

UCC 4

ECCHO Rules

YOU!

Reg J

Reg CC

UCC 3

FED OC 3

The Puzzle of Check Compliance

- ▶ Randy Traynham, AAP, AFPP, APRP, CTP, NCP
Director of Education
rtraynham@paymentsfirst.org



APRP[™]

Accredited Payments
Risk Professional



AAP[™]

Accredited
ACH Professional



Disclaimer



PaymentsFirst, through its Direct Membership in Nacha, is a specially recognized and licensed provider of ACH education, publications and support.

Regional Payments Associations are directly engaged in the Nacha rulemaking process, Accredited ACH Professional (AAP) program and the Accredited Payments Risk Professional (APRP) program.

Nacha owns the copyright for the Nacha Operating Rules & Guidelines.

The Accredited ACH Professional (AAP) and the Accredited Payments Risk Professional (APRP) are service marks of Nacha.

This material is not intended to provide any warranties or legal advice, and is intended for educational purposes only.

This document could include technical inaccuracies or typographical errors and individual users are responsible for verifying any information contained herein.

No part of this material may be used without the prior written permission of PaymentsFirst

© 2025 PaymentsFirst All Rights Reserved



Sections of the Check

Maker, Payor, Drawer

Payee, Drawee

MICR Line
Routing Number
Account Number
Check Number
Amount
Aux On Us

Date

Check Number

Fractional
Routing Number

Amount:
Courtesy Amount
Legal Amount

Signature

NAME OF COMPANY
STREET ADDRESS
CITY, STATE

DATE 12-5-09

101
00-6789-0000

PAY TO THE ORDER OF Payee's Name \$ 123.45

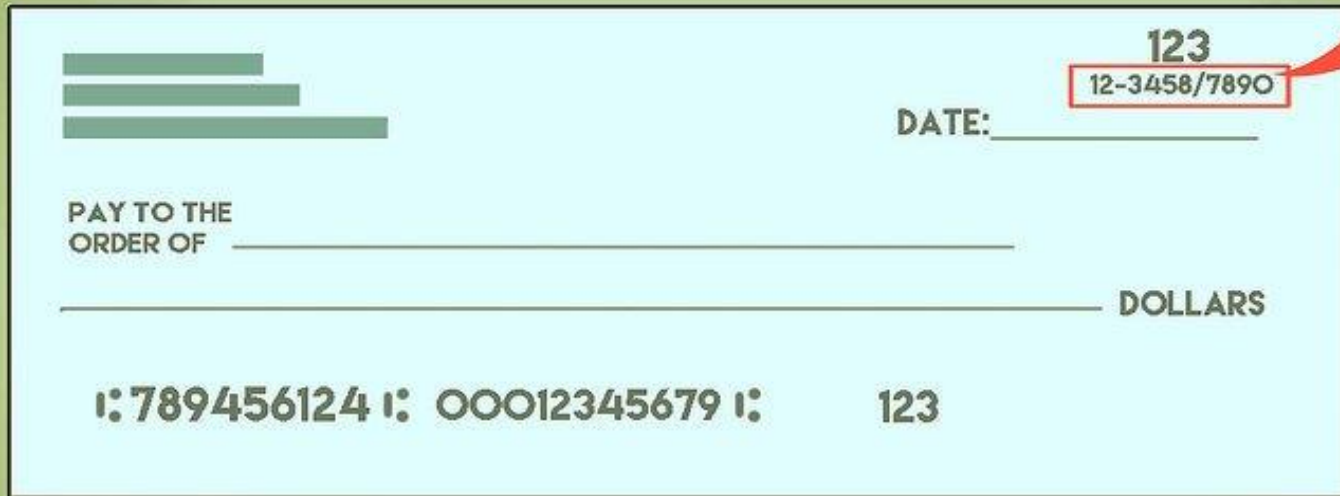
One hundred twenty-three and 45/100 Dollars

