in proper form for recordation under applicable law;

(f) the FRB Lending Documents specified in Paragraph 8.1 constitute official records of the Borrower and the Borrower will continuously maintain the FRB Lending Documents in the same manner as it maintains all other official corporate records, and that the FRB Lending Documents shall be immediately and routinely available to any examiner authorized to examine the Borrower;

(g) any Collateral Schedule is current and accurate;

(h) the Borrower has evaluated the potential risks and liabilities accruing to the Borrower under applicable Federal and State environmental laws, rules, and regulations and has determined, to the best of the Borrower's knowledge and except as otherwise noted in the Collateral Schedule, there is no hazardous substance that under such laws, rules, or regulations would impose environmental liability on an owner or manager of the real property that secures Collateral; and

(i) if the Borrower is a foreign Institution, at the time of requesting or receiving an Advance or incurring Indebtedness, a proceeding has not been instituted against the Borrower seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, and no party has presented or filed a petition for winding-up or liquidating the Borrower.

9.2 Each time the Borrower requests an Advance, incurs any Indebtedness, or Pledges any Collateral to a Reserve Bank, the Borrower is deemed to make all the foregoing representations and warranties, which remain in full force and effect until all Obligations are discharged.

10.0 COVENANTS

10.1 The Borrower covenants that:

(a) the Borrower will provide to the Bank any reports or statements that the Bank requests;

(b) the Borrower will permit the Bank or its designee to inspect or copy any documents or evidence in the Borrower's possession or control relating to Collateral and any Obligation;

(c) the Borrower will not sell, assign, transfer, lease, or otherwise dispose of any Collateral Pledged hereunder without the Bank's written consent;

(d) upon the Bank's request, the Borrower will promptly reimburse the Bank for any expense incurred by the Bank with respect to any item of Collateral, including perfecting or maintaining perfection of the Borrower's and/or the Bank's security interest in Collateral, and assembling, transporting, safekeeping, managing, inspecting, or liquidating Collateral, whether Collateral is held by the Bank, its custodian, or the Borrower;

(e) the Borrower will not perform any act with respect to any Collateral that would impair the Bank's rights or interests therein, nor will the Borrower fail to perform any act that would prevent such impairment or that is necessary to preserve the Bank's rights;

(f) the Borrower will mark its records to show that Collateral has been pledged to the Bank and is subject exclusively to the Bank's written orders and directions;

(g) the Borrower will promptly execute any agreement or document that the Bank determines is necessary, including but not limited to any document necessary to grant, perfect or otherwise protect the Bank's security interest in any Collateral;

(h) the Borrower will promptly notify the Bank if the Borrower is undercapitalized or about to become undercapitalized; and

(i) the Borrower will promptly notify the Bank of any change in applicable law, the regulations or policies of its chartering and/or licensing authority, or its charter, bylaws, or other governing documents,

or any legal or regulatory process asserted against the Borrower, that materially affects or may materially affect the Borrower's authority or ability to lawfully perform its obligations under the Lending Agreement.

10.2 Each time the Borrower requests an Advance, incurs any Indebtedness, or Pledges any Collateral to a Reserve Bank, the Borrower is deemed to make the foregoing covenants.

11.0 WAIVER OF IMMUNITY FOR FOREIGN BORROWERS

11.1 If the Borrower is a foreign Institution, the Borrower agrees that all transactions conducted under the Lending Agreement constitute commercial activities. If the Borrower or its property is now, or in the future becomes, entitled to any immunity, whether characterized as sovereign or otherwise (including, without limitation, immunity from set-off, from service of process, from jurisdiction of any court or tribunal, from attachment in aid of execution, from attachment prior to the entry of a judgment, or from execution upon a judgment) in any legal proceeding in Federal or State courts in the United States of America, or in the courts of the country where the Borrower is chartered, or in the courts of the country in which the Borrower principally conducts its business, then the Borrower expressly and irrevocably waives, to the maximum extent permitted by law, any such immunity.

11.2 If the Borrower is a foreign Institution, the Borrower irrevocably submits to the jurisdiction of any United States Federal or State court sitting where the Bank's head office is located or the courts of the country where the Borrower is chartered or of the country in which it principally conducts its business over any suit, action or proceeding arising out of or relating to the Lending Agreement. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or

hereafter have to the laying of the venue of any such suit, action, or proceeding brought in any such court and any claim that any such suit, action, or proceeding brought in such a court has been brought in an inconvenient forum. The Borrower also agrees that a final judgment in any such suit, action, or proceeding brought in such a court shall be conclusive and binding upon the Borrower.

12.0 REMEDIES UPON DEFAULT

12.1 If an Event of Default occurs, the Bank may pursue any of the following remedies, separately, successively, or concurrently:

- (a) unless an Advance Repayment Amount is immediately due under Paragraph 5.1(c), declare the same immediately payable, without prior notice or demand, and debit the Borrower's Account accordingly;
- (b) set off any Obligation against any amount owed by the Bank or any other Reserve Bank to the Borrower, whether then due or not due;
- (c) exercise any banker's lien or right of set-off provided by applicable law against the Borrower's property in the possession or control of the Bank or any other Reserve Bank, including but not limited to items in process of collection and their proceeds and any balance to the credit of the Borrower with a Reserve Bank;
- (d) take possession of any Collateral not already in the Bank's possession, without demand and without legal process. Upon the Bank's demand, the Borrower shall assemble and make Collateral available to the Bank as the Bank directs. The Borrower grants to the Bank the right, for this purpose, to enter into or on any premises where Collateral may be located; and

(e) pursue any other remedy available at law or in equity to collect, enforce, or satisfy any Obligation, including exercising its rights as a secured creditor to collect income on the Collateral, or to sell, assign, transfer, lease or otherwise dispose of Collateral whether or not Collateral is in the Bank's possession.

12.2 If the Bank exercises its rights in Collateral upon an Event of Default:

- (a) the Bank may sell, assign, transfer, and deliver, at the Bank's option, the whole or any part of Collateral at private or public sale, at such prices as the Bank may, in good faith, deem best, without advertisement, and the Borrower waives notice of the time and place of the sale, except any notice that is required by law and may not be waived;
- (b) the Bank has no obligation to prepare Collateral for sale, and the Bank may sell Collateral and disclaim any warranties without adversely affecting the commercial reasonableness of the sale; and
- (c) the Bank or another Reserve Bank may purchase any or all of Collateral and pay for it by applying the purchase price to reduce amounts owed by the Borrower to the Bank or any other Reserve Bank.

12.3 The Borrower appoints the Bank, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Borrower, to endorse, assign, transfer, and deliver Collateral to any party, and to take any action deemed necessary or advisable by the Bank to either protect the Bank's interests or exercise its rights under the Lending Agreement, including taking any action to perfect or maintain the Bank's security interest (including but not limited to recording an assignment of a mortgage or filing a financing statement). This power of attorney is coupled with an interest and as such is irrevocable and full power of substitution is granted to the assignee or holder. As attorney-in-fact, the Bank may take any lawful action to collect all sums

due in connection with Collateral, but the Bank has no obligation to do so and, in case of full payment of Obligations, the Bank may release any Collateral, instruments or agreements securing or evidencing the Obligations as fully as the Borrower could do if acting for itself.

12.4 The proceeds realized by the Bank upon selling or disposing of Collateral, to the extent actually received in cash or purchased by the Bank or another Reserve Bank, will be applied toward satisfaction of the Obligations. The Bank shall apply such proceeds first to any fees, other charges, and costs and expenses of, collection, or realizing on interests in Collateral (including reasonable attorneys' fees), next to accrued but unpaid interest, and last to the unpaid principal balance. The Bank will account to the Borrower for any surplus realized upon such sale or other disposition, and the Borrower shall remain liable for any deficiency.

12.5 The Bank has no obligation to collect from any third party or to marshal any assets in favor of the Borrower to satisfy any Obligation.

