

## ABOUT CHECK 21 AND SUBSTITUTE CHECKS

**What is Check 21?** The official name of Check 21 is “Check Clearing for the 21<sup>st</sup> Century Act”. Check 21 provides for the creation of a new negotiable instrument known as a “Substitute Check.”

**What are the benefits of the Act?** There are several benefits:

- Provides for faster collection, return of check
- Eliminates the risk of transporting documents (transportation risks, weather, etc.)
- Removes the legal barriers to truncation, encouraging financial institutions to begin using image technology/electronification
- Improves the efficiency of the U.S. payment system

**What is a Substitute Check?** It is a paper reproduction created from an image of the original check and also must:

- Contain an image of the front and back of the original check;
- Bear a MICR line containing all the information appearing on the MICR line of the original check;
- Conform in paper stock, and otherwise with generally applicable industry standards for Substitute Checks; and
- Be suitable for automated processing in the same manner as the original check.

Substitute Checks have been referred to as IRDs or Image Replacement Documents.

**Is a Substitute Check a real check?** If a Substitute Check meets all the legal requirements of the original check, then the Substitute Check is indeed a real check and possesses the same legal equivalence of the original check. No financial institution can refuse to pay a Substitute Check in place of the original share draft from your processor, Alloya Corporate, SCIP or others; you must accept the Substitute Check.

**When could a Substitute Check be received?** If your credit union does not return the original share drafts in their account statements, then you could possibly see a copy of a Substitute Check when a copy is required or a member could also view imaged of share drafts via a home banking system. A member may also come into contact with a Substitute Check when a deposited check is returned to them. The returned deposited check may have been converted to a Substitute Check. This document is a legal document and must be accepted.

**What happened to the original check?** At some point in the process of the check, the original item will probably be destroyed. The destruction will occur once an electronic image of the original has been obtained. Each financial institution will determine their retention policy for the original check.

**What does truncation mean?** Truncation occurs when an original paper check is removed from the collection process. The check’s information is stored electronically and the original check is destroyed. Members who do not receive original checks back with their account statement have what is known as truncated accounts.

**What type of checks can become Substitute Checks?** Every type of U.S. Check including:

- |                      |                  |                     |                                 |
|----------------------|------------------|---------------------|---------------------------------|
| *Consumer Checks     | *Business Checks | *Money Orders       | *Controlled Disbursement Checks |
| *Government Warrants | *Treasury Checks | * Traveler’s Checks | * Payable Through Drafts        |

**Do we have to accept Substitute Checks?**

YES! Everyone, including banks, credit unions, paying customers, depositing customers, consumers, corporations, the Fed, must accept **legitimate** substitute check for payment.

**What do I do if I have a problem/error with a Substitute Check?** If a member currently **does not** receive their original checks back in their account statement, then the problem/error can be handled by the credit union just like any other error including encoding errors, etc. If the member **does** receive their original checks back in their account statement and suffered a loss due to the receipt of a substitute check and the loss is because the original check was not provided, the member should contact the credit union for further assistance. The member may be able to file an Expedited Recredit Claim for the loss incurred.

## **SUBSTITUTE CHECKS AND YOUR RIGHTS**

**What is a Substitute Check?** To make check processing faster, federal law permits banks to replace original checks with “substitute checks.” These checks are similar in size to original checks with a slightly reduced image of the front and back of the original check. The front of a substitute check 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 just like an original check.

Some or all of the checks that you receive back from us may be substitute checks, 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

**What are my rights?** 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 that we withdrew the wrong amount from your account or that we withdrew money from your account 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 any fees that were charged as a result of the withdrawal (for example, bounced check fees).

The amount of your refund under this procedure is limited to the amount of your loss or the substitute check amount, whichever is less. You also are entitled to interest on your refund amount 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) no later than 45 calendar days after we received your claim. We may reverse the refund (including any interest on the refund) if we later are able to demonstrate that the substitute check was correctly posted to your account.

**How do I make a claim for a refund?** If you believe that you have suffered a loss relating to a substitute check that you received and that was posted to your account, please contact us by phone at 219-787-8049, toll free at 800-537-8386, or mail to Allegius CU, 244 Allegius Dr., Burns Harbor, IN 46304.

You must contact us within 40 calendar days of the date 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 because of extraordinary circumstances. Your claim must include—

- A description of why you have suffered a loss (for example, you think the amount withdrawn was incorrect)
- An estimate of the amount of your loss
- An explanation of why the substitute check you received is insufficient to confirm that you suffered a loss
- A copy of the substitute check and/or the following information to help us identify the substitute check: identifying information; for example the check number, the name of the person whom you wrote the check, the check amount.