Financial Institution Name
Street Address
City, State

Memo _____ Drawer's Signature

⑈00000⑆10⑆⑈ 9 ⑈000067894⑆ ⑆2345678⑈ ⑈00000⑆2345⑈

ROUTING NUMBER FRACTIONAL FORM



██████████
██████████
██████████

DATE: 123
12-3456/7890

PAY TO THE
ORDER OF _____

_____ DOLLARS

! : 789456124 ! : 00012345679 ! : 123

MICR Form

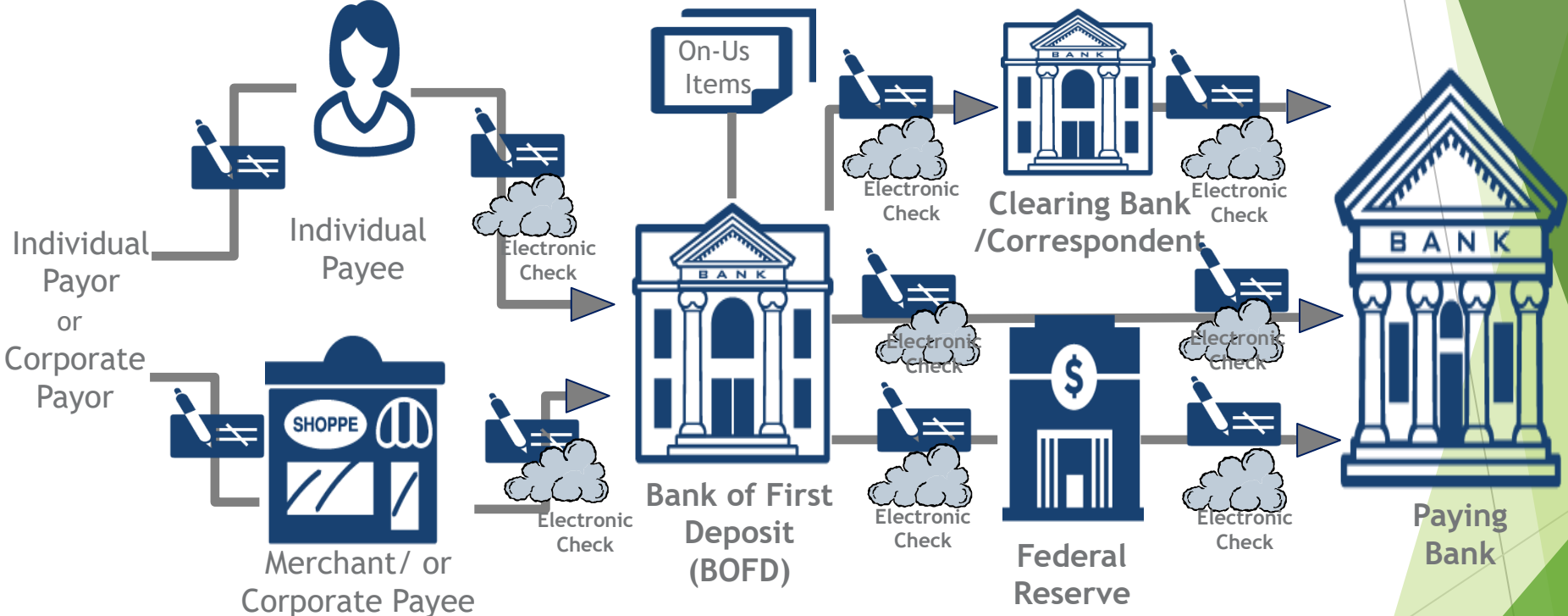


wikiHow to Calculate the Check Digit of a Routing Number from an Illegible Check

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

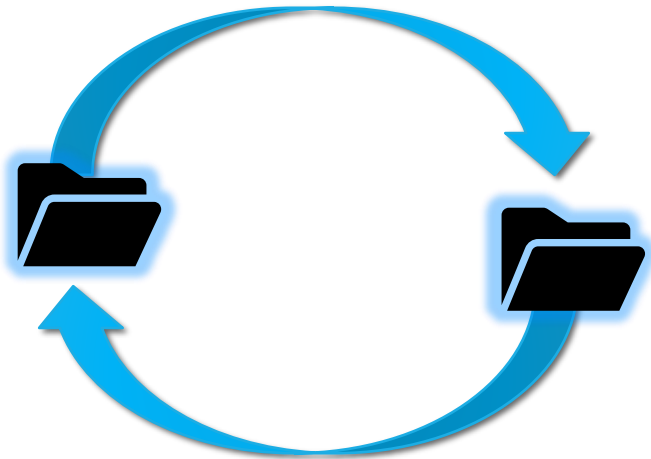
Check Collection Process



Clearing vs Settlement

CLEARING

Exchange of payment instructions (data) between two financial institutions



SETTLEMENT

Exchange of funds between two financial institutions.





Float

Number of days from when a check is deposited and settled and when the funds are available to the customer

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

UCC 3: Negotiable Instruments

Covers

- ▶ Definition and requirements of a negotiable instrument
- ▶ Negotiation, transfer and indorsement of these instruments
- ▶ Liability of the parties

Sample topics:

- ▶ Standards of care required for processing checks
- ▶ Establishing the identity of the payee
- ▶ Negligence of maker in case of forgery or alteration
- ▶ Forgery and fraud loss allocation
- ▶ Employer's responsibility for employee fraud

Negotiable Instrument

Written Order

Signed by Drawer

Unconditional promise or order to pay

Fixed amount of money

On demand or at a definite time

Holder in Due Course (HIDC)

Holder who has possession that:

1. Took the item in good faith
 2. Took item for value
 3. Without notice that the item is overdue or has been dishonored
 4. Without notice signature was unauthorized or item altered
 5. Without knowledge of claims against it
-

Indorsements

Signature alone or accompanied by other words for purpose of negotiating the instrument
- when cashing or depositing a check

Blank Indorsement

- Does not mean it is un-indorsed
- Payee signs name



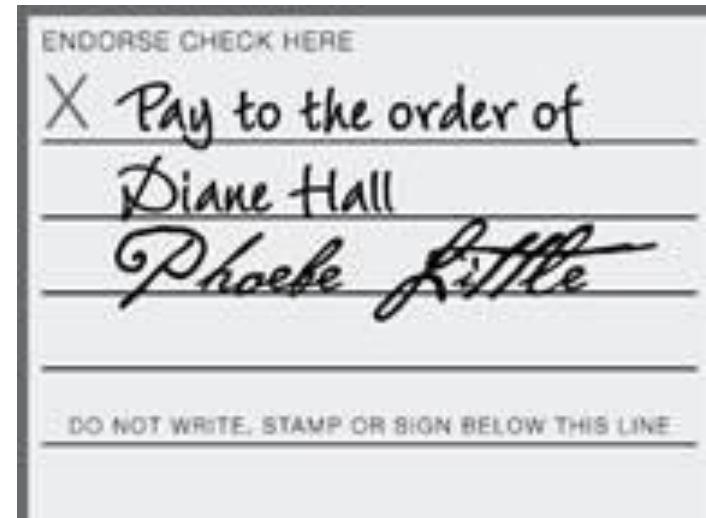
ENDORSE CHECK HERE
X Jane Public

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE

Payn

Special Indorsement

- Transfers to a specified payee



ENDORSE CHECK HERE
X Pay to the order of
Diane Hall
Phoebe Little

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE

Indorsements

Restrictive Indorsement

- Imposes limitations

Diagram illustrating a Restrictive Indorsement on a check. The text "ENDORSE CHECK HERE" is printed at the top. Below it, the name "Jan Jones" is written in red ink, preceded by a red "X". The words "for deposit only" and "to account #XXXXXX" are written in red ink below the signature line. At the bottom, the instruction "DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE" is printed.

