

Everything You need to Know About Check 21 Act

What is electronic check conversion?

Electronic check conversion is a process in which your check is used as a source of information—for the check number, your account number, and the number that identifies your financial institution. The information is then used to make a one-time electronic payment from your account—an electronic fund transfer. The check itself is not the method of payment.

How will I know that my check is being used for electronic check conversion?

When you provide your check, you must be given notice that information from your check will be used to make an electronic payment from your account. The notice is required by the federal law that applies to electronic fund transfers—the Electronic Fund Transfer Act and the Federal Reserve Board’s Regulation E. Notice may be provided in different ways. For example, a merchant may post a sign at the register or may give you a written notice that you’ll be asked to sign.

What are some of the differences between electronic check conversion and using my check as payment?

- Your electronic transaction may be processed faster than a check. Be sure you have enough money in your account at the time you make the purchase.
- You have different consumer rights with an electronic check conversion transaction than when you use your check as payment. For example, with electronic check conversion, you have the right to an investigation by your financial institution when an error occurs.

What are my rights in electronic check conversion transactions?

- You have the right to receive notice when you provide your check telling you that information from the check will be used to make an electronic payment from your account.
- You have the right to receive notice when you provide your check telling you of any fee that the merchant will collect from your account electronically if you do not have enough money in your account to cover the transaction. This fee is similar to a “bounced check” fee.
- You have the right to receive a receipt when you make a purchase at a store. The receipt will contain information about the transaction, including
 - Date
 - Amount
 - Location
 - Name of merchant.
- You have the right to have this same information included as part of the regular account statement from your financial institution.
- You have the right to ask your financial institution to investigate any electronic fund transfers from your account that you believe are unauthorized or incorrect.

What should I do if I have a problem with an electronic check conversion transaction?

Always review your regular account statement from your financial institution. You should immediately contact your financial institution if you see a problem. Were you charged the wrong amount? Were you charged twice for the same transaction? You have only 60 days (from the date your statement was sent) to tell the financial institution about the problem. Depending on the circumstances, the financial institution may take up to 45 days from the time you notify it to complete its investigation.

With electronic check conversion, may I use the same check more than once?

No. An electronic check conversion transaction is a one-time electronic payment from your account. If you were to use the same check for more than one transaction and you had a problem with one of the transactions, your financial institution might have difficulty investigating the problem because the same check number would appear more than once on your statement.

Can electronic check conversion occur if I mail a check to pay a bill?

Yes. For example, let's assume that each time you get your insurance bill there is a notice. It tells you that when you mail a check, information from that check will be used to make an electronic payment from your account. If you then send a check, you have agreed to electronic check conversion. Unlike what happens when you make a purchase at a store, however, you won't receive a receipt. Your check won't be returned to you with your account statement from your financial institution because the transaction was processed as an electronic fund transfer, not as a check transaction.

As with electronic check conversions in stores, be sure you have enough money in your account when you mail your check, keep records of your payments, and check your account statements from your financial institution to make sure the amounts charged are correct.

What if I don't want my check to be used for electronic check conversion?

If you don't want your check to be used for electronic check conversion, you may have to provide another form of payment (for example, cash, debit card, or credit card).

What if I have a question or problem with an electronic check conversion?

Contact your financial institution. For information on state laws that may apply to electronic check conversion, contact your state's consumer protection agency or attorney general's office.

Where can I file a complaint about a merchant or someone else I paid by electronic check conversion?

Contact:

Federal Trade Commission
Consumer Response Center
600 Pennsylvania Ave., NW
Washington, DC 20580
877-FTC-HELP — toll free (877-382-4357)
www.ftc.gov

Please also send a copy of your complaint to:
Board of Governors of the Federal Reserve System
Division of Consumer and Community Affairs
Washington, DC 20551
202-452-3693
www.federalreserve.gov

Remember . . .

Before you agree to electronic check conversion, you should first ask yourself

- Do I understand that the information from my check will be used to make an electronic payment from my account?
 - Do I have enough money in my account to cover the payment?
- Before you leave the store, you should ask yourself
- Did I receive a receipt?
 - Does the amount on the receipt match the amount of my purchase?
 - Was my check returned to me and voided?

When you receive your statement from your financial institution, you should

- Make sure that the charges on your statement match your records.
- Contact your financial institution right away if you notice a problem.

Check Clearing for the 21st Century Act

About | [Frequently Asked Questions](#)

The Check Clearing for the 21st Century Act (Check 21) was signed into law on October 28, 2003, and will become effective on October 28, 2004. Check 21 is designed to foster innovation in the payments system and to enhance its efficiency by reducing some of the legal impediments to check truncation. The law facilitates check truncation by creating a new negotiable instrument called a substitute check, which would permit banks to truncate original checks, to process check information electronically, and to deliver substitute checks to banks that want to continue receiving paper checks. A substitute check would be the legal equivalent of the original check and would include all the information contained on the original check. The law does not require banks to accept checks in electronic form nor does it require banks to use the new authority granted by the act to create substitute checks.

