



Electronic Payments Core of Knowledge

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# PARTICIPANT GUIDE

## **Ch-Ch-Check it Out: Check Basics**

# Welcome to:

## Ch-Ch-Check it Out: Check Basics

### Program Description

The check payment system is one of the oldest forms of payment. We will start with defining the basic building blocks of the Check Network by identifying the five primary participants, rules and regulations that govern check processing and when a check must be returned. Test your knowledge by working through scenarios to determine what rule/law/regulation applies, identify participants and decide if the check was returned timely.

AAP/APRP/NCP Credits: 1.4

### Objectives

- What the Heck is a Check?
- Check This Flow
- Check Those Rules and Regulations
- Check the Return Timeframes
- Check Your Knowledge

### Ground Rules

Please keep the following ground rules in mind to help create a more effective learning experience for everyone. We will discuss additional participation instructions during the online session.

1. Log on to class at least 10 minutes before the scheduled start.
2. Turn off email and phones and clear other distractions away from your training area.
3. Participate and prepare to be called on by name. The online learning environment lends itself to interaction. Participation will keep you engaged and move the class along.
4. Raise your hand if you have an immediate question or comment. Asking questions helps other participants clarify or reinforce concepts.
5. Be patient in waiting for a response to your chat message.

### Technical Assistance

Your course invitation email contains step-by-step instructions for logging into this event.

If you are having technical difficulty, please call 800.500.0100

**What the heck is a check?**

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**Negotiable Instrument (UCC 3-104)**

- Written Instruction
- Payable to Named Payee or to Bearer
- Signed by the Drawer
- Payable on Demand
- Unconditional Promise or Order to Pay
- A Fixed Amount of Money

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ROCK N ROLL

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## What is a Check?

Regulation CC 229.2(k)

Negotiable demand draft drawn on or payable through a bank, Federal Reserve Bank, Federal Home Loan Bank, and US Treasury; or state or local government

U.S. Postal Service money order or traveler's check drawn on or payable through a bank

An original check and substitute check



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## Electronic Check & Electronic Returned Check

Regulation CC 229.2 (ggg)

Image derived from paper check

Sent to Receiving Bank

Pursuant to agreement between Sender and Receiving Bank

Must conform to ANS X9.100-187 check standard



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### Check Check 1 & 2

One of your account holders completes A/C repair work for Humor Corporation. As a joke, Humor Corporation prints a blank business check on a T-shirt and completes the information in sharpie to make a payment to your account holder for the A/C repair.

Name two of the five criteria that make an item a negotiable instrument.



Can your financial institution accept this as payment?



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### Check Check 1 & 2

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### Check Check 3

Kevin presents this check at your financial institution for deposit. Should your FI process this check for Kevin? Why?

There is no signature, which means it's not a negotiable instrument.

