

# Back to Basics

Boot Camp for Beginners:  
Check

Presented by:  
Macha/PAR – Everything  
Payments - Everywhere  
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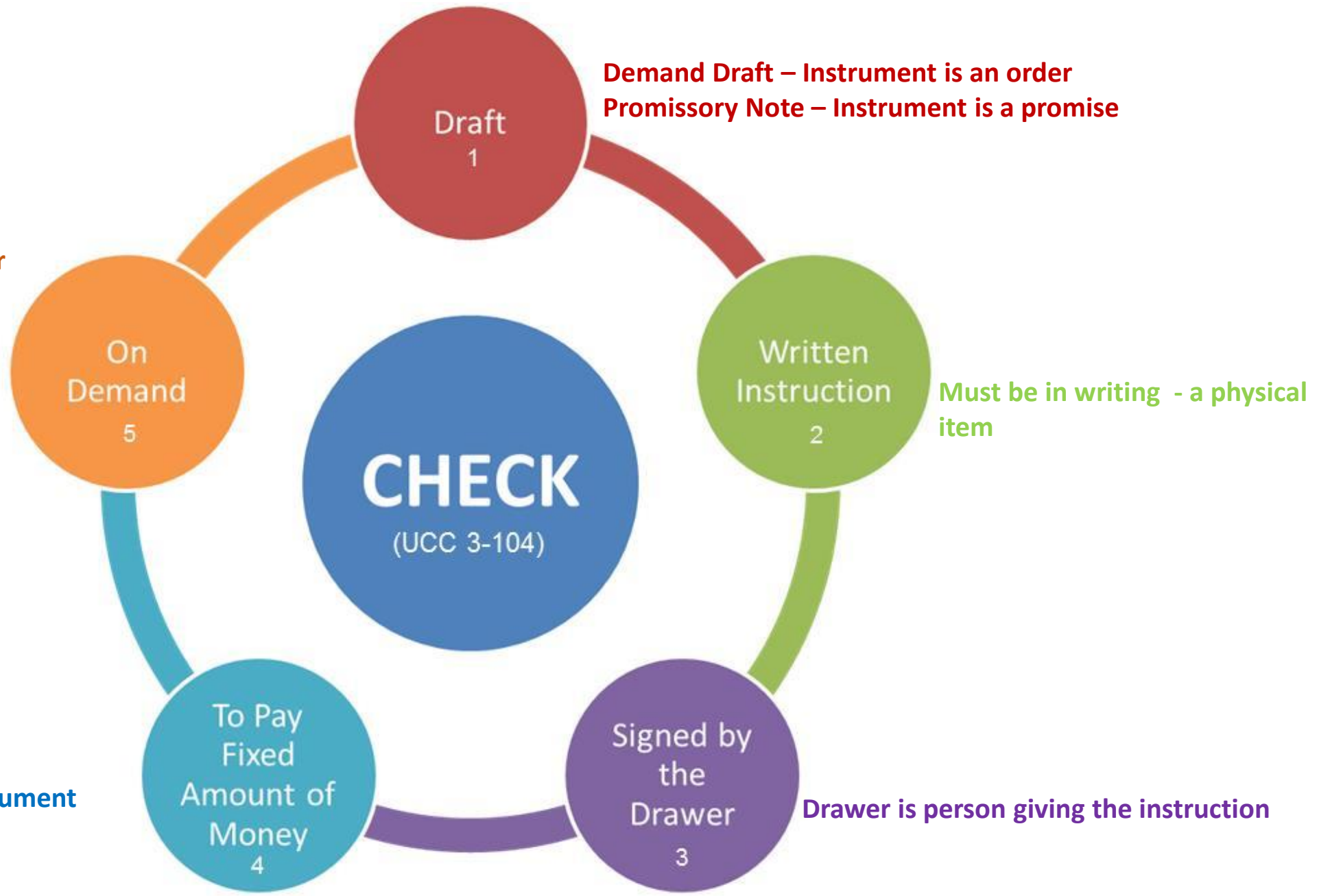
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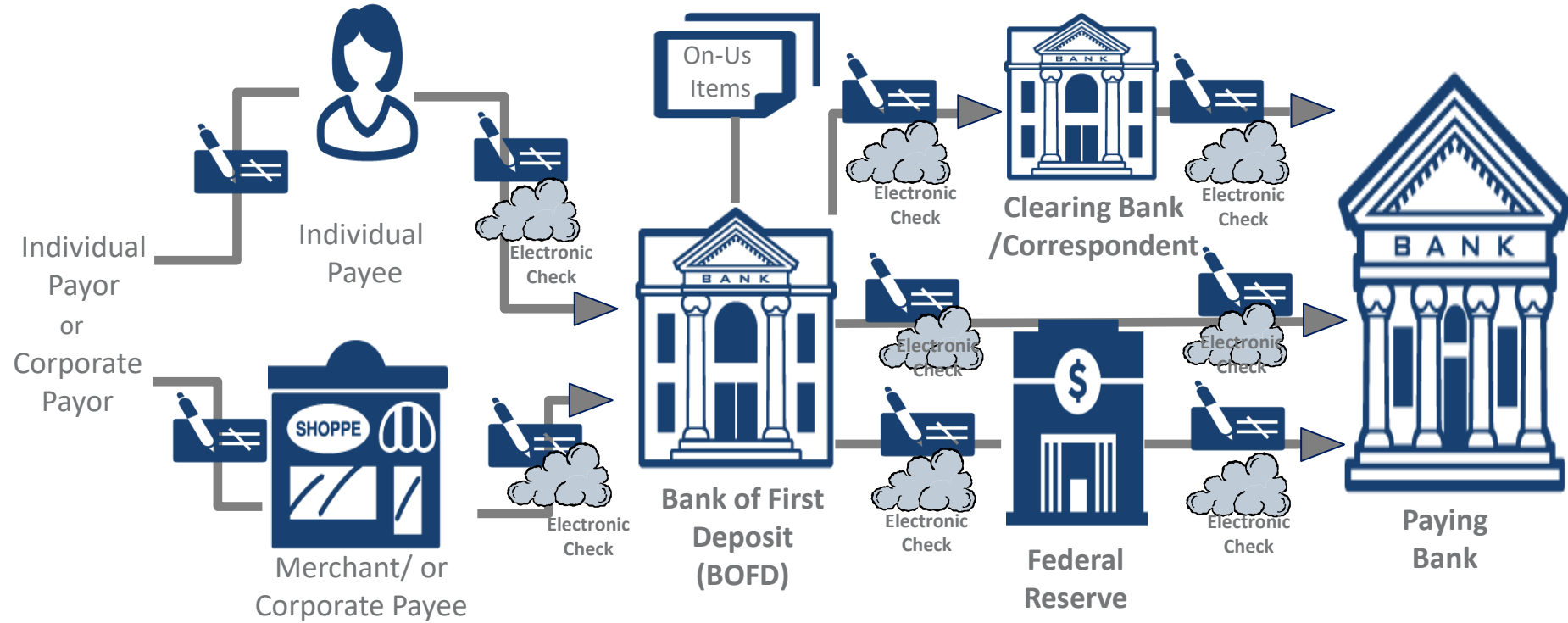
May be before, on or after  
\*date of instrument



# The Players

- Payor/Maker/Drawer
- Payee/Drawee
- Paying Bank/Drawee Bank
- Depository Bank/Bank of First Deposit (BOFD)
- Correspondent
- Federal Reserve
- The Clearing House
- ECCHO

