ECCHO Disclaimer

- This presentation and the information contained herein is not intended as legal or compliance advice or recommendation to any person or company. Financial institutions should consult with their legal counsel regarding legal and operational requirements applicable to any check image exchange program they may offer or in which they participate.

- This document could include technical inaccuracies or typographical errors and individual users are responsible for verifying any information found in this presentation.
Thanks to X9 for Source Information

- This information is reprinted with permission of the Accredited Standards Committee X9, Incorporated -- Financial Industry Standard, Annapolis, Maryland

- These materials are drawn from the approved standard ANSI X9.100-188-2016, “Return Reasons for Check Image Exchange and IRDs”. This standard provides the list of Return Reason codes that are used by the industry for image exchange and the creation of IRDs.

- For additional information on X9 standards, or to obtain a copy of these standards, please visit the website at: www.x9.org
Intro to Return Codes
What is a Return Code?

When a check is returned unpaid, the payor bank must indicate the reason in accordance with X9.100-187 and X9 Technical Report 47/UCD

Return Reason Code describes why an item is being returned

• There may be multiple possible return reasons but one must be provided
How are Return Codes Created?

- X9 is the Accredited Standards Committee that develops technical standards for the financial services industry (www.x9.org)

- Return codes are not covered by check law
  - UCC allows paying banks to dishonor an item
  - Reg CC requires paying bank to provide return reasons

- Check return codes are located in standard industry practice contained in X9.100-188 for both image exchange and for IRDs
Return Item Destination and Method

Return items go to:

- Depositing customers
- Financial institutions: BOFD, collecting or presenting bank

Returned via:

- Image cash letter
- Substitute check/image replacement document
- Paper check

It is up to each financial institution to determine what return code they will use to return a check
Returns Timing

All returns must meet UCC and Reg CC return deadlines:
(or you must adjust/make warranty claim)

• UCC requires you make the determination to pay or return the item by midnight of the day following presentment (UCC 4-301)

• Reg CC requires the return to be handled expeditiously (§ 229.30)
  o Return must reach depositary bank by 4:00 p.m. (local time of depositary bank) two days after presentment
Types of Return Codes

There are two types of return codes:
1. Customer / Monetary return codes
2. Administrative return codes

All returns carry monetary value
- The term “monetary” return codes is being phased out – so you will not see it again in this presentation

Difference is whether the return results from attempting to charge a customer’s account
Customer vs. Administrative Returns

Customer return identifies a dishonored item from the Paying bank to the BOFD
• Result from items attempting to post to a customer's account (i.e., NSF, stop pay, closed account)

Administrative return identifies that the return is for reasons other than dishonored item
• Created by a bank for some administrative reason (i.e., poor quality, ineligible items)
Image Return Codes at a Glance
Customer Returns List – Alpha Order

‘A’  NSF – customer does not have sufficient funds to cover the item
‘B’  UCF – uncollected funds hold
‘C’  Stop payment – a stop payment has been placed on the item
‘D’  Closed account – the item’s account has been closed
‘E’  UTLA – unable to locate account
‘F’  Frozen/blocked account – account has restrictions placed by customer or bank
‘G’  Stale dated – the date on the item is more than 6 months old
‘H’  Post dated – the date on the item is in the future
‘I’  Endorsement missing
‘J’  Endorsement irregular
‘K’  Signature(s) missing
‘L’  Signature(s) irregular, suspected forgery
‘M’  Non-cash item (non negotiable)
‘N’  Altered/fictitious item/Suspected counterfeit/Counterfeit
‘O’  Unable to process
# Customer Returns List – Alpha Order

