

# Proper Use of Return Codes in Image Exchange

July 25, 2009

The Uniform Commercial Code (UCC) and Regulation CC (Reg CC), do not include a list of specific reasons that an item may be dishonored and returned. However with image exchange, the standard exchange format provides a list of return reasons and associated codes that must be used for image exchange. Use of these return reasons has become the standard industry practice. Attached to this paper is the current list of return codes and their associated reasons as documented in the X9.100-187 standard.

The return reasons are arranged in two group types: Customer/"Monetary" Returns and Administrative Returns. While all returns carry monetary value, a distinction has being made between returns that result from attempting to post to a customer's account (Customer/"Monetary") and returns by the bank for some administrative reason. Alternately, administrative return reasons could be handled through an adjustment process. If administrative return reasons are handled as returns, they typically would have to adhere to the legal requirements for returns including, for example, timeliness, proper delivery and notification. The identification of the type of return is made through a code in the Cash Letter Header Record (Record Type 10, Field 14) in the image exchange file. As the Annex to the standard indicates, there are two Return Reason codes ('I' and 'Q') that have different meanings depending on whether a Customer/"Monetary" Return or an Administrative Return is used.

Most return reasons listed in the standard have been in use for many years and are self explanatory. However, the meaning of some return reasons may not be obvious. This document attempts to clarify the proper usage of return reason codes that are not obvious.

Note: The verbiage in **bold**, is as stated in the standard.

## Customer/"Monetary" Returns

- 'J' **Endorsement Irregular** – An endorsement is required for the purpose of negotiating the instrument. Various endorsements can accompany a check. These include Payee endorsement, BOFD endorsement and subsequent bank's endorsements. Endorsements can be physical or electronic. This code should be used when a paying bank determines something is wrong with any of the endorsements associated with an item. This can include an invalid payee name in a payee endorsement or missing information, like a date in a BOFD electronic endorsement. If an electronic endorsement is in noncompliance with the UCD endorsement record edits, this code is preferred over the use of the more general reason '2' as an administrative reason.
- 'L' **Signature(s) Irregular, Suspected Forgery** – This code would be used if the signatures do not conform to bank's signature cards or corporate resolution or if the item is a suspected forgery and a customer affidavit is not available.
- 'M' **Non-Cash Item (Non Negotiable)** – "Negotiability" is defined in the UCC and "Non-Cash Items" are defined in Reg CC. An item that fits the definitions

of Non Negotiable or Non-Cash Items can be returned under this code. An example of a Non-Cash Item is any item that enters the collection stream in error (i.e. pay stub) or an item that enters the collection stream with fraudulent intent.

- 'N' **Altered/Fictitious Item/Suspected Counterfeit/Counterfeit** – This code is multi-purpose and may be used for any of the named reasons: altered/fictitious item/suspected counterfeit/counterfeit. These reasons were grouped under one code since it is not always obvious or known to the Paying Bank which reason applies.
- 'O' **Unable to Process (e.g. Unable to process physical item/Mutilated such that critical payment information is missing) - This code should not be used for unusable images or system problems (see Administrative code 'U')** – This code is used when there is an issue with the physical item, such as a mutilation. However, as physical presentment of items becomes increasingly less common, this code is beginning to be used for system problems. The standard specifically states that it is improper to use this code for system problems.
- 'P' **Item Exceeds Stated Max Value** – on Item or Account – This code should be used if the amount exceeds a stated limit as defined on the item or within the paying bank's records. This code should not be used when the item has exceeded the maximum number of presentments.
- 'Q' **Not Authorized (Includes Drafts) – Unauthorized item such as a draft** – This code should be used when an unsigned draft was not authorized by the maker. This code should only be used with unsigned drafts or direct debits (items that do not contain a signature) differentiating the appropriate use of this code from Codes 'L', which has a signature, and '3' whose use is limited to specific warranty breaches under certain rule sets.
- 'R' **Branch/Account Sold (Wrong Bank) – Divested Account, Not Our Item** – This code is also multi-purpose and may be used for any of the named reasons: Branch/Account Sold/Wrong Bank/Divested Account or Not Our Item. The most common use is Not Our Item (NOI) and should only be used when a forward item is not drawn on the paying bank or when a return was returned and charged to an entity other than the depository bank, the depository bank's agent or any subsequent collecting bank. It is used when a bank has sold/divested branches or accounts. It may also be used when the routing number in the record is incorrect, which includes routing numbers that are no longer used (retired RTs).
- 'S' **Refer to Maker** – This code is undesirable and strongly recommended that it not be used. It is recommended that this code only be used when no other code truly applies to the situation. However, some states have enacted privacy laws that might dictate the use of this code and if so, this code should be used to meet that legal requirement.