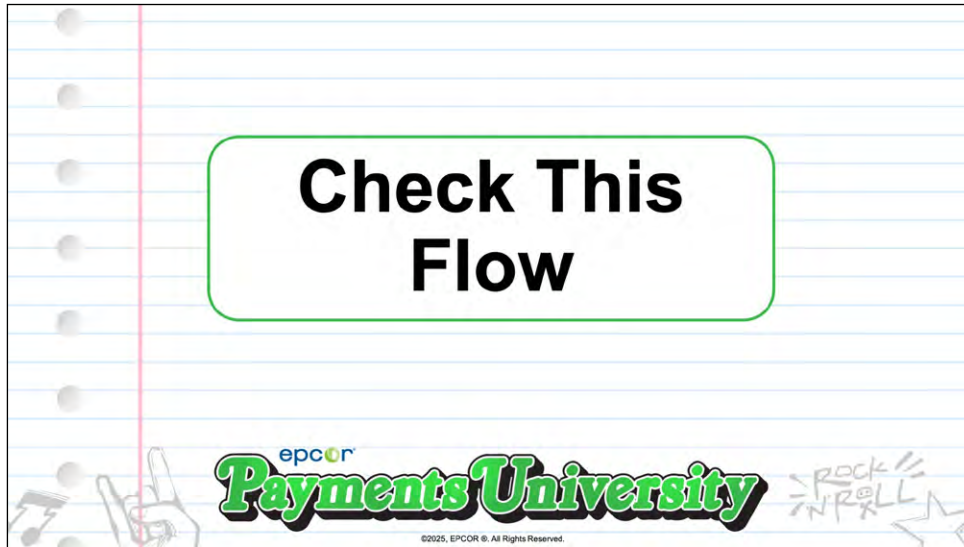
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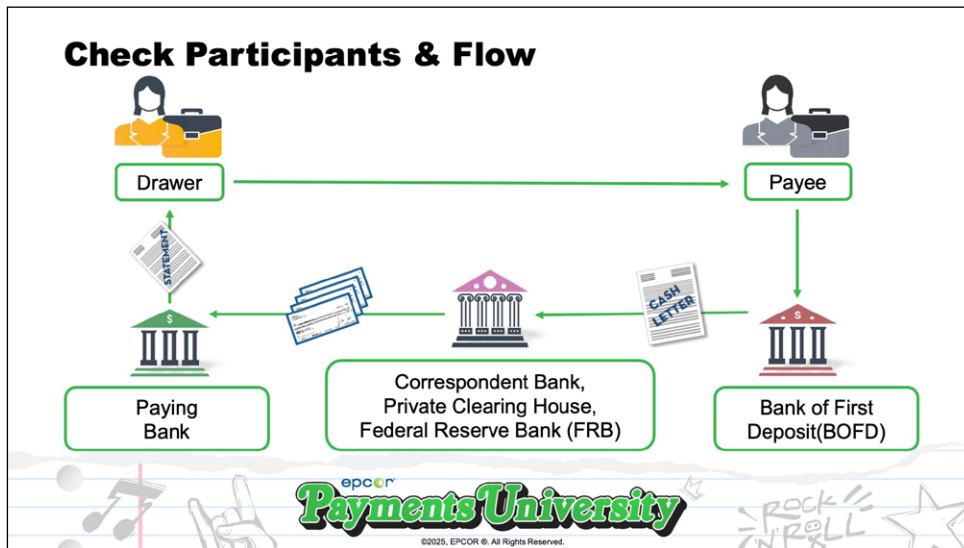


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### 1. Pay the Rent

Deandra wrote a \$1,200 dollar check drawn off Lander's Bank for rent and delivered it to her landlord Frank. Frank deposits the check into his account at Homeowner's United Credit Union (HUCU). HUCU processes the check through the Federal Reserve Bank.

Who is the Drawer, Paying Bank, and Bank of First Deposit?

Write your answers in the handout...

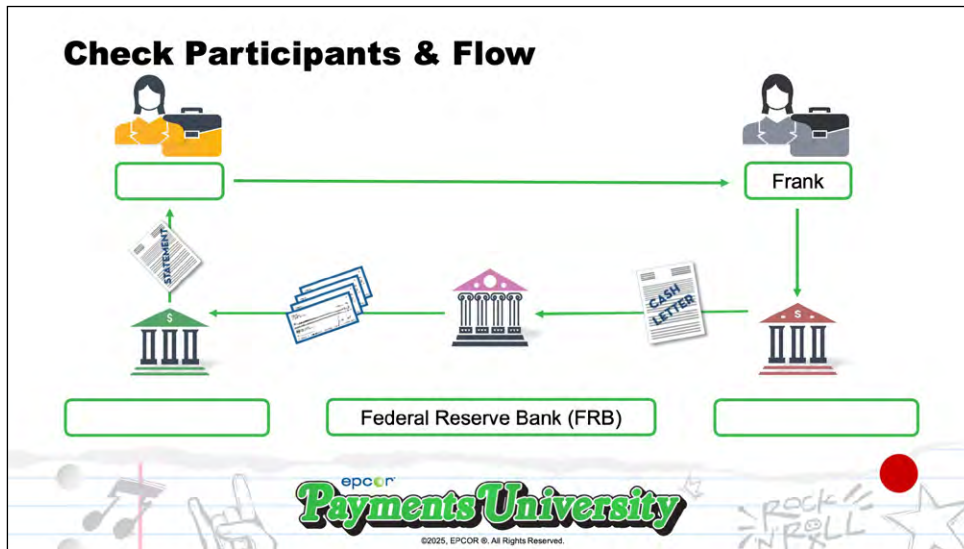


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## 2. Birthday Present

Charles writes a check drawn on Reynold's Bank to Dennis for his birthday. Dennis deposits the check utilizing G & B Bank's remote deposit capture app. The check image clears and settles through Big Bank Clearing House.

