

Return Image Cash Letters

A Case Study of Processing
Image Cash Letter Returns
Through the Federal Reserve

The Approval Process
From the Bank's Perspective



Introduction

■ Who is this for?

- Everyone sending or receiving Image Cash Letters (ICLs) also known as X9.37 files
- Anyone planning on sending or receiving Image Cash Letters, ICLs or X9.37 files

■ Why is it important?

- Expedited electronic return-item clearing reduces risk and improves fraud mitigation
- One of two options to return ICL items

■ What will we discuss?

- How to create an Return X9.37 ICL file
- Examine the approval process of the Federal Reserve Board's FedReturn services from the bank's perspective



Learning Objectives

Understand How To:

- Reduce risk and improve fraud mitigation through expedited electronic return-item clearing
- Lower the cost of inbound and outbound return processing.
- Reduce exception processing costs
- Gain Federal Reserve Board approval for the FedReturn service.



Personal Introductions

■ Eliot Robinson

- Executive Vice President
- Sterling National Bank

■ Bill Lange

- VP of Sales & Marketing
- All My Papers



Sterling National Bank

- Founded in 1929
- A subsidiary of Sterling Bancorp (NYSE: STL)
- Provides:
 - Deposit Accounts
 - Commercial lending
 - Asset-based financing
 - Factoring/accounts receivable management
 - International trade financing
 - Commercial and residential mortgage lending
 - Equipment leasing,
 - Trust, and estate administration
 - Investment management services.



All My Papers

- All My Papers is a developer and distributor of Check Image Software
 - Creates, views, edits and sorts X9.37 files - ICLs
 - Accurately extracts and verifies MICR data from check images
 - Prints valid IRDs.
 - Processes and repairs check images



All My Papers Customers

All My Papers products are primarily sold to:

- Independent Software Vendors (ISVs) for incorporation in their own branded applications (e.g. Conix System, Goldleaf, NCR, Unisys, etc.)
- Financial corporations for inclusion in custom developed applications (e.g. 7-Eleven Corp, Sterling National Bank)



ICL

Image Cash Letter

- A cash letter is an inter-bank transmittal letter that accompanies paper check items sent from one financial institution to another.
- Image Cash Letter (ICLs) are also known as X9.37 Files
- X9.37 File is a file based on the Accredited Standards Committee X9's Specifications for Electronic Exchange of Check and Image Data (DSTU X9.37-2003)



ICL Continued

- Federal Reserve Image Cash Letter Customer Documentation
- ICL file combines check images and check image data
- With ICLs Financial institutions can:
 - Receive
 - Generate
 - Re-distribute



What We Will Cover

- Review the benefits of the Federal Reserve Boards FedReturn services.
- Define the benefits for Sterling Bank of creating Return X9.37 files and using the FedReturn Suite of services.
- Review the process of using the internal software to efficiently use the FedReturn service



What We Will Cover - 2

- Examine the creation process for a Return ICL
 - What was easy
 - What was hard
 - What was expected
 - What was unexpected
 - How the challenges were met
- Review the current and future volume requirements



Case Study Background

Sterling Bank is

- Subsidiary of Sterling Bancorp
- 2 Billion in assets
- Image enabled (ImageCentre by Bankware)
- Receives Image Cash Letters from the Federal Reserve Board (FRB)
- Needs to return checks in ICLs at the request of Sterling's account officers



Defining the Problem

■ Source of Return Items

- FedReceipt Plus Service sends two return files daily:

1. ICLs sent by other banks to the FED usually receive by 10:30 a.m.
2. ICL created by other Federal Reserve Banks (without record 26, bank of first deposit- bofd) are usually received by 1:30 p.m.

