

Money for Life

October 2004

Dear Readers,

Consider how often you write checks, make deposits, use your ATM or debit card or make automated payments from your checking account, and you'll be reminded about how much you depend on these services from your bank. According to the Federal Reserve System, Americans write about *40 billion checks a year*. This month's newsletter focuses on information from "FDIC Consumer News" on ways to actively manage your checking account to avoid costly mistakes.



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Check 21

"Check 21," short for the Check Clearing for the 21st Century Act, a new law which takes effect on October 28, 2004, will allow financial institutions to process "substitute checks," high-quality paper reproductions of both sides of original checks. Each substitute check will be created from an electronic image of an original paper check. Over time, Check 21 will make check processing faster, which will impact you as a check writer and depositor.



It's more important than ever to avoid bouncing checks. A check deposited in a bank generally reaches the paying bank in about one or two days. As a result of

Check 21, more checks will be processed electronically... and faster. That means you need to have enough money in your account when you write a check or run the risk of having checks bounce. You may also have less time to place a "stop payment" on a check you've written.

Substitute checks



Check 21 is expected to reduce the instances in which original checks are returned with statements. As before, if you write a check to someone who is not an account holder at your bank, your original check will be deposited at another institution. The check then travels to your bank for payment. Under Check 21, a bank will have the option to create an electronic image of the check, produce a substitute check and send it to your bank. This option means your original cancelled check is no longer available to you.

What if you must prove a disputed payment and your bank has given you a substitute cancelled check, not your original cancelled check? As long as the substitute check meets Check 21's standards, legally it would serve as proof of payment. Images of checks often are accepted as proof of payment by the IRS, courts and other parties provided they meet certain requirements. And what if a substitute check falls short of those standards? FDIC attorney Michelle Borzillo says that "Check 21 provides warranties and remedies to protect parties to the transaction."

Protect Against Check Fraud

Bank security procedures cannot stop all frauds, which may involve printing or altering checks or obtaining account numbers used to arrange for "payments" from accounts. You can help by promptly reviewing your bank statement each month and immediately reporting any unauthorized transactions. Or, better yet, monitor your account more regularly online or through telephone banking programs at your bank. Timely notification of a problem can limit your potential liability, stop a fraud or assist in an investigation.



Also protect your account information. For example, only give your checking account number, including the routing numbers at the bottom of your check, to businesses you know are reputable. Never provide checking or credit card information, Social Security numbers or other personal information in response to an unsolicited call or e-mail, which could be fraudulent.

Be wary of offers to send money – perhaps to buy something you're selling or forward winnings you've supposedly won – and you're asked to accept a cashier's check for more than the amount due and wire the "excess" money back. The cashier's check often will be counterfeit and you will be responsible for the money you wired to the con artist.

Take safety precautions with your checks, too. Don't carry more checks than you expect to use, keep extra checks in a secure place, and contact your bank immediately if any of your checks are lost or stolen.

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And consider direct deposit of your paycheck and other checks you may receive, such as Social Security payments, as a way to prevent them from being lost, misplaced or stolen out of mailboxes.

Review Checking Accounts Offered

Your bank probably has several types of checking accounts with different features, fees, yields, minimum amounts to open an account, and other characteristics tailored to certain kinds of customers. And different banks offer different checking products. Checking accounts from another bank or even on the Internet may be more to your liking.

How can you take advantage of this freedom of choice? "First sit down and evaluate your needs, perhaps with the help of a customer service representative at your bank," says Janet Kincaid, FDIC Senior Consumer Affairs Officer. Ask yourself: How many checks do I write each month? Do I plan to pay most of my bills without checks, perhaps by phone or over the Internet? Do I use an ATM or a debit card regularly? How much of a balance do I plan to routinely keep in the account?

Perform this kind of review every year or two. Perhaps you'll discover that your existing checking account is still right for you or that switching to a different account (at your bank or elsewhere) could save you money or bring you a better value.

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