**Who is the Payee, Paying Bank, and Clearing/Settlement Provider?**

**Write your answers in the handout...**




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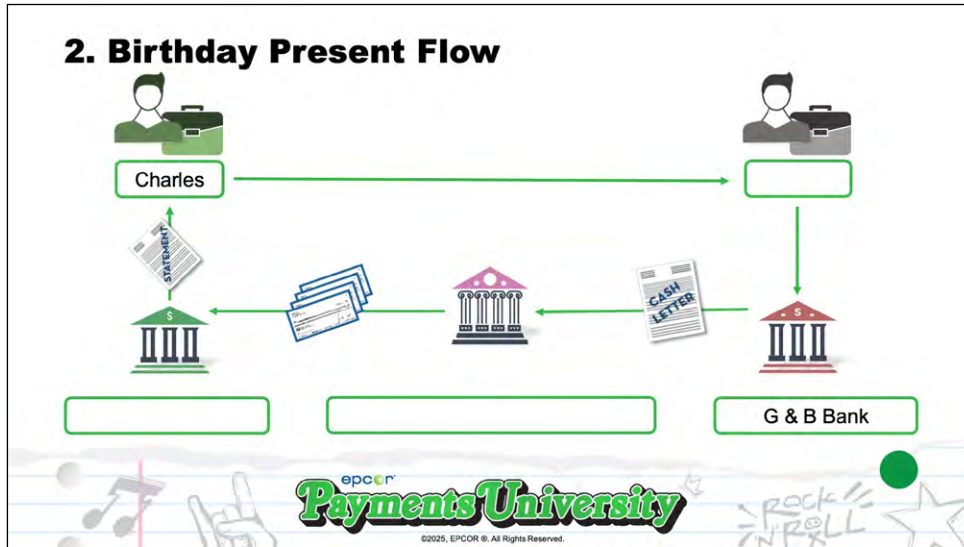


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## 2. Birthday Present Flow



## 3. Marketing Mayhem

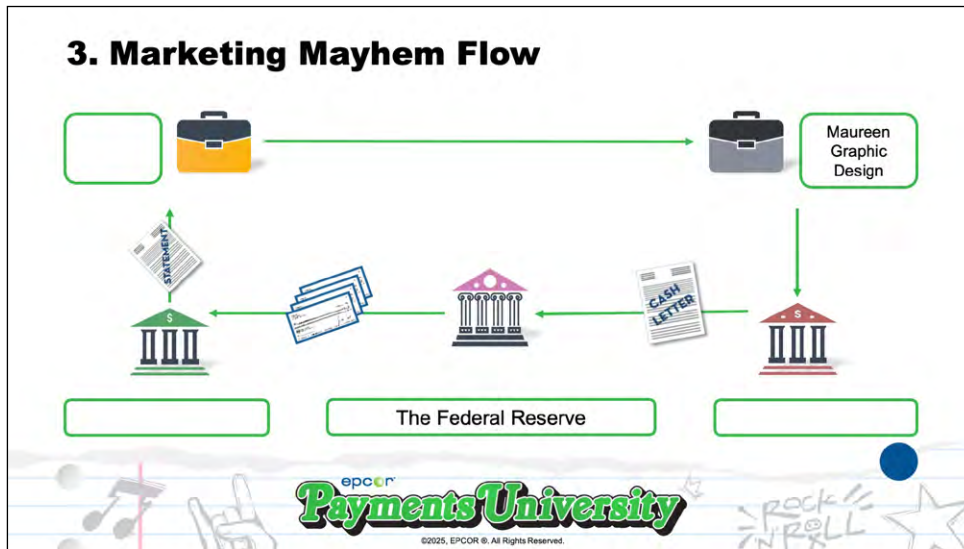
Patrick Marketing pays Maureen Graphic Design for images she created for an advertising campaign. He writes a check to Maureen off his business account at Bell Bank. Maureen deposits the check via Remote Deposit Capture with Bell Bank.

Who is the Drawer, Paying Bank, and Bank of First Deposit?

Write your answers in the handout...

