CheckImage Central

from the CheckImage Collaborative

Raising awareness, promoting the benefits, and encouraging best practices for image exchange and Check 21

Endorsements: Information and Usage

Version 1

March 2011

Table of Contents

General

A financial institution endorsement is a signature either alone or accompanied by other words for purposes of negotiating the instrument, restricting payment of the instrument, or incurring endorser's liability on the instrument. The Uniform Commercial Code and Regulation CC place certain responsibilities regarding endorsements on the parties handling a check.

Endorsements may be physical (sprayed, printed or overlaid) on the check, carried electronically in the X9.100-187 file format or both. When a check is converted to an image, the image retains any physical endorsements that were present. In order to maintain a complete endorsement history, additional electronic endorsements may be included with each item in an X9.100-187 file. The physical endorsement for the image creator will not appear in the image if the image is captured prior to the item being physically endorsed. Electronic endorsements are acceptable in lieu of physical endorsements on the back of the check. Subsequent conversions of an item between electronic and paper form are also possible.

For electronic items converted back to paper form, the Check Clearing for the 21st Century Act as implemented by Regulation CC Subpart D requires that previous endorsements be carried on substitute checks whether the party endorsed in physical or electronic form. These substitute checks are also known as Image Replacement Documents or IRDs. When a check image is reconverted to paper in the form of an IRD, the electronic endorsement trail that was attached to the original truncated check ceases. The endorsement information remains within the image of the IRD in the form of endorsement overlays on the back of the IRD. As the imaged IRD clears through various institutions, a new electronic endorsement trail accumulates.

The X9.100-187 file format has electronic record formats to:

- meet the requirements of the IRD specifications.
- properly identify the purpose of the electronic endorsements.
- provide an endorsement audit trail.

Comprehensive information about IRD specifications can be found in ANS X9.100-140. Comprehensive information about the records and file formats for image exchange can be found in ANS X9.100-187.

Use of the X9.100-187 Standard for Endorsements

There are two ways in which endorsements are carried in the X9.100-187 standard:

1. Physical endorsements on the check image contained in the Image View Data Record (Type 52)
2. Electronic information carried in each item's related X9 records

   o Forward item records:
     - Check Item Detail Record (Type 25)
     - Check Detail Addendum A Record (Type 26)
     - Check Detail Addendum C Record (Type 28)

- o Return item records:
  - Return Record (Type 31)
  - Return Addendum A Record (Type 32)
  - Return Addendum B Record (Type 33)
  - Return Addendum D Record (Type 35)

These electronic records contain fields required for maintaining endorsement information. Understanding the use of these detail records is the key to understanding the process flow of an imaged check and its associated electronic endorsements.

For this discussion, we will use the term "item" to describe the total set of X9.100-187 records that define a specific check.

Forward Collection Item Endorsement Information Overview

Check Detail Record (Type 25)

- This record contains the MICR line information of the check, the ECE Item Sequence Number and other indicators for processing.

Check Detail Addendum A Record (Type 26)

- This is typically referred to as the Bank of First Deposit (BOFD) or Return Location Routing Number endorsement record. It immediately follows its Type 25 record.
- The Type 26 record contains the routing number of the return location in the event the item must be returned even in the case when it is not the actual BOFD.
- This record should always be used to route the return item.
- In the case of an unknown BOFD, a Type 26 record may not be included. In this case a Type 28 record containing Subsequent Endorsement information must be included.
- If the Type 26 Record indicates a Return Location Routing Number differing from the BOFD, a Type 28 record will be added to identify the BOFD information.
- Multiple Type 26 records can only be used when there are electronic multiple representments of an item.
- Type 26 records are included in chronological order.