12.6 No delay or failure by the Bank to exercise any right or remedy accruing upon an Event of Default shall impair any right or remedy, waive any default or operate as an acquiescence to the Event of Default, or affect any subsequent default of the same or of a different nature.

12.7 On complying with the provisions of the Lending Agreement and applicable law, the Bank is fully discharged from any liability or responsibility to any person regarding Collateral.

13.0 INDEMNIFICATION

13.1 The Borrower indemnifies the Bank for any loss, claim, damage, liability, and expense (including reasonable attorneys' fees, court costs and expenses of litigation) incurred by the Bank in the course of or arising out of the performance of the Lending Agreement, any action related

to Collateral, or any action to which the Bank may become subject in connection with the Bank's exercise of any right or remedy granted to it under the Lending Agreement except to the extent that such loss, claim, damage, liability, or expense results from the Bank's failure to exercise reasonable care.

13.2 The Bank will give the Borrower prompt written notice of any claim that the Bank may have under this indemnity. The Borrower is not liable for any claim that is compromised or settled by the Bank without the Borrower's prior written consent, provided that the Borrower responded promptly to the Bank's notice of such claim. This indemnity remains an obligation of the Borrower notwithstanding termination of the Lending Agreement, and is binding on the Borrower's successors and assigns. Upon written demand from the Bank, the Borrower shall pay promptly amounts owed under this indemnity, free and clear of any right of offset, counterclaim or other deduction, and the Bank's reasonable determination of amounts owing hereunder is binding. If not promptly paid by the Borrower, such obligation becomes an Obligation secured under the Lending Agreement.

14.0 MISCELLANEOUS

14.1 The Bank is not obligated by the Lending Agreement or otherwise to make, increase, renew, or extend any Advance to the Borrower.

14.2 The amount of any Advance Repayment Amount and/or Indebtedness reflected on the books and records of the Bank is presumptive evidence of the amounts due and owing by the Borrower to the Bank.

14.3 The Borrower's obligations under the Lending Agreement shall be performed by it at its own cost and expense.

14.4 Unless expressly agreed otherwise by the Bank, the time zone of the Bank's head office is used to determine any deadline hereunder, including the time an Advance Repayment Amount is due.

14.5 The Bank may record telephone communications between the Bank and the Borrower and such recordings may be submitted in evidence to any court or in any proceeding for the purpose of establishing any matters pertinent to the Lending Agreement.

14.6 The Bank may rely on a signature device, stamp, or other communication considered to be a writing under commercially accepted practices when used by the Borrower to endorse or pledge Collateral to the Bank.

14.7 The Bank's rights and remedies under the Lending Agreement are cumulative to any others agreed to by the Borrower or that may exist at law or in equity.

14.8 Any provision of the Lending Agreement that is unenforceable or invalid under any law is ineffective to the extent of such unenforceability or invalidity without affecting the enforceability or validity of any other provision.

14.9 The Borrower and the Bank each hereby unconditionally and irrevocably waive any and all right to trial by jury in any action, suit, counterclaim, or cross claim arising in connection with, out of or otherwise relating to the Lending Agreement or the Collateral, or any transaction or agreement arising therefrom or related thereto.

14.10 The Lending Agreement is binding on the receivers, administrators, assignees, successors, and legal representatives of the Borrower and inures to the benefit of the Bank, its assignees and successors.

14.11 The Bank may sell, transfer, assign or participate to any other Reserve Bank(s) any or all of its interest in repayment of any Obligation and may purchase any Obligation from any other Reserve Bank.

14.12 The Bank is not required to provide a written advice to the Borrower for any Advance or Advance Repayment Amount.

14.13 The Bank has no liability for acting in reliance upon any communication (including a fax, telex, or similar communication) reasonably believed by the Bank to be genuine or to be sent by an individual acting on behalf of the Borrower.

15.0 AMENDMENT

15.1 The Bank, in its sole discretion, may amend the Lending Agreement without prior notice at any time. Any amendment applies immediately upon the effective date of the amendment, but does not modify, except for a change in interest rate or other charges, the terms of an outstanding Advance.

16.0 NOTICE

16.1 Unless otherwise specified by the Bank, all notices hereunder shall be: (a) sent by first-class mail, postage prepaid; (b) personally delivered; or (c) sent by telecopy, facsimile or electronic means to a number or electronic address identified in writing by the intended recipient (and, in such case, confirmed by prepaid, first-class mail). If sent by the Bank, the notice must be addressed as indicated by the Borrower in the Letter of Agreement. If sent by the Borrower, the notice must be addressed to the credit function at the Bank's head office.

16.2 The Borrower is deemed to have delivered any notice required by the Lending Agreement when the notice is received by the credit function at the Bank's head office. The Bank is deemed to have delivered any notice required by the Lending Agreement when the notice is sent. If the notice is sent by the Bank only via first-class mail, however, the notice is effective three days after it is deposited in any United States postal box.

17.0 TERMINATION

17.1 The Borrower may terminate its consent to be bound by the Lending Agreement by giving written notice to the credit function at the Bank's head office.¹ Notice of termination does not release the Borrower or affect the Bank's rights, remedies, powers, security interests or liens against Collateral in existence prior to the Bank's receipt of the notice.

17.2 Upon termination, the Bank may retain Collateral until the Bank has had a reasonable opportunity to verify, in accordance with its normal customs and procedures, that all of the Borrower's Obligations, contingent or otherwise, to the Bank or any other Reserve Bank have been fully satisfied and discharged, unless the Borrower makes alternative arrangements that are acceptable to the Bank for continuing to secure the Borrower's Obligations.

18.0 GOVERNING LAW

18.1 The Lending Agreement, including any Advance or any other transaction entered into pursuant thereto, is governed by Federal law and, to the extent not inconsistent therewith, the law of the State in which the Bank's head office is located, excluding that State's law regarding the conflicts of law. The Lending Agreement is a security agreement for purposes of the U.C.C. and other applicable law.

19.0 STATUS OF PREVIOUS LENDING AGREEMENT

19.1 The Circular amends and restates the Bank's current operating agreement governing Advances.

1. Termination of third-party custody and Borrower-in-Custody arrangements are governed by the termination provisions set forth in the relevant appendices related thereto.

Exhibit 1

LETTER OF AGREEMENT
[Letterhead of the Borrower's Head Office]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

In consideration of being able to request advances from and incur indebtedness to you and in consideration of your making advances to us [through our branch/agency located in _____] and/or allowing us to incur indebtedness, we agree to the provisions of your Operating Circular No. 10, effective January 2, 1998, as amended and supplemented from time to time ("Lending Agreement").

[Enclosed are certified copies of the resolutions that you requested and the relevant portions of the minutes of the meeting at which our governing board approved such resolutions, together with document(s) containing the name, title, and signature of those persons authorized to request advances from and to pledge our assets to you.]²

Any notices required under the Lending Agreement may be directed to the following department(s): [list department(s) and address(es)].

Full Legal Name of Institution

By: _____
Authorized signature(s)

Name(s)

Title(s)

-
1. Only a foreign Institution should specify the branch or agency through which Advances will be requested.
 2. Unless otherwise specified by the Bank, only Institutions executing lending documentation for the first time should include this paragraph.

Exhibit 2

AUTHORIZING RESOLUTIONS FOR BORROWERS

As evidenced by my signature below, I certify that the following are correct and complete representations of the resolutions duly adopted on _____ date _____ at a meeting of the _____ Type of governing body, e.g., board of directors of the _____ ("Institution"), a _____ Official name of the institution _____ Commercial bank, mutual savings bank, savings bank and loan association, credit union, or other charter type

duly established and operating under the laws of _____, with its head office located at _____. I further certify that the meeting at which the resolutions were adopted was properly convened and that a quorum of all [directors/trustees/governing body members] was present and acting throughout the meeting. I also certify that the resolutions have not been modified, remain in effect, and are not in conflict with any provisions of the Institution's certificate of incorporation, bylaws, or chartering and/or licensing statutes or instruments.