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# Check Those Rules and Regulations

The graphic features the text 'Check Those Rules and Regulations' in a large, bold, black font, centered within a purple rounded rectangle. The background is a sheet of lined paper with a pink margin line on the left. At the bottom, there is the EPCOR Payments University logo and the text '©2025, EPCOR ®. All Rights Reserved.'

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## Regulation J

### Legal framework for check collection through the Federal Reserve

**Warranties and liabilities**

**Settlement of payments**

**Time schedule and availability**



**Regulation J: Collection of Checks and Other Items by Federal Reserve Banks and Funds Transfers through Fedwire**

This description should not be interpreted as a comprehensive statement of the regulation. Rather, it is intended to give a broad overview of the regulator's requirements. The full regulation is available on the Government Printing Office web site.

Regulation J provides the legal framework for depository institutions to collect checks and other items and to settle balances through the Federal Reserve System. The regulation specifies terms and conditions under which Federal Reserve Banks will receive items for collection from and present items to depository institutions. In conjunction with Regulation CC, Regulation J establishes rules under which depository institutions may return unpaid checks through Reserve Banks. The regulator also specifies terms and conditions under which Reserve Banks will receive and deliver transfers of funds over Fedwire, the Federal Reserve's wire transfer system, from and to depository institutions.

Regulation J is supplemented by operating circulars issued by the Reserve Banks, which detail more specific terms and conditions under which Reserve Banks will handle checks and other cash items, noncash items, and wire transfers of funds.


A general description of the regulation, by section, follows.

**Subpart A: Collection of Checks and Other Items by Federal Reserve Banks**

Section 210.1 **Authority, purpose, and scope**

Subpart A governs the collection of checks and other items and the handling of returned checks by Reserve Banks. It provides the rules for collecting and returning items and setting balances.

Section 210.2 **Definitions**



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## Regulation CC

### Funds Availability Act of 1987

**Availability schedules**

**Endorsement standards**


**Disclosure requirements**



### Subpart D

**Check 21**

**Substitute check equivalent to original item**



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## UCC 3

### Uniform Commercial Code (UCC) Article 3

Rules for paper-based transactions

Defines negotiable instrument

Identifies endorsement type

Warranties

Transfer

Presentation



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## Endorsements

### Blank

ENDORSE CHECK HERE

X *John Q. Doe*

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE

### Restrictive

ENDORSE CHECK HERE

X *For Deposit Only*  
*John Q. Doe*

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE

### Special

ENDORSE CHECK HERE

X *Pay to the*  
*Order of*  
*Harry Johnson*  
*John Q. Doe*

DO NOT WRITE, STAMP OR SIGN BELOW THIS LINE



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## UCC 4

### Uniform Commercial Code (UCC) Article 4

Check collection, payment, liabilities, timeframes, and responsibilities

Late returns

Stop payment

Special circumstances

Outlines relationship with Paying Bank and account holder



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### Knowledge Check

Adam Arroyo deposits a check at your institution that is drawn on Creekside Credit Union. Both your institution and Creekside Credit Union process cash letters through the Federal Reserve Bank. Where would you look to see how this check should clear and settle between these institutions?



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### Knowledge Check

Bernard Carlton deposits a check at your financial institution for \$9,500. Your institution decides to put a hold on the check. Where can your institution find information on how long to hold the check and when funds should be made available to Bernard?



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### Knowledge Check

Mary deposits a check at your financial institution for \$1,522. The check is not paid and returned by Princeton Local Credit Union as NSF. Your institution must print a substitute check to send to the depositor with the chargeback notice. Where can your institution find the substitute check disclosures requirements?



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### Knowledge Check

XYZ Bank must return a check timely as forgery to Zesty Bank. Where can XYZ Bank find how the return process works through the Federal Reserve?



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### Knowledge Check

Sally comes into your institution and needs to place a stop payment on check #582 for \$732.10. Where can you find how long a stop payment can remain on an account?



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### Knowledge Check

Charles Chill receives a check from his grandmother for graduation. She made the check out to Charley Chill as that has always been her nickname for him. He comes into your institution and wants to cash the check versus depositing into his account. Where would you look to decide how Charles should endorse the check to get cash?