Check Detail Addendum C Record (Type 28)

- This is the Subsequent Endorsement record. It immediately follows its preceding Type 25 record or Type 26 record.
- The Type 28 record contains the endorsement information for any institution handling the item subsequent to the BOFD or Return Location Routing endorsement.
- In the case of multiple subsequent endorsements, multiple Type 28 records will be present. Each subsequent endorsing bank will create a new Type 28 record in addition to retaining all previous endorsement records.
- Type 28 records are included in chronological order.

Each item must have at least one Type 26 or Type 28 record.   An item may have multiples of each record type in the case of multiple presentments and in the case of multiple subsequent endorsements.

Returned Item Endorsement Information Overview

When an electronically presented item is returned, its forward electronic history should be retained. The process of transcribing the information from the forward presentment Check Detail record types to the Return Item record types is commonly referred to as "flipping". Each Return Item record type described below also references the associated "flipped" record type.

Return Record (Type 31)

- This record contains the MICR line information of the check, the ECE Item Sequence Number, the current return reason code and other indicators for processing. The MICR Auxiliary On-Us field is not contained on this record (See Record Type 33).
- Each Type 31 record corresponds to its Type 25 record.

Return Addendum A Record (Type 32)

- If the item was presented electronically, this record contains the field values of the associated forward item Type 26 record.
- If a Type 26 record is not present, the data to populate the Type 32 record may be found in the image of the back of the physical check. This would include the return location routing number, the item sequence number (if present), and the business date.
- There may be multiple Type 32 records only when there were multiple presentments (multiple Type 26 records) with an electronically presented item.
- Type 32 records are included in chronological order.

Return Addendum B Record (Type 33)

- This record contains the Auxiliary On-Us field. If there is no Auxiliary On-Us data, this record will typically not be included with the item.

Return Addendum D Record (Type 35)

- If the item was received electronically, this record contains the field values in the associated flipped Type 28 record(s).
- When returning an item electronically, the returning institution will add an additional Type 35 record to the electronic history that will include the return reason code that was populated on the Type 31 record.
- Multiple Type 35 records may be present if there were multiple Type 28 records and/or if there are multiple subsequent endorsing institutions in the payment stream of that return item.
- Type 35 records are included in chronological order.

The endorsement data in each item's electronically presented Type 25, Type 26 and Type 28 records will be retained in the Returned Item files corresponding Type 31, Type 32, Type 33 and Type 35 records.
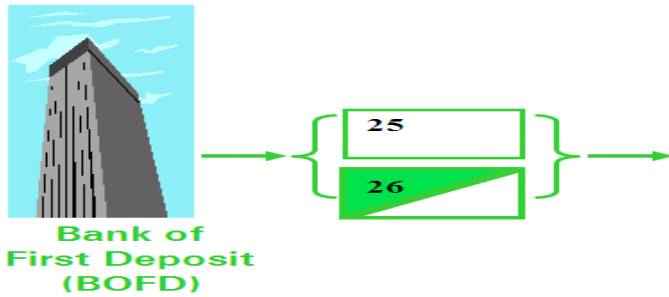

Electronic Endorsement Scenarios

Truncating Institutions (Scenarios 1 – 3)

The following describes the endorsement requirements for different processing scenarios for truncating institutions. Compliance with these requirements will facilitate both Forward Collection and Return Item processing.

1. **Scenario 1 - BOFD is the Truncating Institution – No special Returns Routing:**
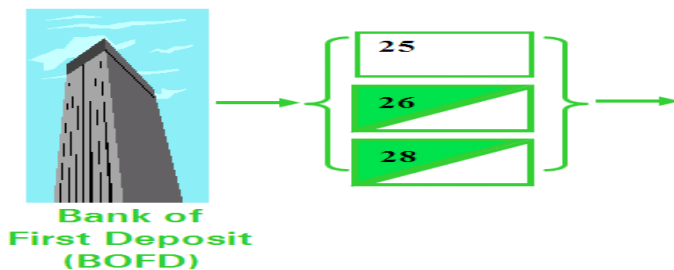
This is the most common scenario. The BOFD is the truncating institution and wants all return items to be routed back to them. In this pictorial representation and chart below, the required record usage is outlined.

