



IMAGE INDUSTRY BEST PRACTICES DOCUMENT

BANK OF FIRST DEPOSIT (BOFD) ENDORSEMENT RECORDS: *TECHNICAL DESCRIPTION FOR FINANCIAL INSTITUTION VENDOR COMMUNITY*

VERSION 1.0
JANUARY 2009

FOR MORE INFORMATION:
VISIT WWW.I3GGROUP.COM

i3G: Image Industry Best Practices Document

BOFD ENDORSEMENT
RECORD: TECHNICAL
DESCRIPTION FOR
FINANCIAL
INSTITUTION VENDOR
COMMUNITY

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
ELECTRONIC ENDORSEMENT RECORDS	3
FORWARD COLLECTION	3
RETURNS	4
ELECTRONIC ENDORSEMENT SCENARIOS	4
BOFD IS THE TRUNCATING INSTITUTION – NO SPECIAL RETURNS ROUTING:	5
BOFD IS THE TRUNCATING INSTITUTION – SPECIAL RETURNS ROUTING:	5
INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – THE BOFD IS KNOWN – NO SPECIAL RETURNS ROUTING:	5
INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – THE BOFD IS KNOWN – SPECIAL RETURNS ROUTING:	6
INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – BOFD UNKNOWN: ...	6
IDENTIFYING THE BOFD FOR RETURN ITEM PROCESSING	6
CONCLUSION	7
FURTHER INFORMATION/REFERENCES	8
ABOUT I3G	8
CONTACT INFO	8

EXECUTIVE SUMMARY

The Check Clearing Act for the 21st Century (Check 21), enacted by US Congress in 2003, intended to make the US payment system more efficient by encouraging the financial services industry to adopt image based check technologies and electronic processing capabilities (image exchange). While the payments system has realized many efficiencies from check image technology as a whole, the electrification of checks has exacerbated particular operational issues which impedes the realization of the full value of image adoption.

One particular issue is the lack of understanding the purpose and use of electronic endorsement records in image files and the subsequent disposition of items being returned. The result? A slow and costly returns process that negatively impacts the ability of a financial institution to accurately and expeditiously return an item to the bank of first deposit. This paper will lay out, from a technical standpoint, the best practices approach for populating and using endorsement records in an image cash letter file in order to enable expeditious payments routing.

The paper will outline specific steps to follow that will:

- Enable sending banks to electronically populate BOFD (Bank of First Deposit) records whenever possible
- Establish a hierarchy paying banks must follow when returning an item received in an ICL (image cash letter)
- Require banks electronically populating BOFD records to handle items received as returns

ELECTRONIC ENDORSEMENT RECORDS

One of the most common points of confusion in the check image exchange process is the notion that all imaged checks contain an electronic Bank of First Deposit (BOFD) endorsement record (Check Detail Addendum A record (Type 26)). Although the DSTU x9.37-2003 standard and industry's Universal Companion Document detail the requirements of image exchange they lack clarity regarding how files should be constructed from a workflow perspective.

The information detailed below:

- Identifies the records in the DSTU x9.37 -2003 file standard related to endorsements,
- Lists a series of different processing scenarios for initially creating electronic endorsements, and
- Defines how to use electronic endorsements if an item is dishonored by the paying bank and needs to be returned

There are several records in an image file: control records, detail records, and image records. Understanding the detail records is the key to understanding the process flow of an imaged check and its associated electronic endorsements.

FORWARD COLLECTION

Check Detail Record (Type 25)

- This record contains the MICR (Magnetic Ink Character Recognition) line of the check, the process sequence number and process date.

Check Detail Addendum A Record (Type 26)

- This is typically referred to as the BOFD endorsement record and contains the routing number of the return location in the event the item must be returned.

Check Detail Addendum C Record (Type 28)

- This is the process endorsement addendum record and is to be used by institutions handling the item subsequent to the BOFD.

RETURNS

Return Record (Type 31)

- This record contains the MICR line, with the exception of the AUX ONUS field, the process sequence number and the return reason code. The Type 31 record corresponds to the Type 25 record.

Return Addendum A Record (Type 32)

- This record contains the routing number of the return location in the event the item must be returned. The Type 32 record corresponds to the Type 26 record.

Return Addendum B Record (Type 33)

- This record contains the AUX ONUS field if it is present on the MICR line. If there is no AUX ONUS MICR data this record is not included.

Return Addendum D Record (Type 35)

- This record represents either a flipped Type 28 record if the item was received electronically or endorsement data from the back of the check. It contains the routing number, sequence number, and date of the processing institution. There may be multiple Type 35 records which reflect the audit trail/processing history of the item in chronological order. It also contains the return reason code, which should only be populated in the process endorsement of the returning institution.

