

Your checkbook just became obsolete



Liz Pulliam Weston

A new law makes canceled paper checks a thing of the past. Say goodbye to the 'float' -- and the chance to stop a transaction or spot forgery.



Your bank is making some pretty radical changes to your checking account -- changes that could cost you money in bounced-check fees and limit your ability to fight fraud or errors. These alterations are so significant, in fact, that it may be time to abandon paper checks, if you haven't already. Yet few banks have done much to let their customers know what's coming. And loopholes in the law mean many customers may never receive formal notification of the revolution. It's all part of a sweeping modernization law known as Check 21, passed last year by Congress and signed into law by President Bush. In a nutshell, the law freed banks from having to handle paper and instead allows them to process electronic images of your original checks. The new law, which took effect Oct. 28, will:

- **Virtually end "float."** Checks will be processed in a matter of hours, not days. (Technically, checks could zip through the system in a matter of seconds, but the huge volume of checks will slow things down a bit.) The average time between writing a check and it being paid -- a period known as a check's "float" -- is expected to drop from the two to four days typical now to less than a day. If you've gotten into the bad habit of writing checks before a deposit hits your account, you'll need to knock that off or you'll wind up incurring a fortune in bounced check fees.
- **Make it tougher to "stop" checks.** With such fast processing times, it will become harder to prevent a check you've written from being paid. If a door-to-door salesperson pressures you into buying magazines, for example, and you later change your mind, you may have just a few hours to enter a stop-payment notice with your bank to keep the check from clearing.
- **End your right to get back your canceled checks.** Any bank along the processing chain can decide to turn your paper check into an electronic image -- and then discard the original. Canceled checks that are "imaged" this way won't be returned with your statement and you won't be able to get them from your bank. What you may get back with your statement are "substitute checks" -- paper copies of the electronic images made of your originals, said John Hall, spokesman for the American Bankers Association. Banks that aren't ready to process electronic images will be presented with these substitutes, which can be returned to the customer.

- **Give you limited "re-credit" rights.** With most other electronic transactions, you get a right of "re-credit" -- if you spot an error or fraud, the bank must put the money back into your account within 10 business days. (The bank can take the money back out again if its investigation determines you were wrong.) For the first time, this right will be extended to checks -- but only if a substitute check has been provided to you, said Consumers Union attorney Gail Hillebrand. If you get back your original, or you don't get anything back from the bank, Hillebrand said, the re-credit right doesn't apply to that transaction. She believes this right is so important that consumers should try to preserve it when they can. She recommends monitoring your accounts carefully to spot suspicious transactions. If you don't get back the original check or a substitute, request that a substitute be issued to ensure your right to have the amount re-credited to your account while the bank investigates. Charging you for substitute checks: The good news is that "substitute checks" have all the legal standing of an original check. If the IRS wants you to back up a deduction in an audit, for example, presenting a substitute check will be as good as presenting the original. (The IRS has long accepted bank-issued copies of your originals if you don't routinely get them back with your statements; banks keep check images for seven years.) The bad news, Hillebrand said, is that there doesn't seem to be any limits on what banks will be able to charge for these substitute checks. Also, if the original check was forged, you may have a tougher time proving it, she said, since you'll be working from an electronic picture of your check rather than the real thing. Forgery experts often use variations in pen pressure or ink color to prove fraud. Here's something else. If you don't currently get your paper checks back with your statement -- and 59% of us don't, according to the ABA, especially since our institutions started charging extra for the service -- your bank legally doesn't have to notify you of the changes. Billions in savings for financial institutions: Why is this happening? Well, banks have realized for quite awhile that electronic check processing could save them money, perhaps as much as \$2 billion a year. But the electronic evolution was speeded along by the Sept. 11 terror attacks, which grounded air traffic and delayed processing of millions of paper checks for days. (Under old law, financial institutions typically needed to return paper checks to the banks on which they're drawn in order to be paid. Checks that need to travel long distances typically go by air: no planes, no out-of-town check processing. Given that banks process about \$200 billion in checks every business day, this was no small hiccup.) This transformation of check processing was all but inevitable in the electronic age. Given the changes, it's probably time to put away the checkbook and switch to more efficient means of payment. For example:

- **Use a debit card rather than a check for in-person transactions.** Debit cards are covered under Regulation E, which gives you that all-important "right of re-credit." If a mistake is made in the transaction, the bank has to resolve the problem or put the disputed amount back in your account within 10 business days. The exception: If the card will be out of your sight, hand over a credit card instead. It's too easy for a crooked employee to use a "skimmer" to take enough information off your card's magnetic stripe to create a new one. Banks will restore any money stolen this way within a few days, but in the meantime you may have to live with an empty checking account. Better to have the fraud charged to a credit card where you won't be required to pay the disputed amount.

- **Use automatic debit for recurring bills.** Many people resist signing up for this incredibly convenient service, which allows merchants and lenders to take their payments directly and automatically from your checking account. But you actually have more rights under Regulation E to deal with any errors related to automatic debit than you do when you write a check. Now that float will be a thing of the past, you might as well take the easy road; you also won't have to worry about late fees and other penalties for missing due dates.

The exception: telephone and wireless bills. You might want to put recurring payments on a credit card that you pay in full each month, since "people tend to have a lot of disputes with their phone companies," Hillebrand notes. Also, make sure to sign up for overdraft protection linked to a savings account or line of credit. That way you won't bounce any checks if you miscalculate your balance.

- **Consider secure online bill payment.** Some people are leery of online bill payment, given the prevalence of "phishing" and Trojan horse programs designed to steal your account ID and passwords. (See "[Keep thieves out of your bank account.](#)") Others of us are sold on the convenience (and, again, on the Regulation E protections electronic payments provide us). If you use online bill payment, take steps to keep yourself safe, such as not using public computers or wireless hotspots for financial transactions and keeping your anti-virus software up to date.