Scenario	Type 25 Record	Type 26 Record	Type 28 Record
BOFD is Truncating Institution – No special Return Routing	• Required • Sequence # Field 8 typically same as Type 26 Field 5	• Required • RT in record indicates BOFD • Truncation Indicator Field 9 = Y unless EPC Field 3 in Type 25 = 4, then = N	Not needed/required

2. **Scenario 2 - BOFD is the Truncating Institution – Special Returns Routing:**

This scenario applies to BOFDs that are the truncating institution but want their returns routed to a returns processor or an alternate financial institution. In this pictorial representation and chart below, the required record usage is outlined.
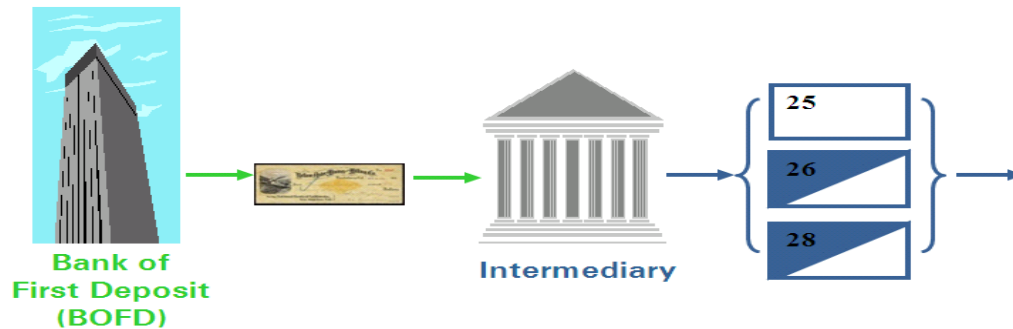

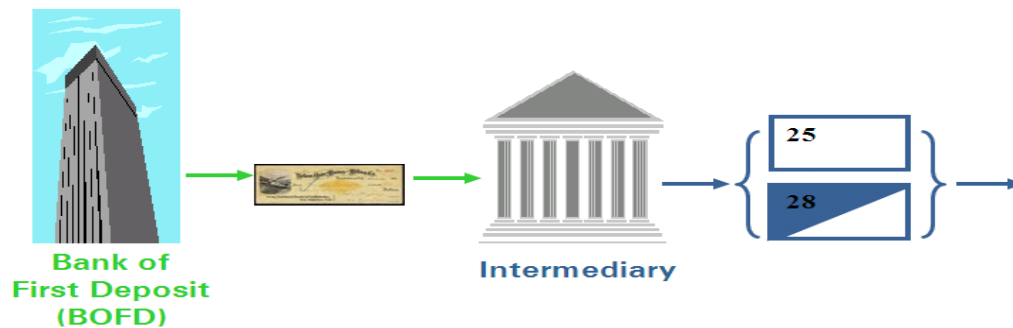| Scenario	Type 25 Record	Type 26 Record	Type 28 Record
BOFD is Truncating Institution – Special Returns Routing	• Required • Sequence # Field 8 typically same as Type 26 Field 5 and Type 28 Field 5	• Required • RT in record indicates Returns Location/alternate FI receiving return • Truncation Indicator Field 9 = N	• Required • Truncation Indicator, Field 6 = Y unless EPC Field 3 in Type 25 = 4, then = N • If endorsing Bank ID is used, Field 11 = 0

3. **Scenario 3 - Intermediary Processor or Correspondent Bank is the Truncating Institution – BOFD is Known or Unknown:**