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>‘P’</td>
<td>Items exceeds stated max value</td>
</tr>
<tr>
<td>‘Q’</td>
<td>Not authorized RCC</td>
</tr>
<tr>
<td>‘R’</td>
<td>Branch/account sold (Wrong Bank)</td>
</tr>
<tr>
<td>‘S’</td>
<td>Refer to Maker</td>
</tr>
<tr>
<td>‘T’</td>
<td>Item cannot be re-presented (exceeds allowable number of presentments)</td>
</tr>
<tr>
<td>‘U’</td>
<td>Unusable image</td>
</tr>
<tr>
<td>‘W’</td>
<td>Cannot determine amount</td>
</tr>
<tr>
<td>‘X’</td>
<td>Refer to image – return reason is contained within the image of the item</td>
</tr>
<tr>
<td>‘Y’</td>
<td>Duplicate presentment</td>
</tr>
<tr>
<td>‘Z’</td>
<td>Forgery – an affidavit shall be available upon request</td>
</tr>
<tr>
<td>‘3’</td>
<td>Warranty breach (includes Rule 8 &amp; 9 claims)</td>
</tr>
<tr>
<td>‘4’</td>
<td>RCC warranty breach</td>
</tr>
<tr>
<td>‘5’</td>
<td>Forged and counterfeit warranty breach (Rule 9)</td>
</tr>
<tr>
<td>‘6’</td>
<td>Retired/ineligible routing number</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>‘I’</td>
<td>Image Missing</td>
</tr>
<tr>
<td>‘Q’</td>
<td>Ineligible Item</td>
</tr>
<tr>
<td>‘T’</td>
<td>Item cannot be re-presented (exceeds number of allowable times for presentment)</td>
</tr>
<tr>
<td>‘U’</td>
<td>unusable image</td>
</tr>
<tr>
<td>‘V’</td>
<td>Image fails security check</td>
</tr>
<tr>
<td>‘Y’</td>
<td>Duplicate presentment</td>
</tr>
<tr>
<td>‘1’</td>
<td>Does not conform with ANSI X9.100-181</td>
</tr>
<tr>
<td>‘2’</td>
<td>Does not conform to the Industry’s Universal Companion Document</td>
</tr>
<tr>
<td>‘3’</td>
<td>Warranty Breach (includes Rule 8 &amp; Rule 9 claims)</td>
</tr>
<tr>
<td>‘4’</td>
<td>RCC Warranty Breach (Rule 8)</td>
</tr>
<tr>
<td>‘5’</td>
<td>Forged and Counterfeit Warranty Breach (Rule 9)</td>
</tr>
<tr>
<td>‘6’</td>
<td>Retired/Ineligible Routing Number</td>
</tr>
</tbody>
</table>
Image Return Code Compendium
‘A’ – Not Sufficient Funds

- Generally known as NSF or insufficient funds
- Used when a paying bank determines that the balance in the account is not sufficient to pay the check
- One of the most common return codes
- Customer return code
‘B’ – UCF

Uncollected Funds Hold

Similar to NSF, used when a paying bank determines that the available funds are not sufficient to pay the check, even though there may be additional funds in the account that are not available

Customer return code
‘C’ – Stop Payment

When a person authorized on the account has requested that the bank not honor/pay a check they have written/issued

Customer can place a stop payment on an item for a variety of reasons including lost/stolen check,

Right to stop payment under UCC 4-403

Customer return code
‘D’ – Closed Account

- When the item is not paid because the account that the item was drawn on is now closed

- Customer return code
‘E’ – Unable to Locate Account

When the item is returned unpaid because the bank is unable to find an account with that number

Can be caused by RCC in which RT was incorrectly provided/entered, old check stock or non-printed check incorrectly completed

Could be fraudulent item

Customer return code
When the account has restrictions which have been placed on it by either the customer or the bank.

Bank can be required by courts to freeze funds in order to pay creditor, IRS, divorce judgement, etc.

Customers might freeze account in cases where they have experienced fraud.

Customer return code
‘G’ – Stale Dated

- When the date on the item is more than 6 months

- Under UCC 4-404, banks are under no obligation to pay a stale-dated check, other than a certified check
  - Bank decision whether to accept stale dated items

- Customer return code
‘H’ – Post Dated

- When the date on the item is in the future
- Customer return code
‘I’ – Two Different Meanings

‘I’ has different uses depending upon customer vs. administrative return

Customer return ‘I’ – Endorsement Missing - used when paying bank determines a required endorsement is missing
  • Typically: payee endorsement is missing

Administrative return ‘I’ – Image Missing - used when any required image view record is not provided with the item
‘J’ – *Endorsement Irregular*

Used when a paying bank determines something is wrong with any of the endorsements associated with the item

- Invalid payee or missing payee name in a payee endorsement
- Missing information such as a date in a BOFD electronic endorsement

- Potential fraud issue

- Customer return code
‘K’ – Missing Signature

- Used when the signature(s) are missing from the check
- Customer return code
‘L’ – **Irregular Signature**

- Used if the signature(s) does not conform to bank’s signature cards or other official bank documentation or if the item is a suspected forgery and a customer affidavit is not available.
- Not to be used for Rule 9 claims.
- Customer return code.
‘M’ – Non-cash Item

Used for the return of non-cash (as defined in Reg CC) or non-negotiable items (as defined in UCC)

Examples of non-cash items:
- Item that enters the collection stream in error like a batch ticket
- Foreign item

Customer return code
‘N’ – Altered/Fictitious/Counterfeit

Use for the following purposes:
- Altered
- Fictitious item
- Suspected counterfeit
- Counterfeit

Multi-purpose code because often paying bank does not know which one it is

Do not use ‘N’ for Rule 9 claims

Customer return code
‘O’ – Unable to Process

- Used when there is an issue with the physical item, such as mutilation where there is insufficient info to pay the check

- The use of this code should be minimal since only to be used when handling return as paper

- This code should not be used for system problems or unusable images

- Customer return code
‘P’ – Item Exceeds Stated Max Value

- Used if the item amount exceeds a stated limit as defined on the item or within the paying bank’s record for that account.