# Check Collection Process



# Uniform Commercial Code

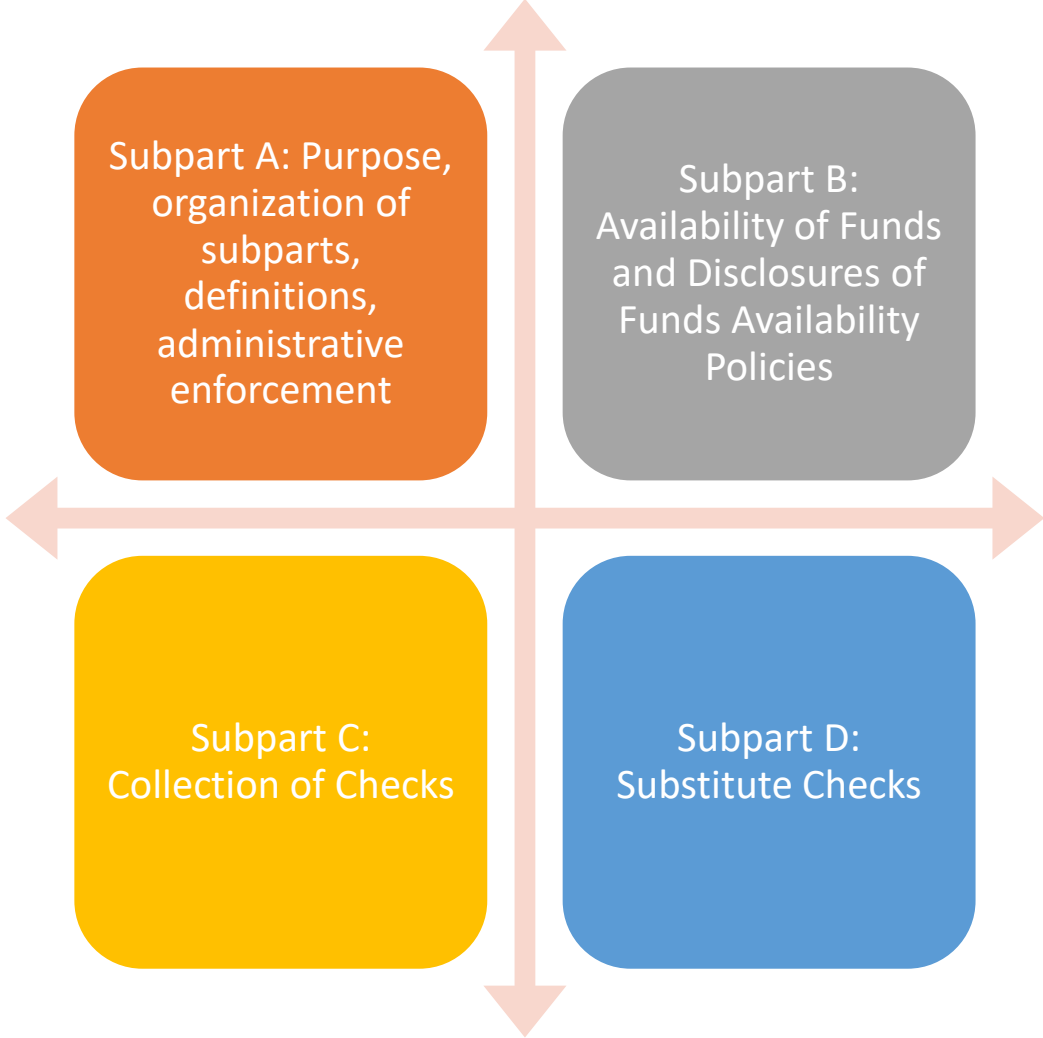
A set of standardized state laws that govern financial contracts

Establishes general duty standards for parties to act in Good Faith and exercise Ordinary Care.

Together with case law, articles 3 & 4 document legal boundaries for most aspects of check processing



# Regulation CC



# UCC 3 – Payable To

- Check may be made Payable to:
  - Named payee
    - An identified person
      - Example: Payable To: *John Smith*
  - To Bearer:
    - Does not state a payee or otherwise not made payable to an identified person
      - Examples: Payable To: *Cash* or is left blank





# UCC 3 - Payee

- Who is intended to receive amount of check/value of the instrument
  - Preceded by 'Pay to Order', 'Pay to' or 'Pay'
  - Examples:
    - Pay to order: Payee A **or** Payee B
      - Names may also be separated by a slash ("/") or a comma (",")
      - **Either payee** may indorse to negotiate
    - Pay to order: Payee A **and** Payee B
      - **Both payees** must indorse to negotiate
    - Ambiguous Intent
      - Pay to order: Payee A Payee B
        - Without the "or", "and" or other specific instructions?
        - **Any payee** listed may indorse to negotiate



# UCC 3 - Amount

- Amount of money (value) which will pass from the account of the drawer to the Payee
- To inhibit unauthorized alteration, amount should appear twice on the check
  - Written in numbers: Courtesy or convenience amount
  - Written in words: Legal amount
- Contradictory Terms of Instrument (UCC 3-114)
  - If instrument contains contradictory terms (between words and the numbers):
    - Typewritten terms prevail over printed terms
    - Handwritten terms prevail over both
    - Legal amount takes precedence over numeric amount



# UCC 3 - Signature

- Authorizes the Paying Bank to disburse funds
- Must coincide with the conditions of payment **on the signature card** (i.e., 2 signatures required)
- No particular form of signature required; can be applied manually or by device or machine; may be a trade or assumed name, mark or symbol with intent to authenticate
- Signature by a **representative** (person liable if instrument is signed by an authorized representative)
- May contain restrictive notations for which bank may require an indemnity
  - Examples:
    - Not Valid over \$1,000
    - 2 signatures required if greater than \$2,500



# UCC 3 – Unauthorized Signature

Person is not liable on an instrument unless he or she signs it


If person's name is signed without authority, the signature is unauthorized

Multiple signatures:

- Account requires more than one person to sign to constitute the authorized signature
- Unauthorized if one of the required signatures is lacking



# Parts of Check Required for Negotiability



**Day on/after which the amount of the check (value) transfers**  
- If blank, date is assumed to be the date when issued

**Value of the instrument**  
- Amount should appear twice: in numbers and in words

**Name of person/organization to receive amount (value) of the instrument**  
- If blank would be considered a bearer instrument

**Authorization for Paying Bank (Drawee) to disburse funds**



# Definitions



- Warranty

- Collateral undertaking that a fact regarding the subject of a contract is, or will be, as it is expressly, or by implication, declared or promised to be [Merriam-Webster]
- Promise that some consideration of the contract is guaranteed by one of the contractors [Wikipedia]

- Indemnification

- Action of making compensation to [someone] for incurred hurt, loss, or damage [Merriam-Webster]



# Warranties & Indemnifications Allocate Loss

- Warranties allocate loss to the warrantor (person making warranty)
  - Warrantor may allocate loss to a previous warrantor or through agreement, such as RDC agreement
- Warranties & indemnifications can assist error resolution
- Some check warranties have associated adjustment claims
- Some warranty claims must be made via bank-to-bank demand letter
- Indemnifications may have adjustment claim, too



# Warranty Examples (Not a Complete List!)

- Transfer warranties [UCC §3-416 & §4-207]
- Presentment warranties [UCC §3-417 & §4-208]
- Electronic check & electronic returned check warranties [Reg CC §229.34(a)]
- Remotely Created Check transfer and presentment warranties [Reg CC §229.34(b)]
- Encoding warranty [Reg CC §229.34(c)]
- Returned check warranties [Reg CC §229.34(d)]
- Substitute check warranties [Reg CC §229.52(a)]





# Indemnification Examples (Not a Complete List!)

- Remote Deposit Capture indemnification [Reg CC §229.34(f)]
- Electronically Created Item indemnification [Reg CC §229.34(g)]
- Substitute check indemnification [Reg CC §229.53(a)]



# Duty to Report

## UCC 4-406 Customer's Duty to Discover and Report Unauthorized Signature or Alteration

(c) If a bank sends or makes available a statement of account or items pursuant to subsection (a), the customer must exercise **reasonable promptness** in examining the statement or the items to determine whether any payment was not authorized because of an alteration of an item or because a purported signature by or on behalf of the customer was not authorized.

(f)...a customer who does not within **one year** after the statement...discover and report the customer's unauthorized signature or any alteration on the item is precluded from asserting against the bank the unauthorized signature or alteration

# Forged Drawer's Signature Example

- Thomas steals Dorothy's checks, forges Dorothy's signature as drawer on a check, and makes the check payable to the order of Thomas (himself)
- Thomas indorses the check by signing his name on the back and cashes it at a local retail store, Mom's & Pop's
- Mom's & Pop's then deposits the check in its account at depository bank, which presents the check to paying bank
- Thomas' signature is not effective as the drawer's (Dorothy's) signature
  - Forgery does *not* create liability for the drawer because it's not the drawer's signature



# Forged Drawer's Signature Warranties

- Thomas makes both the transfer warranties and the presentment warranties
  - Transfer warranties to Mom's & Pop's and depository bank
  - Presentment warranties to paying bank
- Mom's & Pop's makes both the transfer warranties and the presentment warranties
  - Transfer warranties to depository bank
  - Presentment warranties to paying bank
- Depository bank makes the presentment warranties to paying bank

