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FEDERAL TRADE COMMISSION
FOR THE CONSUMER

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Check 21:
Substitute Checks, Electronic Processing, and What It Means to You

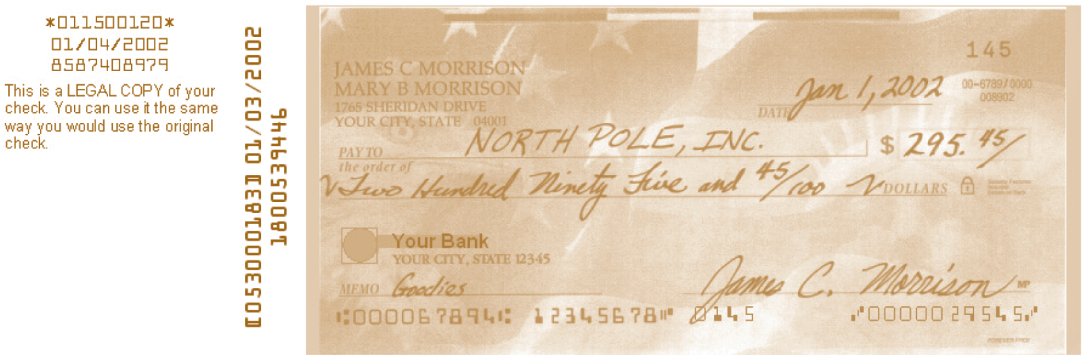
If you write checks, you should know about a new law called "Check 21." Under the law, your paper checks can be replaced with paper copies called "substitute checks." You also may experience electronic — and faster — processing of your checks.

WHAT CHECK 21 MEANS TO YOU

You may not get your original canceled checks in the mail with your regular bank statement anymore. Instead, you may get a substitute check — a paper copy of the front and back of your original check. It is slightly larger than a standard personal check and meets other requirements. A substitute check should state: "This is a legal copy of your check. You can use it the same way you would use the original check." You can use a substitute check as proof of payment.

Here's what a substitute check can look like.

FRONT



BACK



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A Word About Electronic Check Conversion

Substitute checks and electronic check conversion are different. Both involve electronic processing, but the processes are different.

Electronic check conversion works like this: When you give your check to a store cashier, the check is run through an electronic system that captures your bank account information and the amount of the check. Once the check information is processed, you're asked to sign a receipt and you get a copy for your records. When your check information has been processed and your check has been handed back to you, it should be voided or marked by the merchant so that it can't be used again. The merchant electronically sends information from the check (but not the check itself) to your bank or other financial institution, and the funds are transferred into the merchant's account.

Electronic check conversion also is used for checks you mail to pay for a purchase or to pay on an account. The merchant or company receiving your check electronically sends information from your check (but not the check itself) through the system, and the funds are transferred into their account. Your check is usually destroyed by the merchant or other company that processed the information; you may, however, ask them for a copy of the check, which they may have retained.

The bottom line? Electronic check conversion is an electronic fund transfer. The processed information will appear on your bank statement in an area with similar payments, like direct deposit of your paycheck, or debit card payments and withdrawals. Electronic check conversion has special protections for errors and unauthorized transfers under the Federal Electronic Fund Transfer Act.

Depending on your agreement with your bank, and whether due to Check 21 or other check processing changes, you may not get original checks or substitutes with your monthly statement. Instead, you may get a list of your electronically processed checks, or electronic images of your checks. Or you may get partial copies of several of your cancelled checks on one page. These items may not have all the required information to make them substitute checks. But you usually can use these items or other information from your bank statements as proof of payment.

Check 21 allows banks to process checks more quickly.

Less or No "Float"

Check 21 allows banks to process checks more quickly. That means your check will reach your bank faster, and be paid sooner. It also means you may lose the "float" on your check. So if you write a check today, you need to have funds in your account today to cover it. If you don't have sufficient funds, your check (and others you may write afterward) may bounce, and you may have to pay fees imposed by the merchant, your financial institution, or both. Bounced checks can blemish your credit record. If you're concerned about bounced checks, you may want to consider overdraft protection or a backup line of credit on your account. Your financial institution may charge for these services.

Consumers have certain rights related to these check payments. For example, by law you are protected against wrong and unauthorized check payments, whether you get back a paper check, a substitute check, an electronic image of the check, or a line-item description of your check. Check 21 includes a special refund procedure if you suffer a loss related to a substitute check you receive.

Avoiding Errors

Legibility is important. Illegible checks can lead to improper payments, because they are based on information from your check. Illegible checks also can affect the clarity of electronic images of your checks and can make it more difficult for you to show proof of payment.

Careful record-keeping also is critical. Use your check ledger to record every check you write. That helps avoid errors in your account and overdrafts. Promptly review your monthly bank statement when it arrives. Contact your bank as soon as possible if you suspect errors on your account, including any duplicate or incorrect items.

For More Information

- Contact your financial institution.
- Visit the Federal Reserve Board at www.federalreserve.gov.

  The Board's *Consumer Guide to Check 21 and Substitute Checks* (www.federalreserve.gov/pubs/check21/consumer_guide.htm) describes how consumers may be affected by the new law and provides information on how to resolve problems associated with the receipt of substitute checks. A second consumer guide from the Board, *What You Should Know about Your Checks*, (www.federalreserve.gov/pubs/check21/shouldknow.htm) discusses how check payments have changed, including the increased use of electronic check conversion, a process separate from Check 21.

- Visit the FTC at ftc.gov for a copy of *Electronic Check Conversion*.

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education