- This code should not be used when the item has exceeded the maximum number of presentments.

- Customer return code.
‘Q’ – *Two Different Meanings*

- For Customer return ‘Q’ – **Not Authorized RCC** (includes drafts)
  - Used when an unsigned draft (RCC) was not authorized by the drawer
  - This code only applies to unsigned drafts—items that do not contain drawer signature
  - Can be used without a specific rule set

- This code is different than:
  - ‘L’ – irregular signature
‘Q’ – Two Different Meanings

For Administrative return ‘Q’ – Ineligible
Used for items received that are not eligible for exchange
• When a bank receives items on routing numbers that may be valid but not opened for image exchange, foreign items, etc.

Should not be used for items that do not conform to the standard specifications, are unusable or contain retired routing numbers
‘R’ – Not Our Item/Branch Sold

Use code has multiple purposes:
- Branch or account sold
- Wrong bank
- Divested account
- Not our item

The most common use is Not Our Item (NOI) – when a forward item is not drawn on the paying bank

Should not be used for incorrect RT

Customer return code
‘S’ – Refer to Maker

- Only used when the payee is being referred to the maker and no other code truly applies to the situation.

- Privacy codes in some states make the use of codes related to forgery/fraud problematic therefore use of ‘S’ acceptable while not ideal.
  - Use of ‘S’ appropriate when a maker/drawer with positive pay instructs bank to return the check.

- Not to be used for duplicates.

- Customer return code.
‘T’ – Item cannot be Re-Presented

Should be used when the number of presentments exceeds the number of presentments allowed under exchange rules (e.g., Fed – twice, ECCHO – three times)

‘T’ replaces previous use of ‘Stop Payment Suspect’ in DSTU X9.37 which was discontinued in 2008 and not identified in UCD as a valid return code

Same meaning for customer and administrative returns
‘U’ – Unusable Image

Used for an image that does not conform to industry standards or agreements and could not be used for business purposes due to gross defect, illegible, etc.

Used for mis-matched MICR which occurs when the MICR data fields in the electronic record of the file are not representative of the MICR line on the front image of the check

Same meaning for customer and administrative returns
‘V’ – Image Fails Security Check

Used to indicate problems with digital signatures associated with an image in the Image View Data Record (Type 52) or problems with interoperable security features.

Should only be used by agreement

Administrative return code
‘W’ – Cannot Determine Amount

Used when the amount cannot be determined or verified and amount in numbers (convenience/courtesy amount) is stated differently more than once.

Not to be used when the amount in words (legal amount) differs from the amount in numbers—then item should be paid using legal amount.

Customer return code.
‘X’ – Refer to Image

- This code was originally used when creator of image knows that return reason already exists on face of the paper item.

- It directed BOFD to look at the image to see which return code was stamped on the item.

- Generally was used by intermediary processors when converting paper returns to images.

- Not really applicable in today’s environment—should be looking at return reason in 32 record type.

- Customer return code.
‘Y’ – *Duplicate/Item Already Paid*

- Used when a party in the collection process is asked to pay the same item more than once
- Supporting documentation should be available
- Re-presented items are not duplicates since they were previously dishonored/not paid
- Do not use ‘Refer to Maker’ for duplicates – refer to maker is for fraud suspect
- New for customer returns predominately from mobile RDC
- Already existed for administrative returns (e.g., bank issues, multiple sends of the same ICL)
‘Z’ – Forgery

Used when an item is believed to have a forged or invalid signature(s) in states that require affidavit
  • If no affidavit available—use ‘L’

Do not use ‘Z’ for Rule 9 claims

Customer return code
‘1’ – Doesn’t Conform X9.100-181

- Used when the image does not conform with the TIFF image format standard X9.100-181
- Check out the X9.100-181 standard at www.x9.org
- Administrative return code
‘2’ – Does Not Conform to UCD

- Used if the file or an item does not meet required edits as specified in UCD file header record
- Used when the file does not conform to the UCD because of system problems
- For a copy of UCD/Technical Report 47, go to www.x9.org (it’s free)
- Administrative return code
‘3’ – Warranty Breach

Can be used for various warranty breaches:
• Rule 8 & 9 claims

Must be under ECCHO rules agreement to use for Rule 8 & Rule 9 claims
• Rule 8 & Rule 9 claims should **not** go through Fed

Same for customer and administrative returns
‘4’ – RCC Warranty Breach

- Used only for Rule 8 claims - process for unauthorized RCCs
- Uses the return mechanism—not official return
- Must be under agreement that provides for this claim (e.g., ECCHO Rules)
- Cannot be used for returns through Fed
- Different from return code ‘Q’ which can be used without a specific rule set
- Code ‘3’ can also be used for Rule 8 claim
- Same for customer and administrative returns
‘5’ – Forged/Counterfeit Warranty Breach