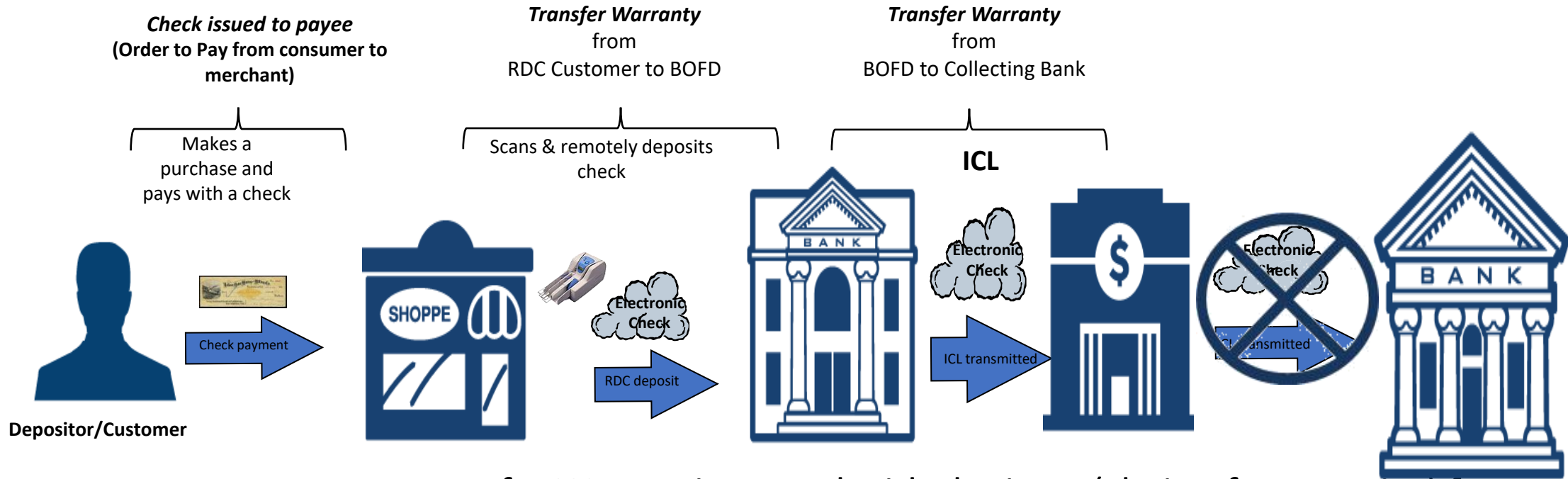


# UCC Transfer Warranties

- Person or collecting bank transferring item warrants to the transferee and any subsequent transferee
  - Entitled to enforce the item
  - **All signatures on the item are authentic and authorized**
  - Item has not been altered
  - Item is not subject to a defense or claim
  - Warrantor has no knowledge of any insolvency proceeding with respect to the maker
  - For remotely created consumer item, person on whose account the item is drawn authorized item and amount for which it is drawn



# UCC Transfer Warranties



- Transfer Warranties travel with the item (chain of warranties) from drawer to payee, payee to Depository Bank and Depository Bank to Intermediary/Collecting Bank
- Presentment Warranties are made from the Presenting Bank to the Paying Bank
- Warranties **provide recourse** if breach of warranty occurs

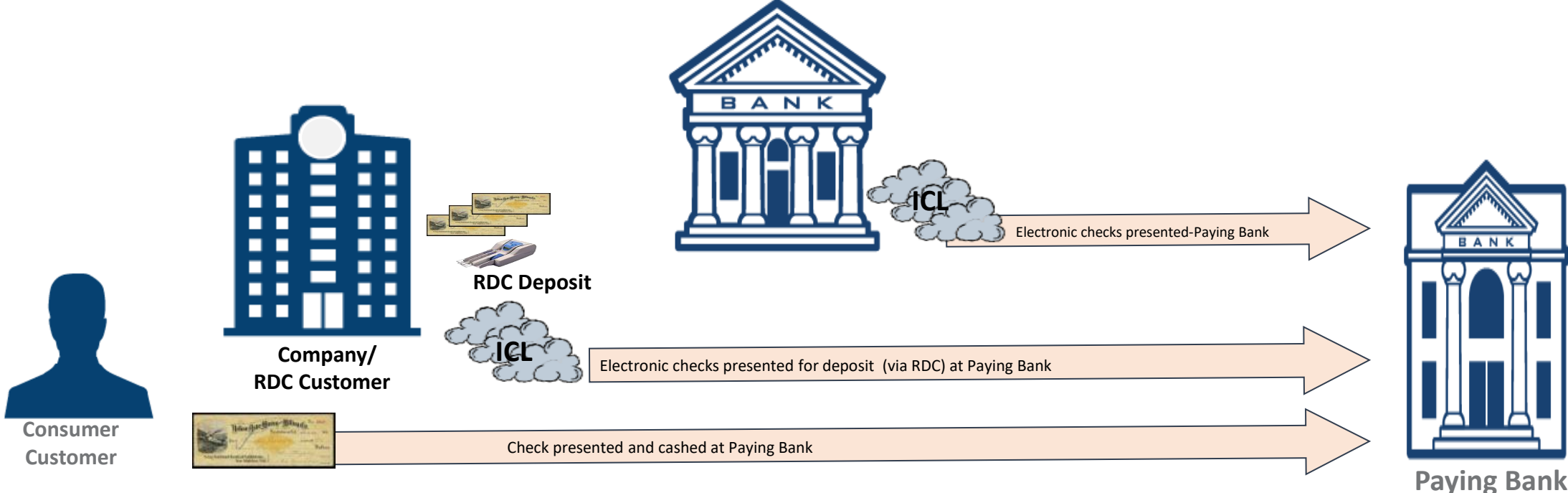


# Presentment Warranties

- Person presenting item and every previous transferor warrants to the drawee
  - Entitled to enforce draft
    - Or authorized to obtain payment / acceptance of draft on behalf of a person entitled to enforce the draft
  - Item has not been altered
  - **Warrantor has no knowledge that signature of the purported drawer of the draft is unauthorized**
  - For remotely created consumer item, person on whose account the item is drawn authorized item and amount for which it is drawn



# UCC Presentment Warranties Flow



Which institution receives the UCC presentment warranties?  
Paying bank only





# Forged Drawer's Signature Warranties

- Thomas' unauthorized signature is a breach of the transfer warranties
- Assuming usual case where only Thomas is aware of the forgery, Thomas is the only person with 'knowledge' the signature of the drawer is unauthorized
  - Only Thomas breaches the presentment warranty



# Forged Drawer's Signature

- Initial claim made by drawer to paying bank
- Paying bank must make claim through return
- Paying bank may return check timely using
  - L – Signature(s) irregular, suspected forgery
  - Z – Forgery – an affidavit shall be available upon request

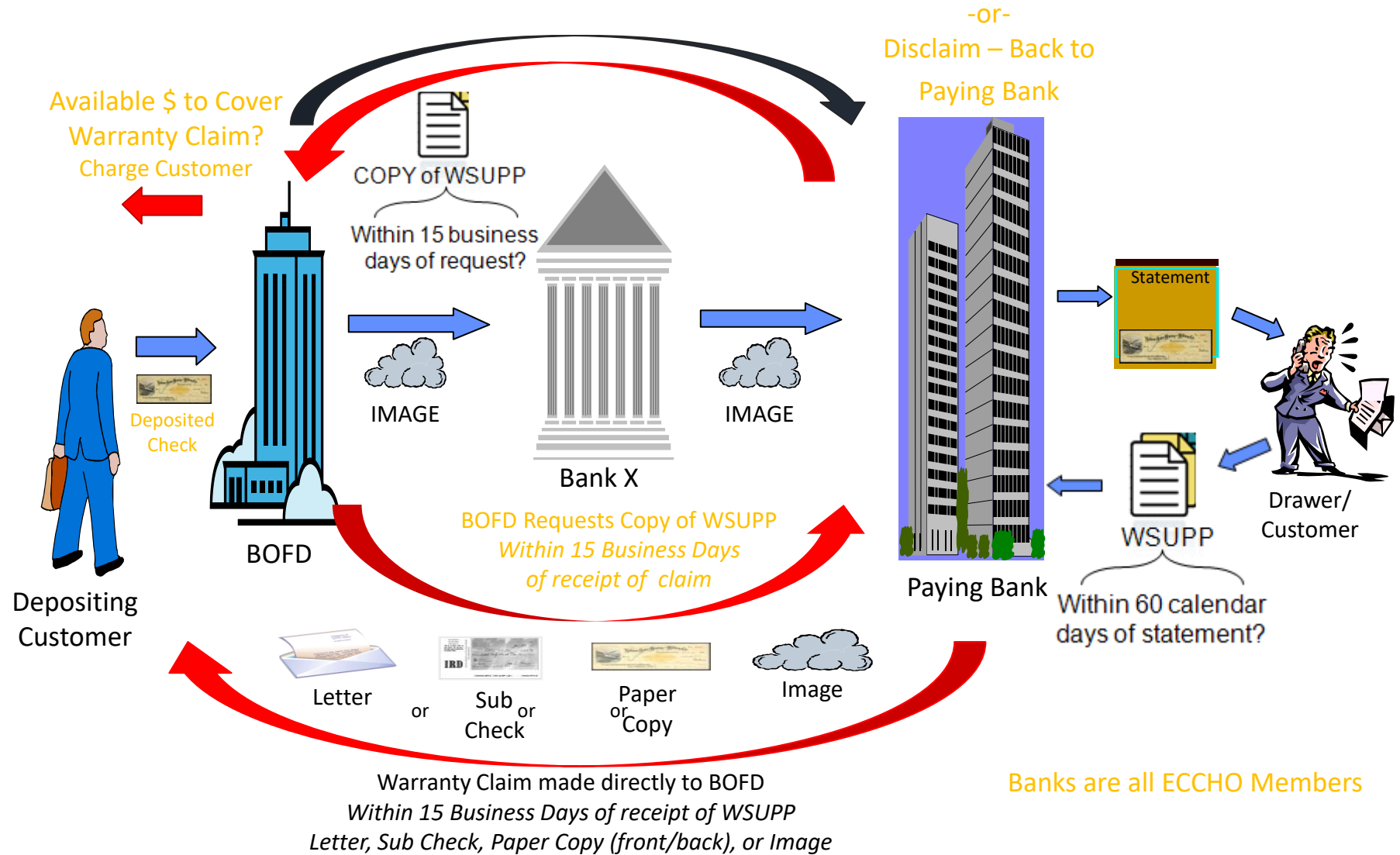


# Forged Drawer's Signature Responses

- After returning the check timely
  - Depository bank makes transfer warranty breach to Mom's & Pop's
  - Mom's & Pop's makes transfer warranty breach to Thomas (if they can find him)
- If return time passed do the following
- Determine if drawer met their 'duty to report'
  - Stated in check writing agreement (customer / member agreement)
  - 1 year generally the outside limit for drawer to make claim to paying bank
- Determine if the exchange is governed by the ECCHO rules
  - No: No breach of warranty for forged Drawer's signature except by Thomas (good luck finding him)
  - Yes: Make Rule 9 claim thanks to extra warranty under rules