The Federal Reserve Board has released the final rule to implement Check 21, including the model disclosure language for depository institutions to use in notifying consumers of their rights under the law.

Frequently Asked Questions about Check 21

General

1. What is Check 21 and what is its basic purpose?

Check 21 is a federal law that is designed to enable banks to handle more checks electronically, which should make check processing faster and more efficient. Today, banks often must physically move original paper checks from the bank where the checks are deposited to the bank that pays them. This transportation can be inefficient and costly. Check 21 becomes effective on October 28, 2004.

2. How will Check 21 make check processing more efficient?

Instead of physically moving paper checks from one bank to another, Check 21 will allow banks to process more checks electronically. Banks can capture a picture of the front and back of the check along with the associated payment information and transmit this information electronically. If a receiving bank or its customer requires a paper check, the bank can use the electronic picture and payment information to create a paper "substitute check." This process enables banks to reduce the cost of physically handling and transporting original paper checks, which can be very expensive.

3. Is electronic check processing secure?

Electronic check processing is not new to the financial industry and is a safe and reliable way of processing payments. It uses technology that has been developed and tested to process your check information securely.

4. What changes can I expect when Check 21 goes into effect?

After October 28, 2004, you may receive a substitute check when you were expecting an original check. For example, if you receive canceled checks with your account statement, you might begin to receive a mixture of canceled original and substitute checks. If you receive image statements (pictures of several checks on a single page), you also may notice that some of the pictures are of substitute checks.

5. Will Check 21 result in my check being paid sooner?

With Check 21, banks will likely process more checks electronically. As a result, your check may reach your bank faster and be paid sooner. Always make sure you have enough money in your account to cover the checks you write at the time that you write them.

6. Will Check 21 affect how quickly I receive funds from the checks that I deposit with my bank?

Another federal check law (Expedited Funds Availability Act) specifies the maximum time periods by which your bank must make funds available to you. Some banks, however, make funds available sooner than this law requires.

7. What is the difference between Check 21 and programs that convert checks to electronic payments?

A check you write may be processed as a check. In that case, your rights are governed by check laws and regulations. Under electronic check conversion, the check is used only as a source of information to create an electronic fund transfer and is not processed as a check. You must receive notice that your check may be processed this way. Electronic fund transfers are governed by different laws and have different consumer rights than check payments. For more information about electronic check conversion, see the brochure "[When Is Your Check Not a Check: Electronic Check Conversion](#)" published by the Federal Reserve Board.

Substitute Checks

8. What is a substitute check?

A substitute check is a paper copy of the front and back of the original check. A substitute check is slightly larger than a standard personal check so that it can contain a picture of your original check. A substitute check must be printed in accordance with very specific standards so that the substitute check can be used in the same way as the original check.

9. When is a substitute check legally the same as the original check?

A substitute check is legally the same as the original check if it accurately represents the information on the original check and includes the following statement: "This is a legal copy of your check. You can use it the same way you would use the original check." The substitute check must also have been handled by a bank.

If you receive a substitute check that is not legally the same as the original check and you suffer a loss related to the substitute check, Check 21 provides you with a special procedure that you can use to get your money back.

10. Can I use a substitute check as proof of payment?

Yes. You can use a substitute check as proof of payment because it is legally the same as the original check. For instance, the IRS will accept your substitute check as proof of payment. If you do not have a substitute check but have a copy of an original check or a copy of a substitute check, you usually can use these documents as proof of payment.

11. How are image statements different from substitute checks?

Instead of providing canceled checks, some banks provide customers with image statements that show multiple pictures of canceled checks per page. The pictures on the image statement could represent an original check or a substitute check. Whether the consumer receives an original check, a substitute check, an image statement, or a line item on his or her account statement, check law protects consumers against erroneous and unauthorized check payments. In addition, Check 21 provides a special refund procedure (called "expedited recredit"), if you receive a substitute check. For more information, see the [consumer protection section](#) below or contact your bank.

12. Can I demand a substitute check from my bank instead of a copy?

Your bank may provide you with a substitute check, but it is not required by law to do so. If your bank does not provide you with a substitute check, you usually can use a copy of an original check or a copy of a substitute check as your proof of payment.

13. What should I do if something is wrong with the substitute check that I receive?

A substitute check must show the front and back of the original check and be printed in accordance with very specific standards. If you receive a substitute check that appears to have a problem, such as it contains a bad picture of your original check, contact your bank.

14. Is my bank required to tell me about substitute checks?

Under Check 21, banks are required to provide a disclosure to their consumer customers who receive canceled checks with their monthly statements. The disclosure describes substitute checks and consumer rights regarding substitute checks. Banks must provide this disclosure to existing customers not later than the first statement mailing after Check 21 becomes effective on October 28, 2004. After October 28, 2004, banks must provide this disclosure to new customers at the time

the customer relationship is established. If you receive canceled checks with your account statement but did not receive the required disclosure within the timeframes described above, please request one from your bank.