1. RESOLVED, that the Institution is authorized to request advance(s) from, incur indebtedness, including overdrafts, to and pledge and grant a security interest in the Institution's property, whether now owned or hereafter acquired, to a Federal Reserve Bank.

2. RESOLVED, that officers of the Institution with the following titles _____ Exact titles of authorized officers and each of their successors in office, any _____ of whom _____ authorized to do the following as one/two is/are well as send the names, titles, and signatures of individuals authorized to issue instructions in the name and on behalf of the Institution and from time to time:

- (a) to borrow money from a Reserve Bank and to incur indebtedness to a Reserve Bank on the terms and security that such Reserve Bank requires;
(b) to discount, rediscount, or sell (with or without the Institution's agreement to repurchase) and, for any of those purposes, to endorse and assign notes, drafts, bills of exchange, acceptances, other bills receivable, evidences of indebtedness, and securities, now or hereafter acquired by the Institution;
(c) to make, execute, and deliver any application, note, agreement, certificate, power of attorney, and any other document that any Reserve Bank requires in connection with any transaction authorized by this resolution;
(d) to grant, assign, pledge, and transfer to any Reserve Bank security interests in any or all property of the Institution, whether now owned or hereafter acquired, and to endorse, assign, deliver, deposit, and/or pledge any of such property to any Reserve Bank as collateral to secure payment or performance of any obligation of the Institution to a Reserve Bank; and
(e) to do any and all other acts and things that may be necessary or incidental to any transaction authorized by the relevant resolution, or that may be designed or intended to carry out the purpose of such resolution.

3. RESOLVED, that a Reserve Bank making an extension of credit to the Institution is appointed as the Institution's attorney-in-fact and for it and in its place and stead, to endorse, assign, transfer and sell, set over and deliver collateral pledged to such Reserve Bank, and to take any other action deemed necessary or advisable by the Reserve Bank to exercise its rights with respect to any advance or indebtedness owed by the Institution, in its capacity as secured party, including but not limited to accepting and endorsing payments on loans, preparing and/or filing of any documents necessary to perfect, protect, preserve, or release the interest of the Reserve Bank or the Institution in such collateral, or compromising disputes or handling insurance issues related to such collateral. The power of attorney is coupled with an interest and as such is irrevocable, and full power of substitution is granted to the assignee or holder. The Institution ratifies any and all action authorized herein and taken by any such Reserve Bank as the Institution's attorney-in-fact. The rights, powers, and authority of the attorney-in-fact to perform any and all act(s) whatsoever necessary remains in full force and effect and binds the Institution, its legal representatives, successors, and assigns until all indebtedness of the Institution to any such Reserve Bank has been fully satisfied and discharged.

4. RESOLVED, that we approve the provisions of the Federal Reserve Bank's Operating Circular No.10, effective January 2, 1998, as amended and supplemented from time to time _____
and, if applicable, the Pledge Agreement
_____.₃
Regarding Intraday Overdrafts, dated

5. RESOLVED, that the Institution is authorized and approved to use a signature device, stamp, or any other communication considered to be a writing under commercially accepted practices to endorse or pledge to a Reserve Bank the notes and other obligations offered as collateral for any advance or other indebtedness of the Institution to a Reserve Bank. The communication must bear the endorsement of the person(s) duly authorized under Paragraph 2 hereof. The signature device, stamp or other communication considered to be a writing under commercially accepted practices will have the full force and effect of a manual endorsement.

6. RESOLVED, that these resolutions and the powers and authorizations granted or confirmed by them continue in effect until written notice of revocation is received by each Reserve Bank that has relied or is relying on such resolutions and the Institution shall continue to be bound with respect to any outstanding obligations and pledges to any Reserve Bank at the time the notice of revocation is received by such Reserve Bank.

7. RESOLVED, that a duly certified copy of these resolutions, together with a certified photocopy of the relevant portion of the minutes of the meeting at which these resolutions were approved, be furnished to the Reserve Bank(s) to which the Institution may apply for an advance or has an account.

- [8. RESOLVED, that the Institution, with respect to any Reserve Bank and the Institution's obligations to any Reserve Bank, to the maximum extent permitted by law, expressly and irrevocably waives any immunity that the Institution now has or that in the future it may become entitled to, whether characterized as sovereign or otherwise (including, without limitation, immunity from set-off, from service of process, from jurisdiction of any court or tribunal, from attachment in aid of execution, from attachment prior to the entry of a judgment, or from execution upon a judgment), in any legal proceeding in the United States of America, the country where the Institution is chartered, and the country in which the Institution principally conducts its business and expressly submits to jurisdiction in Federal or State courts in the United States of America or in the courts of the Institution's chartering country, or the country where the Institution principally conducts its business.⁴]

-
3. The Pledge Agreement Regarding Intraday Overdrafts ("Pledge Agreement") may be required for some Institutions and, if the Pledge Agreement is executed at the same time as the Circular, it should be referenced in this resolution.
 4. This resolution and the consular certificate are required for foreign Institutions.

IN WITNESS WHEREOF, I have hereunto subscribed my name.

Signature of certifying official⁵

Name and Title

Date

[EMBASSY OF THE UNITED STATES OF AMERICA⁶

[SEAL]

City, country

On _____, _____ personally appeared before
Date Name of official signing above
me, adequately identified [himself/ herself], and, after being duly sworn by me, stated that [he/she] is the
_____ of _____ whose governing body adopted
Title Official name of foreign bank
the resolutions set forth in this document and that [he/she] executed this document by authority of that
governing body.

_____]]
Signature of U.S. Consul

[SEAL]

5. The certifying official must be the secretary of the Institution or another officer of similar or higher rank. The official also must have the authority to certify the statements in this document and may not be a person authorized in Paragraph 2 to forward a list of employee signatures or any employee designated as authorized to issue instructions or execute documents thereunder. If the Institution has a limited number of employees, then this latter requirement will be waived if two officials of the Institution certify this document.
6. If appropriate, an apostille may be substituted for this consular certificate. If this certificate is used, it must be executed by an ambassador, a minister plenipotentiary, a minister extraordinary, a minister resident, a charge d'affaires, a consul general, a vice-consul general, a deputy consul general, a consul, a vice-consul, a deputy consul, a consular agent, a vice-consular agent, a commercial agent, or vice-commercial agent of the United States of America within his or her jurisdiction. The seal of his or her office or the seal of the consulate or legation to which he or she is attached must be affixed.

Exhibit 3

OPINION OF FOREIGN OUTSIDE COUNSEL
[Letterhead of the Borrower's Outside Counsel]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

In re: _____
Foreign bank

In connection with the authorization for _____ ("Institution"), through
its _____ [branch/agency], to request advances from, incur indebtedness to, and pledge
collateral to any Federal Reserve Bank in the United States of America, you have requested us to furnish
you with an opinion of counsel regarding the authority of the Institution and its _____
[branch/agency] to engage in those activities under the laws of _____.¹

We are legal counsel to the Institution in _____, its _____
and in that capacity are familiar with its affairs and the laws of _____ affecting it.