# ECCHO Rule 9 Claim – Section XIX (O)

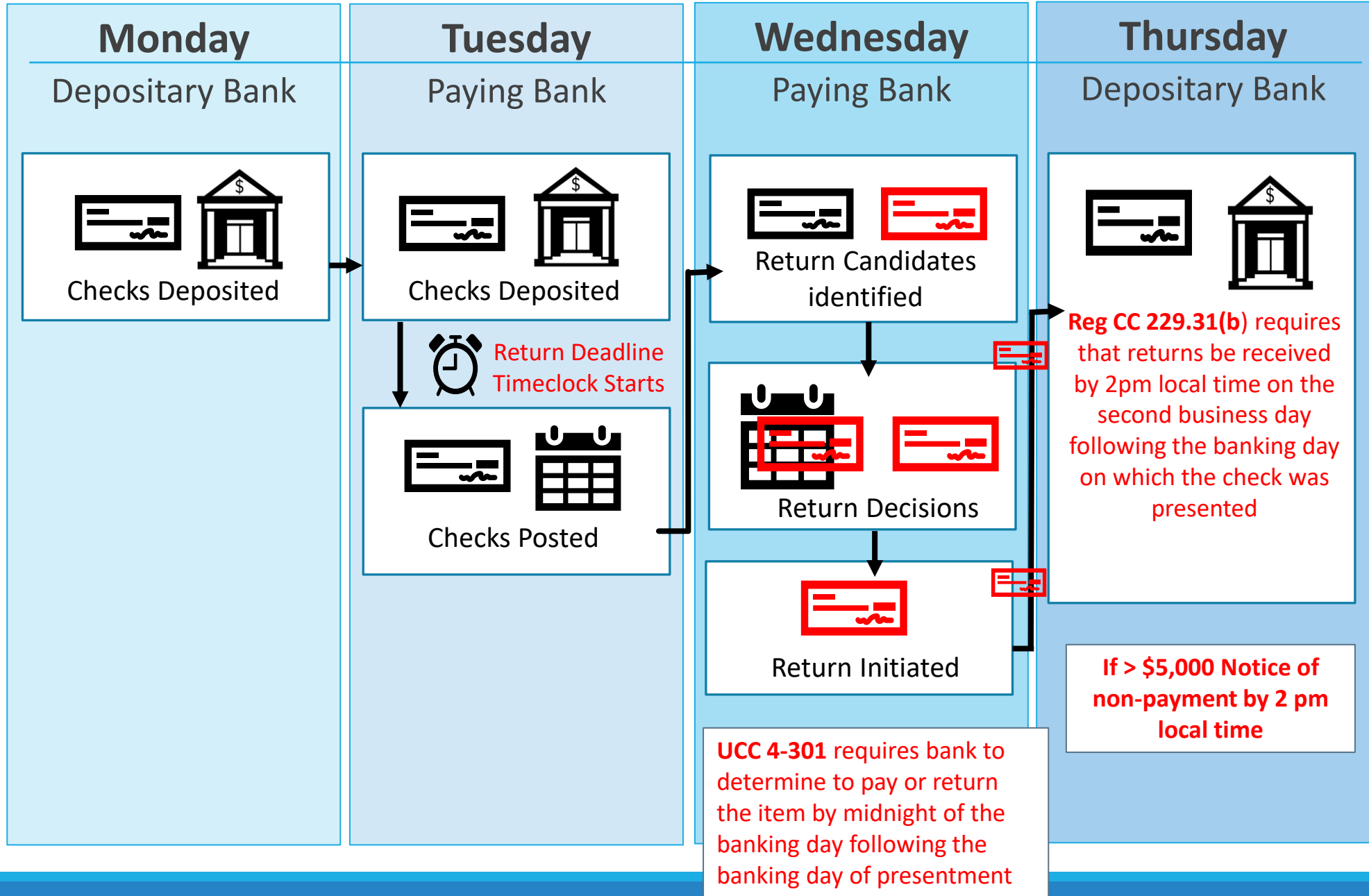


# Speaking of Returns Timing....

- All returns must meet UCC and Reg CC return deadlines
  - UCC requires the determination to pay or return the item by midnight of the banking day following presentment (UCC §4-301)
  - Reg CC requires the return to be handled expeditiously (§229.30)
    - Return must reach depository bank by 2:00 p.m. (local time of depository bank) 2 business days after presentment
- There is no such thing as “doing a late return”
- Beyond return time frame, paying bank must complete adjustment or make warranty claim, if applicable



# Return Deadlines



# Return Warranty Scenario

- Check presented to Dorothy's account Monday
- Dorothy informs paying bank of unauthorized signature on Thursday
- Paying bank initiates return on Thursday that is made available to depository bank by 2:00 p.m. on Friday
- In the applicable week, all weekdays are business days according to Regulation CC



# Returned Check Warranties

- Returning bank makes Regulation CC returned check warranties to the transferee returning bank, to any subsequent returning bank, to the depository bank, and to the owner of the check
  - Paying bank is a returning bank when check returned
- Warrants
  - Returned the check within its deadline under the UCC or Regulation CC
  - Authorized to return the check
  - Check has not been materially altered





# Returned Check Warranties

- Paying bank in breach of returned check warranty that returned the check within its deadlines under UCC or in an expeditious manner such that the check would normally be received by the depository bank not later than 2 p.m. (local time of the depository bank) on the second business day following the banking day on which the check was presented [§229.34(d)]
  - UCC midnight deadline found in UCC §4-401
- Depository bank can make breach of warranty claim if expeditious return time frame not met





## Federal Reserve Operating Circular 3 (OC3)

- Section 14.0 and Appendix H; and online “Check Adjustment Quick Reference Guide” govern the handling of electronic adjustment requests
- Forward/return item must have been exchanged via Fed

## ECCHO Adjustment Rules and Matrix

- Apply only to Members using ECCHO Rules
- Govern handling of electronic adjustment requests through various providers such as Viewpointe and The Clearing House
- May adjust item under ECCHO Rules whether or not forward or return item was exchanged under the Rules