Comprehensive information about each of these records can be found in DSTU X9.37-2003.

ELECTRONIC ENDORSEMENT SCENARIOS

BEST PRACTICES:

1. If the BOFD or an agent acting on their behalf is the converting bank: A Type 26 record must be created.
2. If the item is converted downstream from the BOFD and the truncating institution can efficiently and accurately identify the BOFD: A Type 26 record should be created.
3. If the truncating institution is unable to efficiently and accurately identify the BOFD: A Type 26 record must not be created.

The following describes endorsement requirements for several different processing scenarios. Compliance with these requirements will facilitate more efficient Forward Collection and Return Item processing.

BOFD IS THE TRUNCATING INSTITUTION – NO SPECIAL RETURNS ROUTING:

Scenario (Most Common): The BOFD is the truncating institution and wants all return items to be routed back to them.

In this scenario the following detail/endorsement records shall be used:

- Type 25 record is required. It carries sequence number, field 8, which should be the same as Type 26 record, field 5.
- Type 26 record is required. The truncation indicator, field 9, is set to 'Y' unless the item is an IRD (4 in field 3 of the Type 25 record).
- 28 record not needed/required

BOFD IS THE TRUNCATING INSTITUTION – SPECIAL RETURNS ROUTING:

Scenario: BOFDs that are the truncating institution but want their returns routed to a returns processor or an alternate financial institution.

In this scenario the following detail/endorsement records shall be used:

- Type 25 record is required. It carries sequence number, field 8, which should be the same as Type 26 record, field 5 and the Type 28 record field 5.
- Type 26 record is required. The routing number in this record reflects the return location of the returns processor/alternate financial institution receiving the returned item. The truncation indicator, field 9, is set to 'N'.
- Type 28 record is required and field 3 carries the return location Routing Number. The Truncation indicator, field 6, is set to 'Y' unless the item is an IRD (4 in field 3 of the Type 25 record). To comply with the Universal Companion Document (UCD), the endorsing bank ID field 11 should be set to '0' indicating BOFD

INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – THE BOFD IS KNOWN – NO SPECIAL RETURNS ROUTING:

Scenario: intermediary processor or correspondent bank truncates an item and can readily identify the BOFD. Additionally, return items are routed back to the BOFD.

In this scenario the following detail/endorsement records shall be used:

- Type 25 record is required. It carries sequence number, field 8, which should be the same as Type 26 record, field 5 and Type 28 record field 5.
- Type 26 record is required. The truncation indicator, field 9, is set to 'N'

- Type 28 record is required. Field 3 contains the truncator's routing number. Truncation indicator, field 6, is set to 'Y' unless the item is an IRD (4 in field 3 of the Type 25 record). To comply with the Universal Companion Document (UCD), the endorsing bank ID, field 11, will be set to '1' indicating other collecting bank

INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – THE BOFD IS KNOWN – SPECIAL RETURNS ROUTING:

Scenario: Intermediary processor or correspondent bank truncates the check can readily identify the BOFD and the BOFD wants their returns routed to a returns processor or an alternate financial institution.

In this scenario the following detail/endorsement records shall be used:

- Type 25 record is required. It carries sequence number, field 8, which should be the same as Type 26 record, field 5 and both Type 28 records field 5.
- Type 26 record is required. The routing number in this record reflects the return location of the returns processor/alternate financial institution receiving the returned item. The truncation indicator, field 9, is set to 'N'.
- In the first required Type 28 record Field 3 carries the true BOFD routing number. The truncation indicator field 6 is set to 'N'. To comply with the Universal Companion Document (UCD), the endorsing bank ID, field 11, will be set to '0' indicating the BOFD bank
- In the second required Type 28 record Field 3 carries the routing number of the intermediary processor or correspondent bank. The truncation indicator field 6 is set to 'Y' unless the item is an IRD (4 in field 3 of the Type 25 record). To comply with the Universal Companion Document (UCD), the endorsing bank ID, field 11, will be set to '1' indicating other collecting bank.

INTERMEDIARY PROCESSOR OR CORRESPONDENT BANK IS THE TRUNCATING INSTITUTION – BOFD UNKNOWN:

- Type 25 record is required. It carries sequence number, field 8, which should be the same as Type 28 record, field 5.
- Type 26 record will not be present
- Type 28 record is required. Field 3 carries the routing number of the intermediary processor or the correspondent bank. Truncation indicator field 6 is set to 'Y' unless the item is an IRD (4 in field 3 of the Type 25 record). When the UCD is implemented, the endorsing bank ID, field 11, will be set to '1' indicating other collecting bank.