- **Paper Cash Letters from SVPCo National Check Exchange**



The Problem

- Need to return checks because Sterling account officers request returns for:
 - Insufficient Funds
 - Uncollected Funds
 - Lack of Endorsement
 - Can't find account number
 - Bad Signature
 - Not readable (only 1 check image was not readable)
 - Forgery



Services

- FedReturn – Image Cash Letters
 - Federal Reserve Banks will process the items and return them to the bank of first deposit.
- SVPCO - Cash Letters
 - SVPCO offers a National Check Exchange that allows participants to exchange and settle paper checks and substitute checks across the U.S., under a single set of rules.
 - SVPCo is also providing an image exchange



Benefits

FedReturn Services

- Benefits
 - Expedited (gain a day) through return-item clearing
 - Improves fraud mitigation
 - Reduces exception processing
 - Lower cost of inbound and outbound returns processing
 - Improve quality of operations



Benefits to Sterling

- More accurate— less chance for item to misrouted
- Faster return – funds available one day earlier
- Very Clean
- No Image Replacement Document creation and delivery



Alternative To Return ICLs

- Return IRD printed
- Slower process
- Liability of valid printing IRD now falls to Sterling

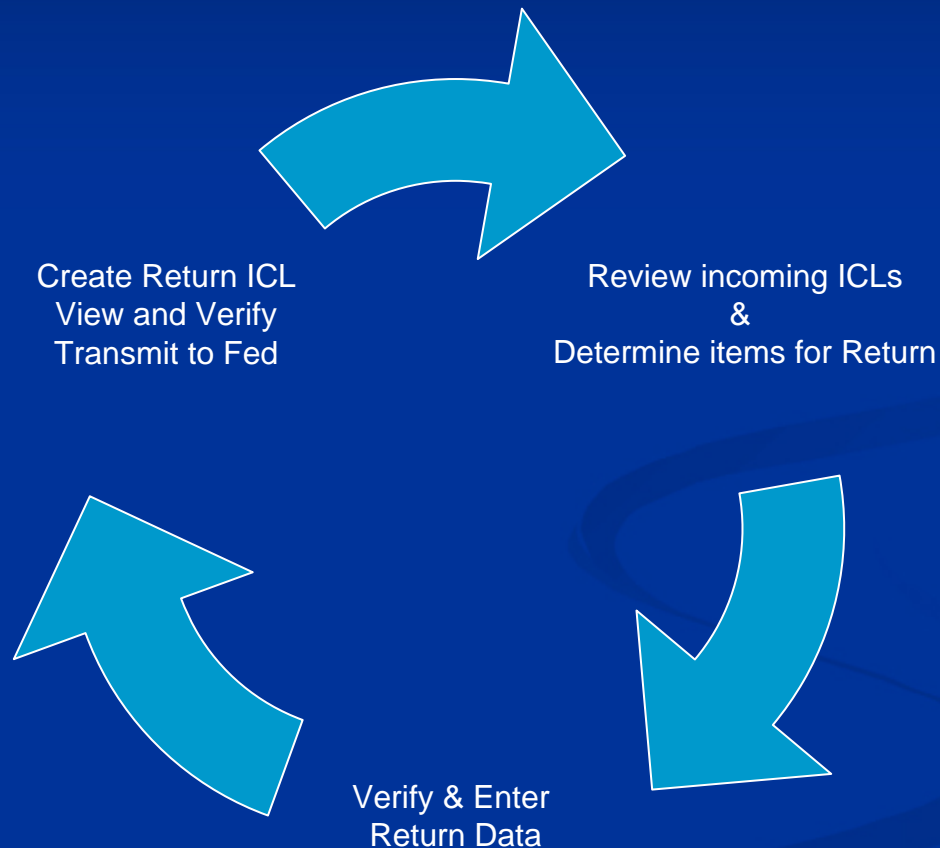


Daily Cash Letters Metrics

- Incoming
 - ICL is 5,000 – 6,500 checks
 - \$15-\$20 Million per image cash letter
 - Paper checks from NCE – 5,000 – 6,000
- Outgoing
 - 1 FedForward ICL
 - 1 - 2 FedReturn ICL
 - Electronic Cash Letter (ECL) with checks to follow
 - Paper to National Check Exchange



Process Diagram



Process for Generating ReturnICL

1. Previous days incoming ICLs are processed
2. Copies of checks to be returned are printed
3. Identify Fed Receipt file, icl, bundle and item
4. Enter Data from printed check items
 1. Reason for return
 2. Bank of First Deposit Routing number
 3. Bank of First Deposit date
 4. Sterling sequence number



Process 2

4. Contact FRB office if BOFD or original date not legible
5. Use All My Paper X9.37 viewer application to view ICL data and check images in ICLs
6. Using AMP viewer application to search for account number
7. Compare printed check to check image and ICL data



Viewer Screen Shot

The screenshot displays the x9View application interface. On the left, a tree view shows a hierarchy: File Header (01) > Cash Letter 1 - SHARE (10) > Bundle 1 - 00000Z00 (20) > Item 1 - 1614291 (70) > 90 > 99. The main area contains a table with 12 columns: Field, Description, and Value.