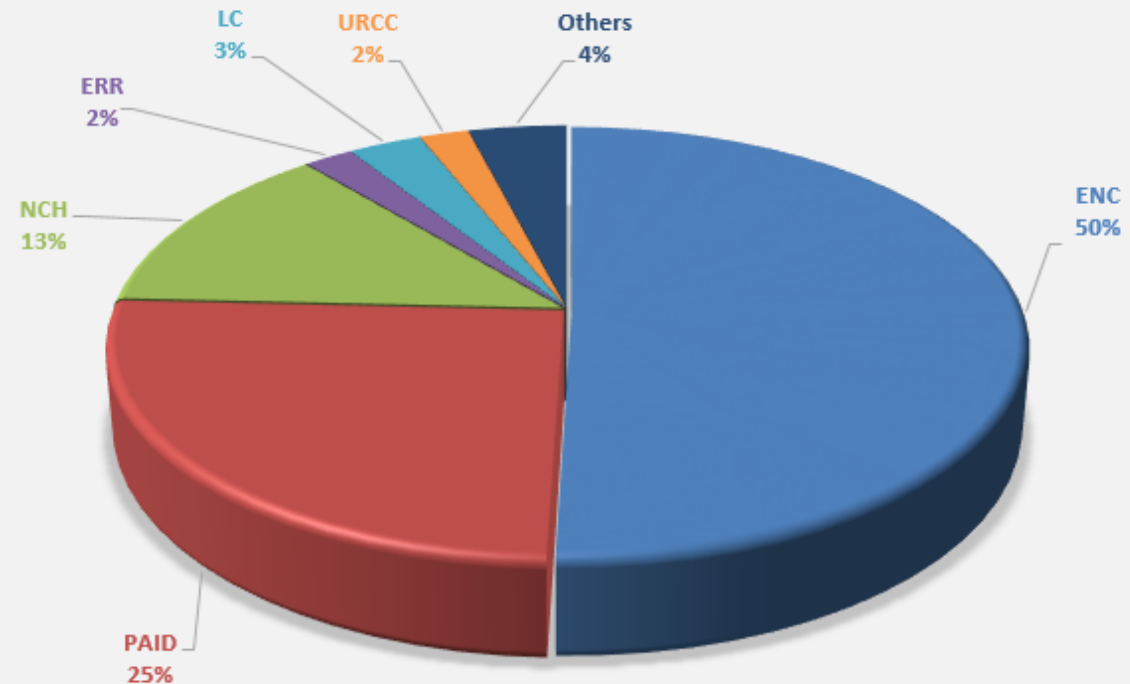
# Top Incoming FRB Adjustments

JANUARY - SEPTEMBER 2023

## Incoming Adjustment Types from Financial Institutions

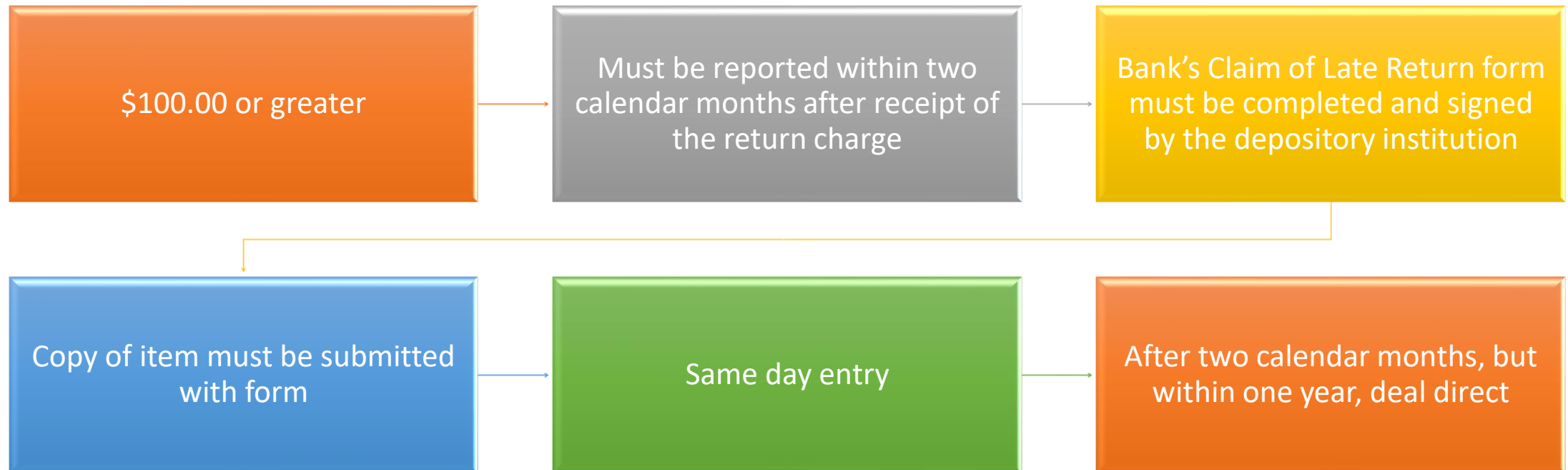
Two adjustment types account for **75%** of the cases received for the year:

- **ENC (Encoding Error)**
- **PAID (Paid Twice)**
- NCH (Non-Cash Item)
- LC (Late Return Claim)
- ERR (Entry in Error)
- URCC (Unauthorized Remotely Created Check)

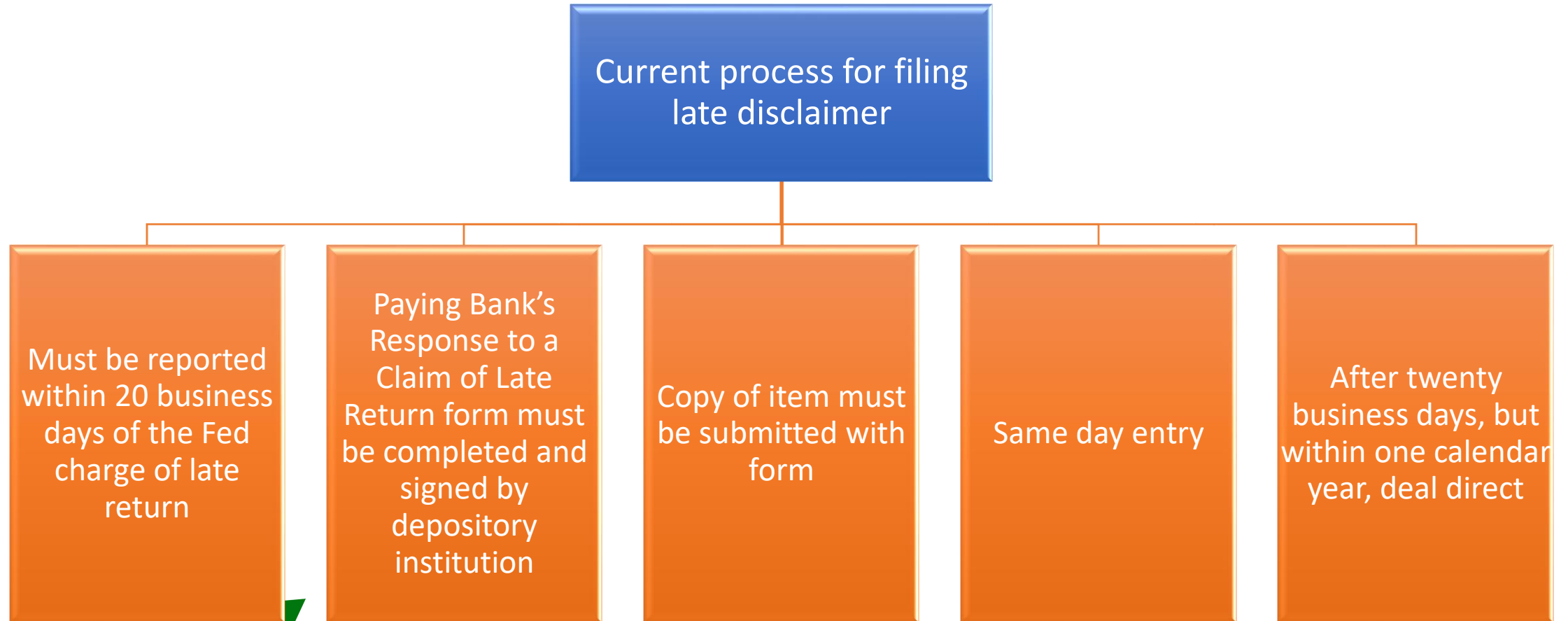


# Late Return Claim (LC) - FRB

## Current process for handling late returns



# Late Return Disclaimer (LR) - FRB



# Forged Indorsement Example

- Thomas steals a check payable to Peter and drawn on Dorothy's account
- Thomas forges Peter's signature and now claims to be a holder of the check
- Thomas indorses the check by signing his name on the back and cashes it at a local retail store, Mom's & Pop's
- Mom's & Pop's then deposits the check in its account at depository bank, which presents the check to paying bank
- Forged indorsement breaches both transfer and presentment warranties



# Forged Indorsement Applicable Warranties



Thomas makes both the transfer warranties and the presentment warranties

Transfer warranties to Mom's & Pop's and depositary bank

Presentment warranties to paying bank



Mom's & Pop's makes both the transfer warranties and the presentment warranties

Transfer warranties to depositary bank

Presentment warranties to paying bank



Depositary bank makes the presentment warranties to paying bank



# Forged Indorsement Breaches of Warranty

- Thomas' forged indorsement is a breach of the transfer warranty that all signatures are valid
  - Even though Thomas is the only person aware of the forgery, all transferors make the warranty
- Thomas' forged indorsement is a breach of the presentment warranty that the transferors and presenters are persons entitled to enforce the check
  - Forged indorsement is not effective to change the person to whom the check is payable
  - Consequently, no one else can be a holder of that check (except Peter)





# Forged Indorsement

- Initial claim typically made by payee to drawer
- Drawer relates claim to paying bank
- Paying bank may make claim through return if within time frame
- Paying bank may return check using
  - I – Indorsement missing



# Forged Indorsement Responses

- Return check timely
- If return time passed: make breach of presentment warranty claim to depository bank
  - Send demand letter bank-to-bank
  - Include reference to UCC presentment warranties
  - Include settlement information (where respondent remits payment)
- No adjustment claim to assist making claim
- Depository bank can make transfer warranty breach claim to depositing customer / member (Mom's & Pop's)
- Mom's & Pop's can make transfer warranty breach claim to Thomas (if they can find him)