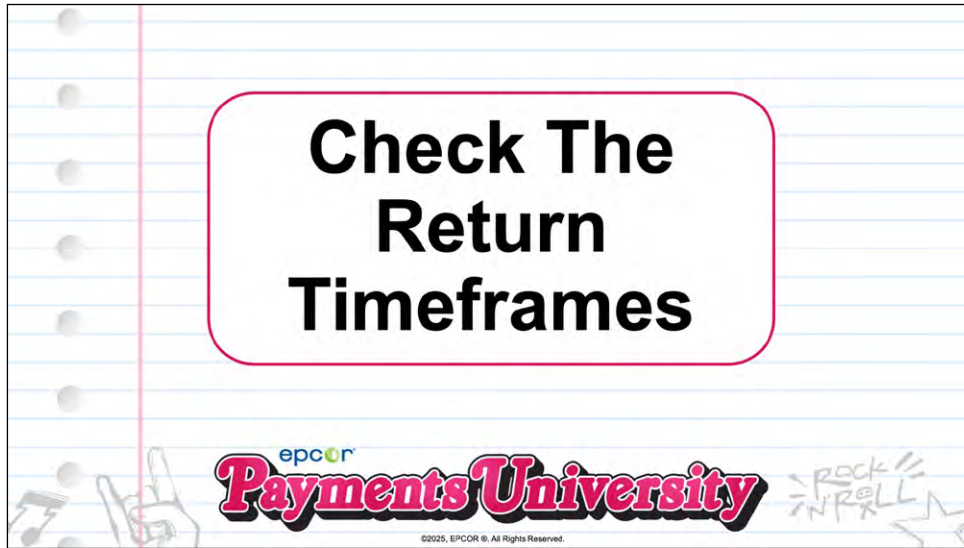


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**Check The Return Timeframes**

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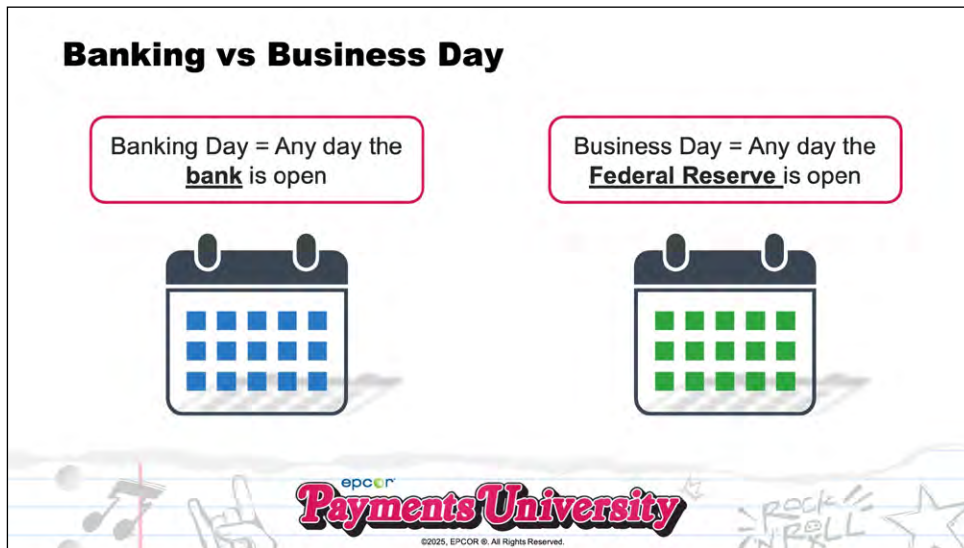
Rock on!  
INROLL

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**Banking vs Business Day**

Banking Day = Any day the bank is open

Business Day = Any day the Federal Reserve is open

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Rock on!  
INROLL

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### UCC Return Timeframe

Midnight deadline following

- Receipt of item
- Notice
- Settlement



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### Regulation CC, Subpart C: Return Timeframe

Must return checks expeditiously

Monday	Tuesday	Wednesday	Thursday	Friday
Item Deposited at Bank of First Deposit (BOFD)	Item Presented to the Paying Bank	Item Appears on NSF Report and Paying Bank Returns by the Midnight Deadline	Item Back to the BOFD on 2 <sup>nd</sup> Day Following Presentation	

Item was returned by midnight deadline in order to arrive back at the Bank of First Deposit on the 2<sup>nd</sup> day after presentment

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## Check Return Codes – X9.100-188 Standard

