

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8304]
March 30, 1978

COLLECTION OF CASH ITEMS

*To All Member Banks in the Second Federal
Reserve District, and Others Concerned:*

Effective immediately, Federal Reserve offices will *no longer* handle as cash items checks that have been dishonored two or more times. In order to clearly identify a dishonored check, paying banks are urged to stamp a five-pointed star on the face of an item the first time it is dishonored. The second time an item is dishonored, the paying bank should invalidate its MICR routing number on the face of the item; this will help ensure that the item is not re-presented through Federal Reserve cash item collection channels a third time. This change in policy is being implemented due to the fact that twice-dishonored checks are seldom paid when rehandled through the check collection system. Moreover, after repeated endorsements and handlings, it becomes difficult to return such checks properly and promptly.

In addition, our policy regarding reimbursement for transportation costs for direct-send items has been amended to reflect (a) the System practice of reimbursing certain senders, such as Edge Act Corporations, in addition to member banks, and (b) provisions regarding arrangements for delivering consolidated shipments to locations other than this Bank.

Enclosed are copies of the following documents, reflecting these changes: (a) Seventh Supplement, dated March 28, 1978, to this Bank's Operating Circular No. 4; (b) Eighth Supplement, dated March 28, 1978, to Operating Circular No. 6; and (c) Seventh Supplement, dated March 28, 1978, to Operating Circular No. 8. If you have any questions on these matters, please contact:

Head Office

Jerome P. Perlongo, Manager, Check Adjustment and Return Items Department
(Tel. No. 812-791-5292) (*regarding dishonored checks*)

Henry F. Wiener, Manager, Check Processing Department
(Tel. No. 212-791-5321) (*regarding reimbursement for direct-send cash items*)

Buffalo Branch

Robert J. McDonnell, Operations Officer
(Tel. No. 716-849-5022)

Cranford Office

Fred A. Denesevich, Manager
(Tel. No. 201-272-9000)

Jericho Office

Leonard I. Bennetts, Manager
(Tel. No. 516-997-4500)

Utica Office

Robert C. Thoman, Vice President
(Tel. No. 315-736-8321)

Additional copies of the enclosures will be furnished upon request.

PAUL A. VOLCKER,
President.

FEDERAL RESERVE BANK
OF NEW YORK

Seventh Supplement to
Operating Circular No. 4
(Revised effective July 1, 1974)
March 28, 1978

COLLECTION OF CASH ITEMS

*To All Member Banks in the Second Federal
Reserve District, and Others Concerned:*

Operating Circular No. 4, Revised effective July 1, 1974, is amended as follows:

1. Paragraph 7 has been amended to read as follows:

7. This Bank will not handle any item if the item has been dishonored two or more times. We reserve the right, in our discretion, to return or to handle as a noncash item any item which has been dishonored or if special conditions require that it be handled as a noncash item, and this Bank shall decide whether such special conditions exist.

2. Paragraph 35 has been amended to read as follows:

35. Each sender approved by us which sends cash items direct to other Federal Reserve offices will be reimbursed by us at first class airmail or common carrier rates, whichever is usually lower, but not for insurance, on all such items sent direct under our authority. Similar reimbursements may be made for cash items sent direct to other offices of this Bank. In the interest of expeditious and economical handling, those senders that by arrangement deliver cash items payable in other Federal Reserve Districts to this Bank or any other designated location for consolidated shipment should not deviate from this arrangement except upon prior approval of this Bank. Transportation costs of such consolidated shipments will be paid by us, but senders will not be reimbursed by us for transportation costs and consolidation costs associated with moving direct-send cash items to a designated consolidated shipping point. A sender which has an arrangement with this Bank for consolidated shipment from an office of this Bank located in the same city as the sender, or from any other designated consolidated shipping point, will not normally be reimbursed by us when cash items are sent direct outside of the consolidated shipment, except on Sundays and holidays.

PAUL A. VOLCKER,
President.

[Enc. Cir. No. 8304]

FEDERAL RESERVE BANK
OF NEW YORK

Eighth Supplement to
Operating Circular No. 6
(Revised effective September 21, 1972)

March 28, 1978

INSTRUCTIONS TO COLLECTING BANKS
AND PAYING BANKS

*To All Member Banks in the Second Federal
Reserve District, and Others Concerned:*

Operating Circular No. 6, Revised effective September 21, 1972,
is amended by adding the following new paragraph, 13A:

13A. If the cash item is being dishonored and returned for the first time, the paying bank is urged to stamp a symbol in the form of a five-pointed star (e.g., ★) in the upper right hand area of the face of the item. If the cash item is being dishonored and returned for the second time, the paying bank should invalidate the MICR routing number on the face of the item in such a manner that the item will no longer qualify for handling by high-speed automated check processing equipment. No Federal Reserve Bank shall have any responsibility for handling as a cash item an item whose MICR routing number has not been invalidated as required.

PAUL A. VOLCKER,
President.

[Enc. Cir. No. 8304]

FEDERAL RESERVE BANK
OF NEW YORK

Seventh Supplement to
Operating Circular No. 8
(Revised effective January 1, 1975)
March 28, 1978

COLLECTION OF NONCASH ITEMS

*To All Member Banks in the Second Federal
Reserve District, and Others Concerned:*

Subparagraph (e) of paragraph 5 of Operating Circular No. 8,
Revised effective January 1, 1975, is amended to read as follows:

Items which will not be handled as noncash items

5. This Bank will not handle as a noncash item any item
described in paragraph 3 of this operating circular if

* * *

(e) Unless this Bank in its discretion elects otherwise, the item
has been dishonored two or more times.

PAUL A. VOLCKER,
President.

[Enc. Cir. No. 8304]