

# Check Services Basic Check Workflows

## Welcome!

# Objective

This webinar is designed to provide information that will assist you in understanding how items are processed using our Check 21 -Enabled Services. We will cover the basics of Forward Collection and Return Item Processing workflows.

After completing this webinar, you should be able to:

1. Identify the parties involved in creating and processing an item
2. Identify the steps an item takes from deposit to presentment (inclearings) to return
3. Understand the Forward and Return workflows

# Terminology

Before we get started, let's clarify some of the terminology used in this webinar:

- **Bank of First Deposit (BOFD):** The first bank where a check is deposited
- **Cash Item:** Garden-variety checks that are drawn on banks; also includes drafts
- **Cash Letter:** Check industry term that represents a file or package of cash or return items sent between one institution and another

## Terminology continued

- **Credit:** An amount added (plus) to an account
- **Debit:** An amount charged (minus) against an account
- **Deposit:** A deposit of a cash item(s) for presentment or return of an item (s) that has been dishonored
- **Drawee (a.k.a. Paying Institution):** An institution that receives items payable at their institution. The financial institution that is directed to pay a sum of money specified on a check, draft or bill of exchange.

## Terminology continued

- **Forward Collections:** Cash item(s) deposited and received for presentment at the Paying Institution
- **Deposit Notification:** Notice indicating the image file was received and accepted or the image file rejected
- **Image Cash Letter (ICL):** Cash letter deposit, presentment or return of items in the American National Standard Institute (ANSI) X9.37 format for electronic processing

## Terminology continued

- **Maker:** Person or business that writes a check
- **Payee:** Person or business to whom a check is made payable
- **Presentment (a.k.a. Inclearings):** Delivery of a cash item(s) with a demand for payment, made to the Federal Reserve Banks or a financial institution

## Terminology continued

- **Qualified:** Identification of the routing number to which an item is to be returned
- **Reclear:** Redeposit of a previously returned item
- **Returns:** Cash items that have been dishonored, unable to clear the Maker's account, and are being returned, generally, to the BOFD. When returned to the BOFD they are referred to as "*charge backs*".

## Terminology continued

- **Sending Bank:** The institution that sends a Cash or Return Letter to the Federal Reserve for processing
- **Source of Receipt (SOR):** Information indentifying where an item came from, including the routing number and the associated cash/return letter information (date, cash/return letter and bundle total, sequence number, item before and after)
- **Transit Items (a.k.a. Not on Us):** Checks deposited at an institution but are not payable at that institution



## Basic Check Flow – Forward

- Begins with a transaction between the Maker and the Payee, typically involving a physical check
- The Payee deposits the check, i.e. with your institution
- Common ways you receive a deposit:
  - Merchant/Business remote capture
  - Physically at your institution, i.e. the Payee walks in or uses the drive through
  - An ATM machine
  - Smart Phone
- In each instance, the physical item is scanned or “captured”

## Basic Check Flow – Forward continued

- During the capture process:
  - An image is created
  - Data from the item is read
  - The item is formatted as a jpeg image
- Processed electronically and becomes the legal item
- Check Processing software will:
  - Aggregate the items from the various deposit sources into an aggregation point, i.e. your back office
  - Separate the on-us items from the transit items
  - Properly format the items
- **Important:** These items must contain your physical or electronic endorsement

## Basic Check Flow – Forward continued

- Transit items are processed through Forward Collections
- The software accumulates your deposits into digital packages called Image Cash Letters (ICLs)
  - Transmit to the Federal Reserve
- ICLs are sent using FedLine<sup>®</sup> Solutions
- As quick as logging into your computer and sending an email
- Receive a Deposit Notification (Accepted) – file transmitted successfully
- Once the file has been processed, your master or settlement account will be credited for the amount of the file(s)

## Basic Check Flow – Forward continued

- When you send the ICL you become our source of receipt (SOR)
- If you are the first institution to accept the item from the Payee, you are also the BOFD
- **Important:** There are deposit deadlines and fees associated with deposits made to the Federal Reserve Banks
  - Refer to your Account Executive for more information

## Basic Check Flow – Forward continued

- In the unlikely event the file rejects, you will receive a Deposit Notification (Rejected)
  - State the reason the file rejected  
A few examples include:
    - Duplicate file
    - Too many critical errors
- Contact Customer Support should you need assistance