	<b>Customer Return</b>		<b>Administrative Return</b>
Transaction attempts to post to account other than holder account  Examples: Return is due to NSF, Stop Payment, or Account Closed		Use for items that fail IQA  Generally exchanged by agreement  May also be handled through adjustment process  Example: Ineligible Item	Handled internally rather than charged back to customer




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## Common Customer Return Reason Codes

CODE	REASON	ADDITIONAL DESCRIPTION
A	NSF-Not Sufficient Funds	
C	Stop Payment	
D	Account Closed	
I	Endorsement Missing	
J	Endorsement Irregular	Use when something wrong with any endorsement on the item. Including invalid Payee endorsement or missing information (BOFD electronic endorsement).
L	Signature(s) Irregular, Suspected Forgery	Use if signature(s) don't conform to bank's signature card/corporate resolution or item is a suspected forgery in which your FI didn't obtain an affidavit.
N	Altered/Fictitious Item/Suspected Counterfeit/Counterfeit	Use for any of these reasons as these were grouped together since it's not obvious or known by the Paying Bank which reason applies.
Q	RCC not authorized	
T	Item cannot be represented	Exceeds number of allowed times the item can be presented
Y	Duplicate	Use when a party in the collection process is being asked to pay an item more than once.
Z	Forgery – An affidavit was obtained	Use when an item is believed to have a forged or invalid signature(s)




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### Was the Check Returned Timely?

Check Deposited	Check Presented to Paying Bank	Date Depository Bank Received Return	Timely (Y or N)
Saturday, July 2, 2022	Tuesday, July 5, 2022	Thursday, July 7, 2022	
Monday, July 11, 2022	Monday, July 11, 2022	Thursday, July 14, 2022	
Tuesday, August 9, 2022	Wednesday, August 10, 2022	Friday, August 12, 2022	
Friday, September 2, 2022	Tuesday, September 6, 2022	Friday, September 9, 2022	
Saturday, May 27, 2023	Wednesday, May 31, 2023	Monday, June 5, 2023	
Thursday, March 9, 2023	Friday, March 10, 2023	Tuesday, March 14, 2023	




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The graphic features a white rounded rectangle with a black border containing the text "Check Your Knowledge" in a bold, black, sans-serif font. Below this, the "epcor Payments University" logo is displayed in a stylized, bubbly font. The background is a light blue lined paper with a vertical red margin line on the left. At the bottom, there are decorative elements including musical notes, a hand making a peace sign, and the words "ROCK IN ROLL" written in a graffiti style.

**Check Your Knowledge**

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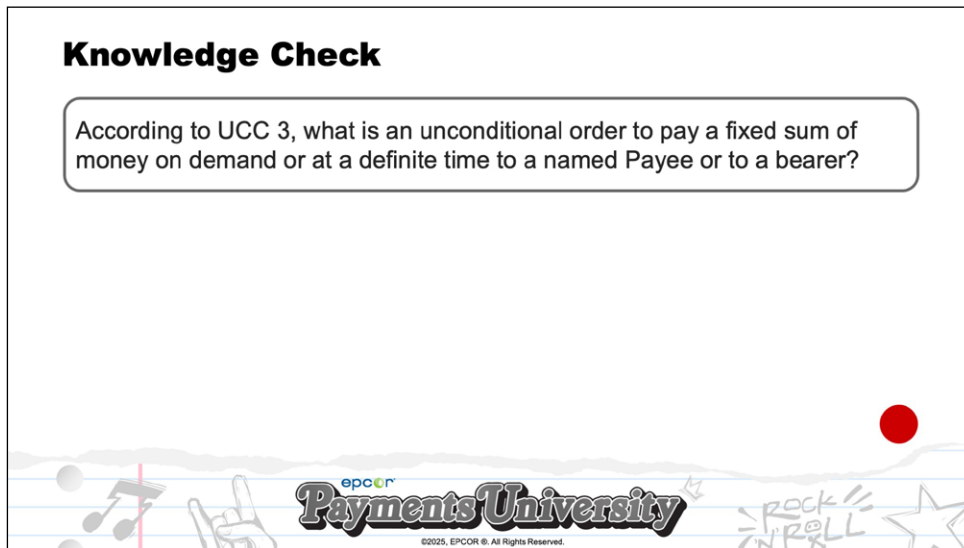
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The graphic has a white background with a black border. At the top left, the text "Knowledge Check" is written in a bold, black, sans-serif font. Below it, a white rounded rectangle with a black border contains the question: "According to UCC 3, what is an unconditional order to pay a fixed sum of money on demand or at a definite time to a named Payee or to a bearer?". At the bottom, the "epcor Payments University" logo is shown in a stylized font. The background features a light blue lined paper with a vertical red margin line on the left. At the bottom, there are decorative elements including musical notes, a hand making a peace sign, a red circle, and the words "ROCK IN ROLL" written in a graffiti style.