# Alterations UCC 3-407 – Definition

- An unauthorized change in an instrument that purports to modify in any respect the obligation of a party, or an unauthorized addition of words or numbers or other change to an incomplete instrument relating to the obligation of a party
  - Changing the payee name or changing number or relations of parties
  - Any increase or reduction in amount
  - Backdating date of a postdated check
  - Completing an incomplete check other than as authorized
  - Any other unauthorized addition or deletion which would change contract between parties



# Alterations – General Rules

Paying Bank is liable to its account holder for paying altered check

- Unless maker is negligent, ratifies transaction, or is precluded from asserting claim;
- Unless check is paid according to its original (unaltered) terms, or for an incomplete check altered by unauthorized completion, according to its terms as completed

Depository Bank is responsible for the loss

- Warrants to Paying Bank check has not been altered

Depositor is liable to Depository Bank for damages arising from alteration

- Based on account/deposit agreement



# Alteration Example



- Dorothy issues a check payable to Thomas
- Thomas alters the \$50.00 check to read \$500.00
- Thomas deposits check at depository bank
- Typically, the paying bank will pay the check when presented and rely on the drawer to notify of the alteration
- Dorothy notifies the paying bank of the alteration
- Alteration breaches both transfer and presentment warranties



# Alteration Applicable Warranties

- Thomas makes both the transfer warranties and the presentment warranties
  - Transfer warranties to depository bank
  - Presentment warranties to paying bank
- Depository bank makes the presentment warranties to paying bank
- Difference between alteration and forged indorsement scenario is check remains properly payable as originally written, i.e., for \$50.00



# Alteration Breaches of Warranty

- Thomas' alteration is a breach of the transfer and presentment warranties that the check has not been altered
- Thomas' alteration puts the depository bank in breach of presentment warranty that the check has not been altered



# Alteration

- Initial claim typically made by drawer to paying bank
- Paying bank may make claim through return if within time frame
- Paying bank may return check using
  - N – Altered / fictitious item / suspected counterfeit / counterfeit





# Alteration (Amount) Responses

- Return check timely
- If return time passed: make breach of presentment warranty claim to depository bank
  - Send demand letter bank-to-bank
  - Include reference to UCC presentment warranties
  - Include settlement information (where respondent remits payment)
- Claim for altered amount is made for damages
  - Damages include difference between amount check written for and amount paid (\$450.00 in example) plus expenses and loss of interest, if applicable
- Depository bank can make transfer warranty breach claim to depositor (Thomas)



# Alteration (Payee) Responses

- Return check timely
- If return time passed: make breach of presentment warranty claim to depository bank
  - Send demand letter bank-to-bank
  - Include reference to UCC presentment warranties
  - Include settlement information (where respondent remits payment)
- Claim for altered payee is very similar to forged indorsement because true negotiation cannot occur
  - No one but the true payee can be a holder of the check
- Depository bank can make transfer warranty breach claim to depositor (Thomas)



# Demand Letter

- Not all claims have an associated adjustment type
  - Altered Check
  - Forged Indorsement

Some claims must be handled bank to bank through a demand letter or court proceeding

- Letter should state
  - Identification of Check
  - Warranty breached
  - Provide location for respondent to send settlement

# Altered or Counterfeit?

From a Paying Bank: Bad actors took an issued check and used all the information to create a new check, but the bad actors only changed the name of the payee. Some of us think the item is altered while others think it is counterfeit. If this item is counterfeit, this makes the items the loss of the paying bank since return time frame has passed. Some of us believe the items, once issued, can only be altered—even if that process of alteration includes changing to a new piece of paper. Some of us believe that since the bad actors created a new item, it is a counterfeit.

# Presumption of Alteration – Regulation CC

- Let's say the banks truly can't decide if the item is altered or forged/counterfeit...
- ***What is a presumption of alteration?***
  - It applies to disputes over whether an item is altered or counterfeit.
  - It applies to substitute checks or Electronic checks when the original paper check is unavailable for review.
  - It does not apply to disputes where the original check was sent.
  - The presumption is that the item is altered unless proved otherwise. Typically you would only see this rule applied in lawsuits.
- May overcome presumption (PoA) with a preponderance of evidence to the contrary (e.g., the original check)
- Does not alter transfer & presentment warranties under UCC that allocate liability among parties

# Remotely Created Checks

ACCOUNT HOLDER  
233 SOUTH WACKER DRIVE  
CHICAGO, IL 60606

JPMORGAN CHASE BANK NA  
063-898632631

1202901608

DATE 4/22/2008

PAY TO THE ORDER OF WWW.NBCHECK.COM \$ 3.40

THREE DOLLARS AND 40 CENTS DOLLARS

7021-1 500100 2206766

ORDER NUMBER: 468805  
CUSTOMER SUPPORT: WWW.NBCHECK.COM  
EMAIL: SUPPORT@NBCHECK.COM OR 866-557-2455  
TRANSACTION ID: 120290160855

PRE-AUTHORIZED CHECK  
NO SIGNATURE REQUIRED

⑆ 1202901608⑆ ⑆ 263189865⑆ 759815380⑆

12 Digit (full) Transaction ID

9 Digit bank routing number

Last four digits of account number

10 Digit (partial) Transaction ID "Check Number"

- The holder of a checking account authorizes a payee to draw a check on the account but does not actually sign the check
- A.K.A. telecheck, preauthorized drafts and paper drafts:
  - Example: I was late in paying my electric bill so I called the WE Energies and they created a draft
  - Example: An insurance payment



# Unauthorized Remotely Created Check Example

- Dorothy finds a check on her monthly statement she does not remember issuing
- Research reveals the check to be a remotely created check
  - Remotely created check payee = Latest-Fad-Shoes Company
- Dorothy did shop at Latest-Fad-Shoes Company but did not authorize them to create a check drawn on her account at the paying bank
- Unauthorized RCC breaches Regulation CC remotely created check warranty made by depository bank
- Unauthorized remotely created consumer item breaches transfer and presentment warranties in UCC



# Remotely Created Check Warranties

- Latest-Fad-Shoes Company makes both the UCC transfer warranties and the UCC presentment warranties
  - Transfer warranties to depository bank
  - Presentment warranties to paying bank
- Depository bank makes the UCC presentment warranties to paying bank
- Depository bank makes the Regulation CC transfer and presentment warranties for remotely created check to paying bank





# Unauthorized RCC Breaches of Warranty

- Latest-Fad-Shoes Company breached the UCC transfer and presentment warranties for a remotely created consumer item
- Depository bank breached the UCC transfer and presentment warranties for a remotely created consumer item
- Depository bank breached the Regulation CC transfer and presentment warranties for remotely created check [§229.34(b)]
- UCC warranties: Person on whose account the remotely created *consumer* item is drawn authorized item and amount for which it is drawn
- Regulation CC warranty: Person on whose account the remotely created check is drawn authorized the issuance of the check in the amount stated on the check and to the payee stated on the check
  - Regulation CC adds warranty that the payment is authorized to the specific payee



# Unauthorized Remotely Created Check

- Initial claim typically made by drawer to paying bank
- Paying bank may make claim through return if within time frame
- Paying bank may return check using
  - Q – Not Authorized
  - Return reason Q is specific to unsigned drafts
- Do not use return reason K – signature missing used for checks issued by the drawer but not signed by the drawer



# Unauthorized Remotely Created Check Responses

- Return check timely
- If return time passed: make breach of RCC warranties claim to depository bank through either
  - FRB using Warranty / Indemnification Claim for Unauthorized Remotely Created Check (WIC / URCC) adjustment
  - ECCHO exchange agreement using Unauthorized RCC Warranty Claim
  - Bank-to-bank demand letter
- Statute of limitations on warranties
  - Regulation CC = 1 year
  - UCC = 3 years
- Depository bank can make transfer warranty breach claim to depositing customer / member (Latest-Fad-Shoes Company)



# Differentiating Between RCCs and Bill Pay Checks

- Reg CC commentary states

A check authorized by a consumer over the telephone that is not created by the paying bank and bears a legend on the signature line, such as “Authorized by Drawer,” is an example of a remotely created check. A check that bears the signature applied, or purported to be applied, by the person on whose account the check is drawn is not a remotely created check. A typical forged check, such as a stolen personal check fraudulently signed by a person other than the drawer, is not covered by the definition of a remotely created check.