This scenario reflects the processing requirements for an intermediary processor or correspondent bank that truncates the check and the BOFD is known or unknown. In this pictorial representation and chart below, the required record usage is outlined.
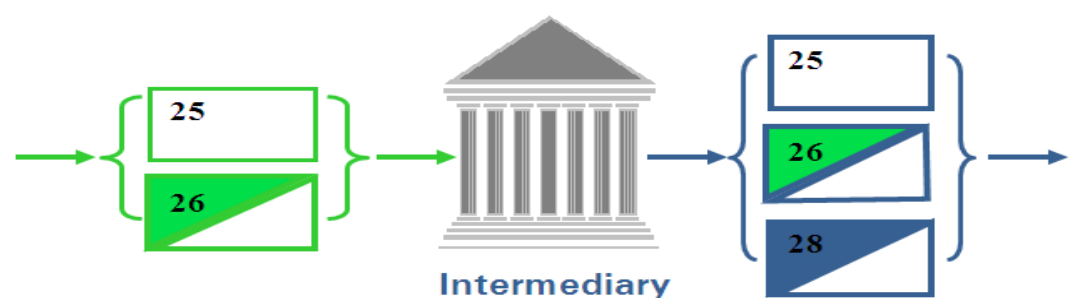
BOFD Known

BOFD Unknown

Scenario	Type 25 Record	Type 26 Record	Type 28 Record
Intermediary Processor/Correspondent Bank is Truncating Institution – BOFD is known or unknown	• Required • Sequence # Field 8 typically same as Type 26, Field 5, if used and Type 28, Field 5	BOFD Known • Required • Truncation Indictor Field 9 = N BOFD Unknown • Not Present	• Required • RT in Field 3 is Intermediary • Truncation Indicator, Field 6 = Y unless Field 3 in Type 25 = 4 • If endorsing Bank ID is used, Field 11 = 1

Intermediary Institutions (Scenarios 4)

The following describes the endorsement requirements for intermediary processing. Compliance with these requirements will facilitate both Forward Collection and Return Item processing.

4. **Scenario 4 - Intermediary or Correspondent Bank receives ICL from BOFD or other Intermediary and sends ICL to Paying Bank:**

   This scenario reflects the processing requirements for an intermediary processor or correspondent bank that receives a forward image file (ICL) and sends an image file (ICL) to the Paying Bank. This scenario does not show the possibility of the Intermediary receiving an incoming Type 28 record; however the chart describes the handling, if that record is received. In this pictorial representation and chart below, the required record usage is outlined.
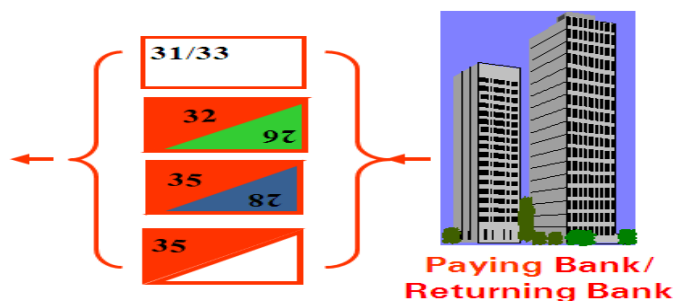

Scenario	Type 25 Record	Type 26 Record	Type 28 Records
Intermediary or Correspondent Bank receives and forwards ICL	• Required • Sequence # Field 8 typically same as Type 26, Field 5 and Type 28, Field 5 • Some Intermediaries reassign sequence numbers	• Required, if received • Pass on as received	• Required • Pass on any received Type 28s as received For endorsement added by the intermediary: • RT in Field 3 is Intermediary • Truncation Indicator, Field 6 = N • If endorsing Bank ID is used, Field 11 = 1

Paying Bank Institutions (Scenario 5)

The following describes the endorsement requirements for paying bank processing. Compliance with these requirements will facilitate Return Item processing.

5. **Scenario 5 – Paying Bank sends ICLR:**

   This scenario reflects the processing requirements for a paying bank that received an incoming image cash letter (ICL) and needs to return items from that cash letter in an outgoing image return file (ICLR). In this pictorial representation and chart below, the required record usage is outlined.