**Knowledge Check**

According to UCC 3, what is an unconditional order to pay a fixed sum of money on demand or at a definite time to a named Payee or to a bearer?

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### Knowledge Check

What type of check is the only legal equivalent to the paper check?



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### Knowledge Check

Name **one** other entity besides the Federal Reserve Bank that a financial institution may utilize in check clearing and settlement.



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### Knowledge Check

True or False:

The Bank of First Deposit can also be the Paying Bank?



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### Knowledge Check

Which Subpart of Regulation J details the return of cash items and handling of returned checks and unpaid items?



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## Knowledge Check

Which Regulation and Subpart enacted the Check Clearing for the 21<sup>st</sup> Century Act (a.k.a. Check 21)?



# Homework

Extra Credit

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## 1. The Lifecycle

**True or False:**  
Checks begin their lifecycle as a physical item.

Test Customer  
45 Test Street  
Your City, State 12345

April 12, 2023

1003  
000000

Pay to the Order of Test Payee \$ 563.78

Five hundred sixty three dollars and 78 Cents Dollars

FINANCIAL INSTITUTION  
YOUR TOWN, USA

For This is a sample check draft Signature here

⑈ 50816 ⑈ ⑆ 105604121 ⑆ 1654321 1003 ⑆ 0080056378 ⑆ ⑈

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## 2. Wedding Bells

Beth and Bert Biggins received a check drawn on Huge Bank from Nana Ralph as a wedding gift. They endorse the check and take half in cash and deposit the rest into their joint account at City Credit Union. Nana sees that the check cleared her account on her statement a month later. Who is the **Drawer**, **Paying Bank**, and **Bank of First Deposit**?

Write your answers in the chart...




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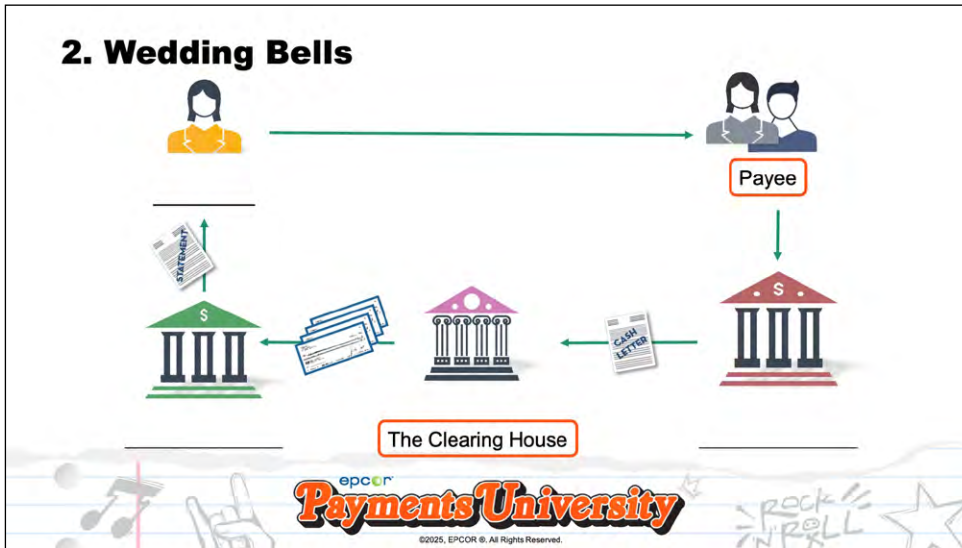


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## 2. Wedding Bells




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### 3. New Account Holder

A financial institution's deposit/account agreement outlines the relationship between the institution and the account holder. Where does it state when your institution may charge an account holder?

Write your answer here...

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### 4. Is the Endorsement Correct?