We are of the opinion that:

- (1) The Institution, a _____, including its branches and agencies in the United States of America, validly exists under the laws of _____.
- (2) Under the laws of _____, the Institution, including its branches or agencies located in the United States of America, is eligible and authorized to enter into your Operating Circular No.10 ("Circular") and any and all related agreements thereto set forth in its appendices ("Lending Agreement"), effective January 2, 1998, as amended from time to time, to obtain advances from, incur

1. If the foreign Institution principally conducts its business in a jurisdiction other than its chartering jurisdiction then the Institution should also get an opinion of outside counsel with respect to Paragraphs 2, 3, 4, and 6 hereto for the jurisdiction in which the Institution principally conducts its business. Each reference to the chartering jurisdiction in these paragraphs should be replaced with a reference to the country in which the Institution principally conducts its business.

indebtedness to and pledge its collateral and grant security interests in the Institution's assets to any Federal Reserve Bank, whether now owned or hereafter acquired, as collateral security for the payment or performance of any obligation of the Institution to any Federal Reserve Bank.²

(3) The Lending Agreement _____ and, if applicable, the Pledge Agreement Regarding Intraday Overdrafts, _____ dated _____ executed by the Institution is valid and binding under the laws of _____ and the Institution _____ Chartering jurisdiction is bound fully by the Lending Agreement in its entirety as a juridical entity and not merely as its branches or agencies located in the United States of America.

(4) Regarding the Institution's obligations to any Federal Reserve Bank, the Institution and its assets are entitled to _____

List immunities which the Institution's assets may be entitled to, including immunity from set-off, service of process,

jurisdiction of any court or tribunal, attachment in aid of execution, attachment prior to the entry of a judgment, or execution upon a judgment in any legal proceeding in the United States of America or the country where the Institution is chartered. The Institution has effectively waived such immunity/immunities it is now entitled to as well as any other immunity that, in the future, it may become entitled to in such jurisdictions³ and has effectively submitted to jurisdiction in the courts of its chartering country.

(5) The resolutions of the governing body of the Institution, dated _____, that authorize requesting advances from, incurring indebtedness to, and pledging and granting security interests in the Institution's assets to any Federal Reserve Bank, have been duly adopted.

(6) Assuming that a Federal Reserve Bank has a security interest in Collateral⁴ which is valid and binding under the governing law of the Lending Agreement and perfected in accordance with the Uniform Commercial Code of the relevant State(s) or United States Federal law,⁵ then, under the laws of _____: _____ Chartering jurisdiction

-
2. An opinion of counsel from a jurisdiction in which the Institution principally conducts its business should also address whether any office of the Institution licensed to operate in such jurisdiction can pledge its assets to secure an Obligation of the Institution to a Reserve Bank.
 3. If there are any limitations on the Institution's ability to waive any immunity, please identify and discuss those limitations.
 4. Under the Lending Agreement, the Institution grants to a Federal Reserve Bank a security interest in the Collateral provided by the Institution to secure the Institution's obligations to the Federal Reserve Bank, including future obligations. The Collateral may consist of the Institution's assets in the form of "accounts," "chattel paper," "inventory," "equipment," "instruments," "investment property," "general intangibles," "payment intangibles," "documents," "deposit accounts," "commercial tort claims," and "intellectual property," as these terms are defined in the Uniform Commercial Code, and real property ("Collateral"). The assets provided as Collateral may be located within or without the United States and may include assets that the Institution acquires in the future. The assets provided as Collateral may be held by the Federal Reserve Bank, by a third-party custodian pursuant to the terms of Appendix A of the Circular, or by the Institution pursuant to the terms of Appendix B of the Circular.
 5. For example, the TRADES regulations governing the perfection of a security interest in United States Treasury securities. See 31 C.F.R. Part 357.

- (a) the Federal Reserve Bank has a valid, binding, and perfected security interest in the Collateral;
- (b) the Federal Reserve Bank has priority over all other claims of an interest in the Collateral if it has a first priority perfected security interest in the Collateral under the Uniform Commercial Code of the relevant State(s) or United States Federal law;
- (c) the Federal Reserve Bank is not required to take any further action to ensure that the security interest in the Collateral continues and/or remains perfected; and
- (d) the Federal Reserve Bank is not limited from exercising any of its remedies in the manner provided in Paragraph 12 of the Circular's Credit and Security Terms in the event of the Institution's insolvency, bankruptcy, winding up, or similar action affecting creditors' rights.⁶

There are no other material issues relevant to the issues addressed by this opinion which we wish to draw to your attention.

Sample

6. Please identify and discuss any exceptions or qualifications to the opinion being requested.

Exhibit 4

OPINION OF UNITED STATES OUTSIDE COUNSEL
[Letterhead of the Borrower's Outside Counsel]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

In re: _____
Foreign bank

City

You have requested our opinion on certain matters in connection with the authorization for _____
Foreign bank's name
("Institution"), through its _____ [branch/agency], to request advances from, incur
City
indebtedness to, and pledge and grant security interests in its assets to, any Federal Reserve Bank.

We are legal counsel to the _____ [branch/agency] of the Institution and in that capacity are
City
familiar with its affairs and the laws of _____ and the United States of America affecting
State
it.¹ We have investigated those laws to the extent we believe necessary to render the opinions expressed in
this letter.

We are of the opinion that:

(1) The Institution, through its _____ [branch/agency], is authorized to request advances
City
from, incur indebtedness to, and pledge and grant security interests in its assets to, any Federal Reserve
Bank.

1. If the office is a Federal branch or agency, the reference to State law should be omitted. Opinions of counsel must be obtained for all branches and agencies which may seek an Advance or incur Indebtedness.

(2) The Institution and its assets are entitled to _____
List immunities which the Institution's assets may be entitled to, including

immunity from set-off, service of process, jurisdiction of any court or tribunal, attachment in aid of execution, attachment prior to the entry of a judgment,
_____ in any legal proceeding brought in the Federal or State courts in the United States
or execution upon a judgment

of America. The Institution has effectively waived such immunity/immunities it is now entitled to as well as any other immunity that, in the future, it may become entitled to and has effectively submitted to the jurisdiction of the United States courts.

(3) The agreement of the Institution to the terms of your Operating Circular No. 10, effective January 2, 1998, as amended from time to time, _____
and, if applicable, to the terms of the Pledge Agreement Regarding Intraday Overdrafts,
_____ is valid and binding on the Institution.
dated

(4) For the purpose of Section 9-103(c)(3) of the Uniform Commercial Code, the Institution's United States executive office is located at _____
list address

In rendering our opinion, we have assumed the correctness of the opinion(s) addressed to you, dated _____, from _____, legal counsel to the Institution at its _____ in _____
place of incorporation or chartering/principal place of business Country

Sample

Appendix A

AGREEMENT FOR THIRD-PARTY CUSTODIAN TO HOLD COLLATERAL

1.0 SCOPE

- 1.1 This Appendix ("Custody Agreement") sets forth the terms of agreement among the Bank, the Borrower, and another institution ("Custodian") that holds Collateral Pledged by the Borrower to the Bank under the Lending Agreement between the Borrower and the Bank.
- 1.2 For a Custodian to be able to hold Collateral, the Borrower must obtain the Bank's prior approval, and the Borrower and the Custodian each must execute a Letter of Agreement in the form, respectively, of Exhibits 1 and 2 of this Appendix.
- 1.3 This Custody Agreement supplements the Lending Agreement between the Borrower and the Bank, and the terms of the Lending Agreement are incorporated herein. Capitalized terms in this Custody Agreement have the same meaning as defined in the Circular.
- 1.4 In the event of a conflict between the other provisions of the Lending Agreement and the provisions of the Custody Agreement, the provisions of the Custody Agreement control.

2.0 STATUS

- 2.1 The Custodian acts as the Bank's agent in holding Collateral to secure any Obligation of the Borrower. The Custodian acts in this capacity without any right of compensation from the Bank.
- 2.2 Except as to Collateral and subject to the provisions of this Custody Agreement, nothing in this Custody Agreement prevents the Custodian from dealing in any other matter with the Borrower or the Bank, or from taking any action that the Custodian lawfully may take regarding such dealings.