Scenario	Type 31/33 Record	Type 32 Record	Type 35 Records
Paying Bank sends ICLR	• Type 31 Required • Type 33 required if Aux-on-us field is present. • Sequence # Field 10 typically same as in received Type 25, Field 8 • Return Reason Field 6 must be populated	• Required (unless agreement) • Flip forward Type 26 with same data	<u>1st</u> • Required • Flip forward Type 28 with same data <u>2nd</u> • Required • RT in Field 3 is Paying Bank • Truncation Indicator, Field 6 = N • If endorsing Bank ID is used, Field 11 = 3 • Return Reason Field 9 should be the same as Type 31, Field 6

Not Our Item - NOI (Scenario 6)

The following describes the endorsement requirements for a return item that was inadvertently sent to the wrong bank (Not Our Item). Compliance with these requirements will facilitate Return Item processing.

6. **Scenario 6 – Intermediary Bank receives ICLR, but is not BOFD or Return Location Bank:**

   This scenario reflects the processing requirements for an intermediary bank that received an image return file (ICLR), but was not the BOFD or Return Location Bank (NOI). In this pictorial representation and chart below, the required record usage is outlined.

| Scenario	Type 31/33 Record	Type 32 Record	Type 35 Records
Intermediary Bank receives ICLR, but is not BOFD or Return Location Bank (NOI)	• Pass on Type 31 as received • Pass on Type 33, if received	• Pass on as received	1st • Pass on as received 2nd • Pass on as received 3rd • RT in Field 3 is Intermediary Bank • Truncation Indicator, Field 6 = N • If endorsing Bank ID is used, Field 11 = 3 • Return Reason Field 9 should be the same as Type 31, Field 6

Returns Hierarchy

Below is an illustration of how return items should be routed:
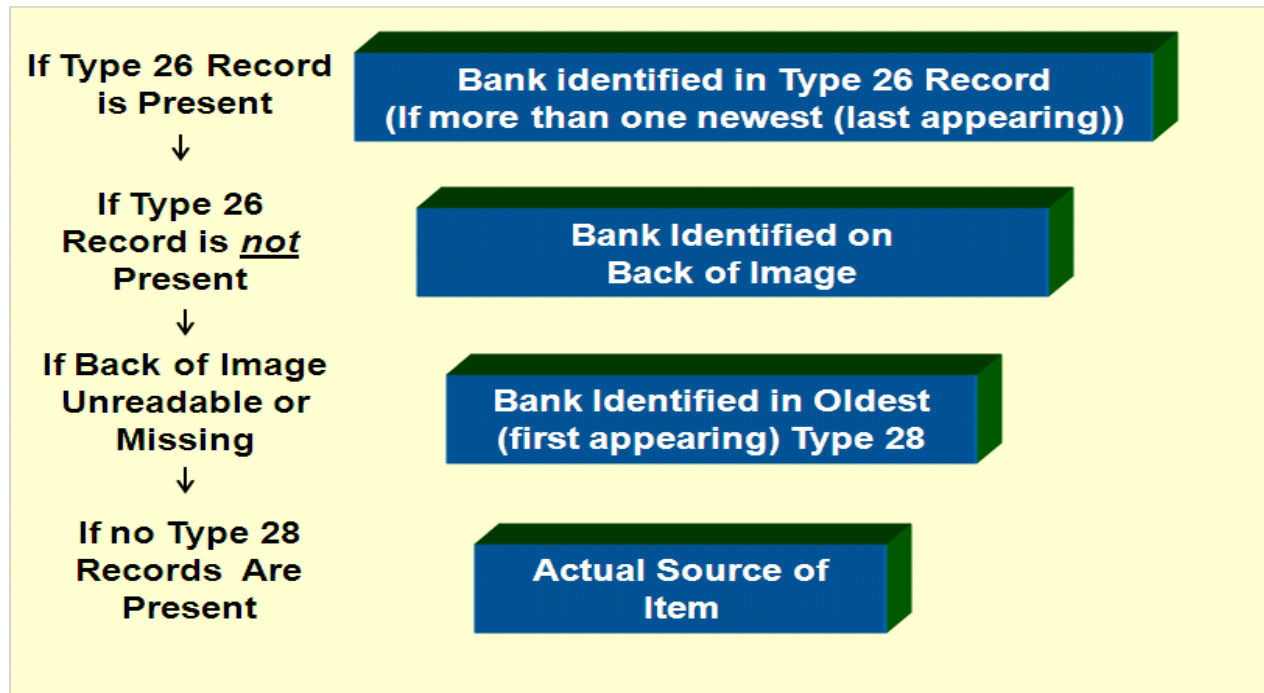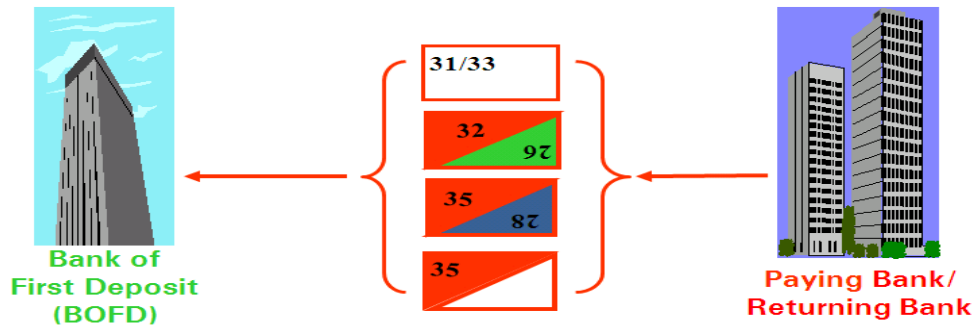

