

Understanding SUBSTITUTE CHECKS

New federal rules for Check 21 permit financial institutions to replace original checks with “substitute checks”. Here’s what you should know about them:

Federal law now recognizes a new type of payment document called a “**substitute check**” that may be used for clearing and settlement. The Check Clearing for the 21st Century Act (Check 21) makes this possible and permits quicker processing by allowing financial institutions to convert your checks to electronic images for collection purposes. Once the image is transferred, the financial institution may create from this image of the original check, a “substitute check”.

Why is the government giving a substitute check the same status as an original check? Over 40 billion checks are written annually in the United States, and they follow a long, winding journey starting at the time a check is written. When you write a check, your check is cashed or deposited at a financial institution, processed by credit unions or banks, and then sent to your credit union for payment. All of this transporting of checks is expensive, costing billions of dollars a year.

Note that Check 21 does not affect your ability to write a paper check to initiate a transaction. It merely changes what happens after the check is written. The financial industry is working hard to streamline the payment process and make use of new electronic technology. Here’s what to know about Check 21 and you:

The “float” has been greatly reduced...

More rapid processing of checks means less float..the time between when a check is written and when it clears. Consumers need to make sure that adequate funds are in their accounts when checks are written to avoid potential problems.

Consumer rights are protected...

Protections for consumers have been built into the law and the regulations. Losses in check fraud cases are typically borne by the credit union or the merchant that dealt with a fraudster that transferred a fraudulent check, not the consumer. Of course, if you ever feel that there are problems with your account, contact your credit union immediately.

Also, a substitute check is the legal equivalent of the original paper check and MUST be accepted as proof of payment or purchase.

Check 21 should help combat payment fraud...

The faster collection and return of checks facilitated by Check 21 reduces overall fraud, because fraud can be detected faster by credit unions and other financial institutions.

What is a Substitute Check?

To make check processing faster, federal law permits credit unions & banks to replace original checks with “substitute checks”. These checks are similar in size with a slightly reduced image of the front & back of the original check. The front 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 and it must be accepted as proof of payment or purchase. Some or all of the checks you receive back from us may be substitute checks. You need to make sure that adequate funds are in your accounts when checks are written to avoid potential problems. *(continued on back...)*

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 electronic debits to your account. However, you have rights under other law with respect to those transactions.

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 the incorrect amount was withdrawn from your account or money was withdrawn 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 from the withdrawal. (ex. 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 are also entitled to interest on the amount of your refund if your account is an interest-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 interest if your account earns interest) within 10 business days after we received your claim and the remainder of your refund (plus interest if your account earns interest) not later than 45 calendar days after we received your claim. We may reverse the refund (including interest on the refund) if we later are able to demonstrate that the substitute check was correctly posted to your account.

How to Make a Claim for a Refund:

To file a claim, 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 due to extraordinary circumstances.

Your claim must include:

- 1) A description of why you have suffered a loss,
- 2) An estimate of the amount of your loss,
- 3) An explanation of why the substitute check you received is insufficient to confirm you suffered a loss, and
- 4) A copy of the substitute check (and/or) the following information to help us identify the substitute check: check number, name of party to whom you wrote the check and the amount of the check.

If you experience problems with your account:

Whenever you have a question or problem with your accounts you should contact the credit union immediately at **850.769.3306**, including if you want to make a claim for an expedited refund.

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