3.0 PLEDGE ACCOUNT

- 3.1 By executing Exhibit 1, the Borrower instructs the Custodian:
 - (a) to establish a separate account on the Custodian's books ("Pledge Account") for Collateral Pledged to the Bank by the Borrower under the Lending Agreement;
 - (b) to credit all Collateral delivered by the Borrower to the Custodian pursuant to this Custody Agreement to the Pledge Account;
 - (c) to segregate in one location Collateral in the Pledge Account from all other property in the Custodian's possession, custody or control; and
 - (d) to issue a Custody Receipt for all items of Collateral delivered or transferred by the Borrower to the Pledge Account.
- 3.2 Upon executing Exhibit 1, the Borrower shall promptly deliver or transfer, or cause to be delivered or transferred, in the form and manner specified by the Bank, the items of Collateral Pledged to the Bank that the Bank has agreed may be held by the Custodian.

- 3.3 The Custodian shall hold all items of Collateral in the Pledge Account for the sole benefit of the Bank and subject exclusively to the Bank's instructions. At a minimum, all Collateral in the Pledge Account shall be handled and maintained in accordance with the Bank's written instructions or procedures.
- 3.4 The Custodian shall promptly credit to the Pledge Account all items of Collateral delivered or transferred by the Borrower pursuant to this Custody Agreement and, upon crediting such Collateral, the Custodian shall provide the Bank with an advice of receipt ("Custody Receipt" and, collectively, "Custody Receipts"). At a minimum, the Custody Receipt must include the name of the Borrower and an adequate description of each item of Collateral.
- 3.5 Prior to or at the time of delivery of any item of Collateral to the Custodian, the Borrower shall provide both the Bank and the Custodian with a Collateral Schedule. Collateral Schedules must be kept current and shall be updated in accordance with the Bank's written instructions or procedures.
- 3.6 Unless the Bank notifies the Borrower and the Custodian to the contrary in writing, the Custodian shall pay to the Borrower any interest, dividends, payments, or proceeds received by the Custodian with respect to Collateral in the Pledge Account. Upon such notification, the Custodian shall hold the foregoing in trust for the benefit of the Bank and shall promptly pay the foregoing to the Bank.

4.0 WITHDRAWAL AND SUBSTITUTION

- 4.1 The Custodian shall permit withdrawal of items of Collateral by the Borrower only in accordance with this Custody Agreement and the written instructions and procedures of the Bank.
- 4.2 Unless otherwise provided herein, the Borrower may withdraw items of Collateral (and accompanying documents) from the Pledge Account only with prior written notice to, and written approval of, the Bank.
- 4.3 The Borrower may withdraw Collateral (and accompanying documents) from the Pledge Account for purpose of redemption, payment, or otherwise, provided that the Borrower has delivered to the Custodian substitute Collateral specifically approved by the Bank and listed on a Collateral Schedule filed with the Bank.
- 4.4 The Borrower shall withdraw from the Pledge Account any Collateral which has a payment of principal or interest that is past due, in whole or in part, for more than 30 days (or 60 days for mortgages notes and other consumer debt, including student loans). The Custodian shall not release such Collateral, however, until the Borrower delivers to the Custodian substitute Collateral that has been specifically approved by the Bank and listed on a Collateral Schedule filed with the Bank.

5.0 CUSTODIAN'S REPRESENTATIONS AND WARRANTIES

- 5.1 By executing Exhibit 2, the Custodian represents and warrants that:
 - (a) this Custody Agreement is valid and binding on the Custodian; and
 - (b) as of the date of the Custody Receipt it delivers, the Custodian has credited the Pledge Account and it holds Collateral registered in the nominee's name or in bearer or other fully negotiable form or if registered in the Borrower's name, such Collateral has been delivered to the Custodian together with a power of attorney in blank executed by authorized person(s) of the Borrower.

6.0 CUSTODIAN'S COVENANTS

6.1 The Custodian covenants that:

- (a) it will not deliver a Custody Receipt to the Bank until it has actually received possession of the item of Collateral described on the Custody Receipt;
- (b) it will continuously maintain sole and exclusive physical possession, custody, and/or control of the Collateral in the Pledge Account subject to the Bank's exclusive order and direction;
- (c) except with the prior written approval of the Bank or as otherwise provided in this Custody Agreement, the Custodian will maintain Collateral at a location approved by the Bank;
- (d) it will hold the Collateral free of any lien, security interest, safekeeping or other charge, demand, or other claim of or on account of the Custodian;
- (e) it will not perform any act with respect to the Collateral that would impair the Bank's rights or interest therein (including but not limited to the act of agreeing to follow the instructions of a third party with respect to Collateral in the Pledge Account), nor will it fail to perform any act that would prevent such impairment; and
- (f) it will incorporate in its internal audit program, procedures to verify the authenticity and accuracy of the Custody Receipts, and will provide the Bank, within one month after the audit has been performed, with a written certification stating that the audit for the preceding calendar year has been performed and any significant exceptions have been cured. The Custodian shall notify the Bank immediately of any significant exception at any time disclosed by any internal or external audit or by any examination of Collateral in the Pledge Account.

7.0 JOINT COVENANTS OF THE BORROWER AND THE CUSTODIAN

7.1 The Borrower, the Custodian, or both, covenant that, at the Bank's request, they will execute, acknowledge, endorse, and/or deliver immediately to the Bank any additional document of any kind and will cooperate with the Bank to take any action that the Bank requests to enable the Bank to:

- (a) record and/or perfect its security interest in Collateral;
- (b) sell, assign, transfer, or dispose of any item of Collateral;
- (c) otherwise secure the payment of Advance Repayment Amounts and Indebtedness; or
- (d) carry out the provisions of this Custody Agreement.

8.0 THE BANK'S RIGHTS TO COLLATERAL

8.1 The Bank's rights to Collateral are set forth in the Lending Agreement, and the Custodian will cooperate with the Bank in the exercise of its rights.

8.2 The Bank may demand and take possession of Collateral in the Pledge Account without prior notice to, or the consent of, the Borrower or the Custodian, but the Bank will notify the Borrower promptly by telephone after taking any such action. For this purpose, the Custodian will provide the Bank with access to the premises where Collateral in the Pledge Account is located or, upon the Bank's demand, will immediately surrender such Collateral to the Bank or arrange and pay for its transportation in accordance with the Bank's instructions.

9.0 INSPECTION

9.1 The Bank may inspect the premises at which Collateral is kept, as well as any item of Collateral, to verify compliance with the terms of this Custody Agreement. The inspection may be made during the regular business hours or at such other time as is agreeable to the party having possession of the premises the Bank wishes to inspect. The Bank may copy and require delivery of any document held by the Custodian as Collateral. The Bank may verify Custody Receipts by accessing any information pertaining to Collateral, including any information on any computers owned or leased by the Borrower or the Custodian.

10.0 REMEDIES UPON DEFAULT

10.1 If the Borrower or the Custodian defaults in the performance of any of its obligations under the Lending Agreement or this Custody Agreement, then the Bank may exercise, at its option and without notice or demand, any of the remedies available to it at law or equity, or reserved by it under the Lending Agreement or this Custody Agreement.

10.2 No delay or failure by the Bank to exercise any right or remedy accruing upon an Event of Default or to insist upon strict performance of this Custody Agreement, shall impair any right or remedy, waive any default or operate as an acquiescence to the Event of Default, or affect any subsequent default of the same or of a different nature.

11.0 INDEMNIFICATION

11.1 The Custodian shall exercise reasonable care regarding Collateral held in the Pledge Account and shall indemnify the Bank against any damage, liability, loss, and expense (including court costs, reasonable attorneys' fees, and litigation costs) incurred by the Bank by reason of either the negligence or willful misconduct of the Custodian or its directors, employees or agents regarding any obligation under this Custody Agreement. The Custodian is not liable under this indemnity to the extent any damage, liability, loss, and expense is incurred by the Bank as a result of the Bank's failure to exercise reasonable care. The Bank will endeavor to give the Custodian prompt written notice of any claim that such Reserve Bank may have hereunder.

11.2 With respect to any claim of the Bank concerning Collateral held by the Custodian, in addition to any other remedy available to the Bank at law or in equity, the Borrower's claim against the Custodian with respect to Collateral is subordinated to the Bank's claim.

