

**NET
GAIN**



Scoring points for your financial future

AS SEEN IN USA TODAY OCTOBER 12, 2004

New law means checks may clear – or bounce – faster

By Sandra Block
USA TODAY

If you're in the habit of playing beat the clock with your checking account, it's time to change your ways. Soon, the financial two-step known as the "float" will be much harder to pull off.

The "float" is the one- to five-day window between the time you write a check and the time the money is withdrawn from your account. Floaters use this time lag to give themselves short-term, interest-free loans.

But a new law that takes effect Oct. 28 will eventually sink the float. The law, known as Check 21, will allow banks to transmit images of checks electronically. Now, about 40 billion paper checks a year are transported by trains, planes and trucks for processing, which is why it may take up to five days to clear an out-of-town check.

With electronic processing, "Checks are definitely going to clear faster than they have in the past," says Ed Herman, a director at EDS, a third-party check processor.

Banking industry officials say the change will make the system less expensive, more efficient and less susceptible to fraud. The impetus for the change was the Sept. 11 terrorist attacks, which disrupted transportation for several days

throughout the country. After the attacks, the Federal Reserve Board pushed for changes that would make the country's financial system less vulnerable.

The change won't happen overnight, says John Hall, spokesman for the American Bankers Association. Many banks don't plan to start processing checks electronically until mid to late 2005, he says. "It's not as though we'll flip a switch on Oct. 28 and see a big change in processing."

Still, consumer groups are concerned that the change will result in more bounced checks, and not just among people who routinely play the float. While Check 21 will speed up the amount of time in which checks are processed, it won't reduce the "holds" banks place on deposits, says Gail Hillebrand of Consumers Union. Banks are allowed to hold local checks for up to two days, and out-of-town checks for up to five business days.

That could create problems for people who work for companies headquartered in another city, Hillebrand says. If you write a check that clears while there's still a hold on your paycheck, it will bounce, triggering hefty overdraft fees.

Hall says most banks hold deposits for much shorter periods than the law allows for competitive reasons. "If you're known as the slow check-processing bank, you won't be in business very long," he says.

Presented by:



Reprinted with permission. All rights reserved.

Still, just about everybody agrees that bank customers will need to pay more attention to what's going on in their checking accounts. Some tips:

▶ **Balance your checkbook.** About 87% of consumers don't reconcile their checking accounts, according to Moebs Services, an economic research firm. If you don't know how much money is in your account, you're much more likely to bounce a check. And don't rely on receipts from your ATM to keep track of your balance. The receipt may not show outstanding checks or debit card transactions.

▶ **Arrange for direct deposit of your paycheck.**

That way, your money will go directly into your bank account, bypassing the hold.

▶ **Be wary of offers for bounce protection.**

If you're worried about bouncing checks, your bank or credit union may encourage you to sign up for a bounce-protection plan. Some of the plans even cover excess withdrawals from ATMs or debit cards.

But this kind of coverage can be expensive. Banks generally charge \$20 to \$35 per transaction. Some add a fee of \$2 to \$5 a day until you've replenished your account.

No more canceled checks

Check 21 will require an adjustment for people who like to receive canceled checks for their records.

The law allows financial institutions to destroy original checks after they've created digital images. They'll be allowed to issue substitute checks, which are paper copies of the digital image, front and back with all endorsements. A substitute check is the legal equivalent of the original check and can be used as proof of payment.

Customers who don't receive canceled checks with their bank statements won't notice much difference after Check 21 becomes effective. But if you do, you may soon start receiving a mix of substitute and original checks, Hall says.

If you need proof that you paid your mortgage or want to prove to the IRS that you donated to a charity, you can ask your bank to produce a copy for you.

And many banks offer images of canceled checks online.

The IRS, courts and other institutions have accepted check images instead of original checks for decades, Hall says. Nearly 60% of bank customers already have their canceled checks withheld and use images for proof of payment, according to the ABA.

Fewer checks

The use of checks for in-store purchases has declined and debit card use has increased.

Type of payment	1999	2001	2003
Cash	39%	33%	32%
Debit card	21%	26%	31%
Credit card	22%	21%	21%
Check	18%	18%	15%
Prepaid cards	none	2%	1%

Source: American Bankers Association

New law means checks will clear – or bounce – faster

Objectives:

Students will:

- examine the article, “New law means checks will clear – or bounce – faster.”
- develop a unique way to help maintain a positive checking account balance.
- practice balancing a checkbook without using a computer or calculator.

Concepts:

- Bill payment
- Budgeting
- Responsibility
- Math
- Salaries and pay
- Resources

Preparation:

- Give each student a copy of the article “New law means checks will clear – or bounce – faster.”
- Ask students to read the article and discuss the attached questions. After, have them complete the activity and the attached graphic organizer.

Activity at a glance:

- Grade level: 9-12
- Subjects: personal finance, economics, language arts
- Estimated time for this activity: 45-60 minutes; 20 minutes homework (graphic organizer)

Materials:

- Reading: “New law means checks will clear – or bounce – faster” (one copy per student)
- Graphic organizer

New law means checks will clear – or bounce – faster

Discussion:

What is the “financial two-step known as ‘the float’”? Is it a wise practice? How will a new law known as Check 21 affect floaters? Why did the Federal Reserve decide that the banking industry needed to embrace electronic processing? How can consumers avoid bouncing checks? Why are ATM receipts an unreliable way to track your balance?

Activity:

Many consumers have developed smart ways to ensure that they don't bounce checks. Some keep a cushion in their checking accounts – say \$200 – which is *never* spent. Others, when recording transactions, round each one *up* to the nearest dollar amount. (Over the years, this practice can pad your account significantly.) Develop another way of keeping your checking account balance in the black. Describe your idea in writing. Then, share it with peers.

Activity extensions:

- Ask students to research the similarities and differences between various types of bank accounts, e.g., checking, savings, IRA, etc. What is the interest rate for each? What are the minimum deposit and balance requirements, if any? What fees are consumers charged for various transactions? Which account does it make the most sense for a teenager to open? Why?

Additional resources:

- Goodpayer.com offers a handbook entitled “Learn Now or Pay Later” that helps young adults understand the basics of credit and debt. Go to www.goodpayer.com and click on “College Students.” You will see the booklet, available in PDF format, at the top of the page.
- Aboutchecking.com provides tips on choosing a checking account, writing checks, preventing identify theft, etc.

