

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5849]
August 5, 1966]

Collection of Items Requiring Special Handling as Noncash Items

*To All Banking Institutions, and Others Concerned,
in the Second Federal Reserve District:*

Effective September 1, 1967, the Federal Reserve Banks will classify as items requiring special handling all checks, drafts, and similar items received by them on which the payor's routing symbol-transit number has not been preprinted, or post-encoded before their receipt by a Federal Reserve office, in E-13B magnetic ink characters in the manner prescribed and in the location assigned by The American Bankers Association. After that date all such items must be sent to the Federal Reserve offices as noncash items.

On and after that date, all such items sent as cash items will be handled by the receiving Federal Reserve office as follows:

- (a) Items of \$1,000 or more received from banks located outside the city of the receiving Federal Reserve office will be charged back and entered for collection as noncash items; and
- (b) All other items will be charged back and returned.

Since the introduction of the Magnetic Ink Character Recognition Program by The American Bankers Association, bankers have become increasingly aware of the operating problems caused by "headache" items. The term "headache items" is used to describe any of a number of types of non-standard checks, drafts, or similar instruments which, because of their design or size, cause errors or require special handling in present check-handling operations. Efforts have been made and are continuing to be made by The American Bankers Association, individual commercial banks, and the Federal Reserve System to eliminate such items from the check collection system.

Consistent with this program the Federal Reserve Banks previously announced that (1) after January 1, 1964, they would no longer accept as cash items any items that, because of their size, could not be processed in the customary manner through low-speed proof machine equipment, and (2) after January 1, 1965, they would no longer accept as cash items any items containing more than a single thickness of card or paper. With the substantial progress being made by the banks of the country in redesigning their check forms to include the magnetic ink preprinting of their routing symbol-transit numbers, and with the expanded use by the commercial banks and the Federal Reserve Banks of high-speed processing equipment which relies on such preprinting, the Federal Reserve Banks have concluded that it is now appropriate to take this next step of classifying as noncash items all items which do not bear the payor's routing symbol-transit number in magnetic ink characters. Prior to the effective date, depending upon progress shown in the meantime in the elimination of such items from the collection system, further consideration will be given to the matter with a view to determining whether it would be appropriate for the Federal Reserve Banks to take additional action, including possibly the imposition of a collection charge on such items.

We believe you will recognize this action as a constructive and mutually beneficial step toward improving the efficiency of the country's check collection system and minimizing operating problems by eliminating from cash item channels an additional type of "headache" item. We urge you to support the action and solicit your cooperation in complying with it.

We appreciate your support of the action which has been taken to date, and we look forward to your continuing efforts to attain the ultimate goal of having all checks, drafts, and similar items which are to be handled as cash items, fully encoded in accordance with the Magnetic Ink Character Recognition Program of The American Bankers Association.

The Board of Governors of the Federal Reserve System has issued a statement on the above change and on Federal Reserve System studies to improve procedures for handling financial transfers. A copy of the statement is printed below.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.

(Press Release of Board of Governors of the Federal Reserve System)

August 5, 1966.

*For release in morning newspapers
of Monday, August 8.*

The Federal Reserve System is stepping up efforts to increase the use of automation in order to expedite—and cut the cost of—the processes by which it clears millions of checks each day, the System's Board of Governors announced today.

To that end, the Board said, the 12 Federal Reserve Banks have taken a further step—the third since the beginning of 1964—aimed at discouraging the use of checks that cannot be handled by high-speed electronic equipment.

In addition, the Board disclosed, System committees are going forward with studies aimed at:

1. In the early future, replacing the System's present facilities for transferring funds by wire with new equipment that will not only handle the present volume more efficiently but also accommodate the movement of masses of economic data and permit an expanded system of fund transfers by wire for banks, businesses and the public.

2. In the farther future, devising means of making payments more directly and expeditiously than by check—by taking advantage of technological progress in the development of advanced automation and transmission equipment.