12.0 RELEASE OF COLLATERAL

12.1 Subject to the provisions of the Lending Agreement and provided that the Borrower is not then in default on any other Obligation to a Reserve Bank, at the Borrower's request, the Bank will instruct the Custodian to release and return Collateral to the Borrower when the Bank is satisfied that Obligations of the Borrower have been repaid in full.

13.0 MISCELLANEOUS

- 13.1 The Bank does not bear any risk of loss to the Collateral held by the Custodian or in transit between the Custodian or the Borrower and the Bank.
- 13.2 Any Custody Receipt received by the Bank from the Custodian that lacks the Custodian's manual signature or endorsement has the same force and effect as if issued and signed or endorsed manually by a duly authorized employee of the Custodian. Each Custody Receipt binds the Custodian and the Borrower and their successors and assigns.
- 13.3 In the absence of contrary instructions, the Custodian may rely conclusively upon any document received by it from the Bank if executed by a person authorized on a written signature list provided by the Bank to the Custodian. The Custodian shall have no duty of further inquiry regarding the authenticity of such document.
- 13.4 This Custody Agreement is binding on the receivers, administrators, successors, assigns, and legal representatives of the Borrower and the Custodian, and inures to the benefit of the Bank, its successors, and assigns.

14.0 AMENDMENT

- 14.1 The Bank, in its sole discretion, may amend this Custody Agreement without prior notice at any time. By delivering Collateral to the Custodian or maintaining Collateral in the Pledge Account after any such amendment, both the Borrower and the Custodian agree to such amendment(s).

15.0 NOTICE

- 15.1 Unless otherwise specified by the Bank, any notice required by this Custody Agreement shall be: (a) sent by first-class mail, postage prepaid; (b) personally delivered; or (c) sent by telecopy, facsimile or electronic means to a number or electronic address identified by the intended recipient (and, in such case, confirmed by prepaid, first-class mail). If sent by the Bank, the notice must be addressed as indicated to the Bank in writing by the Borrower or the Custodian. If sent by the Borrower or the Custodian, the notice must be addressed to the credit function at the Bank's head office.
- 15.2 The Borrower or the Custodian is deemed to have delivered any notice required hereunder when the notice is received by the credit function at the Bank's head office. The Bank is deemed to have delivered any notice required hereunder when the notice is sent. If the notice is sent by the Bank only via first-class mail, however, the notice is effective three days after it is deposited in any United States postal box.

16.0 TERMINATION

- 16.1 The Bank or the Borrower may terminate this Custody Agreement by giving written notice of termination to the other parties. The rights and liabilities of the Custodian under this Custody Agreement survive the termination of the Custody Agreement until the Collateral held by the Custodian has been properly transferred to the Bank, the Borrower, or another custodian designated by the Borrower and acceptable to the Bank. Termination of this Custody Agreement is not effective until the Custodian and/or the Borrower, at the Borrower's expense, deliver(s) to the Bank, Collateral held by the Custodian in the Pledge Account or otherwise in the amount

necessary to secure any outstanding Obligations as well as any documents that the Bank requires to effect the Bank's interest in such Collateral, including, but not limited to, endorsements, assignments, or powers of attorney.

- 16.2 The Custodian may resign by giving not less than 60 calendar days' prior written notice to both the Bank and the Borrower. On or prior to the effective date of its resignation, the Custodian shall deliver to the Bank, or to any successor custodian designated by the Bank and the Borrower in writing, all items of Collateral in the Pledge Account or otherwise held by the Custodian for the benefit of the Bank under this Custody Agreement, without recourse, representations, or warranties of any kind, except as to acts or omissions or failures to act of the resigning Custodian or claims against the resigning Custodian arising under this Custody Agreement prior to, or on the effective date of, the Custodian's resignation.

17.0 GOVERNING LAW

- 17.1 This Custody Agreement is governed by Federal law and, to the extent not inconsistent therewith, the law of the State in which the Bank's head office is located, excluding that State's law regarding the conflicts of law.

18.0 EFFECTIVE DATE/STATUS OF PREVIOUS AGREEMENTS

- 18.1 This Custody Agreement is effective when the Bank accepts the letters of agreement in Exhibits 1 and 2 and, at that time, it supersedes any previous agreement relating to the subject matter hereof. This Custody Agreement incorporates the entire understanding of the parties with respect to custody of Collateral pledged to the Bank to secure any Advance Repayment Amount and Indebtedness of the Borrower.

Exhibit 1 to Appendix A

LETTER OF AGREEMENT FOR DESIGNATING A THIRD-PARTY CUSTODIAN
[Letterhead of Depository Institution]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

To Whom It May Concern:

In order to be able to request advances from you, or incur other indebtedness to you, and in consideration of your making advances and allowing us to incur indebtedness secured by our pledge to you of collateral that you will permit a custodian to hold in safekeeping for you, and to secure any advance, indebtedness or other obligation to you that we may incur after making that pledge of collateral, we agree to the provisions of Appendix A ("Custody Agreement") to your Operating Circular No. 10, effective January 2, 1998, as amended from time to time. We designate _____ as the Custodian under the Custody Agreement.

Name of depository institution

By: _____
Authorized signature(s)

Name(s)

Title(s)

Exhibit 2 to Appendix A

LETTER OF AGREEMENT FOR A THIRD-PARTY CUSTODIAN
[Letterhead of Custodian]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

We agree to act as Custodian for collateral pledged by _____ (“Institution”)
Name of depository institution

to secure the repayment of indebtedness owed to you by such Institution and, as such, to be bound by the provisions of Appendix A (“Custody Agreement”) to your Operating Circular No. 10, effective January 2, 1998, as amended from time to time. Notices required under the Custody Agreement should be sent to

List department(s) or function(s), and address(es)

We acknowledge that it is our responsibility to ensure that we have in our possession current copies of the Custody Agreement and the Circular.

Name of Custodian

By: _____
Authorized signature(s)

Name(s)

Title(s)

Appendix B

BORROWER-IN-CUSTODY OF COLLATERAL AGREEMENT

1.0 SCOPE

- 1.1 If the Bank approves, the Borrower may hold Collateral securing Obligations by executing a Letter of Agreement for Borrower-in-Custody ("BIC") in the form of Exhibit 1 to this Appendix.
- 1.2 This BIC Agreement supplements the Lending Agreement and the terms of the Lending Agreement are incorporated herein. Capitalized terms in this BIC Agreement have the same meaning as defined in the Circular.
- 1.3 In the event of a conflict between the other provisions of the Lending Agreement and the provisions of the BIC Agreement, the provisions of the BIC Agreement control.

2.0 STATUS

- 2.1 The BIC acts as the Bank's agent in holding Collateral to secure any Obligation and acts in this capacity without any right of compensation from the Bank. Each item of Collateral is deemed to be in the possession of the Bank as though the Collateral had been deposited at the Bank's premises, and any Collateral the BIC holds is held in trust for the Bank.

3.0 COLLATERAL

- 3.1 Collateral which may be held by a BIC is generally limited to certain types of loans and certificated securities that will be specified by the Bank.
- 3.2 The BIC shall provide a Collateral Schedule identifying the items Pledged to the Bank as Collateral and held by the BIC. Each Collateral Schedule shall identify the Collateral in accordance with the Bank's written instructions. Collateral Schedules must be updated at least monthly (or more frequently at the Bank's request).
- 3.3 The BIC shall maintain records sufficient to demonstrate compliance with the Lending Agreement. The BIC shall also furnish such other information with respect to the Collateral as the Bank may reasonably desire from time to time.
- 3.4 Upon the Bank's request, the BIC shall at all times segregate Collateral from its own assets or the assets of any other party and shall hold Collateral in such location(s) approved by the Bank. Unless otherwise provided herein, Collateral shall not be removed from such location(s) without the prior written approval of the Bank.
- 3.5 Collateral shall be prominently identified as Pledged to the Bank and subject exclusively to the Bank's written instructions. At the Bank's request, the BIC shall, without delay, prominently and conspicuously affix a legend to items of Collateral indicating that such items are subject to a security interest in favor of the Bank.
- 3.6 The BIC shall mark its records to show that Collateral has been pledged to the Bank and is subject exclusively to the Bank's written instructions. Any computer generated list or report containing Collateral must incorporate a legend indicating that Collateral is pledged to the Bank.