# Differentiating Between RCCs and Bill Pay Checks

- Paying bank in the best position to know its vendors
  - Check created by vendor of paying bank is not remotely created check
- If dispute results from check created by paying bank's vendor / partner, agreements between all parties address the resolution
  - Account holder agreement
  - Vendor agreement
- Paying bank may only charge a properly payable item to its drawer's account



# No Double-Debit Warranty

- ‘No duplicate’ warranty is really a ‘no double-debit’ warranty
  - No person will receive a transfer, presentment, or return of, or otherwise be charged for an electronic check or electronic returned check, the original check, a substitute check, or a paper or electronic representation of a substitute check such that the person will be asked to make payment based on a check it has already paid [Reg CC warranty §229.34(a)(ii)]



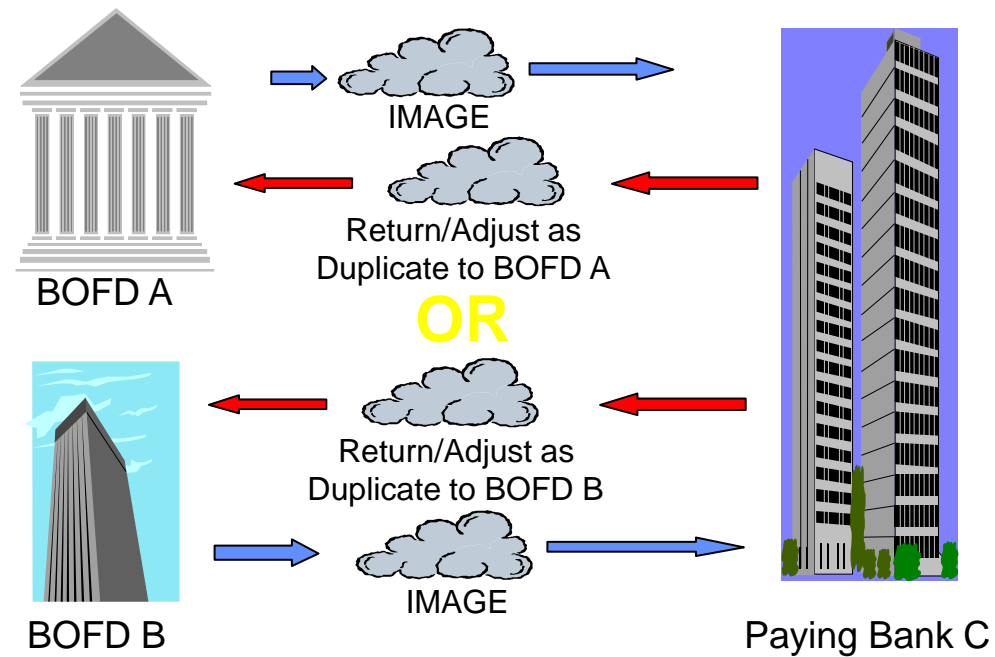
DUPLICATE

# Double-Debit Breaches of Warranty Examples

- Depository bank #1 takes deposit from Thomas through mobile RDC
  - Presents item to Paying bank the next banking day
- Depository bank #2 takes deposit from Thomas through drive-through
  - Presents item to paying bank the next banking day
- *Both* depository banks in breach of warranty when check paid more than once
- Paying bank returns the same check 2 or more times
  - Paying bank in breach of warranty if depository bank pays return more than once



# Which BOFD can Paying Bank Make Claim to?





# Double-Debit

- Initial claim typically made by drawer to paying bank
  - But may be identified by paying bank through duplicate detection processes
- Paying bank may make claim through return if within time frame
- Paying bank may return check using
  - Y – Duplicate presentment
  - As in “Y did you send this to me again?”



# PAID Adjustment - FRB

Request for credit for duplicate image(s) and/or substitute check

- Receiver has choice on which item to report as duplicate (1st or 2nd presentment)
- No minimum amount

Timing:

- Within six calendar months of cash letter date
  - Same day entry
- After six months and within one year of cash letter date
  - Provide information and advise to deal direct



# Double-Debit Responses Paying Bank

- Return check timely
- If return time passed: make breach of electronic check warranty to depository bank either
  - Send PAID adjustment through FRB or DUP adjustment through ECCHO exchange agreement
  - Send demand letter bank-to-bank
- Depository bank can charge item back to depositing owner based on its account holder agreement



# Double-Debit Responses Depository Bank

- For double-debit with respect to electronic returned check, make breach of electronic returned check warranty to paying bank either
  - Send PAID adjustment through FRB *or* DUP adjustment through ECCHO exchange agreement
  - Send demand letter bank-to-bank
- For double-debit with respect to multiple adjustment claims for same check
  - Send DUP adjustment through FRB *or* DUP adjustment through ECCHO exchange agreement



# Remote Deposit Capture Indemnity

Depository bank's potential liability arises when it permits customer to truncate check and deposit image

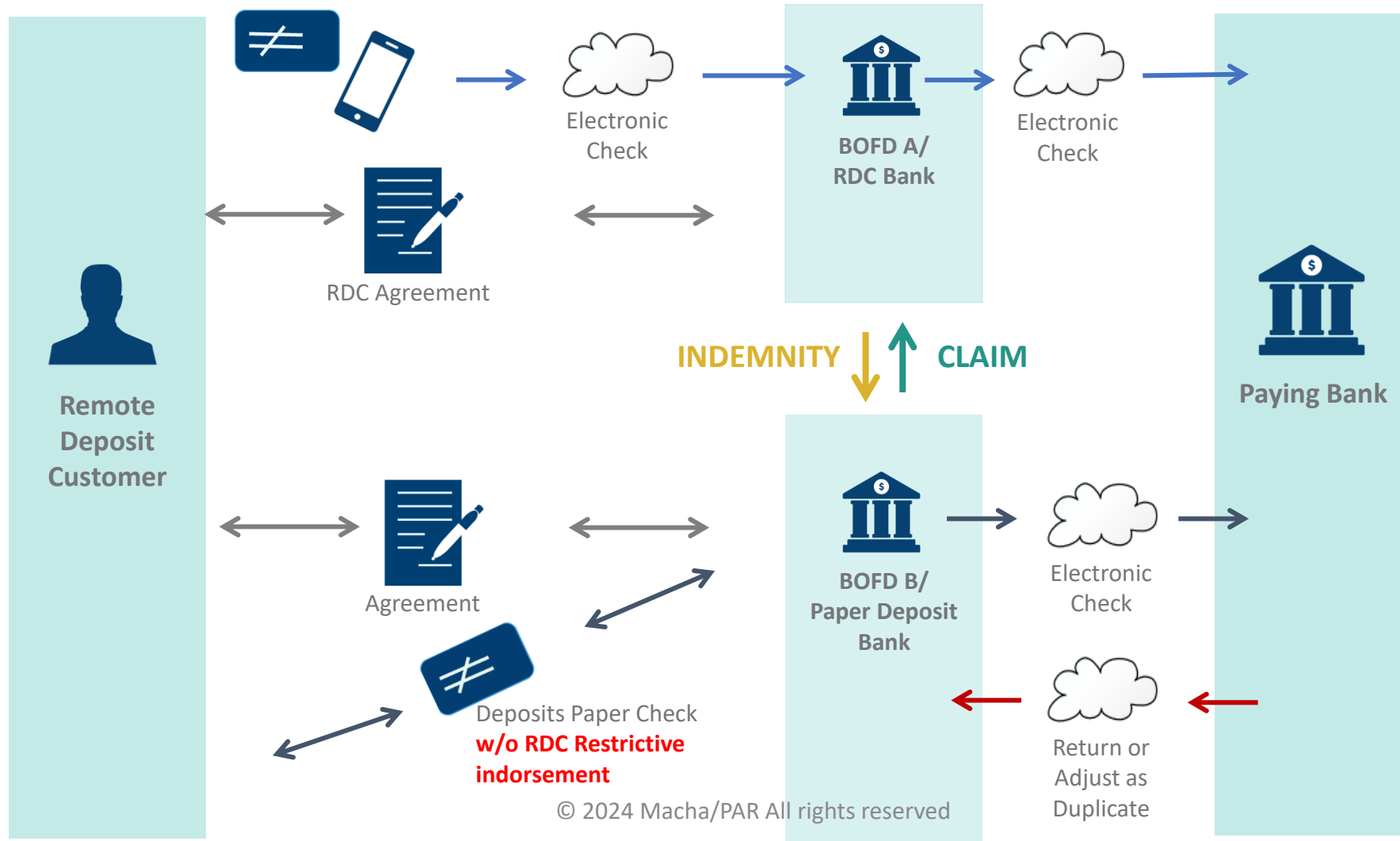
- Customer retains original check and may intentionally or mistakenly deposit paper check in another bank

This indemnity permits depository bank that accepts original paper check to make claim against depository bank that permitted customer to truncate

- Claim made to any truncating bank, even if multiple truncating banks
- Claim only exists if check returned to bank that accepted original check due to fact check already paid
- Allows truncating bank to allocate loss to its depositing customer by agreement



# Regulation CC Remote Deposit Capture Indemnity



# RDC Indemnification

- Claim made from paper depository bank to RDC depository bank
- RDC depository bank (must meet 4 conditions)
  - Truncating bank because it accepts deposit of electronic image / information related to original check
  - Does not receive original check
  - Receives settlement / consideration for electronic check / substitute check that is related to original check
  - Does not receive *return* of check unpaid
- Paper depository bank (must meet 3 conditions)
  - Must have received original paper check for deposit
  - Original check must not have a restrictive indorsement inconsistent with the paper deposit
  - Incurred a loss due to duplicate item