Anomalous Indorsement

- Made by person who is not holder of the instrument

Diagram illustrating an Anomalous Indorsement on a check. The text "ENDORSE HERE" is printed at the top. Below it, the name "Jane Doe" is written in blue ink. Below the signature line, the instruction "DO NOT WRITE, STAMP, OR SIGN BELOW THIS LINE" is printed, followed by "RESERVED FOR FINANCIAL INSTITUTION USE". At the bottom, a red stamp reads "NOTE: John Does Check".

UCC 4: Bank Deposits and Collections



Covers check collection, payment, liabilities, time frames, and responsibilities



Any provision under Article 4 may be varied by agreement between bank and customer, except bank's duty to act in good faith and to exercise ordinary care.



Sample topics:

- When a bank may charge a customer's account
- Customer's right to stop payment
- Bank's option not to pay stale-dated items
- Customer's obligation to report unauthorized signatures

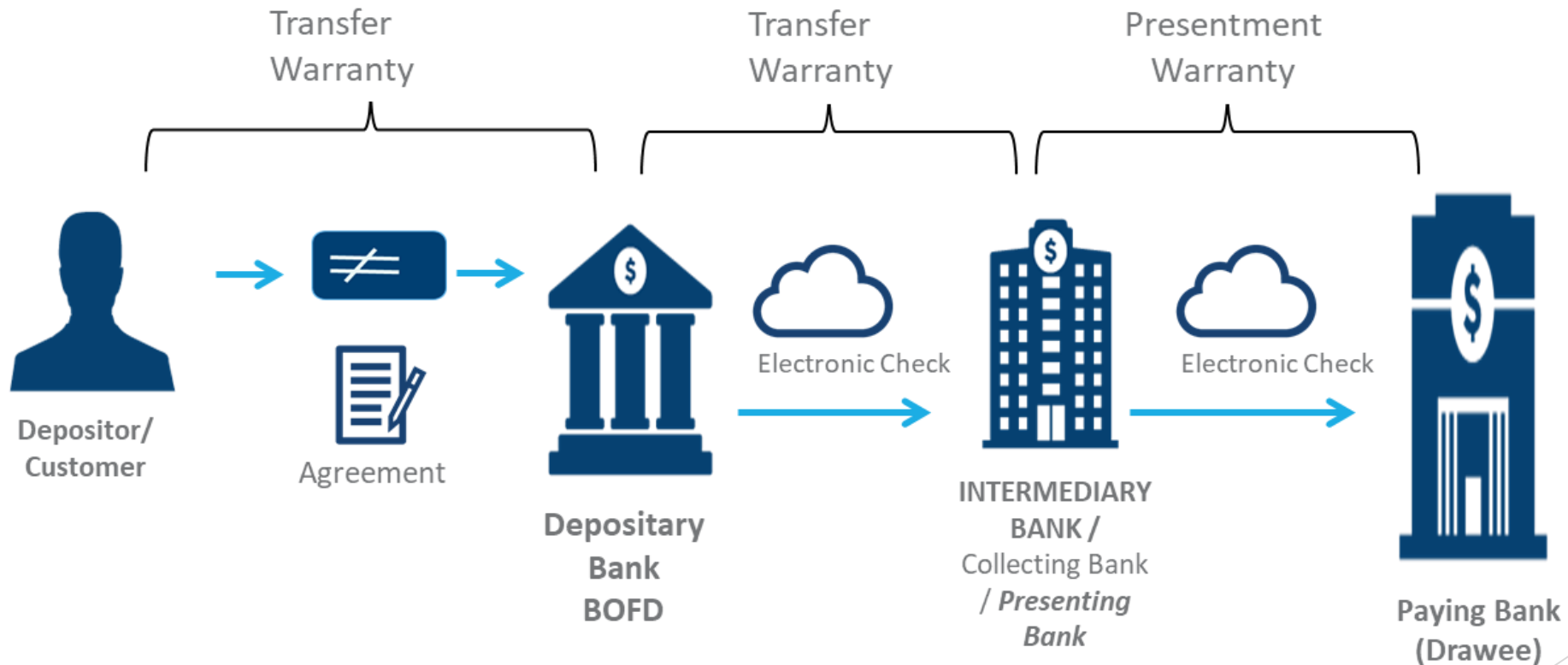
Properly Payable

Authorized by customer
AND in accordance with
any agreement between
customer and FI

Item can be charged to
customer's account if
properly payable even
if:

- Item created overdraft
- Item is made before
date of check

Transfer & Presentment Warranties



Warranties: provide recourse if breach of warranty occurs

UCC Transfer Warranties: Made to a person or collecting bank that may then:

- Recover from warrantor, as damages for breach of warranty, an amount equal to loss suffered as a result of the breach, but
 - Not more than the amount of the instrument (item);
 - Plus expenses and loss of interest incurred as a result of the breach

UCC Presentment Warranties: Made to the drawee (Paying Bank) that pays the item; who may then:

- Recover from warrantor damages for breach of warranty equal to the amount paid,
 - Less the amount they received from drawer because of the payment;
 - Plus compensation for expenses and loss of interest resulting from the breach

Regulation J

Referenced by operating circulars for warranties

Used in conjunction with Reg CC

Provides legal framework for DFIs to collect checks/other items and to settle balances through the Fed

