

The Check Return Code Handbook

Your Guide to Image Return Codes

Version 2 - 2019

ECCHO®

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Thanks to X9 for Source Information

- Information in this presentation is reprinted with permission of the Accredited Standards Committee X9, Incorporated -- Financial Industry Standard, Annapolis, Maryland
- Materials are drawn from the approved standard ANSI X9.100-188-2018, “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: bank of first deposit (depository bank or “BOFD”), collecting bank 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 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)
 - Return must reach depository bank by 4:00 p.m. (local time of depository bank) two days after presentment



Types of Return Codes

- There are two types of return codes:
 - Customer / Monetary return codes
 - Administrative return codes
- All returns carry monetary value
 - The term “monetary” return codes is being phased out
 - 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)



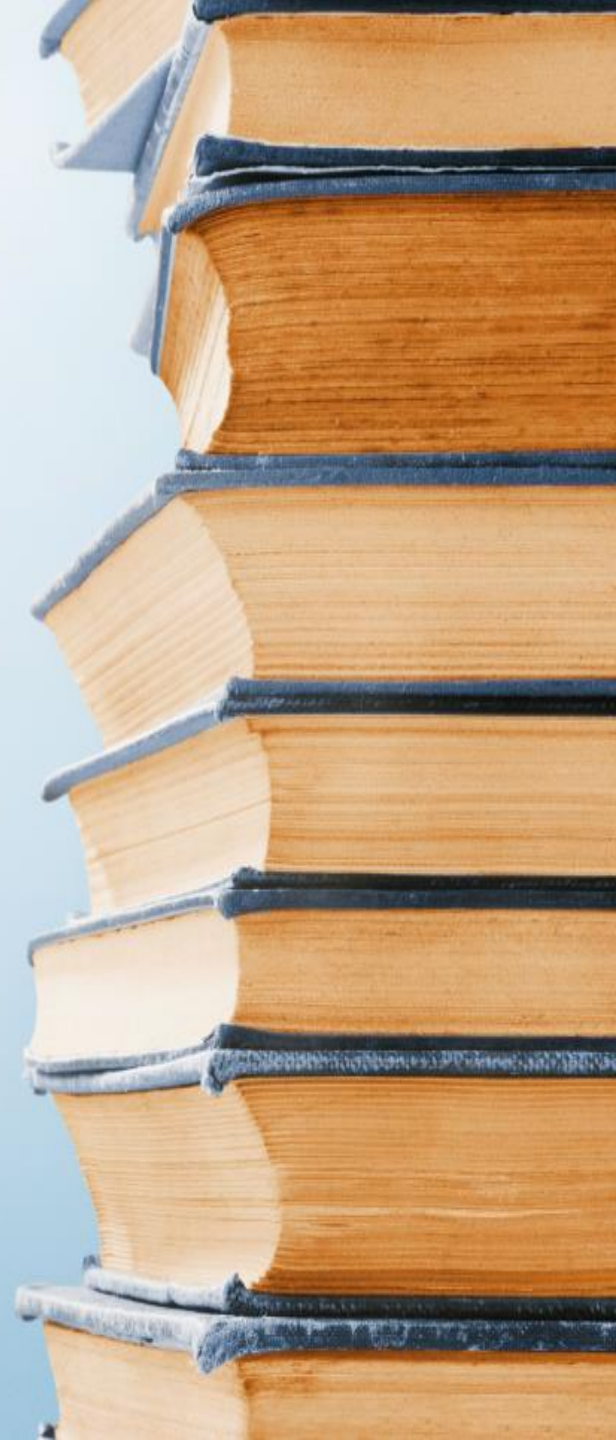


Image Return Codes At a Glance

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)

- 'P' Items exceeds stated max value
- 'Q' Not authorized RCC
- 'R' Branch/account sold (Wrong Bank)
- 'S' Refer to Maker
- 'T' Item cannot be re-presented (exceeds allowable number of presentments)
- 'U' unusable image
- 'W' Cannot determine amount
- 'X' Refer to image – return reason is contained within the image of the item
- 'Y' Duplicate presentment
- 'Z' Forgery – an affidavit shall be available upon request
- '3' Warranty breach (includes Rule 8 & 9 claims)
- '4' RCC warranty breach
- '5' Forged and counterfeit warranty breach (Rule 9)
- '6' Retired/ineligible routing number



Admin Returns List (Alpha Order)

- 'I' Image Missing
- 'Q' Ineligible Item
- 'T' Item cannot be re-presented (exceeds number of allowable times for presentment)
- 'U' unusable image
- 'V' Image fails security check
- 'Y' Duplicate presentment
- '1' Does not conform with ANS X9.100-181
- '2' Does not conform to the Industry's Universal Companion Document
- '3' Warranty Breach (includes Rule 8 & Rule 9 claims)
- '4' RCC Warranty Breach (Rule 8)
- '5' Forged and Counterfeit Warranty Breach (Rule 9)
- '6' Retired/Ineligible Routing Number



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:
 - 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:
 - 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**



'F' – Frozen/Blocked Account

- 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 date on the item is more than 6 months old
 - Under UCC 4-404, banks are under no obligation to pay 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
- Usage of this code should be minimal
 - Only to be used when handling return as paper
- Code should not be used for system problems or unusable images

- **Customer return code**



'P' – Item outside stated dollar amount limit

- Used if the item amount exceeds a stated limit as defined on the item or within the paying bank's record for that account
- Code should not be used when the item has exceeded the maximum number of presentments
- **Customer return code**



'Q' – Two Different Meanings

- **Customer return 'Q' – Not Authorized RCC**
(includes drafts)
 - Used when an unsigned draft (RCC) was not authorized by the drawer
 - 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

- **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
- **Customer and Administrative returns – same meaning**



'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
- **Customer and Administrative returns – same meaning**



‘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 or Verify 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

- 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 Type 32 record
- **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
- **Customer returns** – predominately from mobile RDC
- **Administrative returns** – bank issues, multiple sends of the same ICL, etc.



'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/TR 47

- 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
- **Customer and Administrative returns – same meaning**



'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
- **Customer and Administrative returns – same meaning**



'5' – Forged/Counterfeit Warranty Breach

- Used for Rule 9 claims - warranty breaches in which Depository 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

- **Customer and Administrative returns – same meaning**



'6' – Retired/Ineligible Routing Number

- Used when the Paying Bank routing number is incorrect or no longer used (e.g., retired RT)
- **Customer and Administrative returns – same meaning**



Reserved for Future Use

- X9 has reserved some codes for future use:
 - ‘7’
 - ‘8’
 - ‘9’
 - ‘0’



Tips for Selecting Return 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 non-compliance 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
- Use '2' – For 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-presentment
 - ECCHO allows: one presentment, two re-presentments
- ‘P’ – Is for exceeding maximum dollar value/item outside stated dollar limit



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 – Universal Companion Document
- TR 47 – Technical Report # 47 (X9 designation for UCD)
- 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
 - *See 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
 - See ECCHO Rules Section XIX(O)
 - Rule 9 At a Glance - <https://www.eccho.org/wordpress/wp-content/uploads/Rule9AtaGlance2016Update.pdf>



Resources

- www.x9.org for standards discussed today
 - Current return code standard – X9.100-188-2018
 - Proper Use of Return Reason Codes information included in Annex A for this standard
 - X9 TR 47 – X9 designation for Universal Companion Document (UCD); document titled:
 - X9 TR 47 – Universal Companion Document Industry Adoption of X9.100-187
- www.checkimagecentral.org for:
 - Other great info on check



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