Examples of Flipped Endorsements

Below are the simplest case illustrations of record "flipping". More detailed illustrations are included in the Electronic Endorsement Scenarios section.
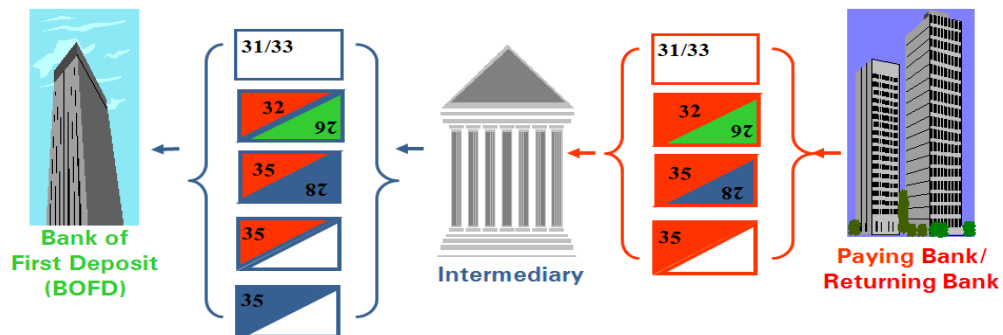
Forward Presentment
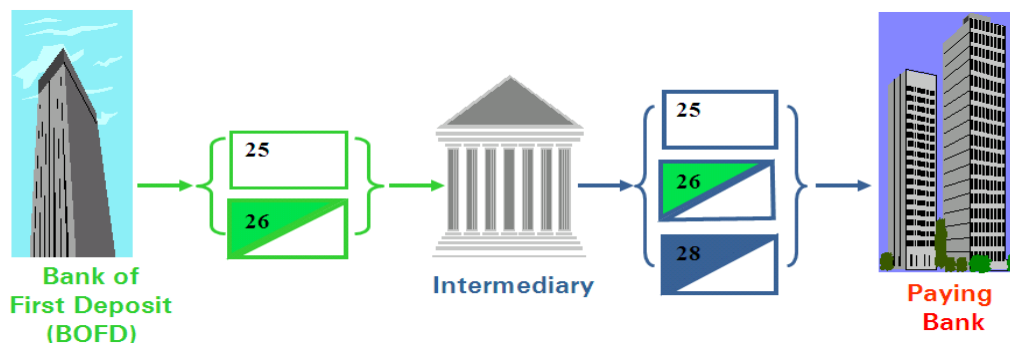
Returns