Clearing House/ECCHO Rules

Governs electronic checks exchanged between ECCHO members, by agreement

Built on foundation of UCC and Reg CC

Provisions for forward presentment, returns and adjustments

Federal Reserve Operating Circulars

GOVERNING EXCHANGES
TO/FROM RESERVE BANKS

PROVISIONS FOR FORWARD,
RETURNS AND ADJUSTMENTS

ITEMS HANDLED AS CASH
ITEMS AND NONCASH ITEMS

Nacha Operating Rules

Governs the conversion of paper checks into ACH entries

ARC - Accounts Receivable Entry

BOC - Back Office Conversion Entry

POP - Point-of-Purchase Entry

RCK - Re-presented Check Entry

XCK - Destroyed Check Entry

Regulation CC

Subpart A: Purpose, organization of subparts, definitions, administrative enforcement



Subpart B: Availability of Funds and Disclosures of Funds Availability Policies



Subpart C: Collection of Checks



Subpart D: Substitute Checks

Regulation CC: Subpart A

**Outlines the
authority and
purpose**

**Includes
definitions of
terms used**

Definitions

Account:

Deposit accounts at a bank from which the account holder makes transfers or withdrawals by a negotiable instrument or other similar means to make payments or transfers funds to third persons

Availability:

Time period from the day of deposit until the funds are available to the account holder for withdrawal or other use

Available for Withdrawal:

Funds deposited available for all uses generally permitted to customer under the bank's account agreement or policies

Definitions

- ▶ Banking Day: Business day on which office of bank is open to public for substantially all banking functions
- ▶ Business Day: Calendar day other than a Saturday or Sunday, or Federal Reserve legal holidays



Definitions

▶ Check and Demand Draft

- ▶ Check definition covers several categories of instruments including:
 - ▶ Negotiable demand draft drawn on:
 - ▶ Or payable through or at, an office of a bank;
 - ▶ Federal Reserve Bank or FHLB;
 - ▶ US Treasury;
 - ▶ Demand draft drawn on:
 - ▶ State or unit of general local government not payable through or at a bank;
 - ▶ U.S. Postal Service money order;
 - ▶ Traveler's check;
 - ▶ An original check and a substitute check

• Cashier's check:

Check that is—

- Drawn on a bank;
- Signed by an officer or employee of the bank on behalf of the bank as drawer;
- Direct obligation of the bank;
- Provided to a bank's customer or acquired from the bank for remittance purposes

Definitions

Electronic check and electronic returned check

- An electronic image of, and electronic information derived from a paper check or a paper returned check that
 - Is sent to receiving bank pursuant to an agreement between sender and receiving bank; and
 - Conforms with ANS X9.100-187

Check image and information must be “derived” from a paper check

- Use of derived meant to clarify that image must be created from a paper item
- ECIs are not electronic checks

Regulation CC: Subpart B

Availability of Funds

Next-Day Availability: For certain check deposits, depository bank makes funds available next business day after the banking day on which the funds are deposited for:

- Check drawn on the Treasury of the United States
- US Postal Service money order
- Check drawn on Federal Reserve Bank or Federal Home Loan Bank
- Check drawn by a state or local government
- Cashier's, certified, or teller's check

Two-Day Availability: Depository bank shall make funds available for withdrawal no later than second business day after the banking day on which checks were deposited in person

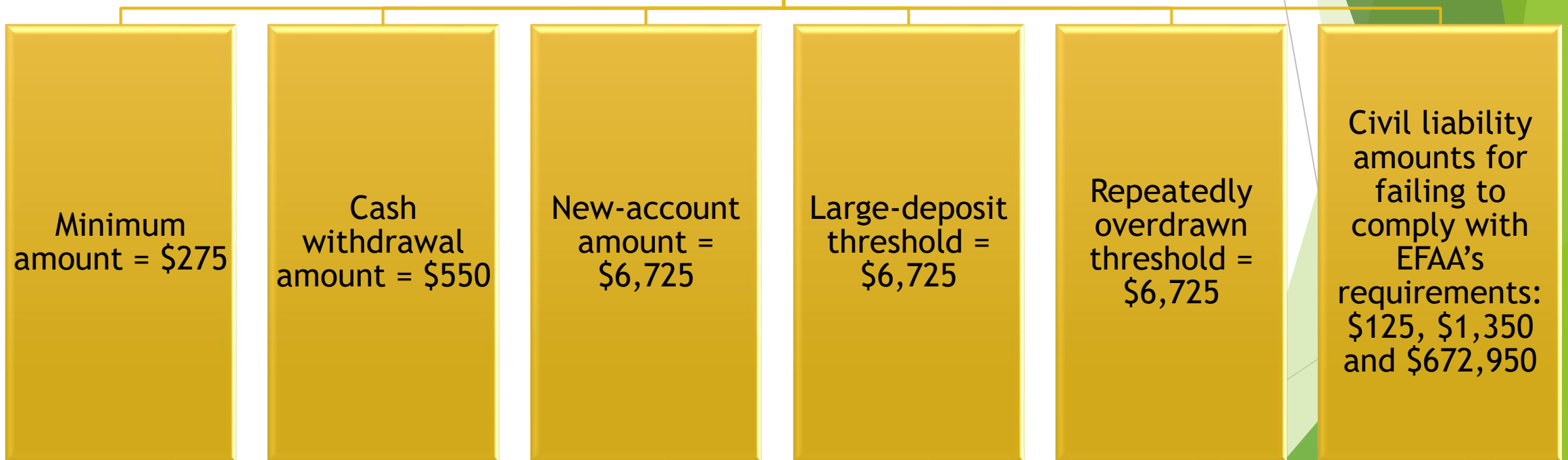
Regulation CC: Subpart B

Exceptions Eligible for extended holds (\$229.13)