## Basic Check Flow – Forward continued

### Image Cash Letter from Sending Bank... to the FRB

Sending Bank A  
Sending Bank C  
Sending Bank ABC  
Sending Bank CLR

### Image Cash Letter from the FRB to Paying Institution...

Paying Institution IBJ  
Paying Institution Q  
Paying Institution DLC  
Paying Institution B



## Basic Check Flow – Forward continued

As the Paying Institution, when you receive an ICL from the Federal Reserve:

- Log on to FedLine Solutions (just as you did to send the ICL file to us)
- Download the inclearing file
- Save it to your system
  - Just as quick, if not quicker, than sending the ICL file
- Use your software program (possibly the same one used to send the ICL file) to open the inclearing file
  - Connect to your CORE system
  - Post the items to your customer's account

## Basic Check Flow – Forward Recap





## Basic Check Flow – Return Item Processing

- In some instances, as the Paying Institution, you may be unable to post the item to the Maker's account; common reasons include:
  - Stop Payment
  - Account Closed
  - Non-Sufficient Funds (NSF)
- May elect to return the item to the Federal Reserve
  - Return to the BOFD

## Basic Check Flow – Return Item Processing continued

- Your CORE system will create an exception list of items that did not post to the Maker's account
- Determine whether or not to “pay” an item
- Some items will need to be returned
  - Must contain the reason for return
- The CORE system will transmit the “no pay” list to your Check Processing software
  - Generates an electronic Return Image Letter

## Basic Check Flow – Return Item Processing continued

- Use FedLine Solutions to send the Return Letter – similar to the Forward ICL
  - Receive a Deposit Notification – file accepted
  - Receive a Deposit Notification – file rejected, i.e. duplicate file
  - Receive a credit when the file has been processed
- **Important:** Guidelines and timelines in place for returning an item
  - Refer to sources such as Regulation (Reg) J, Reg CC and Operating Circular 3 (OC 3) for more information

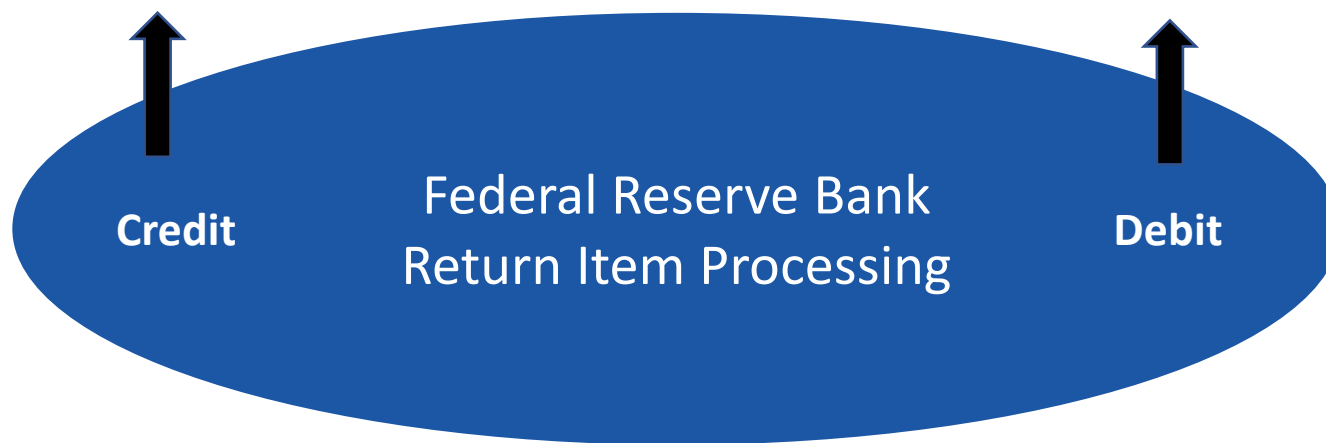
## Basic Check Flow – Return Item Processing continued

