Check Returns and Adjustments
Quick Reference Guide

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WesPay has a long tradition of working with financial institutions in the Western U.S. to promote the use of electronic payments and to increase effectiveness through professional development and client support. WesPay publications are a collection of reference guides designed to provide a clear understanding of the technical requirements of payment networks.

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Introduction

When processing check payments, there are multiple ways to resolve check exceptions:

- Returns (Customer and Administrative)
- Rule 8 & Rule 9 Claims
- Adjustments
- Warranty Breach Claims

This guide will highlight the information needed to process these exceptions and how you can mitigate your risk of losses by performing tasks in a timely manner.
Returns
(Customer and Administrative)

Return Time Frames

All returns must conform to legal requirements for timeliness, proper delivery and notification. They also must meet UCC and Reg CC return deadlines (or you must adjust/make warranty claim). The time frames an institution are required to meet are as follows:

- 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). The return must reach the depositary bank by 2:00 p.m. (local time of depositary bank) two days after presentment.

Types of Returns Codes

There are two types of return codes: Customer and Administrative Return Codes. They both carry monetary value, but usually send a very different message back to the Bank of First Deposit (BOFD). The difference is whether the return results from attempting to charge a customer's account or requires further investigation. Customer returns are identified as a dishonored item that needs to go back to the BOFD. It results from items attempting to post to a customer’s account (i.e. NSF, stop pay, closed account). Administrative returns are identified as an item that is being returned for reasons other than a dishonored item. These items are usually handled internally by the presenting bank rather than being charged to a customer. These types of items can also be handled through the adjustment process. Examples include poor quality image, ineligible items, etc.

- ✓ Customer returns can be exchanged without agreement and are sent to the return location as defined in Regulation CC requirements.
- ✓ Administrative returns can only be exchanged by agreement and is sent to the return location as defined in the agreement.

When a check image is returned unpaid, the payor bank must indicate the reason in accordance with X9.100-188 Standards. X9 is the Accredited Standards Committee that develops technical standards for the financial services industry (www.x9.org).

Return reason codes describe why an item is being returned. There are multiple possible return reasons that the payor bank can choose from to return the item.

Return codes are not covered by check law. UCC allows paying banks to dishonor an item and Reg CC requires the paying bank to provide a return reason. Return codes for check image and IRDs are all found in one standard: X9.100-188. The next few pages list the return codes and explanation of their uses.

These return codes 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: www.x9.org
A.1 **Customer Returns (A-L)**

Customer returns are identified as a dishonored item that needs to go back to the BOFD. It results from items attempting to post to a customer’s account (i.e. NSF, stop pay, closed account).

<table>
<thead>
<tr>
<th>Code</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td><strong>NSF</strong> - Not Sufficient Funds</td>
</tr>
<tr>
<td>B</td>
<td><strong>UCF</strong> - Uncollected Funds Hold</td>
</tr>
<tr>
<td>C</td>
<td><strong>Stop Payment</strong></td>
</tr>
<tr>
<td>D</td>
<td><strong>Closed Account</strong></td>
</tr>
<tr>
<td>E</td>
<td><strong>UTLA</strong> - Unable to Locate Account</td>
</tr>
<tr>
<td>F</td>
<td><strong>Frozen/Blocked Account</strong> – Account has restrictions placed on it by either customer or financial institution.</td>
</tr>
<tr>
<td>G</td>
<td><strong>Stale Dated</strong> - This code may be used when a check is more than six months old from the issue date, as defined in the UCC.</td>
</tr>
<tr>
<td>H</td>
<td><strong>Post Dated</strong> - This code may be used when a check is presented prior to the issue date, as defined in the UCC.</td>
</tr>
<tr>
<td>I</td>
<td><strong>Endorsement Missing</strong> – This code can be used when a paying financial institution determines a required endorsement is missing. Most typically this code is used for issues with payee endorsements. Endorsements can be physical (on the back of the paper check), or electronic (in addendum records). This code has a different meaning under Administrative Return.</td>
</tr>
<tr>
<td>J</td>
<td><strong>Endorsement Irregular</strong> – This code can be used when a paying financial institution determines something is wrong with any of the endorsements associated with an item. This can include but is not limited to, invalid or missing payee name in a payee endorsement or missing information such as a date in a BOFD overlay endorsement. Most typically this code is used for issues with payee endorsements. Endorsements can be physical (on the back of the paper check), or electronic (in addendum records). Physical financial institution endorsements are now rare. If the electronic endorsement is in noncompliance with the UCD endorsement record edits, return reason ‘2’ is the preferred return reason code.</td>
</tr>
<tr>
<td>K</td>
<td><strong>Signature(s) Missing</strong> - This code can be used if the maker signature does not appear on the original document on the front of the item in the designated signature area, and it is not a remotely created check.</td>
</tr>
<tr>
<td>L</td>
<td><strong>Signature(s) Irregular, Suspected Forgery</strong> – This code can be used if the signature(s) do not conform to financial institutions signature cards or other official financial institution documentation or if the item is a suspected forgery and a customer affidavit is not available. This reason is not to be used for Rule 9 claims. For Rule 9 claims use code 3 – Warranty Breach (includes Rule 8 &amp; 9 claims), or 5 – Forged and Counterfeit Warranty Breach (Rule 9).</td>
</tr>
</tbody>
</table>

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