

Brought to You by Your Credit Union

Check 21 Speeds Checking, Sinks Your Float



If you think you can get away with a little float, think again. You know what float is—you write a check today hoping it won't be deducted from your account for a couple more days. That won't necessarily work anymore.

The Check Clearing for the 21st Century Act (Check 21) will cut the time it takes a check to clear from days to hours. So think about whether you need to change your checking habits.

Check 21 reduces check clearing time from days to hours. You cannot rely on float anymore.

Starting Oct. 28, 2004, the Check 21 law helps financial institutions send checks electronically to each other, by "truncating" the movement of paper checks by converting them to electronic files. This is something that most credit unions have been doing for years, but banks are only starting to do.

Check 21 allows any financial institution that doesn't want to receive a check in electronic form to

request a paper copy of the electronic check. This converted paper check is called a "substitute check." A substitute check is more than a photocopy or paper image of the original check—it's required to meet strict standards to qualify as the legal equivalent of the original check.

When will you see a substitute check?

A substitute check will look like the check you've written, but will be somewhat smaller in size and on

different paper stock. The front and back will contain all the information that appeared on the original check at the time it was truncated.

Here's when you might receive a substitute check:

- If you occasionally request a copy of one of your paid checks/share drafts, and that check has been converted to an electronic file in the payments process, it will be reconverted to a substitute check to fulfill your request. The Check 21 law says that you can use this substitute check in the same way you would use the original check.

- If you deposit someone's check into your checking or savings account, and that check turns out to be a bad check, you will receive the bad check back in the form of a substitute check if, during the payments process, that check ever had been converted to an electronic file.

- If you have a checking/share draft account that returns paid original checks, some of them may have been converted during the payments process to an electronic file, reconverted back to paper, and be returned to you as a substitute check.

Jane's sofa saga

How might all this work?

Jane writes a check for \$770 to buy a new sofa from Soft Sofa Settees Inc. Soft Sofa deposits her check into its account at Bank A. What happens next may become complicated, but you'll never even know about it. Bank A needs to get the money from Jane's credit union account. Bank A has adopted a paperless payments process, so it converts Jane's check to an electronic file and electronically sends it for collection to an intermediate Bank B. (Bank A could retain Jane's original check or destroy it at

some point.) Bank B electronically collects the funds from Jane's credit union. The credit union may, but doesn't have to, ask Bank B to create a paper substitute check. If Jane has a share draft/checking account that calls for the credit union to return paid checks in her monthly statement, she will receive a substitute check of her check to Soft Sofa.

Remember that Jane's check, which might have taken days to travel around in paper form before reaching the credit union before Check 21, could arrive for payment in a matter of hours now. Jane

won't know if her check will travel a paper or electronic route, so she better have \$770 in her account when she buys that sofa. She can't "play the float" anymore.

What if Jane, after waiting months for her sofa, contacts Soft Sofa and the salesperson says he doesn't know anything about her order? Jane, of course, says she's paid for the sofa, which Soft Sofa disputes. Jane can request from her credit union a substitute check, which has an image of the front and back of the original check showing that Soft Sofa



Substitute Checks and Your Rights

What is a substitute check?

To make check processing faster, federal law permits banks to replace original checks with "substitute checks." These checks are similar in size to original checks with a slightly reduced image of the front and back of the original check. The front of a substitute check states: "This is a legal copy of your check. You can use it the same way you would use the original check." You may use a substitute check as proof of payment just like the original check.

Some or all of the checks that you receive back from us may be substitute checks. This notice describes rights you have when you receive substitute checks from us. The rights in this notice do not apply to original checks or to electronic debits to your account. However, you have rights under other law with respect to those transactions.

What are your rights regarding substitute checks?

In certain cases, federal law provides a special procedure that allows you to request a refund for losses you suffer if a substitute check is posted to your account (for example, if you think that we withdrew the wrong amount from your account or that we withdrew money from your account more than once for the same check). The losses you may attempt to recover under this procedure may include the amount that was withdrawn from your account and fees that were charged as a result of the withdrawal (for example, bounced check fees).

The amount of your refund under this procedure is limited to the amount of your loss or the amount of the substitute check, whichever is less. You also are entitled to dividends on the amount of your refund if

These changes should be transparent to you most of the time.

deposited her check into its account at Bank A months ago, *and* includes a sentence that the substitute is the legal equivalent of the original check she wrote to Soft Sofa. Jane can use this substitute check to prove to Soft Sofa that she has paid—or to take Soft Sofa to court, if it comes to that.

Say Jane's \$770 check to Soft Sofa is converted to an electronic file along the way, and reconverted to a substitute check for the credit union, but somehow the amount charged to Jane's checking account is \$990. The Check 21 law spells out Jane's rights to file a claim for an expedited refund for the \$220, any dividends she may be owed on this amount, and a refund of any fees she may have been charged because of this problem.

The government requires anyone receiving a substitute check to be given a consumer awareness disclosure notice, which appears in the shaded box.

The notice explains Jane's rights and the credit union's responsibilities for handling problems that may arise specifically with substitute checks.

Bottom line: You probably won't see a substitute check often. But your check frequently may be converted into an electronic file and speed through the payments process. So shape up your checking habits before Check 21 sinks your float.

your account is a dividend-bearing account. If your loss exceeds the amount of the substitute check, you may be able to recover additional amounts under other law.

If you use this procedure, you may receive up to \$2,500 of your refund (plus dividends if your account earns dividends) within 10 business days after we received your claim and the remainder of your refund (plus dividends if your account earns dividends) not later than 45 calendar days after we received your claim.

We may reverse the refund (including any dividend on the refund) if we later are able to demonstrate that the substitute check was correctly posted to your account.

How do you make a claim for a refund?

If you believe that you have suffered a loss relating to a substitute check that you received and that was posted to your account, please write to us at the address listed on your statement. You must contact us within 40 calendar days of the date that we mailed (or otherwise delivered by a means to which you agreed) the substitute check in question or the account statement showing that the substitute check was posted to your account, whichever is later. We will extend this time period if you were not able to make a timely claim because of extraordinary circumstances.

Your claim must include—

- A description of why you have suffered a loss (for example, you think the amount withdrawn was incorrect);
- An estimate of the amount of your loss;
- An explanation of why the substitute check you received is insufficient to confirm that you suffered a loss; and
- A copy of the substitute check or information to help us identify the substitute check, for example the check number, the name of the person to whom you wrote the check, and the amount of the check.



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