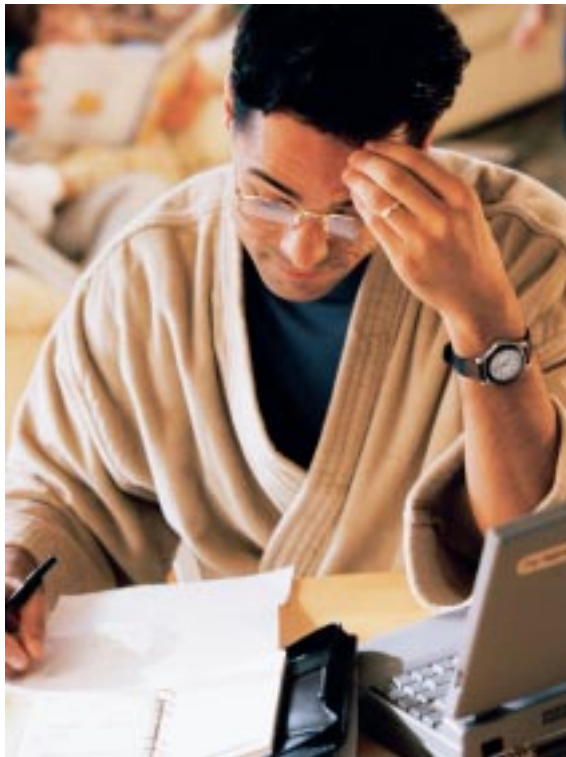


Bounced Checks: What to Do If You Write Them ... or Receive Them

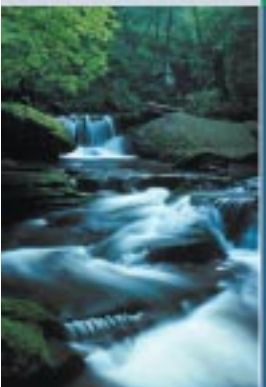


Money's tight, the bills are due and you're expecting a paycheck in a few days. So you write some checks and cross your fingers that they don't hit the bank before your deposit.

Or maybe you're flat broke and figure writing a few rubber checks can't hurt. After all, you figure, those businesses have plenty of money and can just write off the loss.

Or perhaps you didn't mean to write a bad check — you just thought you had more money in your account than you did.

Whatever your reason, writing a bad check can be bad news.



First of all, it can be expensive. You're almost guaranteed your bank will charge you a bad check fee — probably \$25 or more. On top of that, the merchant you wrote the bad check to will probably charge you a fee of \$25 and can sue you for damages, often up to two or three times the amount of the check. (They'll usually have to give you the chance to make good on the check first.)

... writing a check when you don't have the money to cover it is like stealing.

Secondly, writing a check when you know you don't have the money to cover it may be a crime. According to attorney Robin Leonard, if the district attorney decides to prosecute, you may be able to avoid a trial by taking classes — and making good on the checks, of course.

If you have written a bad check, contact the person to whom you wrote it immediately and either pay it or make payment arrangements. Obviously, it's better to prevent the problem in the first place.

A good way to prevent bounced checks is to sign up for overdraft protection. Although the interest rates on these lines of credit can be rather high, it's usually much cheaper than the fees that pile up if the check doesn't clear.

If you do bounce a check, that fact may be reported to a check verification company (like a special credit reporting agency) and may make it more difficult for you to open an account in the future. Ask the merchant if information is reported to a check verification company. If so, ask for the telephone number so you can call and find out what is on file about you.

You may also want to ask about your bank's check clearing policy. Some banks, if presented with several checks on the same day, will clear larger checks first, which could mean more bounced checks for you (and more

fees for the bank to collect). If this happens to you and you've never bounced a check before, talk to the bank manager about waiving some of the fees. After all, it only costs the bank somewhere between 50 cents and \$1.50 to process a bounced check, but you'll probably pay much more than that in fees.

Check-Writing Tips

- ▶ Remember that a check is a personalized form of money. Fill in all information clearly in a form that cannot be altered.
- ▶ Always use a pen when filling out a check, never a pencil or a felt-tip marker. Ink from a pen cannot be easily erased or smeared.
- ▶ Always use the current date on a check; never postdate it. To avoid alteration, write out the date instead of using numerical abbreviations.
- ▶ Put all check information as far to the left on each line as possible. When filling in the written amount, draw a line through any remaining space.
- ▶ Avoid using abbreviations on the "pay to the order of" line.
- ▶ To ensure legibility, print the written amount of the check; don't write it in cursive.
- ▶ Make sure that the written amount is exactly the same as the numerical amount. If the two differ, the written amount is considered legally binding.
- ▶ Sign your name neatly; your signature should match the one on file at your bank. Illegible scrawls are easy to forge.
- ▶ If you tear a check or make a mistake when filling it out, void the check and write a new one. Remember to list any unusable checks in your check register.

Source: Checkbooklet, Federal Reserve Bank of Boston.

Balancing Your Checkbook

The majority of people who bounce a check believe they have more in their account than is actually there due to an error in recording.

The majority of people who bounce a check believe they have more in their account than is actually there due to an error in recording payments, funds transfers, withdrawals or deposits. Balancing your checkbook monthly can help you catch

these errors before they end up costing you a lot of money in bank fees. The following is a step-by-step guide for reconciling your account to the penny.