A check made payable to Trent's Auto Repair is endorsed as Trenton Davis for Trent's Auto Repair and deposited into the business account. Where could your financial institution find information on whether the check was endorsed properly?

Write your answer here...

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### 5. When Must the BOFD Receive the Return?

You are the Paying Bank in this situation. A check is deposited on Saturday, 7/2/22 at Mid-National Bank of Iowa. The item posts at your institution on Tuesday, 7/5/2022 due to 4th of July Holiday on Monday. However, the account it is drawn on is closed.

What day must the return be done?

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What day must the return reach the BOFD?

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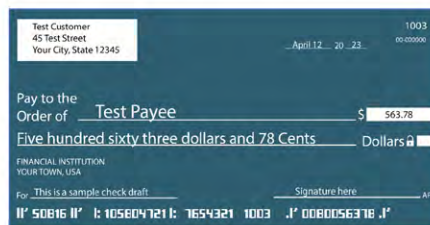
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### 1. The Lifecycle Answer

True or False:

Checks begin their lifecycle as a physical item.



True



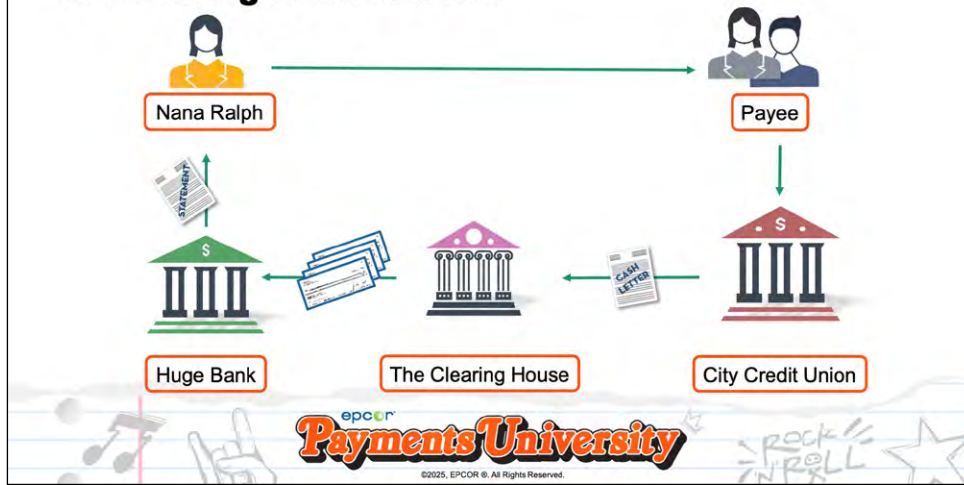
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## 2. Wedding Bells Answer



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## 3. New Account Holder

Answer:



## 4. Is The Endorsement Correct?

Answer:



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### 5. When Must the BOFD Receive the Return?

Tuesday	Wednesday	Thursday	Friday	Saturday
The item posts at your institution on 07/05/2022	Shows on report 07/06/2022 <b>Return Midnight</b>	Mid-National Bank of Iowa receives return		Item Deposited 7/2/22 at Mid-National Bank of Iowa.

The check appears on your non-post report on Wednesday the 6<sup>th</sup> as the account is closed. The return must make the midnight deadline for the check to make it back to the Depository Bank by Thursday, July 7<sup>th</sup>. Which is the 2<sup>nd</sup> day from presentment.




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# Thank You for Attending!

EPCOR is your best resource for:

## Expertise—

Payments professionals are just a phone call away to help you resolve issues and understand the complex rules and regulations regarding all types of electronic payments.

## Diverse Programs—

More than just the *ACH Rules*, you get a variety of programs on fraud, risk, audits and more to protect your organization against loss and penalty.

## Keeping Pace with the Evolving Payment Landscape—

You have a voice in industry issues through EPCOR and you stay connected with industry initiatives that influence policy.

**Visit [epcor.org](https://epcor.org) for a complete list of classroom and online learning events.**

# CERTIFICATE OF COMPLETION

This certificate is awarded to:

on

In completion of:  
**Ch-Ch-Check it Out:  
Check Basics**

This course is worth 1.4 AAP/APRP/NCP  
continuing education credits.



A handwritten signature in black ink, appearing to read "James Carrick".

James Carrick  
Vice President, Education, EPCOR

