



November 12, 2009

Not Our Item Cash/Return Letter Requirements

Over the last few months, the Federal Reserve Banks have received increased volumes of forward collection and return items in “Not Our Item” (NOI) cash letters. Upon careful review of these items, we have determined that many do not meet the requirements for handling as NOIs through check processing channels. The following paragraphs outline our requirements for handling items as NOIs, as well as describe common situations or conditions that are not eligible for handling. Please review your internal operating procedures to ensure compliance with these requirements.

NOI Cash Letters – Forward Collection

In order for an item to be handled in a NOI cash letter, the item must not contain the routing number of the requesting institution. In addition, the item must have been presented to the requesting institution by a Federal Reserve Bank, source of receipt information associated with that presentment must be provided and the item must be a cash item eligible for automated processing and collection.

Examples of ineligible items include:

- Items which contain the routing number of the requesting institution, even if that institution has determined that the item was not drawn by a customer of the bank. As noted in Operating Circular 3, Section 16.2: “A check, as defined in Section 229.2 of Regulation CC, or an electronic item as defined in section 210.2(i)(2) of Regulation J, that contains the routing number of a bank is considered to be payable by the bank, even if the check or electronic item does not contain the name of the bank or contains the name of another bank. Therefore, a bank that receives a cash item on which it is identified only by routing number shall handle that item as a cash item drawn on it, even if the bank determines that the item was not drawn by a customer of the bank.”
- Mismatched electronic items or substitute checks (i.e., items in which the MICR information associated with the item does not match the MICR information reflected on the image). Mismatched items that cannot be posted should be handled as non-conforming items, and should be submitted through check adjustments channels using the NCH investigation type. Refer to the Quick Reference Guide at FRBservices.org for additional information and requirements regarding these types of adjustments.
- Items not presented by a Federal Reserve Bank.
- Items for which required source of receipt information was not provided.

- Items which do not meet the definition of cash items per Operating Circular 3 (i.e., items other than original items, substitute checks or properly prepared photos in lieu).

NOI Return Letters – Return Item Collection

In order for an item to be handled in an NOI return letter, the return item must not have been endorsed by the requesting institution, either electronically or physically. In addition, the return item must have been returned to the requesting institution by a Federal Reserve Bank, source of receipt information associated with that return must be provided, and the item must be a cash item eligible for automated processing and collection.

Examples of ineligible items include:

- Return items in which the routing number of the requesting institution is reflected in electronic and/or physical endorsements as the bank of first deposit (BOFD), including situations in which another institution is also identified as the BOFD. This may happen when, for example,:
 - The payee physically endorses the back of a check with the routing number of a centralized return provider as the BOFD, and deposits the item with its bank, which then also applies a physical and/or electronic BOFD endorsement
 - A BOFD endorsement is physically applied to a check, and that check is subsequently processed by one or more collecting banks, which also apply physical and/or electronic BOFD endorsements

A paying bank electing to return an item may qualify that return item to any institution identifying itself as the BOFD in either the electronic file (type 26 record) or on the physical item itself, and those institutions may not later claim or direct that the item should have been returned to another institution.

- Return items in which the routing number of the requesting institution is reflected in electronic and/or physical endorsements as having handled the item during forward collection, as well as items that a Federal Reserve Bank returned because processing records indicated the requesting institution handled the item during forward collection but did not endorse the item. A paying bank that is unable to determine the BOFD may qualify a return item to an institution that handled the item in forward collection; similarly, that institution should then return the item to its source or to a previous collecting bank.
- Return items not returned by a Federal Reserve Bank.
- Return items for which required source of receipt information was not provided.
- Return items which do not meet the definition of cash items per Operating Circular 3 (i.e., items other than original items, substitute checks or properly prepared photos in lieu).

Thank you in advance for your efforts to ensure compliance with these requirements. Should you have any questions, please contact your account executive or Check Customer Support at (877) FRB-CHKS or (877) 372-2457.