Banks must also provide a disclosure when a consumer requests an original check or copy of a check and receives a substitute check. In addition, the bank must provide a disclosure if a check the consumer has deposited is returned unpaid to the consumer in the form of a substitute check.

Original Checks

15. Can I still get my canceled checks back?

If you get your canceled checks back with your account statements today, you will continue to receive canceled checks unless your bank notifies you otherwise. The only difference will be that some of the canceled checks that you receive may be substitute checks. You can use a substitute check the same way you would use an original check, such as for recordkeeping and proof-of-payment purposes.

16. Can I get my original check if I need it?

Banks are not required currently to keep your original check for any specific length of time, and Check 21 does not add any new retention requirements. In many cases, the original check may be destroyed. If you request your original check from your bank, your bank may provide you with the original check, a substitute check, or a copy of the check.

17. Can banks or their customers prevent others from using their original checks to create substitute checks?

No. Generally, any check can be used to create a substitute check, including a personal check, corporate check, credit card check, postal money order, and U.S. Treasury check. However, a foreign check cannot be used to create a substitute check.

18. What if I receive a substitute check representing a fraudulent original check?

Check law provides protections against fraudulent checks so that generally you are not responsible if you notify the bank in a timely fashion. This is the case whether you receive an original check, a substitute check, an image statement, or a line item on your account statement. If you receive a substitute check of a fraudulent original check, you may have additional rights under Check 21. Contact your bank for more information.

Consumer Protection

19. How am I protected under Check 21?

Check law protects you against erroneous and unauthorized check payments. In addition, Check 21 contains a number of new protections for consumers. For

example, Check 21 contains a special refund procedure (called “expedited recredit”) for a consumer who suffers a loss related to a substitute check he or she received.

20. What protections do I have if I receive image statements, access pictures of my checks online, or receive an account statement with descriptive information about my canceled checks?

Years ago, many banks stopped providing customers with canceled checks and, as an alternative, began providing customers with documentation showing which checks were paid. Regardless of the form of documentation you receive, check law protects you against erroneous and unauthorized check payments.

21. If I suffer a loss related to a substitute check I received, can I file a claim with my bank?

Yes. If you have received a substitute check, you can file a special claim with your bank for a refund (called an “expedited recredit”) if you believe that

1. The substitute check was incorrectly charged to your account,
2. You lost money as a result of the substitute check being charged to your account, and
3. You need the original check or a copy sufficient to show that the substitute check was incorrectly charged to your account.

22. Does the special refund procedure apply if I receive an image statement with a picture of a substitute check but do not receive the actual substitute check?

No. The special refund procedure applies only if you actually received a substitute check. However, check law protects you from improper check charges regardless of whether you receive an original check, substitute check, image statement, or a line item on your account statement. If you feel an error was made to your account, contact your bank immediately.

23. How do I make a claim under the Check 21 refund procedure?

If you believe that you have suffered a loss relating to a substitute check that you received, you should contact your bank as soon as possible but no later than 40 days from when your bank mailed or delivered your account statement. Your bank will ask you to provide information it needs to investigate your claim, which could include a description of the problem, an estimate of your loss, and information about the substitute check.

24. How quickly must my bank handle my claim, and when will my account be refunded?

Your bank should investigate your claim promptly. If your bank finds that it incorrectly charged your account, the bank must refund the amount of your claim (up to the amount of the substitute check, plus interest if your account earns interest) within one business day of making that decision.

If your bank is unable to determine the validity of your claim within 10 business days after receiving it, your bank on that day must refund the amount of your loss up to the lesser of amount of the substitute check or \$2,500, plus interest (if your account earns interest). Unless your bank determines that your claim is not valid, it must refund to your account any remaining amount of your loss, up to the amount of the substitute check, plus interest, no later than the 45th calendar day after the bank received your claim.

If your bank later determines that your claim was not valid, it may reverse the refund and interest it has paid to you.

25. How will I know if my bank has refunded my account?

If your bank refunds your account, it will send you a notice by the next business day that tells you the amount of your refund and the date on which you may withdraw those funds. Normally, you may withdraw your refund on the business day after your bank refunds your account.

26. Can my bank delay my ability to withdraw the amount that it refunds?

If your bank is still investigating your claim, it may delay your ability to withdraw up to the first \$2,500 of the refund if (1) you are a new accountholder, (2) your account is repeatedly overdrawn, or (3) the bank has reason to believe the claim is fraudulent. In these cases, your bank must allow you to withdraw the funds after determining that your claim is valid or on the 45th calendar day after the day that you submitted your claim, whichever occurs first.

27. What happens if my bank says it charged my account correctly?

If your bank determines that it correctly charged your account, it will send you a notice by the next business day that explains the reason for that decision and will include either the original check or a copy of the original check that is sufficient to determine the validity of your claim. Your bank will also either include the documentation the bank used in making its determination or will explain that you can request such documentation.