### Image Return Letter from Sending Bank... to the FRB

Sending Bank IBJ  
Sending Bank Q  
Sending Bank DLC  
Sending Bank B

### Image Return Letter from the FRB to BOFD...

BOFD A  
BOFD C  
BOFD ABC  
BOFD CLR



## Basic Check Flow – Return Item Processing continued

- As the BOFD when you receive Return Image Letters from the Federal Reserve:
  - Log on to FedLine Solutions to download the file (similar to downloading the inclearing file)
  - Use your software program to open the file
- Determine how to handle the return items:
  - For example, an item was returned NSF
    - Reclear the item
    - Charge back to the Payee
- Reclear the item
  - Forward collection process begins all over
  - **Important:** You should **not** deposit an item more than two (2) times
    - Refer to OC 3 for more information

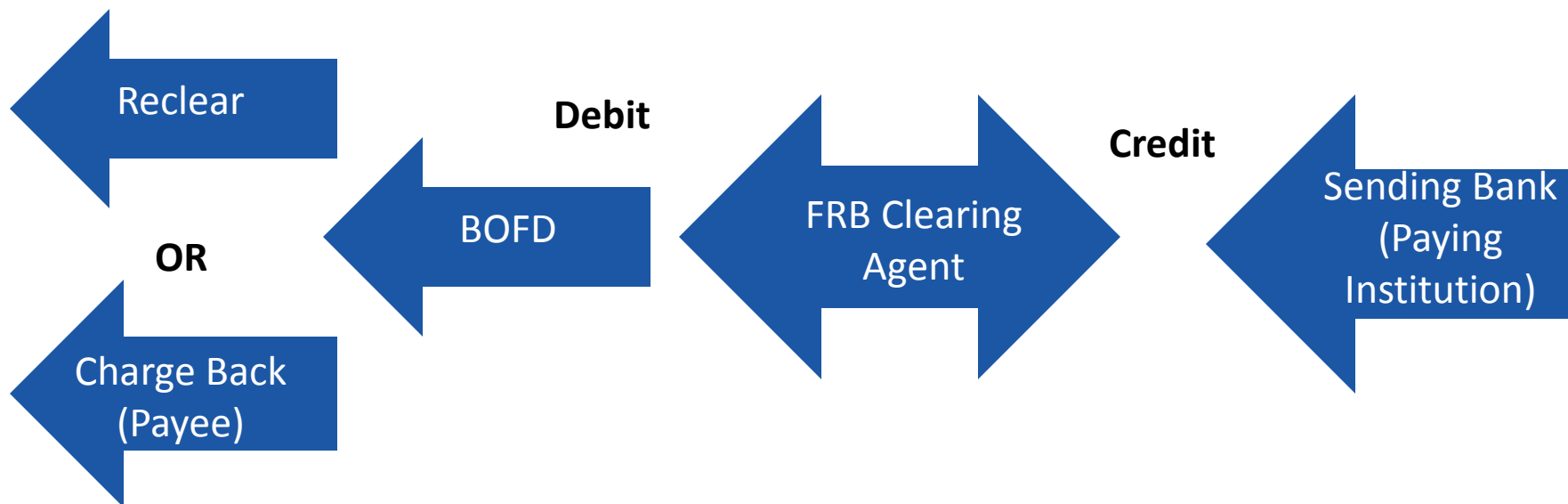
# Basic Check Flow – Return Item Processing Recap

## Forward Process – Recap



# Basic Check Flow – Return Item Processing Recap continued

## Return Item Process – Recap



# Getting Started

- Certain forms and service agreements are required to begin using Check Services. For example, to send and receive an ICL:
  - FedLine & FedMail® Access forms
    - Federal Reserve Bank End User Authorization Contact (EUAC) Form for FedLine Web®, FedLine Advantage® and Federal Reserve Bank External Subscriber Credential Form
  - Check Services forms
    - Check 21-enabled Service agreement & set up (v5.9)
- Refer to Check Services Setup page on [FRBservices.org](https://FRBservices.org)<sup>SM</sup> for service and access setup details.



## Getting Started continued

- You should also read OC 3 ([www.FRBservices.org](http://www.FRBservices.org)) for detailed information on the Collection of Cash Items and Return Checks
- You will work with your Account Executive and other support staff
  - Assign an Operations Specialist to guide you through the process
- Vendor Community
  - Closely involved
  - Working relationship with the Federal Reserve

# Contact Us

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### Find Your Contacts

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# Conclusion

We hope the information we've shared will assist you in understanding how items are processed using our Check 21 -Enabled Services and now that you have completed this webinar, you should be able to:

1. Identify the parties involved in creating and processing an item
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Check Services  
Basic Check Workflows  
Thank You!