

## Chapter 30—Bank Deposits, Collections, and Funds Transfers

**Collection of Items**—A collecting bank is one that handles an instrument for payment, excluding the payor bank. Typically, the depository bank gives a provisional credit to its customer and then transfers the item to the next bank in the chain, receiving a provisional credit or “settlement” from it, and so on to the payor bank, which then debits the drawer’s account. When the check is paid, all the provisional settlements become final; the transaction is completed.

Warranties—customers and collecting banks give the same transfer warranties as parties, including:

- 1—he is entitled to enforce the item
- 2—all signatures are authentic and authorized
- 3—there are no alterations
- 4—he is not subject to any defense or claim in recoupment; and
- 5—he has no knowledge of any insolvency proceeding involving the maker or the drawer of an unaccepted draft.

The presenter's warranties to a drawee on a draft are:

- 1—she is a person entitled to enforce;
- 2—the item has not been altered; and
- 3—she has no knowledge that the signature of the drawer is unauthorized.

Additionally, Revised Article 4 provides that the encoding (depositing) bank or a customer who encodes her own checks warrants that the check can be read only by the Magnetic Ink Character Recognition system.

## Payor Banks

The bank may dishonor an item because: the drawer has no account or the account has insufficient funds, a signature may be forged, or the drawer may have stopped payment on the item.

## II. Electronic Funds Transfers

The use of commercial paper for payment has already made the US a society less dependent on cash; technological advances involving computers may bring about a virtually checkless society through electronic funds transfer systems (EFTs).

An electronic funds transfer is “any transfer of funds, other than a transaction originated by check, draft, or similar paper instrument, which is initiated through an electronic terminal, telephonic instrument, or computer or magnetic tape so as to order, instruct, or authorize a financial institution to debit or credit an account.