

# Appendix 304A

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## COMMON ITEM PROCESSING TERMS

**Adjustment** - An entry requested by the corporate, member credit union, other financial institution, or Federal Reserve Bank because another institution has lost an item or cash letter, encoded an item incorrectly, etc.

**Bank of First Deposit** – The credit union where a member deposits a share draft. Also referred to as the BOFD.

**Batch Processing** - A group of transactions, deposits, or check clearings assembled for proving or processing purposes. A batch may consist of 100-300 items. Each batch is accompanied by a batch control ticket which records the batch number, control totals, and routing information.

**Cash Letter** – Bundles of items deposited or received together based on work type. They are accompanied by a cash letter form summarizing the enclosed bundle amounts and the total.

**Clear on Tickets** - An action initiated by a clearing house bank to debit the corporate for an adjustment.

**Fine Sort** - A term used to describe sorting transaction media into numerical or alphabetical order.

**ICR or Intelligent Character Recognition** – This usually refers to the machine reading of handwriting.

**Imaging** – A term referring to the process of capturing a digital image of share drafts.

**Incoming Return Items** - Items being returned to the bank of first deposit (also referred to as the BOFD).

**Inclearing** - A process whereby items are captured, imaged, sorted, and then presented to credit unions for posting to member accounts. Inclearing items include but are not limited to the following:

1. **Convenience Draft** - A draft against a credit card account.
2. **Corporate Draft** - A draft written by a credit union against its own account.
3. **Pre-authorized Draft** - An item initiated by a third party, with authorization by the account holder, to debit the share draft account for payment. Examples of pre-authorized drafts include health club dues, electric bills, and insurance premiums.
4. **Share Draft** - A written draft on a deposit account by a credit union member.

5. **Sight Draft** - An item initiated by a financial institution with an ATM, to debit a credit union for an error that occurred at that ATM, or a return item.

**Infirmity** - Any known act, or omission, that would invalidate an instrument (share draft). Common examples of infirmities that would cause a financial institution to refuse payment are missing endorsements, missing signatures, conflicting amounts in written and numerical figures, alterations, or forgeries.

**IRD or Image Replacement Document** – A reproduction of a share draft or the image of a digital share draft.

**Item** - Any media, excluding coin or currency, handled daily by a financial institution, which will be posted in total or in detail, as a debit or a credit, to an institution's account. Items are generally referred to by type, such as "cash items," "transit items," "on-us items," clearing items," "general ledger items," etc.

**MICR** - Magnetic Ink Character Recognition. Process used for encoding checks and/or other types of items to be processed. The MICR-line, which contains check routing account number and dollar amount information, is read to capture (read) the item and then sort it.

**Mis-sent Item** - An item which has been sent in error to another financial institution.

**Mis-sort** - An item sorted into the wrong account. A mis-sent item leaves the financial institution, while a mis-sorted item remains in the financial institution's possession, but causes a control problem.

**Proof Machine** - A machine with multiple pockets designed to balance and encode debit and credit transactions, accumulate pocket and grand totals, and sort the source documents according to type.

**Reader/Sorter** - A high speed document handler that reads MICR encoded information on documents for transmission to a computer and sorts the MICR documents on digits selected either at the unit console (off-line) or by the computer program (on-line).

**Raised Check** - A check on which the dollar amount has been illegally increased.

**Reject** - An item rejected from the reader sorter which has to be processed manually. Reasons for rejection include incomplete or unreadable MICR lines, or invalid check digits/account types.

**Return Item** - An item the member credit union returns rather than posting to the member's account. Examples of return items include insufficient funds, stop payments, account closed, unauthorized drawer signature, and uncollected funds. Items must be returned within 24 hours of presentment.

**Routing and Transit Number** - The numbers printed on checks to identify the specific institution on which a check is drawn and to which the check must be sent for payment by the Federal Reserve.

**Substitute Check** – This is a paper copy of the front and back of the original check. It is slightly larger than a standard personal check so it can contain a picture of the original check. A substitute check must be printed in accordance with very specific standards so it can be used in the same way (legal equivalent) as the original check.

**Transit Item** - A cash item drawn on a financial institution outside the immediate exchange area. Transit items are processed and sent to the Federal Reserve Bank(s), correspondent financial institutions, etc., for collection and remittance to the financial institution that originally received the items.

**Transit Letter** - A deposit form or remittance instruction slip that describes and gives totals of items to be collected and paid, enclosed with the checks and other cash items. The term “cash letter” refers to transit items sent to a financial institution where the remitting institution maintains an account. A “remittance letter” is sent when payment must be made (usually by draft) for the items sent.

**Truncation** - The process of distributing the original copies of cleared share drafts. In truncated processed drafts are stored for a prescribed number of days (usually 60-90), then confidentially shredded. Non-truncated processed items are returned to the member credit union and distributed to the members in monthly account statements.