

## TYPES OF CHECKS

- **Check:** A draft drawn by a depositor (the *drawer*) ordering a bank or other financial institution (the *drawee*) to pay a sum certain of money on demand to, or to the order of, a third person (the *payee*). The drawer is liable for ensuring that sufficient funds are in his account to cover the check.
- **Cashier's Check:** A check drawn by the bank on itself, rather than on a drawer's account, which constitutes the bank's (1) promise to pay the payee on presentment and (2) assumption of liability if the bank fails to pay.
- **Traveler's Check:** A check, often used as a substitute for cash, that is (1) drawn on or payable through a bank and (2) payable on demand by the holder. A traveler's check does not require the holder to present it to the drawee bank for payment.
- **Certified Check:** A check that has been accepted by the drawee bank prior to presentment (indeed, often at the time it is issued). By certifying the check, the bank assumes all liability for failure to pay the check on presentment.

### **BANK-CUSTOMER RELATIONS**

- **Creditor-Debtor:** When a customer deposits cash into a bank account, she becomes a creditor of the bank, and the bank becomes her debtor, for the amount of the deposit.

- **Agency:** When a customer writes a check on her bank account, the bank acts as her agent for payment. Likewise, when a customer deposits a check into her bank account, the bank acts as her agent for collection.

### **BANK'S DUTY TO HONOR CHECKS**

- **Overdraft:** A check written on a checking account in which there are insufficient funds to cover the check.
- A bank faced with an overdraft has two options: (1) **dishonor** the item (*i.e.*, "bounce" the check), or (2) pay the item and charge the customer's account, collecting the difference from the next deposit or from the customer's savings or other account.
- **Postdated Check:** A check dated for payment at some future date.
- A bank may charge a postdated check against a customer's account upon presentment, unless the customer notifies the bank, in a timely manner, that the check is not to be paid until the stated date.

- **Stale Checks:** A check, other than a certified check, that is presented for payment **more than six months** after its date.

- As a general rule, a bank is not obligated to pay a stale check upon presentment, although it may do so.

### **DRAWER'S DEATH OR INCOMPETENCE**

- A customer's death or incompetence does not affect the bank's authority to honor a check drawn on the customer's account until the bank

## Blank Endorsement

1. A blank endorsement is when the recipient of the check signs his name on the back of the check. Once the check is signed, it can be used in a similar manner to cash.

## Restrictive Endorsement

2. A restrictive endorsement specifies the way in which a check can be negotiated. The most common form of restrictive endorsement is "For Deposit Only," which renders a check unable to be cashed.

## Conditional Endorsement

3. The endorser uses a conditional endorsement to specify a condition that must be met before the check can be cashed, such as "Payable to Bob Smith after the lawn is mowed." Institutions typically won't accept conditionally endorsed checks because they have no way of verifying if the condition has been met.

## Special Endorsement

4. The person receiving the check uses a special endorsement to turn over the funds to another person by writing something like "Pay to the Order of Jane Doe, Signed John Doe."

## Qualified Endorsement

5. The person negotiating the check uses a qualified endorsement to attempt to remove any responsibility for the check being returned for insufficient funds by writing "without recourse" after her signature. Banks do not accept this type of endorsement because depositors are always financially responsible for insufficient deposits.