- 3.7 The BIC shall follow any other procedures specified in writing by the Bank.
- 3.8 At all times, the BIC bears the risk of loss to the Collateral and shall promptly Pledge replacement Collateral, acceptable to the Bank, of equal or greater value in the event of the destruction, disappearance, theft, or unauthorized release of the Collateral.

4.0 WITHDRAWAL AND SUBSTITUTION OF COLLATERAL

- 4.1 Except as otherwise provided herein, the BIC may withdraw or release Collateral only if specifically authorized by the Bank in writing.
- 4.2 The BIC may withdraw Collateral, or replace Collateral with Collateral that is specifically approved by the Bank, if:
 - (a) the BIC provides the Bank with prior written notice of the BIC's intention to withdraw or substitute Collateral and submits a new Collateral Schedule listing all Collateral remaining Pledged to the Bank; and
 - (b) within ten days of receiving the BIC's written notice, the Bank does not object in writing to such withdrawal or substitution. If the Bank so objects, the BIC may only withdraw the Collateral if the Borrower Pledges new Collateral acceptable to the Bank or reduces the amount of any Obligation to an amount satisfactory to the Bank.
- 4.3 Unless otherwise specified by the Bank in writing, the BIC shall promptly withdraw the following Collateral:
 - (a) any Collateral that has a payment of principal or interest past due, in whole or in part, for more than 30 days (or 60 days past due for mortgage notes, and other types of consumer debt, including student loans);
 - (b) any Collateral that has been paid in full by the obligor; or
 - (c) any Collateral if the obligor on such Collateral becomes insolvent, or if a receiver, custodian, or the like is appointed for the obligor.

Prior to such withdrawal, however, the BIC shall update any relevant Collateral Schedule(s) and provide substitute Collateral acceptable to the Bank.

5.0 REPRESENTATIONS, WARRANTIES, AND COVENANTS

- 5.1 The BIC represents and warrants that if Collateral is subject to internal loan ratings, it has been reviewed according to the Borrower's internal loan review system, and the risk ratings assigned to the Collateral are accurate.
- 5.2 The BIC will provide for periodic audits of assets pledged to the Bank, and will notify the Bank immediately of any irregularities discovered during the process of such audits. At a minimum, the BIC will provide the Bank annually with a certification of compliance with the terms of this BIC Agreement.

6.0 RIGHT TO INSPECT

- 6.1 The Bank may inspect the location(s) where Collateral is kept and any item of Collateral to verify the BIC's compliance with the terms of this BIC Agreement. At any time reasonably deemed necessary by the Bank, the BIC shall grant the Bank access to the BIC premises and Collateral, as well as access to information pertaining to the Collateral on any computers owned or leased by the BIC.

7.0 DELIVERY OF COLLATERAL TO THE BANK

- 7.1 The Bank may require delivery and take possession of Collateral or any item of Collateral at any time without prior notice to or the consent of the BIC. Upon the Bank's demand, the BIC shall assemble and make such Collateral available to the Bank as the Bank directs, including arranging and paying for its transportation. The BIC shall execute any endorsements, assignments or powers of attorney to effect transfer or disposition of such Collateral to the Bank or as otherwise directed by the Bank.

8.0 TERMINATION

- 8.1 The Bank or the BIC may terminate this BIC Agreement by giving written notice of termination to the other party in the manner specified in the Circular's Credit and Security Terms. When given by the Bank, the notice is effective immediately. Subject to the requirements of Paragraph 8.2, when given by the BIC, the notice is effective when received by the credit function at the Bank. The rights and liabilities of the parties under a BIC arrangement survive any termination of the BIC arrangement until all Obligations of the Borrower to a Reserve Bank that arose before termination have been satisfied in full in immediately available and finally collected funds.
- 8.2 Termination is not effective until the BIC, at its expense, delivers to the Bank Collateral and any relevant documents, including endorsements, assignments, or powers of attorney, that the Bank requires to secure any outstanding Obligations.

9.0 EFFECT ON PREVIOUS BIC AGREEMENT

- 9.1 This BIC Agreement supersedes any previous BIC Agreement executed by the Borrower.

Exhibit 1 to Appendix B

LETTER OF AGREEMENT FOR BORROWER-IN-CUSTODY

[Letterhead of the Borrower's Head Office]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

In consideration of being able to request advances from you and your making advances to us secured by our pledge to you of collateral that you will permit us to hold in safekeeping for you, and to secure any advance or indebtedness or other obligation to you that we may incur, we agree to the provisions of Appendix B to your Operating Circular No. 10, effective January 2, 1998, as amended from time to time.

Full legal name of Borrower

By: _____
Authorized signature(s)

Name(s)

Title(s)

Sample

Appendix C

CORRESPONDENT CREDIT AND PAYMENT AGREEMENT

1.0 SCOPE

- 1.1 This Appendix sets forth the agreement (“Correspondent Agreement”) among the Bank, a Borrower, and another depository institution that maintains an Account and is designated by the Borrower as its Correspondent (“Correspondent”) under which the Bank may make an Advance to and obtain repayment from the Borrower through the Correspondent.
- 1.2 For the Borrower to receive an Advance under the Correspondent Agreement, the Borrower and the Correspondent must obtain the prior approval of the Bank and execute a letter of agreement in the form of Exhibit 1 of this Appendix.
- 1.3 The Correspondent Agreement supplements the Lending Agreement and the terms of the Lending Agreement are incorporated herein. Capitalized terms in the Correspondent Agreement have the same meaning as defined in the Circular.
- 1.4 In the event of a conflict between the other provisions of the Lending Agreement and the provisions of the Correspondent Agreement, the provisions of the Correspondent Agreement control. The terms of the Correspondent Agreement shall also prevail over any inconsistent terms in any other account agreement between the Correspondent’s Reserve Bank and the Correspondent regarding the operation of the Correspondent’s Account.

2.0 ADVANCE

- 2.1 If the Borrower applies for an Advance, the Borrower authorizes the Correspondent to provide any information requested by the Bank regarding the Borrower’s credit position and any extension of credit made by the Correspondent to the Borrower. The Correspondent shall provide such information promptly.
- 2.2 Any credit entry made to the Correspondent’s Account by the Bank for the benefit of the Borrower constitutes an Advance to the Borrower in accordance with the terms of the Lending Agreement, and such Advance shall be held in trust by the Correspondent for the Borrower and shall not be subject to any lien or right of set-off by the Correspondent.
- 2.3 The Borrower is solely responsible for notifying the Correspondent of any incoming credit to the Correspondent’s Account for an Advance on the day the Advance is requested. The Borrower’s failure to give such notice does not affect the rights and obligations of the Bank and the Correspondent with respect to each other under this Correspondent Agreement.

3.0 NOTICE OF DEBIT AND CREDIT

- 3.1 The Bank shall send to the Borrower and the Correspondent an advice of any credit or debit posted to the Correspondent’s Account made pursuant to the Correspondent Agreement by the next Business Day following the credit or debit. The advice to the Correspondent shall be sent to an employee identified by the Correspondent in Exhibit 1. If the Correspondent does not furnish a list of employees to the Bank, or if in the Bank’s opinion it is not feasible to direct a notice to a named individual due to the medium used (e.g., a computer-generated notice), then the Bank may give an advice or notice required under this Agreement to any officer of the Correspondent.

