



FEDERAL RESERVE BANK
OF DALLAS

HELEN E. HOLCOMB
FIRST VICE PRESIDENT AND
CHIEF OPERATING OFFICER

January 14, 2000

DALLAS, TEXAS
75265-5906

Notice 2000-03

TO: The Chief Operating Officer of each
financial institution and others concerned
in the Eleventh Federal Reserve District

SUBJECT

Uniform Endorsement Standard

DETAILS

The Federal Reserve is reviewing bank of first deposit (BOFD) endorsement quality to determine the extent to which depository institutions meet the uniform endorsement standard established in Regulation CC, which became effective September 1, 1988. Appendix D (Endorsement Standards) of Regulation CC and an illustration of a correct BOFD endorsement are attached for your convenience.

To improve endorsement quality and reduce the risks associated with return item processing, we request that each depository institution review its endorsement practices to ensure compliance with the established standard (see attachments). Although the Federal Reserve is responsible for improving the efficiency of the payments system, the return item process can be improved without intervention if all depository institutions consistently follow the mandatory endorsement standard.

Poor endorsement quality by a BOFD decreases the efficiency of the return item process. All depository institutions pay for this inefficiency through additional risk of loss and higher costs. Subsequent endorsers who fail to follow the endorsement standard also increase the risk associated with return item processing. The following examples illustrate common endorsement practices that do not meet the endorsement standard established in Regulation CC, Appendix D.

- Missing or illegible endorsements from the BOFD;
- The BOFD not using dark purple or black ink for its endorsement;

- The BOFD not placing its endorsement in the appropriate location (see attachments);
- The BOFD not including its nine-digit routing number in the BOFD endorsement;
- Subsequent endorsers placing their endorsement stamps over the BOFD endorsement;
- Subsequent endorsers using their BOFD endorsement stamp; and
- Subsequent endorsers using dark purple ink.

A clear, legible, and undisturbed BOFD endorsement is key to an efficient return item process. A legible BOFD endorsement allows the paying bank and returning bank(s) to return an item qualified for automated processing, which is cleared more quickly through the return item processing chain than an unqualified or “raw” return. Raw return items require the Federal Reserve and the paying bank to research the source of receipt prior to processing. This research, unnecessary for properly qualified return items, delays the return and increases the risk to the depository bank that funds will be withdrawn from an account before the item is returned.

To prepare a return item for automated processing, the paying or returning bank must strip or sleeve the item and encode the strip or sleeve with the routing number of the BOFD, the amount of the check, and the return identifier. Certain practices are not appropriate when qualifying return items and may result in a qualified item being handled as a raw return item by the Federal Reserve. Several examples of inappropriate practices are outlined below.

- The paying bank depositing an item as a qualified return item and incorrectly encoding a Federal Reserve routing number as the BOFD;
- Returning an item as qualified that bears no BOFD endorsement;
- Encoding account numbers on the qualified return item;
- Failing to include the return item identifier “2” in position 44 on the MICR line;
- Encoding a routing number that is not the BOFD; and

- Using strips that fall off the return item.

The efficiency of the return item process, and ultimately the payments system, can be improved by increasing the percentage of checks that are appropriately endorsed. Please review the endorsement practices at your institution to ensure continued adherence to the endorsement standard established in Regulation CC. We appreciate your continued support of an efficient return item process.

ATTACHMENTS

Attached are Appendix D (Endorsement Standards) of Regulation CC and an illustration of a correct BOFD endorsement.

MORE INFORMATION

If you have any questions about endorsement requirements, or if you would like assistance from Federal Reserve staff in addressing return item processing issues, please contact Don Jackson, (214) 922-5431, at the Dallas Office; Jane Pyke, (915) 521-8244, at the El Paso Branch; Louis Moore, (713) 652-1581, at the Houston Branch; or Barbara Lynch, (210) 978-1670, at the San Antonio Branch.

For additional copies of this Bank's notice, contact the Public Affairs Department at (214) 922-5254 or access our web site at <http://www.dallasfed.org/banking/notices/index.html>.

Sincerely,

A handwritten signature in black ink that reads "Helen E. Holcomb". The signature is written in a cursive style with a large, prominent "H" and "E".

REGULATION CC

APPENDIX D—Endorsement Standards

1. The depository bank shall endorse a check according to the following specifications:
 - The endorsement shall contain
 - the bank's nine-digit routing number, set off by arrows at each end of the number and pointing toward the number;
 - the bank's name/location; and
 - the endorsement date.
 - The endorsement may also contain
 - an optional branch identification;
 - an optional trace/sequence number;
 - an optional telephone number for receipt of notification of large-dollar returned checks; and
 - other optional information provided that the inclusion of such information does not interfere with the readability of the endorsement.
 - The endorsement shall be written in dark purple or black ink.
 - The endorsement shall be placed on the back of the check so that the routing number is wholly contained in the area 3.0 inches from the leading edge of the check to 1.5 inches from the trailing edge of the check.¹
2. Each subsequent collecting bank endorser shall protect the identifiability and legibility of the depository bank endorsement by:
 - including *only* its nine-digit routing number (without arrows), the endorsement date, and an optional trace/sequence number;
 - using an ink color other than purple; and
 - endorsing in the area on the back of the check from 0.0 inches to 3.0 inches from the leading edge of the check.
3. Each returning bank endorser shall protect the identifiability and legibility of the depository bank endorsement by:
 - using an ink color other than purple;
 - staying clear of the area on the back of the check from 3.0 inches from the leading edge of the check to the trailing edge of the check.

¹ The leading edge is defined as the right side of the check looking at it from the front. The trailing edge is defined as the left side of the check looking at it from the front. See American National Standards Committee on Financial Services *Specification for the Placement and Location of MICR Printing, X 9.13*.

Check Front

Trailing Edge

Leading Edge

John Doe 456
 123 Doe Run
 Hometown, State

DATE _____ 19__

PAY TO THE
 ORDER OF _____ \$ _____

_____ Dollars

ABC Bank

(over)

Check Back

Leading Edge

Trailing Edge

(SUBSEQUENT COLLECTING BANK)	(DEPOSITORY BANK)	(PAYEE)
← 3" →	→ 1234-5678-0 ← YOUR BANK 456 Doe Run Hometown, State September 28, 1999 NOTE: The Depository Bank must endorse using dark purple or black ink. The use of dark purple ink is encouraged.	← 1" →