- 'X' Refer to Image – Return Reason information is contained within the image of the item.** – This code can be used when the creator of an image return knows that a return reason already exists on the face of the item. The return reason may have been stamped on the item by the paying bank or printed on the face of the item in the creation of a Substitute Check. This code is generally used by an intermediary processor when a paper return item is received and is being converted to an image. If the creator of the return is unsure whether a return reason has been placed on the face of the item, this code should not be used. Since an intermediary would not know the actual return reason without physically examining the item, this use of the code promotes efficient processing of that return. This code should not be used by a paying bank in an electronic image return file. A paying bank is required (by law) to identify the reason for return. The future direction should be when printing a Substitute Check the “Refer to Image” verbiage should not be printed on the face of the Substitute Check, since the actual return reason should already appear in the image of the check. If the “Refer to Image” verbiage is printed on the Substitute Check it should not obscure important information on the face of the check<sup>1</sup>. Use of this code when the return reason appears on the face of the item can cause undesirable impacts to BOFD’s downstream applications. Banks that receive returns with both an ‘X’ and a return reason on the face of the item, may choose to change the reason ‘X’ to the return reason that appears on the item.
- 'Z' Forgery – An affidavit shall be available upon request** – This code should be used when an item is believed to have a forged or invalid signature(s). Some states require an affidavit be available. If no affidavit is available the proper code to use is ‘L’.
- '3' Warranty Breach (includes Rule 8 & 9 claims)** – This code can be used as a Customer/”Monetary” Return or Administrative Return. Rules 8 & 9 claims are specific warranty breaches and banks using these claims processes need to be under an agreement (rules) that provides these warranties and claims. This code should not be used for returns through the Federal Reserve. This code is different than ‘Q’, which can be used without a specific rule set.

**Administrative Returns** – These codes can be used for return processing, when they can be processed within the legally allowed return timeframes. Outside of those timeframes, items with these issues may need to be handled as adjustments. Banks will make their own determination as to how to handle these items.

- 'Q' Ineligible** – An item was received that is not eligible for exchange. This occurs when a bank receives items on routing numbers that they have not opened for image exchange, foreign items, etc. This code should not be

---

<sup>1</sup> The X9.100-140-2008 Specifications for an Image Replacement Document – IRD requires the return overlay to be placed near the top of the document to avoid obscuring needed payment information in the image.

used for items that do not conform to the standard specifications or are unusable.

- 'U' **Unusable Image (Image could not be used for required business purpose e.g. gross image defects, illegible, etc.)** – This code is used for an image that does not conform to industry exchange standards or agreements. It can also be used for mis-matched MICR which occurs when the MICR line in the file is not the MICR line on the image.
- 'V' **Image Fails Security Check** – This code was initially established to indicate problems with digital signatures in an Image View Data Record (Type 52) of an image item view. This code can also be used for validation failures associated with interoperable security features.
- 'Y' **Duplicate Presentment** – This code is used when a party in the collection process is being asked to pay the item more than once. If the item has been returned and is being represented this is not considered a duplicate presentment and can only be returned for an alternate legitimate return reason.
- '1' **Does not conform with ANS X9.100-181 – 2007 Specification for TIFF Image Format for Image Exchange standard** – This code would be used if an image is found to be in non-conformance with the current X9.100-181 standard.
- '2' **Does not conform to the Industry's Universal Companion Document** – The banking industry has developed a Universal Companion Document (UCD) for the implementation of X9.100-187 for financial institutions exchanging images. This code may be used if an item does not meet required edits as specified in the applicable UCD as defined in the file header record. This code may also be used for system problems when the file does not conform to the UCD.
- '3' **Warranty Breach (includes Rule 8 & 9 claims)** – This code can be used as a Customer/"Monetary" Return or Administrative Return. Rules 8 & 9 claims are specific warranty breaches and banks using these claims processes need to be under an agreement (rules) that provides these warranties and claims. This code should not be used for returns through the Federal Reserve. This code is different than 'Q', which can be used without a specific rule set.

## **Annex B (Normative) Return Reason Codes**

### **B.1 General Comments**

This annex provides a list of all acceptable return reason codes used for exchange. The table below identifies all return Reason Codes used in this standard. Some return reason codes and descriptions are used for both Customer/Monetary and Administrative returns and have the same meaning.

There are two codes ('I' and 'Q') that are used in both Customer/Monetary and Administrative returns with different meanings.

### **B.2 Customer/ "Monetary" Returns**

The following return codes are used when the Return Indicator (Field 14) in Cash Letter Header Record (Type 10) is equal to 'R'.

- 'A' NSF - Not Sufficient Funds
- 'B' UCF - Uncollected Funds Hold
- 'C' Stop Payment
- 'D' Closed Account
- 'E' UTLA - Unable to Locate Account
- 'F' Frozen/Blocked Account – Account has Restrictions placed on it by either customer or bank
- 'G' Stale Dated
- 'H' Post Dated
- '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 (e.g. Unable to process physical item/Mutilated such that critical payment information is missing). This code should not be used for unusable images or system problems (see Administrative code 'U')
- 'P' Item Exceeds Stated Max Value
- 'Q' Not Authorized (Includes Drafts) – Unauthorized item such as a draft
- 'R' Branch/Account Sold (Wrong Bank) – Divested Account, Not Our Item
- 'S' Refer to Maker
- 'W' Cannot Determine Amount – Amount cannot be verified
- 'X' Refer to Image – Return Reason information is contained within the image of the item.
- 'Z' Forgery – An affidavit shall be available upon request
- '3' Warranty Breach (includes Rule 8 & 9 claims)

### **B.3 Administrative Returns**

The following return codes are used when the Return Indicator (Field 14) in Cash Letter Header Record (Type 10) is equal to 'E'.

- 'I' Image Missing
- 'Q' Ineligible
- 'U' Unusable Image (Image could not be used for required business purpose e.g. gross image defects, illegible, etc.)
- 'V' Image Fails Security Check
- 'Y' Duplicate Presentment
- '1' Does not conform with ANS X9.100-181 – 2007 Specification for TIFF Image Format for Image Exchange standard
- '2' Does not conform to the Industry's Universal Companion Document
- '3' Warranty Breach (includes Rule 8 & 9 claims)