3. Also, exploring ways for consummating more money settlements without directly involving Federal Reserve facilities. This might be accomplished by the direct exchange of checks among computer centers or through the wider use of local clearing centers that could more expeditiously handle many of the more than 4½ billion checks now processed annually by the Federal Reserve.

The new step aimed at minimizing the use of checks that cannot be handled by high-speed electronic equipment was made known in letters from the 12 Federal Reserve Banks to all banking institutions in their respective districts, advising that:

“Effective September 1, 1967, the Federal Reserve Banks will classify as items requiring special handling all checks, drafts, and similar items received by them on which the payor's routing symbol-transit number has not been preprinted, or post-encoded before their receipt by a Federal Reserve office, in E-13B magnetic ink characters in the manner prescribed and in the location assigned by The American Bankers Association. After that date all such items must be sent to the Federal Reserve offices as noncash items.

“On and after that date, all such items sent as cash items will be handled by the receiving Federal Reserve office as follows:

“(a) Items of \$1,000 or more received from banks located outside the city of the receiving Federal Reserve office will be charged back and entered for collection as noncash items; and

“(b) All other items will be charged back and returned.”

Thus, while a bank will continue to receive credit in its account at the Federal Reserve Bank within two days for checks bearing the paying bank's identifying routing symbol-transit number in magnetic ink characters that can be “read” by electronic devices, for other checks the presenting bank will receive credit only after collection is actually accomplished—a process that often requires well over two days.

The Reserve Bank letters also noted that, depending upon progress shown over coming months in the elimination from the collection system of checks that cannot be machine-processed, further consideration will be given—before September 1, 1967—“to determining whether it would be appropriate for the Federal Reserve Banks to take additional action, including possibly the imposition of a collection charge on such items.”

“We believe you will recognize this action as a constructive and mutually beneficial step toward improving the efficiency of the country's check collection system and minimizing operating problems by eliminating from cash item channels an additional type of ‘headache’ item,” the Reserve Banks added. “We urge you to support the action and solicit your cooperation in complying with it.

“We appreciate your support of the action which has been taken to date, and we look forward to your continuing efforts to attain the ultimate goal of having all checks, drafts, and similar items which are to be handled as cash items, fully encoded in accordance with the Magnetic Ink Character Recognition Program of The American Bankers Association.”

The letters also recalled earlier steps taken by the Federal Reserve toward eliminating “headache items” from the check clearing process. “Headache items” is the description given to various types of nonstandard checks, drafts or similar instruments that, because of their design or size, cause errors or require special handling in check clearing operations.

In the earlier steps, the Federal Reserve Banks had announced that (1) after January 1, 1964, they would no longer accept as cash items any items that, because of their size, could not be processed in the customary manner through low-speed proof machine equipment, and (2) after January 1, 1965, they would no longer accept as cash items any items containing more than a single thickness of card or paper.

Commenting on the new steps and studies designed to advance the automation of check clearings—already 88 per cent accomplished in Federal Reserve clearing operations—and to develop an improved money transfer and management information system, the Board of Governors said:

“Automation in business and banking record keeping, economic or accounting analysis, and communication is spreading at an accelerating rate. Currently larger and more powerful computers are being used with increasing efficiency and broader application because technology of data transmission has provided for the linkage, on a practical basis, of widely separated sources of data.

“These developments have great significance for the Federal Reserve System, which serves the money settlement needs of the nation through its 36 offices and the offices of its member banks. The technological advances that have been made and are in the process of being applied to data handling and transmission require that the System adapt its facilities as soon as practicable to accommodate financial transfers based on electronic data processing and transmission.

“The System's progress up to this time in coping with automation is indicated by its cooperation in the MICR (Magnetic Ink Character Recognition) program and the substantial conversion of its check processing operation to electronic equipment.

“In moving ahead on this program, the System encourages cooperative efforts by banking groups and other interested parties in the development of an improved country-wide payments system. Its expectation is that as automation makes possible more efficient and expeditious operations in money settlement, the Federal Reserve will be prepared and ready to serve the most advanced technology.”