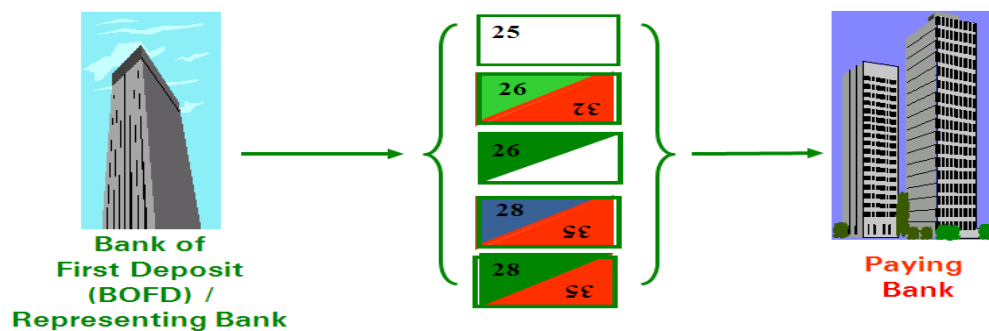### *Direct Returns*
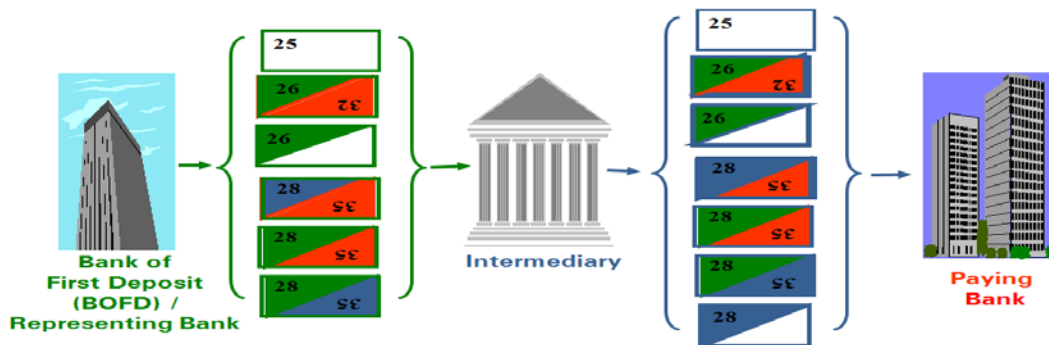

Intermediary Returns

Represented Items

Direct

Intermediary

Implementation Considerations

- Any physical endorsement information on the item prior to truncation should be maintained in the image of the item. Capture equipment should be maintained and have thresholds selected to minimize data loss.

- Any electronic endorsement information that is included in the Check Detail Addendum A Record (Type 26), Check Detail Addendum C Record (Type 28), Return Addendum A Record (Type 32), or Return Addendum D Record (Type 35) records should be retained and forwarded with the electronic item.

- When a forward item (Type 2x's) becomes a return item (Type 3x's), the endorsement information included in the Check Detail Addendum A Record (Type 26) and Check Detail Addendum C Record (Type 28) should be moved into the Return Addendum A Record (Type 32) and Return Addendum D Record (Type 35) respectively.

- The paying bank is not legally required to endorse the item. Under Check 21/Reg CC it is required to identify itself when it is a Reconverting Bank. When the paying bank is the reconverting bank, as in situations when an outgoing return is being created as a substitute check (IRD) or for image exchange, the paying bank should create a Return Addendum D Record (Type 35) with its appropriate endorsement information.