IDENTIFYING THE BOFD FOR RETURN ITEM PROCESSING

As the scenarios above indicate, all items will not have an electronic BOFD endorsement. To ensure items being returned are routed to the BOFD as expeditiously as possible the following steps must be followed when creating an outgoing electronic return item or a return substitute check.

1. In the event an electronically received item is dishonored and is being returned electronically or as a return substitute check, the returning institution must create a Type 32 record to identify the BOFD.
2. To populate the Type 32 record the returning bank must first determine whether or not a Type 26 record exists. If the Type 26 record exists the data in this record must be used to create the Type 32 record.
3. In the case where there is no Type 26 record the BOFD endorsement on the rear image must be used to identify the BOFD's routing number and this data must be used in the creation of the Type 32 record
4. If there is no Type 26 record and the BOFD endorsement on the rear image is missing or cannot be read, data from the oldest type 28 record must be used in the creation of the Type 32 record. This is typically the converting institution.
5. Imaged Substitute Checks (IRDs) should be processed in the same manner as any other check. However, the EPC code '4' must be retained to insure proper clipping in the event a subsequent IRD is created.

CONCLUSION

With all of the financial institutions using the same "play book" when it comes to endorsement record population and procedures, the industry can collectively insulate the customer for intra-bank returns issues and delays and further enhance electronic efficiencies intended with Check 21 legislation.

Detailed Recommendations/Actions

- Sending Bank must electronically populate BOFD record (Type 26 record) whenever possible
 - Sending Bank warrants e-BOFD data is accurate
- Establish procedures for returning bank to follow when e-BOFD is unavailable
 - BOFD endorsement on image
 - Oldest electronic subsequent endorsement (Type 28 record)
 - Source of receipt
- Banks electronically populating BOFD record may not handle items returned to them as "Not Our Item"
- ECCHO rules supporting this process approved in October and adopted in December 2008, FRB Operating Circular 3 changes in process

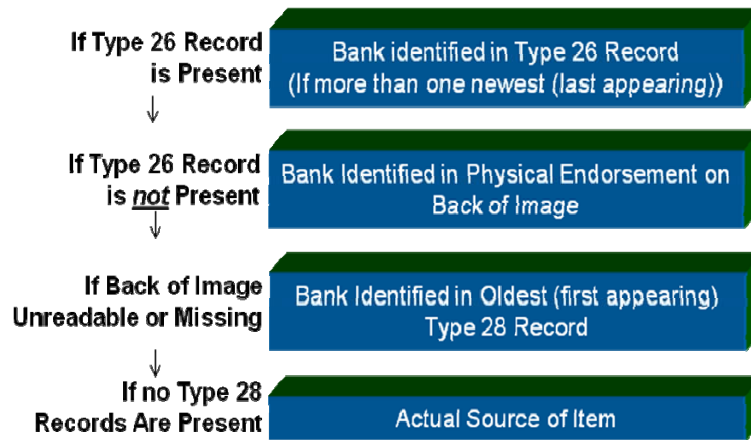


Figure 1 – Graphical depiction of the decision hierarchy for determining the appropriate routing for returned check images as provided in the ECCHO Rules. Source www.eccho.org

FURTHER INFORMATION/REFERENCES

ECCHO (Electronic Check Clearinghouse Organization, www.eccho.org) updated its rules that establishes the industry best practice for the routing of unpaid check image returns. [This rule change](#) became effective December 1, 2008 and can be found in Section XX(D) of the ECCHO rules.

The Federal Reserve is also in the process of updating Operating Circular 3 to reflect guidelines detailed above. Updates on when the changes will be enacted can be found at : www.frbservices.org

ABOUT i3G

The Image Industry Interoperability Group, i3G, is a US financial services industry collaborative formed in 2008 by a small and diverse set of bank organizations with the mission to quickly solve for lingering exceptions and interoperability issues impeding check payment processing efficiencies. The group's goal is to eliminate a large percentage of industry processing exceptions with a few changes to industry operational practices and procedures. I3G members include Bank of America, The Federal Reserve Bank, Frost Bank, JP Morgan Chase & Co, Independent Community Bankers Association (represented by Midwest Independent Bank), Southwest Corporate Federal Credit Union, US Bank, and Wells Fargo. More information can be found about i3G and proposed industry solutions by visiting www.i3ggroup.com and [i3G's linkedin group page](#).

CONTACT INFO

Contact the group by emailing info@i3ggroup.com.