- Used for Rule 9 claims - warranty breaches in which Depositary bank warrants to the Paying bank that (i) the signature of the purported drawer is not forged or otherwise unauthorized, and/or (ii) the related physical check is not counterfeit

- Uses the return mechanism—not official return

- Must be under ECCHO Rules agreement, exchange occurred under ECCHO Rules, and neither party opted out of using Rule 9

- Cannot be used for returns through the Fed

- Code ‘3’ can also be used for Rule 9 claim

- Same for customer and administrative returns
‘6’ – Retired/Ineligible Routing Number

- Used when the Paying Bank routing number is incorrect or no longer used (e.g., retired RT)

- Same for customer and administrative returns
Reserved for Future Use

X9 has reserved some codes for future use:

- ‘7’
- ‘8’
- ‘9’
- ‘0’
Tips for Selecting Codes
**Tips for Similar Codes: Signature Issues**

- **K** – maker signature missing *(and not a RCC)*
- **L** – if signature does not conform to bank documentation; or suspected forgery *(affidavit not available)*
- **Z** – signature forged or invalid *(affidavit required)*
- **N** – multi-purpose when unsure if altered, fictitious or suspected counterfeit

Do not use ‘L’ or ‘N’ for Rule 9 claims *(Rule 9 claims = ‘3’ or ‘5’)*
Tips for Fraud Warranty Claims

- ‘3’ – Rule 8 or Rule 9 Warranty claims (ECCHO only)
- ‘4’ – Rule 8 Warranty claims (ECCHO only)
- ‘5’ – Rule 9 Warranty claims (ECCHO only)

- These codes must be used by agreement through certain rule sets (e.g., ECCHO Rules)
- These warranty claims should not go through the Fed
Tips for RCC Issues

- ‘Q’ – RCC was not authorized by the drawer. ‘Q’ is officially a return, therefore it must conform to return timeframes and can be used regardless of rule set (Fed OC3 or ECCHO).

- ‘3’ & ‘4’ – RCC warranty breach (for ECCHO only)

- Do not use ‘K’ or ‘L’ for RCCs—RCCs are not supposed to have signatures
For Endorsement Issues

- Use ‘2’ if electronic endorsement is in noncompliance with UCD

- Use ‘J’ if something is wrong with any endorsement or missing information in the electronic endorsement record

- Use ‘I’ if missing endorsement—typically for payee endorsements

- ‘2’ is a technical compliance issue

- ‘J’ and ‘I’ might indicate a fraud issue; although they can just result from errors/omissions
Tips for Processing Issues

Use ‘I’ – when image record is missing
  • Do not use for image record is there but is blank image

‘U’ – Unusable image doesn’t conform to industry standards or MICR mismatch
  • Use for unusable electronic images with gross defects or illegible
  • Use for image record that is blank
  • Use for MICR mismatch when MICR in data record doesn’t match MICR on image

‘O’ – Unable to process due to issue with physical item—only applies to paper check
Tips for Presentment vs. Value

'T' is for too many presentments
  • Fed allows: one presentment, one re-presentation
  • ECCHO allows: one presentment, two re-presentments

‘P’ is for exceeding maximum dollar value
Tips for Wrong vs. Retired RT

‘R’ is wrong bank
• NOI – when forward item is not drawn on paying bank; or in case where branch or account sold

‘6’ is retired/ineligible RT
• Also can be used when regulators declare a bank insolvent/failed
**Acronyms**

- ECCHO – Electronic Check Clearing House Org
- X9 – Payments-related standards group
- UCD – The Universal Companion Document
- UCC – Uniform Commercial Code
- Reg CC – Regulation CC
- ECP – Electronic Check Presentment
- BOFD – Bank of First Deposit
- ICL – Image Cash Letter
- IRD – Image Replacement Document
- NSF – Not Sufficient Funds
- MICR – Magnetic Ink Character Recognition
Acronyms (continued)

- RDC – Remote Deposit Capture
- RCC – Remotely Created Check

- Rule 8 – Warranty for Remotely Created Checks
  *ECCHO Rules for Rule 8/RCC Warranty - Section XIX (N)*
  *Definition of RCC - Reg CC 229.2 (fff)*
  *Transfer & Presentment Warranties for RCCs Reg CC 229.34 (d)*

- Rule 9 - Warranty for Forged & Counterfeit Checks
  *(ECCHO Rules Section XIX(O))*
Resources

www.x9.org for standards discussed today
  • The new return code standard X9.100-188
    • Proper Use of Return Codes paper in Appendix
  • X9 TR 47 - formerly Universal Companion Document (UCD)

www.checkimagecentral.com for:
  • Other great info on check