Field	Description	Value
1	Record Type	"20"
2	Collection Type Indicator	"01"
3	Destination Routing Number	"000000000"
4	ECE Institution Routing Number	"000000000"
5	Bundle Business Date	"20041020"
6	Bundle Creation Date	"20041020"
7	Bundle ID	"0000020001"
8	Bundle Sequence Number	"0001"
9	Cycle Number	"01"
10	Return Location Routing Number	"000000000"
11	User Field	" "
12	Reserved	" "

A 'Find' dialog box is open in the center, with 'Find what:' set to '001111111'. It includes options for 'Look In', 'Record', 'Field', 'Match whole field only', 'Match case', and 'Direction' (Up/Down). The 'Find Next' button is highlighted.

At the bottom, an 'Item Details' pane lists errors:

- 1 Digital Signature Indicator in record 5 is invalid.
- 2 Clipping Origin in record 6 is invalid.
- 3 Digital Signature Length in record 6 is invalid.
- 4 Digital Signature in record 6 is invalid.
- 5 Image Data Length in record 6 is invalid.

The Windows taskbar at the bottom shows the Start button, several application icons, and the system tray with the time 10:05 AM.



Create New Return File

8. Sterling application – *Sterling Check21*
 - Used All My Papers AX9LIB Software Development Kit (SDK)
 - AX9LIB SDK Included:
 - COM Object SDK
 - Documentation
 - Demo VB Application
 - Source Code to VB Application
 - 5 weeks to develop, test and gain approval



Sterling Check21 Application Process

9. Find file and open ICL file
 - Enter data such as:
 - Cash letter number
 - Bundle Number
 - Item Number
 - Sterling Sequence Number
 - BOFD Routing
 - BOFD Date
 - Return Reason
 - Repeat steps for next item to be returned



Verify Data

10. Verify Data in New Return File using AMP Viewer
11. Compare to printout
12. Verify Batch Totals
13. Send copy of file to FRB Utica using Tumbleweed software
14. Receive email from FRB Utica accepting or rejecting Return ICL



Process – Easy

- AMP toolkit provided item selection, record copying, new record creation, file control totals, etc.
- AMP provided sample application
- A couple of days to create test FedReturn



Process Easy - 2

- Federal Reserve provided constant feedback
- AMP responded same or next day
- In-house programmer incorporated changes same or next day
- Team effort paid off



Process – Hard

- Learning and interpreting DSTU X9.37
- Learning and interpreting Federal Reserve Image Cash Letter Documentation
- Dealing with inconsistencies DSTU / Fed
- Bank of First Deposit Information



Process – Expected

- Creating Record 35 for Sterling
- Subtotals – major issue for Fed but resolved in a day



Process Unexpected

- Fast – Issues resolved within 24 hours
 - Creating Record 35
 - Creating new records from data in previous records
 - Fixing Subtotal error
- Not being able to read the endorsement of the the bank of first deposit from the check image for items truncated by the Fed
- Copying values in records 25-28 to new records 31 - 35



Current and Future Volumes

■ Current

- ICLs 3
- Items – 5,500
- Dollar Volumes \$15M

■ Future

- We expect returns will double once we start receiving image exchange with SVPCo members



Sterling Software

- Bankware - ImageCentre is an Internet Browser-based check imaging, document imaging, remittance processing, and COLD solution.
 - Check Image Processing
 - Check Image Archiving
 - Check Image Retrieval
- All My Papers – AX9LIB, toolkit for X9.37, ICL
 - Create
 - Edit
 - View



Contact Information

■ Eliot Robinson

- Phone: (212) 356-6516
- Email: Eliot.Robinson@Sterlingbancorp.com
- Web Site: www.sterlingbancorp.com

■ Bill Lange

- Phone: 408-366-6400 Ext 802
- Email: Bill@AllMyPapers.com
- Web Site: www.allmypapers.com



Thank You



www.allmypapers.com