

*Checks Have Changed:*

PAY TO  
THE ORDER OF

# Living With Check 21

\$ /100 DOLLARS

Memo

## Consumer Alert!

1-888-995-7856 **ALLIANCE**  
Credit Counseling

By Edward Tonini, Director of Education.

**Do you write checks?**

**Getting any  
bounces lately?**

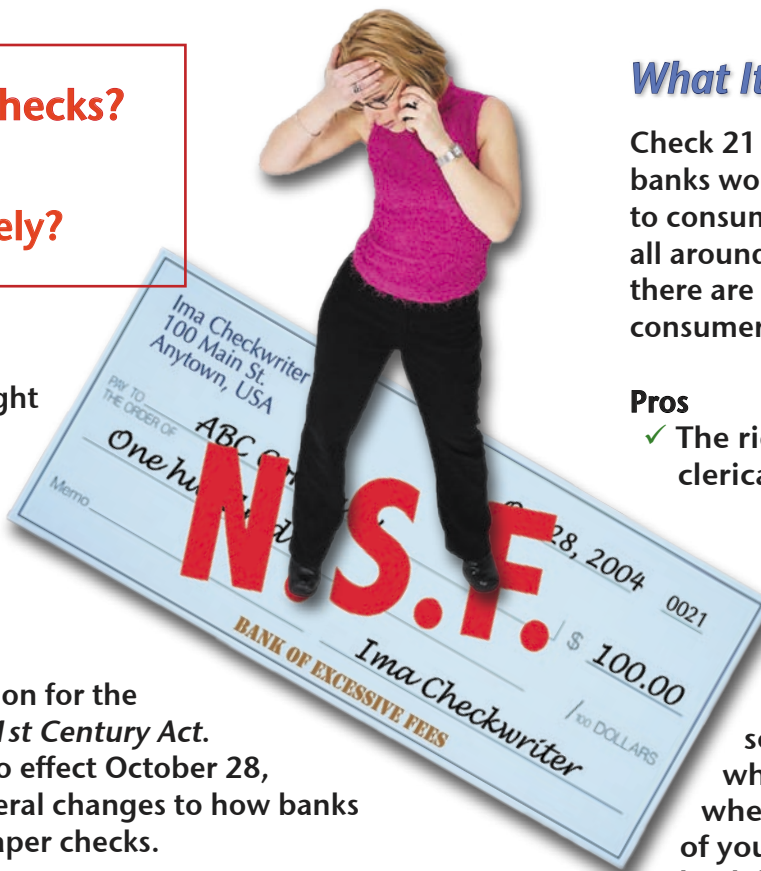
Part of your difficulty might relate to "Check 21." Here are a few things you'll want to know.

### What Is Check 21?

Check 21 is an abbreviation for the *Check Clearing for the 21st Century Act*. This federal law went into effect October 28, 2004 and resulted in several changes to how banks process and clear your paper checks.

### What Changed?

The changes brought about by Check 21 were intended to modernize the way checks are processed. Under Check 21, a bank, or any company to whom you send a check, can legally turn your check into an electronic image (a process, called "truncating") and destroy the original. This saves the banking industry billions of dollars in costs related to transporting and processing paper checks. The electronic image contains a digital picture of the front and back of your original check. The image can be printed - along with the words, "This is a copy of your check. You can use it the same way you would use the original check" - to create a substitute check. Although your original check was destroyed, you can use a valid substitute check as proof of payment.



### What It Means For You

Check 21 is great for banks and if banks would pass on the savings to consumers, it would be great all around. As it stands, however, there are more cons than pros for consumers. Here are the highlights:

#### Pros

- ✓ The right to quick correction of clerical mistakes.

#### Cons

- ✗ No more "Float." Your checks clear much faster now; you can't count on there being several days between when you write a check and when the money comes out of your account.
- ✗ Check-hold times have not been shortened. Check 21 does not require banks to lessen the amount of time they hold checks you deposit before crediting them to your account.
- ✗ No more cancelled checks returned. You no longer get your canceled paper checks returned with your statements. [You can, and should, request substitute checks.]
- ✗ Less time in which to stop payment on a check. You'll need quick reflexes.

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## What You Can Do

Here are some actions you can take to help reduce your chances of getting NSF charges under Check 21:

- ◆ **Consider using direct deposit** if it is available from your employer. Check 21 allows your money to come out faster when you write a check but it doesn't speed up the crediting of money to your account when you deposit a check.
- ◆ **Wait until your paycheck clears** if you're not using direct deposit. If you write a check *today*, you need to have enough money in your account *today* to cover it.
- ◆ **Consider overdraft protection or a line of credit** on your account. Remember that your financial institution may charge for these services.
- ◆ **Consider using a credit card for larger purchases if you can pay the full balance each month to avoid any interest or late fees.** Credit card purchases carry liability limits and the ability to dispute incorrect charges.
- ◆ **Write neatly.** Illegible handwriting on your checks can lead to incorrect payments and make it more difficult to show proof of payment.
- ◆ **Consider using duplicate checks.** Duplicate checks allow you to retain a carbon copy of each check, which may help you with your record keeping (especially if you have difficulty using your check ledger consistently). The carbon copy of your duplicate check will also assist you if you ever need to dispute the validity of a substitute check.
- ◆ **Promptly review your bank statement** when it arrives. Contact your bank as soon as possible if you suspect any errors on your account.
- ◆ **Don't agree to voluntary check imaging or "voluntary truncation."** If you sign up for it, you'll have fewer rights.
- ◆ **Ask for substitute checks.** The law does not require banks to provide substitute checks and your rights are more limited if you do not have a substitute check.
- ◆ **Sign the Consumers Union petition** to banks asking for Check 21 improvements. (For information visit [www.consumersunion.org/finance/ckclear1002.htm](http://www.consumersunion.org/finance/ckclear1002.htm))

## Check 21 Verses Electronic Check Conversion

Although they both involve electronic processing, substitute checks and electronic check conversion are two different things. With electronic check conversion, your checking account information is read from your paper check in order to complete an electronic fund transfer.

## Check 21 Refunds

If an account error occurs as a result of the creation of a substitute check, Check 21 offers some protection. If a check was paid twice, paid in the wrong amount or to the wrong person, you have the right to have the funds (up to the first \$2500) recredited to your account within 10 business days (and any remaining funds by the 45th day). In order to receive the recredit (return of the funds to your account), you must make a *written* request to your bank.



## To Find Out More



- **Consumer Guide to Check 21 and Substitute Checks** (Federal Reserve Board): [www.federalreserve.gov/pubs/check21/consumer\\_guide.htm](http://www.federalreserve.gov/pubs/check21/consumer_guide.htm).
- **Check 21: Substitute Checks, Electronic Processing, and What It Means To You** (FTC): [www.ftc.gov/bcp/online/pubs/credit/check21.htm](http://www.ftc.gov/bcp/online/pubs/credit/check21.htm).
- **Check 21: New Law Ends Checking Traditions** (Bankrate.com): [www.bankrate.com/brm/news/chk/20040924a1.asp](http://www.bankrate.com/brm/news/chk/20040924a1.asp).