ECCHO held a Returns & Adjustments (R&A) meeting on October 15-16 in Dallas, TX with 100+ participants. The primary purposes of this in-person R&A meeting was to educate, discuss current returns and adjustment issues, encourage relationship-building across the industry, and to determine if any changes to the rules or commentary were needed. NCPs who attended the entire R&A meeting earned 6 CE credits, 1 CE for Roundtable.

Rules Changes
Rule 8 will be modified to match adjustment timing and to eliminate Depositary bank’s ability to disclaim RCC warranty claim even if it has evidence of authorization. The Adjustments Matrix will be altered to reflect recent Fed changes. For more information, see Ops At A Glance.

Introduction to R & A Discussion
During the year, the R&A subcommittee has had numerous discussions on duplicate scenarios. The in-person meeting began with background information on duplicates including ECCHO duplicate warranty Section XIX(L)(7), typical scenarios, claims, holder in due course, and indorsements. It was noted that most current software can detect the presence of something in the indorsement area but not the exact words. It was reported that two vendors’ solutions will soon be able to screen for specific words.

ECCHO created a Duplicate Adjustment suggestion paper which offers suggestions on how Members might handle resolution of duplicate check claims, specifically claims involving Holder in Due Course (HIDC). HIDC claims are particularly challenging because they move resolution outside the normal check collection process. The paper contains two suggestions (not Rules or mandatory) on ways to handle HIDC issues. Standard procedure at many FIs is to make the claim to the last presenter of the item/BOFD B. Both suggestions instead recommend going back to BOFD A to make the duplicate claim. Summary of the two suggestions: (see page 2 for supporting diagrams)

1) BOFD B rejects claim back to Paying bank on the basis that it or its customer is HIDC; requests Paying bank adjust duplicate to BOFD A.
2) BOFD B communicates directly with BOFD A to seek resolution on the basis that BOFD B or its customer is HIDC; there is no legal claim but BOFD A is encouraged to take claim now instead of potentially seeing the claim much later after the customer’s HIDC claim runs the cycle through the drawer customer and Paying bank.

Exceptions to Duplicate Adjustment Suggestion Paper
Other scenarios were discussed in which the best solution would not be to go back to BOFD A, including stale dated, altered or counterfeit. Stale dated items should be adjusted to BOFD B, since they shouldn’t have taken the stale dated item. Altered and counterfeit check situations should be dealt with prior to duplicate issues. There was discussion on what constituted “materially altered” and how that might affect a claim. A Member presented a scenario in which a duplicate was caught by internal software after the first item from BOFD A was posted to the customer’s account. There was discussion on whether it was best to unpost the item from the customer’s account or show the posting and the charge back.

Returns versus Adjustments of Duplicates
The pros and cons of returning vs. adjusting a duplicate were discussed. Each situation is unique and is a decision best made by each bank with their legal team. Most importantly, return deadlines should be observed if there is any possibility that the item is fraudulent.

Wrong Payee Credits
These adjustments are typically lockbox payments mailed to an incorrect PO box then processed to incorrect customer account. Once identified, the incorrect account is debited and credit passed to Maker’s bank via: a) cashier’s check or financial adjustment “other”, or b) an attempt to contact the maker to return funds. However, contacting the maker is often difficult since they are not customers of the lockbox bank, and address on check may be incorrect. There is a request for a new financial adjustment error type to assist with timely clearing of financial credits and efficiently pass along credit to customer. ECCHO will be moving forward on this issue.

New Return Reason Codes
New return reason codes have been added with effective date of December 2014, although codes are being exchanged prior to implementation date. Banks should map codes to avoid issues. ‘Y’ for duplicate presentment is a new Customer Return code. See Proper Use of Return Reason Codes document at www.checkimagecentral.org.

Other Discussions
Additional discussions included: 1) the possible need for consistent language for adjustments to give FIs a common way to communicate issues correctly, 2) the potential for a code to reject a return, as in the case of late return or NOI.

Fed Adjustments Update
Becky Frasier, Director of Check Adjustments at FRB, provided an update on Fed check adjustments. The top five, and overwhelming majority of all incoming adjustments for 2014 are: PAID (40%), ENC (32%), NCH/NCI (17%), ERR (2%) and WIC/URCC (2%). PAID is consistently the most prevalent adjustment in Check 21 environment with the Fed receiving about 30,000 or so each month. In 75% of cases, both items are from the same depositor. Four new fields have been added to capture information on the “other” item and the requirement for certification form was eliminated and documents-to-follow are optional unless multiple items are being reported in a single adjustment request. Additionally, Fed has reduced Fed-initiated NCIs by 28% by relaxing its IQA edits. The threshold for electronic NOI cases was reduced from $25.01 to $0.01 to facilitate movement away from paper. The threshold was similarly reduced for ERR cases.

Currently all adjustments are processed through FRB Atlanta even though banks can enter different FRB routes as the receiver when sending adjustments. In future, only FRB Atlanta route will be enterable and all messages from the FRB will say FRB Atlanta. The adjustments archive will also start searching across all FRBs. Upcoming is a new option for downloading messages to a CSV file in Fed Line. Under discussion at the FRB is the ability to attach supporting documentation, rather than faxing, in Fedline and for XML adjustments. FRB is also looking to reduce the number of ITYPs, potentially by combining low volume ITYPs. For example, all paper ITYPs might be combined into one ITYP.
**HIDC Scenario**

- **Customer**
- **Check Casher**
- **BOFD A**
- **HIDC**
- **BOFD B**
- **Paying Bank**
- **Drawer**

**Summary of Holder in Due Course Scenario:**

- Check Casher is HIDC and has original item
- Paying Bank returns/adjusts item back to BOFD B, who charges check casher  
  *(Paying Bank could make claim to either BOFD B or BOFD A)*
- Check Casher makes claim directly to Drawer with demand letter outside banking system
- Drawer already paid item when posted to its account at Paying Bank
- Drawer pays Check Casher due to fear of potential bad credit
- Drawer requests reimbursement from Paying Bank for item it already paid
- Paying Bank can make claim to BOFD A under duplicate warranty

**Note:** Not all claimants have HIDC status or have valid claim

**HIDC Potential Scenario 1**

**Suggestion 1:** Paying Bank makes preemptive claim to BOFD A upon suggestion from BOFD B
- BOFD B informs Paying Bank that it/its customer has original item and is HIDC
- BOFD B suggests Paying Bank make claim to BOFD A to short cut the long process that will end up at BOFD A anyway

**HIDC Potential Scenario 2**

**Suggestion 2:** BOFD B makes request to BOFD A
- BOFD B informs BOFD A, it/its customer has original item, is HIDC and will make claim
- Legally there is no claim between BOFD B and BOFD A
- With gentleman’s agreement the process can be simplified and end up with same result