New Accounts	Deposits into new accounts; Open less than 30 days	
Large deposits (greater than \$6,725)	First \$6,725 covered under normal “availability” requirements	Remainder of deposit may be held for the extended period
Re-deposited checks	May be held unless the check was returned because of missing endorsement or postdating	
Deposits to accounts that are repeatedly overdrawn	If during the previous 6 months, account was negative:	Six or more banking days Two or more banking days in the amount of \$6,725 or more
Reasonable cause to doubt the collectibility of a check	Must have legitimate reasons	
Checks deposited during emergency conditions	Beyond the control of the financial institution	Ex: Natural disasters or communications malfunctions

Inflation-Adjusted Amounts - **As of July 1, 2025

Availability amounts are:



Regulation CC: Subpart B

Disclosures
must be:

- Clear, conspicuous, and in writing
- In a form that the customer may keep; other than those posted:
 - At locations where employees accept consumer deposits
 - At ATMs
 - On preprinted deposit slips
- Grouped together and not contain any information not related to disclosures required by regulation

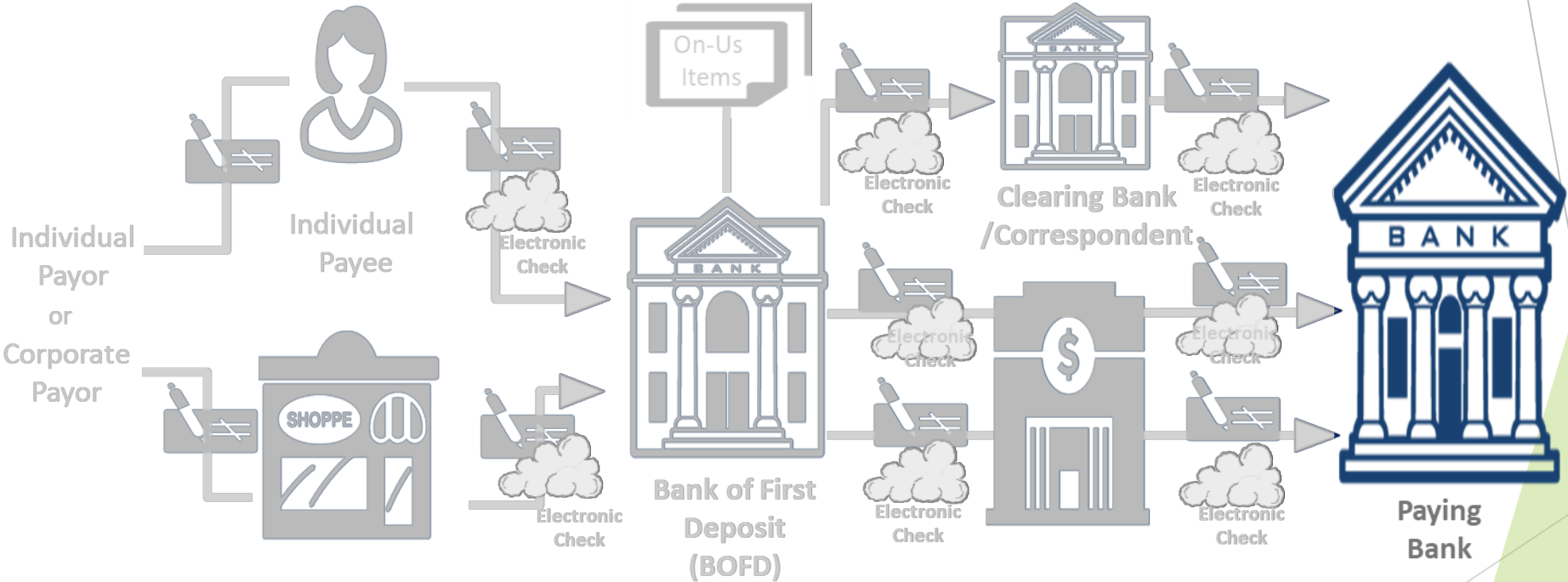
Regulation CC: Subpart C

Warranties & Indemnities

Collection and Return Requirements

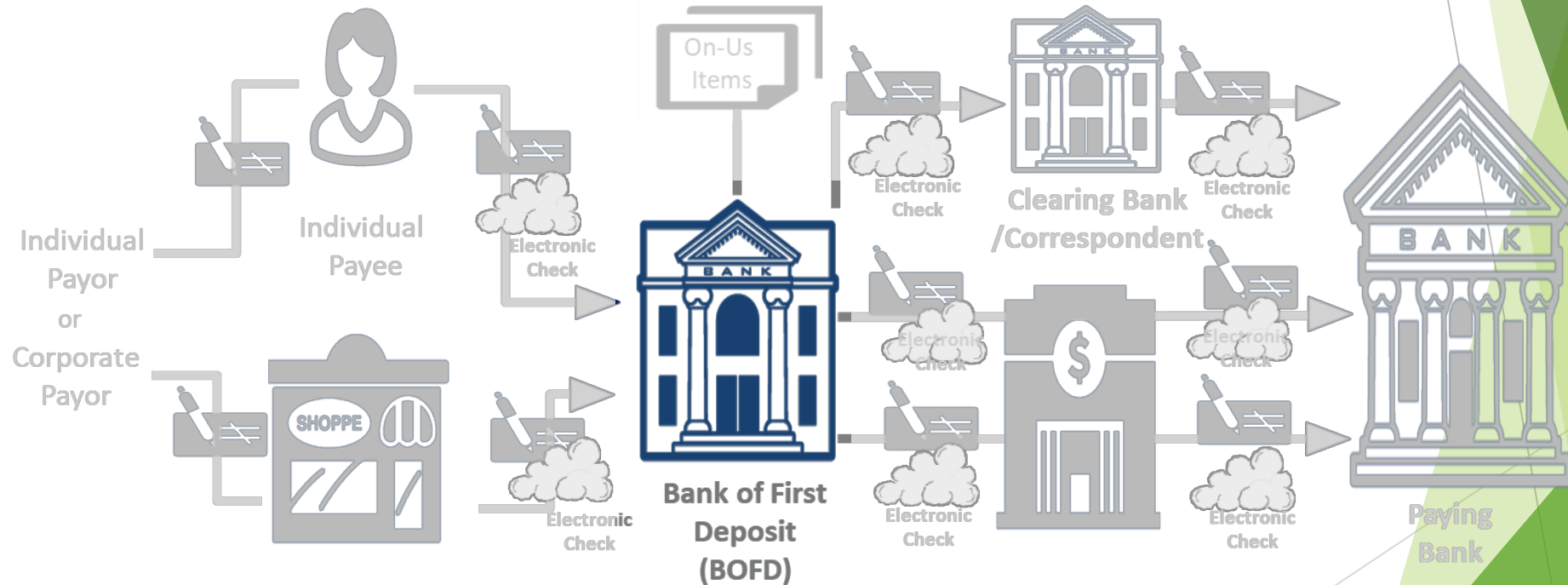
- Paying Bank Responsibility
- Returning Bank Responsibility
- Depository Bank Responsibility

