

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7319]
January 9, 1974

CHECK COLLECTION SERVICES

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

As part of a program recently adopted by all Reserve Banks, to encourage improved efficiency in the processing of checks among the nation's commercial banks, and to strengthen the future viability of this existing payments mechanism, the following uniform changes in check collection services are announced:

Nonmachineable Checks

Effective July 1, 1974, a close-off hour of 7 a.m. Monday through Friday will be established for immediate- and deferred-credit cash letter deposits consisting of checks which have been rejected as unreadable by the depositing bank's computer systems or bear other physical faults making them unprocessable on high-speed equipment. Credit availability for such deposits will be deferred one additional business day, up to a maximum of two business days.

Non-Amount-Encoded Checks

Effective January 1, 1975, the Federal Reserve Banks will discontinue handling as cash items all checks, drafts, and similar items received by them on which the dollar amount of the items has not been previously encoded in magnetic ink characters in the prescribed location assigned by the American Bankers Association. Thus, the present sort option provided in paragraph 6(a) of our Operating Circular No. 5, entitled "Time Schedules—Availability of Credit for Cash Items," which permits member banks to deposit up to 300 unencoded items daily in a single cash letter, commingled as to credit availability, will be terminated effective January 1, 1975. The sort option of commingling up to 2,000 amount-encoded checks in one cash letter as provided in paragraph 6(b) of our Operating Circular No. 5 will continue in effect.

The restrictive action on nonmachineable checks has been taken to provide necessary time for the processing of such items at slow speeds, and establishes a realistic deferment of credit availability consistent with the time required for collection of the items. This action does not apply to photocopies of checks, which will continue to be handled as cash items in accordance with current provisions of this Bank's operating circulars.

The discontinuance of the handling of checks which do not bear the encoded dollar amounts is another uniform step taken by all Reserve Banks to encourage conformity by all banks with the principle adopted by the American Bankers Association in 1958. An important concept embodied in the original M.I.C.R. plan was that the first bank of deposit in the check-collection cycle should prepare the items for subsequent high-speed handling.

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It is hoped that this prior announcement of the forthcoming changes in procedures will provide ample time for affected banks to acquire the necessary encoding equipment, or alter the capability of existing machinery, to permit continued use of the Federal Reserve System's check collection service. This Bank's Operating Circular No. 5 will be amended to reflect the actions described in this letter; the amended operating circular will be distributed at a later date.

If you are in the Head Office territory and you have any questions regarding this matter, you may contact either of the following: Joseph M. O'Connell, Manager, Check Processing Department (Telephone No. 212-791-5321) or John F. Sobala, Chief, Check Processing Division (Telephone No. 212-791-5320).

If you are in the Buffalo Branch territory, you may contact either of the following (Telephone No. 716-853-1700): Peter D. Luce, Assistant Cashier (Extension 206) or Frederick W. Mortenson, Chief, Check Division (Extension 249).

ALFRED HAYES,
President.