- 3.2 Any credit or debit posted to the Correspondent's Account by the Bank under this Correspondent Agreement constitutes authority for the Correspondent, consistent with applicable law, to credit or debit, respectively, the Borrower's account on its books for the amount of the credit or debit.

4.0 REPAYMENT

- 4.1 An Advance Repayment Amount is due in accordance with Paragraph 5.1 of the Credit and Security Terms. This obligation remains notwithstanding nonreceipt of the Advance by the Borrower after the Advance is credited to the Correspondent's Account.
- 4.2 Any funds deposited with the Correspondent by the Borrower for the purpose of repaying an Advance Repayment Amount are held in trust for the Bank and are not subject to any lien or right of set-off by the Correspondent.
- 4.3 Except as otherwise agreed by the Bank in writing, the Borrower and the Correspondent authorize the Bank, or the appropriate Reserve Bank, to debit the Correspondent's Account for the Advance Repayment Amount in full when the Advance Repayment Amount is due. The Borrower shall ensure that sufficient funds are made available to the Correspondent to pay this amount. Unless otherwise agreed, the Borrower shall promptly reimburse the Correspondent for the amount of any debit made to the Correspondent's Account hereunder.
- 4.4 Unless the Correspondent in writing irrevocably waives all rights to contest a debit to its Account to pay the Borrower's Advance Repayment Amount, the repayment is considered provisional and the Bank retains an unimpaired security interest in Collateral Pledged by the Borrower to secure the Advance Repayment Amount until the Correspondent is deemed to have unconditionally approved the debit under Paragraph 5.

5.0 CORRESPONDENT'S APPROVAL OF A DEBIT

- 5.1 If, after making a good faith effort, the Correspondent has not received the full amount of the Advance Repayment Amount from the Borrower, then the Correspondent may instruct the Bank, up until one hour before the Advance Repayment Amount is due, not to debit the Correspondent's Account for the amount that the Correspondent has not received.
- 5.2 In addition, if the date and time an Advance Repayment Amount is due is accelerated pursuant to Paragraph 5.1 of the Credit and Security Terms and becomes immediately payable, and if the Correspondent is not provided with advance notice of said acceleration, then the Correspondent may instruct the Bank to reverse the debit by giving the Bank notice before the close of Fedwire on the day the Advance Repayment Amount becomes immediately payable.
- 5.3 Upon receiving such an instruction, the Bank will not debit the Correspondent's Account for the amount the Correspondent states it has not received from the Borrower, or will reverse the debit, as the case may be. The Bank is not required to inquire into the basis for or validity of any such instruction before acting upon it.
- 5.4 Upon receiving such an instruction from the Correspondent, the Advance Repayment Amount is immediately due and payable and the Bank may exercise any remedies available to it, including any remedies available under the Lending Agreement, to obtain full repayment of the Advance Repayment Amount.

- 5.5 If the Correspondent fails to instruct the Bank not to debit the Correspondent's Account before the Advance Repayment Amount is due as provided in Paragraph 5.1, or to reverse the debit as provided in Paragraph 5.2, the Correspondent is deemed to have unconditionally approved the debit and the Correspondent has no right to refuse or contest the debit.
- 5.6 If the Correspondent receives funds from the Borrower to pay the Advance Repayment Amount after the Correspondent instructed the Bank to not debit the Correspondent's Account, then the Correspondent shall promptly revoke its instruction.

6.0 MISCELLANEOUS

- 6.1 Unless otherwise agreed by the Bank, the time zone of the Bank's head office is used to determine whether any deadline set forth herein has been met.
- 6.2 No delay or failure by the Bank to exercise any right or remedy accruing upon any Event of Default shall impair any right or remedy, waive any default or operate as an acquiescence to the Event of Default, or affect any subsequent default of the same or of a different nature.
- 6.3 The Bank or the Correspondent's Reserve Bank may record telephone communications between it and the Correspondent or the Borrower regarding any debit or credit to the Correspondent's Account made hereunder.
- 6.4 The Correspondent Agreement is binding on the receivers, administrators, successors, assigns and legal representatives of the Borrower and the Correspondent, and inures to the benefit of the Bank and its successors and assigns. The rights and obligations hereunder, however, may not be assigned by the Borrower or the Correspondent without the prior written consent of the Bank.

7.0 AMENDMENT

- 7.1 The Bank, in its sole discretion, may amend this Correspondent Agreement without prior notice at any time. Any amendment applies only to a transaction under this Correspondent Agreement made on or after the effective date of the amendment.

8.0 NOTICE

- 8.1 Unless otherwise specified in the Correspondent Agreement or by the Bank, all notices required under the Correspondent Agreement shall be: (a) sent by first-class mail, postage prepaid; (b) personally delivered; or (c) sent by telecopy, facsimile, or electronic means to a number or electronic address identified in writing by the intended recipient (and, in such case, confirmed by prepaid, first-class mail). If sent by the Bank, the notice must be addressed as indicated to the Bank in writing by the Borrower or the Correspondent. If sent by the Borrower or the Correspondent, the notice must be addressed to the credit function at the Bank's head office.
- 8.2 The Borrower or the Correspondent is deemed to have delivered any notice required hereunder when the notice is received by the credit function at the Bank's head office. The Bank is deemed to have delivered any notice required hereunder when the notice is sent. If the notice is sent by the Bank only via first-class mail, however, the notice is effective three days after it is deposited in any United States postal box.

9.0 TERMINATION

- 9.1 Any party may terminate this Correspondent Agreement by giving written notice to the other parties. The rights and liabilities of the parties under the Correspondent Agreement survive any termination of it until such time as all Advance Repayment Amounts owed by the Borrower hereunder and the Correspondent's obligations to the Bank under this Agreement have been satisfied in full.

10.0 GOVERNING LAW

- 10.1 The Correspondent Agreement, including any Advance or any other transaction entered into pursuant thereto, is governed by Federal law and, to the extent not inconsistent therewith, the law of the State in which the Bank's head office is located, excluding that State's law regarding conflicts of law.

11.0 EFFECTIVE DATE/STATUS OF PREVIOUS AGREEMENTS

- 11.1 The Correspondent Agreement is effective when the Bank receives the letter of agreement in the form of Exhibit 1 to this Appendix. At that time, the Correspondent Agreement supersedes any and all previous agreements, if any, relating to a Reserve Bank making any Advance to and obtaining payment from the Borrower through the Correspondent.

Exhibit 1 to Appendix C

LETTER OF AGREEMENT FOR OBTAINING ADVANCES
THROUGH A CORRESPONDENT

[Letterhead of Depository Institution]

Date: _____

Federal Reserve Bank of _____
Address
City, State, Zip

Attention:

In order to be able to request advances from you through a correspondent and in order to make payments to you through a correspondent, we agree to the provisions of Appendix C to your Operating Circular No.10, effective January 2, 1998, as amended from time to time. We designate _____ as the Correspondent under that agreement.

Name of depository institution

By: _____
Authorized signature(s)

Name(s)

Title(s)

We agree to act as Correspondent for _____ and, as such, to be bound by the
Name of depository institution

provisions of Appendix C to your Operating Circular No.10, effective January 2, 1998, as amended from time to time. Pursuant to paragraph 3.1 of Appendix C, we are furnishing below a list of individuals to whom the Federal Reserve Bank of _____ may provide an advice of credit or debit entries made under the Correspondent Agreement. These individuals are also authorized to instruct the Reserve Bank not to debit our account or to reverse a debit in accordance with Paragraph 5 of the Correspondent Agreement. We may amend this list from time to time.

Name of Correspondent

By: _____
Authorized signature(s)

Name(s)

Title(s)

Date

Individuals permitted to receive notification of credit or debit entries described in Appendix C and authorized to instruct the Reserve Bank not to debit the Correspondent Account or to reverse a debit:
[list between 3 and 5 employees]

Name

Title