Regulation CC: Subpart C



Regulation CC: Subpart C

- Depository Bank's Responsibility
 - Required to notify its customer of nonpayment upon receipt of a returned check or notice of nonpayment (regardless of the amount of the check or notice)
 - Return of the check itself may serve as the required notice of nonpayment



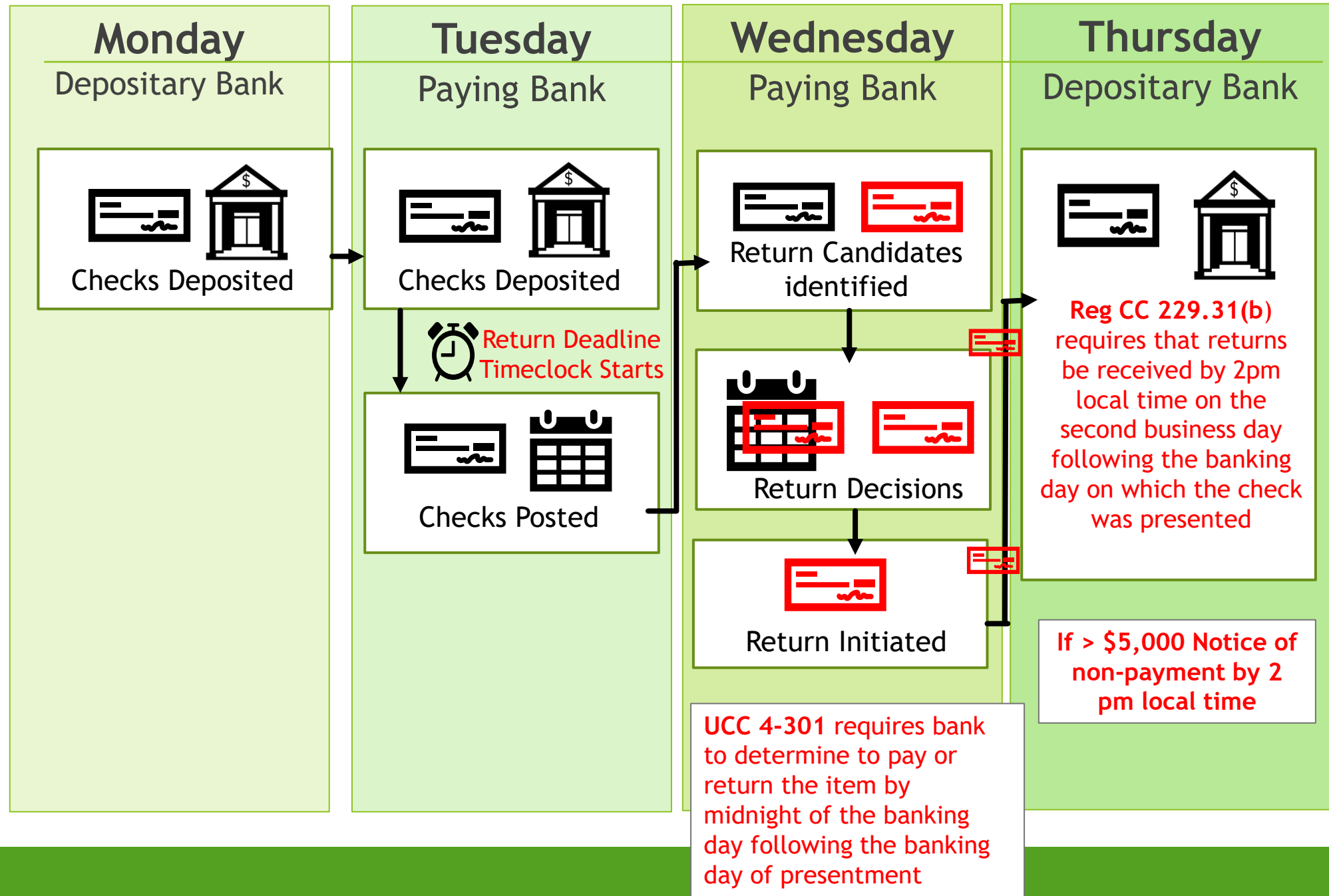
Expeditious Return



A Paying Bank returns a check in an expeditious manner if it:

- Returns check such that check would normally be received by the Depository Bank:
 - Not later than 2:00 pm (local time of Depository Bank);
 - Second business day following banking day when check was presented to Paying Bank