Step 1 Compare your bank statement to your check register to see if all of your checks or checkcard/debit card transactions have been posted to your account. There should be a place in your register to check off that each transaction has been posted.

Step 2 Subtract any bank charges that you have not already accounted for in your register, such as ATM fees.

Step 3 Subtract any electronic fund transfers, for example car payments and insurance.

Step 4 Add any automatic deposits, such as direct deposit paychecks or dividends that have not yet been recorded.

Step 5 Add any interest that your account may have earned.

Step 6 List all of your outstanding transactions from Step 1 (some checks may not be cashed by the recipient for several months from the time you wrote them). Put this on the reconciliation sheet provided in the bank statement or in the back of your checkbook.

Step 7 Total the amount of outstanding checks and checkcard/debit card transactions.

Step 8 Subtract that amount from what your bank says you have as the ending balance on

the bank statement. This is often referred to as the new balance. This usually does not match your actual register.

Step 9 Add any deposits you have made but are not listed on your bank statement.

Step 10 Compare the balance on the reconciliation sheet to the bank statement and your register. These should agree.

Step 11 If they do not agree, some things to try are:

- ▶ Compare register and deposit slips with your statement. You may have forgotten to write something in your register.
- ▶ If the error is a whole number, check your addition and subtraction.
- ▶ If the error is divisible by nine, numbers may have been transposed.

If the balances still do not agree and you cannot find the problem, visit your bank. A customer relations representative can help you find the problem.

When You're on the Receiving End

Accepting a check that doesn't clear is no fun, either. Many banks these days will charge you — the recipient — a bad check fee. On top of that, you'll have the additional time and cost of trying to collect on it, if it's not fraudulent.

Here are steps you can take to protect yourself from accepting a rubber check:

1. **Watch out for low number checks (those numbering 101-499).** An estimated nine out of ten bad checks fall into this low-number range. You may want to use a check verification service or take additional steps to verify these checks before accepting them. Starter checks may also be troublesome.

2. Look for fakes. Personal checks with four smooth edges (no perforations) or shiny or glossy numbers are worth double-checking — they may be counterfeits printed on laser printers. Take extra precaution with checks where the last three digits or four numbers of the Federal Reserve number at the top of the check are different from the first three or four numbers at the bottom. (Compare Fields 3 and 4 in the sample check on the next page). Checks should also have the name of the bank and usually, a location.

If you're not sure a check will clear, you may want to take it to the bank where the account is held to cash it.

3. Protect your rights. Find out from your state attorney general's office or district attorney's office what steps you should take when accepting a check to protect your rights if you need to collect or sue later.

4. Double check identification. Many bad checks are cashed with an expired driver's license. Check the expiration date and compare the

signature and address on the license with those on the check.

If you have accepted a bad check, you'll generally have to send a written demand for payment and the check writer will usually have 30 days to pay. If the check writer doesn't, you may be able to sue for the amount of the check plus damages.

If you're not sure a check will clear, you may want to take it to the bank where the account is held to cash it. This way, you'll avoid a bad check fee from your bank if your suspicions prove true and it bounces.

Elements of a Good Check

One of the most important factors in limiting check fraud losses is education. In order to recognize a fraudulent check, you have to be familiar with the components that make up a good check. The Federal Reserve Bank of Boston recommends that all parties who participate in check transactions should be aware of the following elements of a good check (see the sample check below).

1. Perforation. Look for at least one

JAMES C. MORRISON
1765 Sheridan Drive
Balsam Lake, WI 54810
(715) 555-5555

101
79-123759

Payee example \$ 392.75
Date April 3, 2002
Three hundred ninety-two and 75/100 DOLLARS

Balsam Lake State Bank
Balsam Lake, WI 54810

FOR example *James C. Morrison*

⑆075901231⑆ 4563271 0101 000039275 ⑆

Field 3- Routing/Transit Number Field 2- Customer Account Number Field 1- Check Number Field 4- Federal Reserve Number

perforated side on *most* checks.

2. **Federal Reserve District and Office.** The first two digits of the routing/transit number (Field 3) indicate the Federal Reserve District (01-Boston, 02-New York, 03-Philadelphia, 04-Cleveland, 05-Richmond, 06-Atlanta, 07-Chicago, 08-St. Louis, 09-Minneapolis, 10-Kansas city, 11-Dallas, 12-San Francisco). The Federal Reserve District in the sample check is “07.” The third digit (in this example, the number “5”) indicates the district office.
3. **Bank address.** The address of the bank should correspond to the appropriate Federal Reserve District. For example, if you receive the sample check — from Wisconsin — the routing/transit number depicts the Seventh Federal Reserve District (07). (See Fields 3 and 4)
4. **Bank ID Number.** Positions 5 through 8 of Field 3 identify the issuing bank.
5. **Account Number.** Field 2 identifies the customer’s account number.
6. **Serial Number.** Field 1 identifies the check number. This number should match the check number at the top right corner of the check, in this example, “101.”
7. **Fractional Routing/Transit Number.** The denominator of the fraction in Field 4 (in this case, 759) should match the Bank Identification Number in Field 3. On some checks (like the one in this example), there is a zero in front of the Bank ID Number. A few checks may not have fractional numbers listed in Field 4. This does not necessarily mean those checks are fraudulent, but merchants may want to investigate more closely.

Adapted from: *Check Fraud Awareness*, Federal Reserve Bank of Boston.

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