# Encoding Error (ENC) - FRB

Used when an item was clearly encoded for an amount different than the legal (written) amount or the written amount differs from the stated amount ICL

## Timing:

- Within six calendar months of cash letter date
  - Same day entry
- After six calendar months of cash letter date
  - Provide SOR/DISP and advise to deal direct
  - Documents are optional





# Entry in Error (ERR) - FRB

- Request to reverse/investigate an entry made in error
- Timing:
  - Within 20 business days of cash letter date
    - Same day entry
  - After 20 business days of cash letter date
    - Entry made after approval of offsetting institution
    - Request offsetting institution to respond within 20 business days or entries will be made
- Unless you are disputing an entry that requires documentation, attachments are not required



# Entry in Error (ERR) – FRB

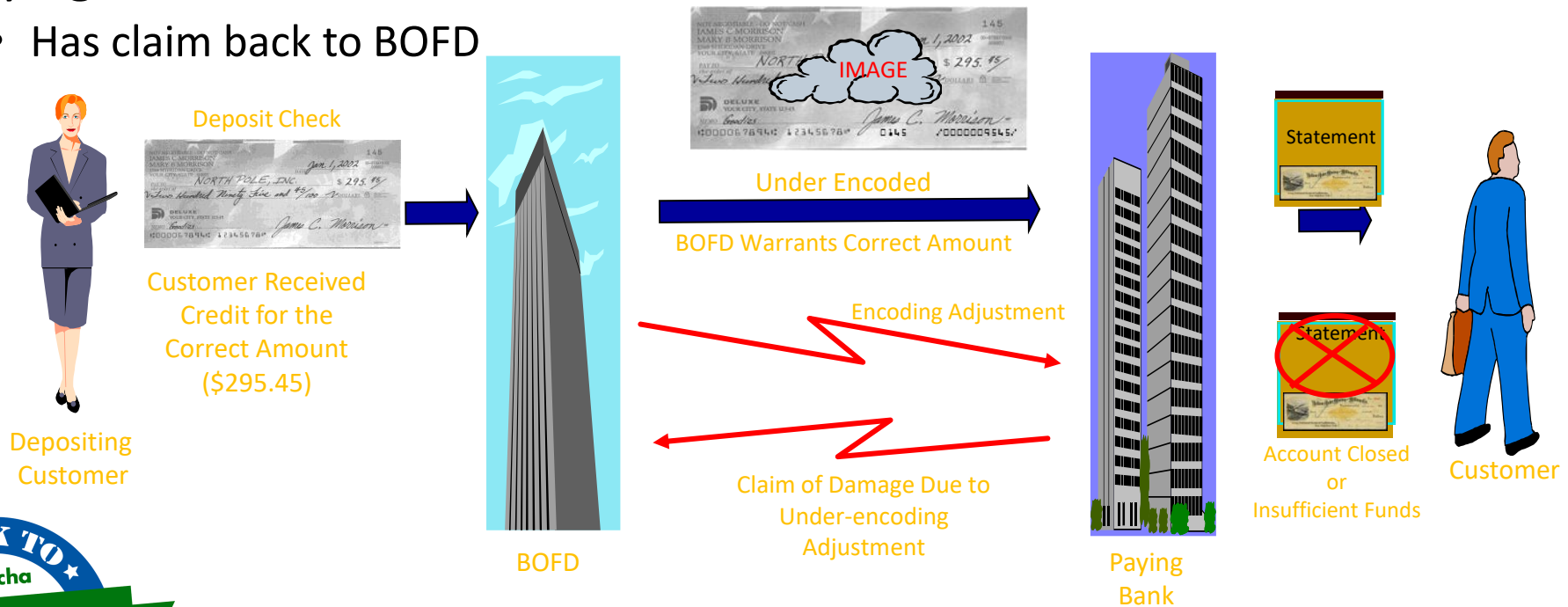
(Claim of Damage Due to Underencoding Adjustment)

- Request for credit for an underencoded item charged and for which you are unable to collect the funds
  - BOFD warrants the encoding after issue under Reg. CC warranties
    - Paying Bank can disclaim item that was under-encoded by the BOFD to protect themselves from a loss
- Timing:
  - Within 20 business days of the encoding error charge
    - Same day entry
  - After 20 business days, but within one year
    - Provide SOR/DISP and advise to deal direct



# Claim of Damage Due to Underencoding

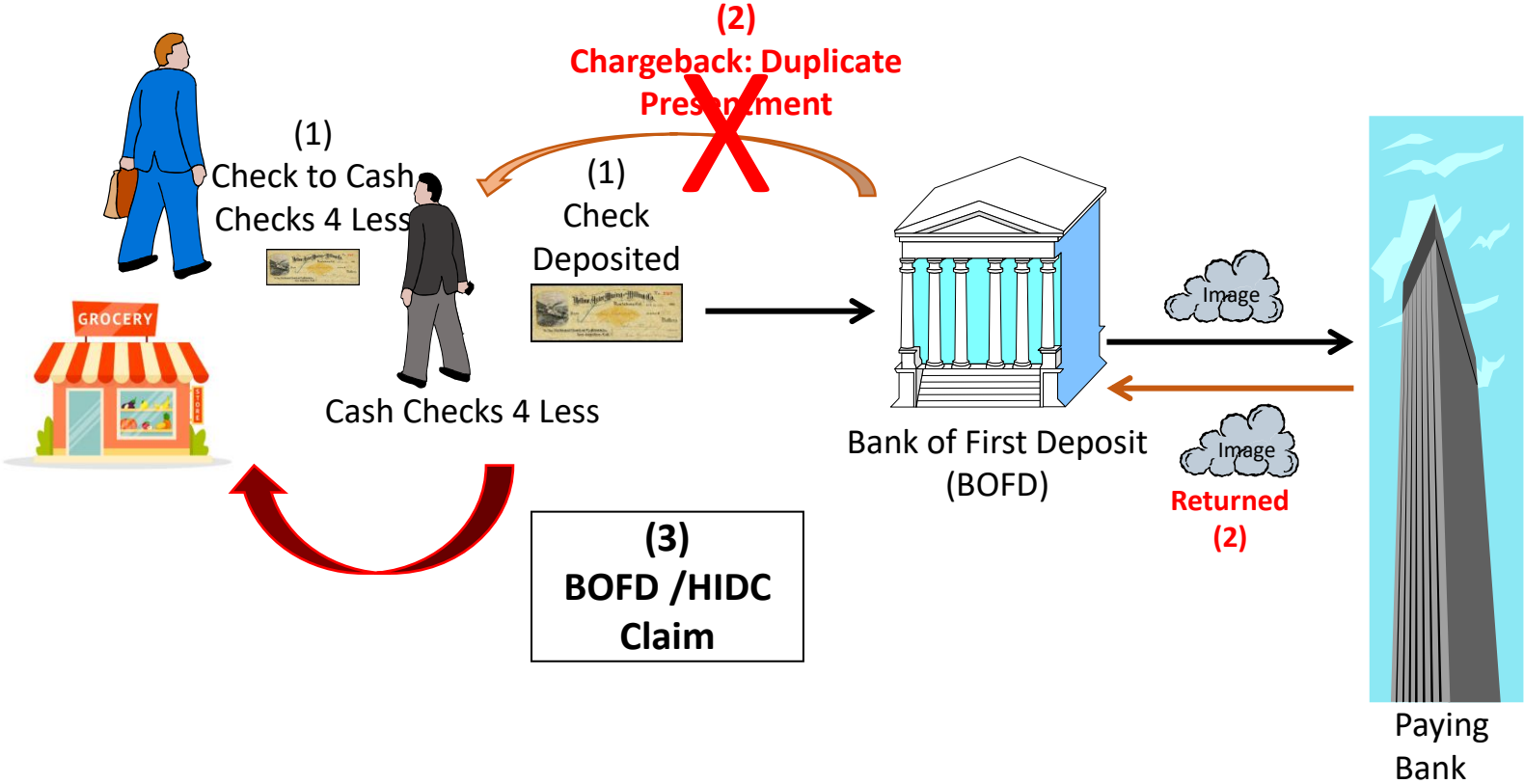
- Check for \$295.45 – Encoded as \$95.45 (under-encoded for \$200)
  - Paying Bank unable to collect the additional \$200
    - Has claim back to BOFD



# Holder in Due Course

- Guy's Grocery Store issued a check to one of their employees and the employee deposited the check via mobile RDC on 7/8/24. The employee (payee) then took the check to Cash Checks 4 Less and received cash for it. Cash Checks 4 Less presented the check and it was flagged as a duplicate and returned on 7/9/24. Cash Checks 4 Less is now claiming they are the HIDC and claiming that Guy's Grocery Store owes them the funds for the check. Guy's Grocery Store has now reached out to Paying Bank because they don't feel they should have to pay the same check twice.

# Holder in Due Course





# For Your Records

## Continuing Education Credits

Back to Basics: Check Bootcamp  
October 9, 2024

This session is worth 3.6 credits