Return Deadlines



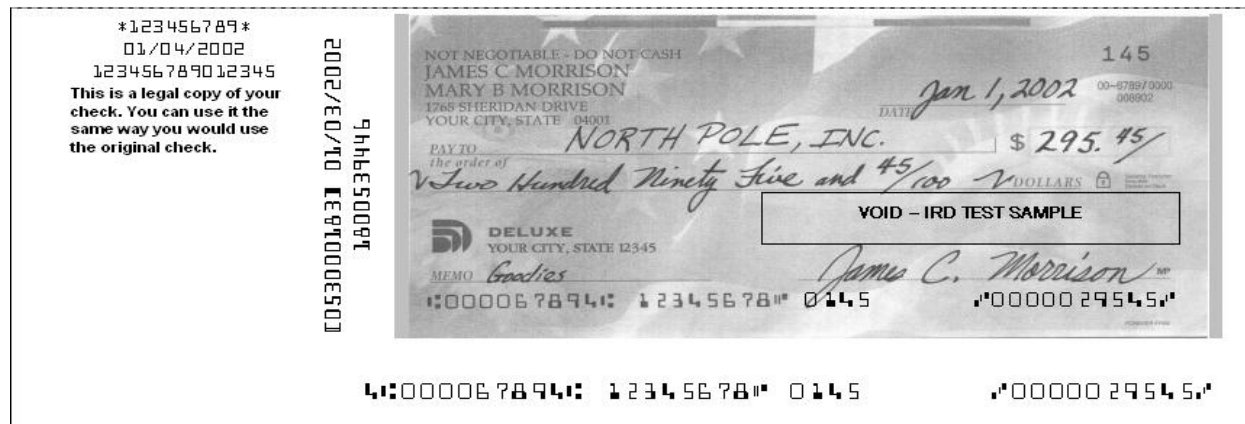
Notice of Non-Payment

- ▶ Payee Bank sends notice to depository bank if returning a check that:
 - ▶ \$5,000 or more
 - ▶ Due to depository bank by 2 pm local time on the second business day following presentment

Regulation CC: Subpart D

Check Clearing for
the 21st Century
Act (Check 21)

Substitute check is
legal equivalent of
original paper
check



Substitute Check

Substitute check is legal equivalent of original check for all purposes, if:

Contains image of front and back of check

Conforms to industry standards

Suitable for automated processing

Must accurately represent all information on original check

Bears legend

Includes all indorsements

Includes identification of party creating it

Duplicate Checks

These didn't happen much in the paper check world

Two causes

- Errors - Staff, customer - Image cash letter file sent 2nd time
 - Accidental reimaging of physical checks
 - Accidental depositing of physical check after RDC
 - Imaged check erroneously included in physical cash letter
- Fraud - Intentional deposit of original item after RDC deposit

Warranties

- ▶ Reg CC, ECCHO Rules, Reg J (OC3 uses Reg J) have similar duplicate (already paid) warranties
- ▶ •Excerpt from ECCHO Rules (Section XIX(L)(7)) “Sending Bank warrants to Receiving Bank with respect to each Electronic Image ...will not be asked to make a payment based on an item that it already paid;”

Word “duplicate” not in the language of any warranty

- Intended to protect Receiving Bank regardless of form of duplicate item (e.g., image, IRD, ACH conversion, etc.)

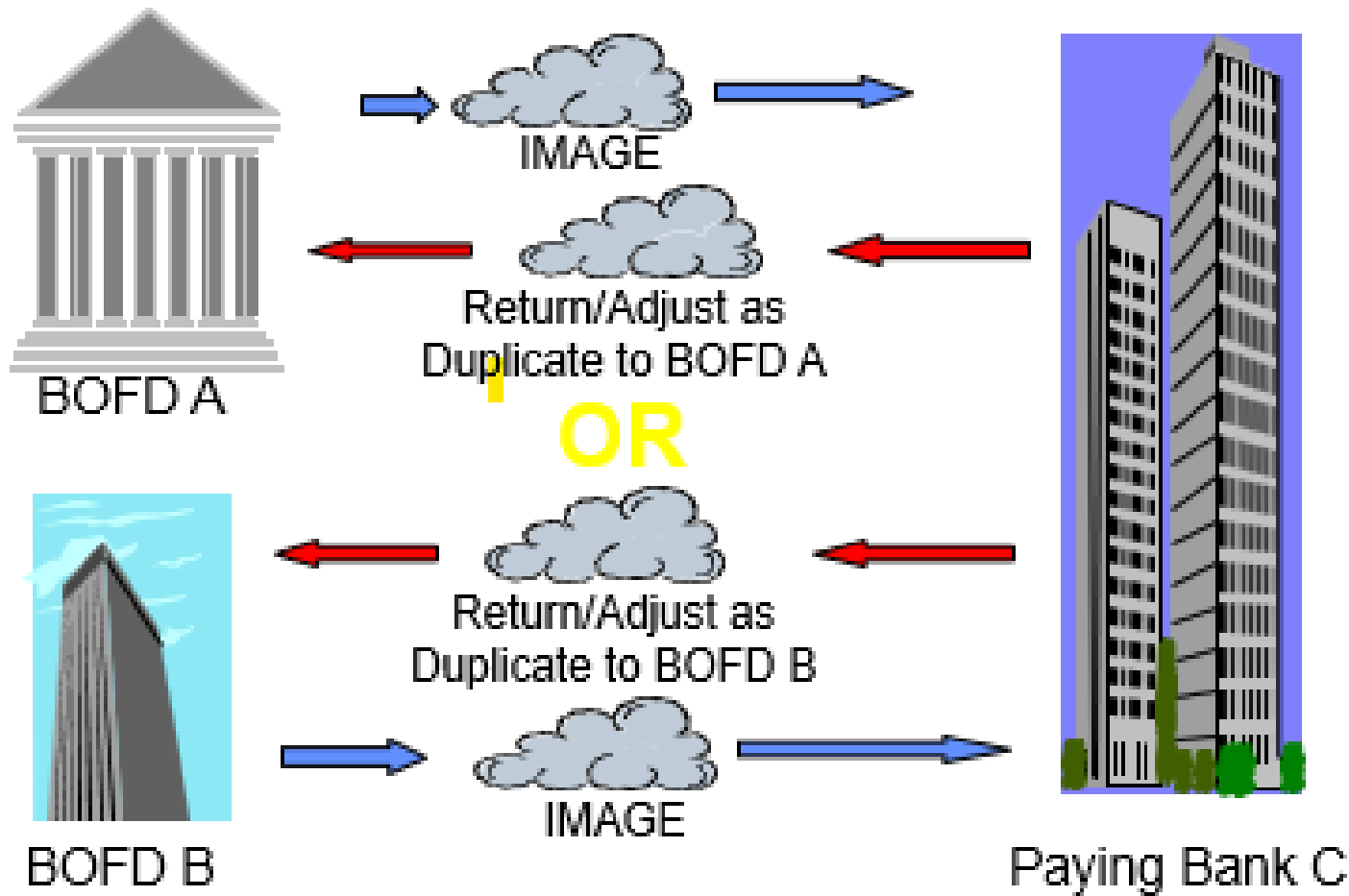
No duplicate warranty exists on original paper item

- Warranty limited to situation where Receiving Bank pays item *already paid*

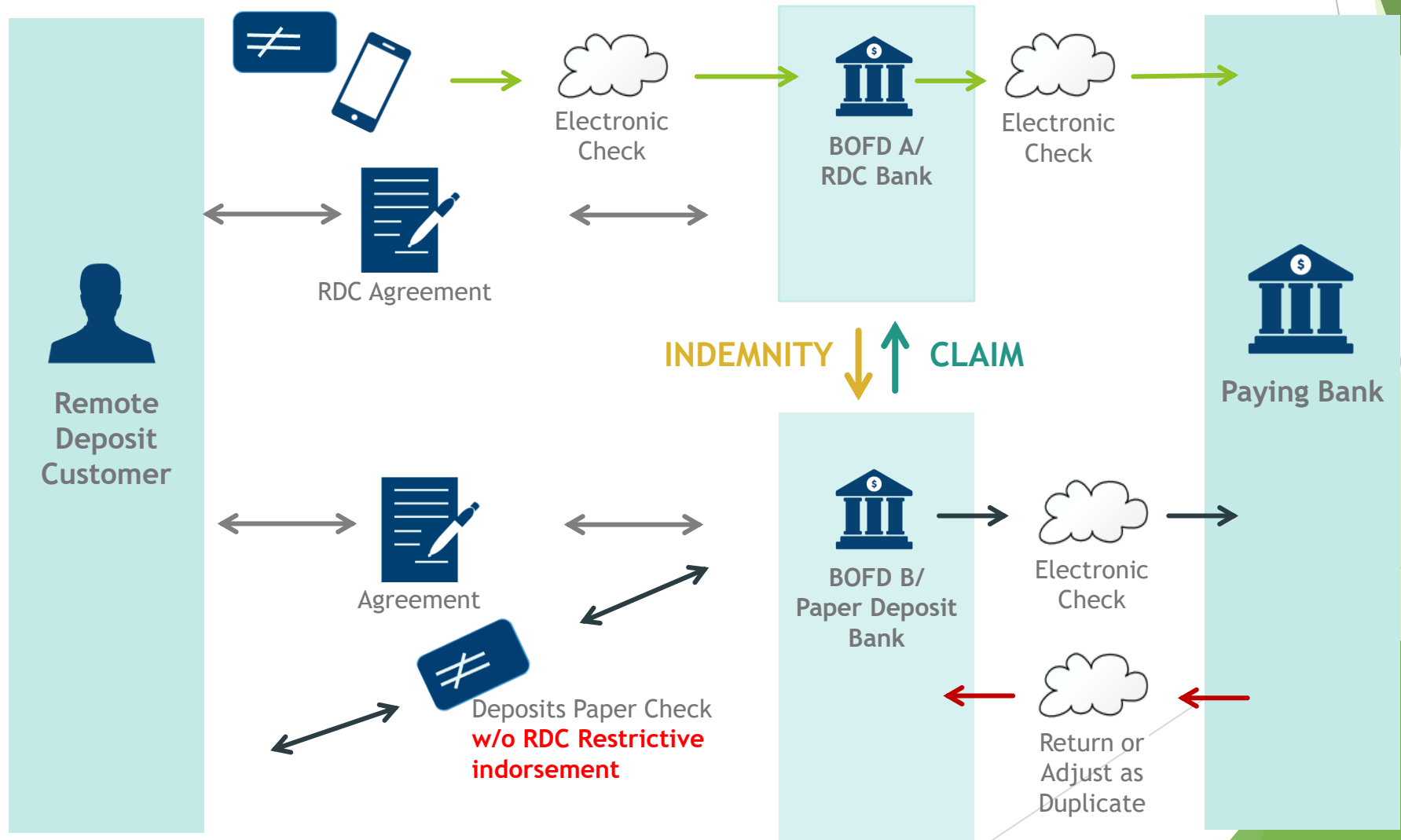
- Duplicate warranty does not apply to represented items that were not paid the first time

- NACHA rules have similar provisions for check conversion

Which BOFD can Paying Bank Make Claim to?



Regulation CC Remote Deposit Capture Indemnity





?

?

?

?

?

?

First



Continuing Education Credits

The Puzzle of Check Compliance

August 19, 2025

This session is worth 1.8
credits