

# U.C.C. - ARTICLE 4

## BANK DEPOSITS AND COLLECTIONS

PART 1. GENERAL PROVISIONS AND DEFINITIONS [\[Table of Contents\]](#)

### § 4-101. SHORT TITLE.

This Article may be cited as Uniform Commercial Code -- Bank Deposits and Collections.

### § 4-102. APPLICABILITY.

(a) To the extent that [items](#) within this Article are also within Articles 3 and 8, they are subject to those Articles. If there is conflict, this Article governs Article 3, but Article 8 governs this Article.

(b) The liability of a [bank](#) for action or non-action with respect to an [item](#) handled by it for purposes of presentment, payment, or collection is governed by the law of the place where the bank is located. In the case of action or non-action by or at a branch or separate office of a bank, its liability is governed by the law of the place where the branch or separate office is located.

### § 4-103. VARIATION BY AGREEMENT; MEASURE OF DAMAGES; ACTION CONSTITUTING ORDINARY CARE.

(a) The effect of the provisions of this Article may be varied by agreement, but the parties to the agreement cannot disclaim a [bank's](#) responsibility for its lack of good faith or failure to exercise ordinary care or limit the measure of damages for the lack or failure. However, the parties may determine by agreement the standards by which the bank's responsibility is to be measured if those standards are not manifestly unreasonable.

(b) Federal Reserve regulations and operating circulars, clearing-house rules, and the like have the effect of agreements under subsection (a), whether or not specifically assented to by all parties interested in [items](#) handled.

(c) Action or non-action approved by this Article or pursuant to Federal Reserve regulations or operating circulars is the exercise of ordinary care and, in the absence of special instructions, action or non-action consistent with clearing-house rules and the like or with a general banking usage not disapproved by this Article, is prima facie the exercise of ordinary care.

(d) The specification or approval of certain procedures by this Article is not disapproval of other procedures that may be reasonable under the circumstances.

(e) The measure of damages for failure to exercise ordinary care in handling an [item](#) is the amount of the item reduced by an amount that could not have been realized by the exercise of ordinary care. If there is also bad faith it includes any other damages the party suffered as a proximate consequence.

#### § 4-104. DEFINITIONS AND INDEX OF DEFINITIONS.

(a) In this Article, unless the context otherwise requires:

- (1) "**Account**" means any deposit or credit account with a [bank](#) , including a demand, time, savings, passbook, share [draft](#), or like account, other than an account evidenced by a certificate of deposit;
- (2) "**Afternoon**" means the period of a day between noon and midnight;
- (3) "**Banking day**" means the part of a day on which a [bank](#) is open to the public for carrying on substantially all of its banking functions;
- (4) "**Clearing house**" means an association of [banks](#) or other payors regularly clearing [items](#);
- (5) "**Customer**" means a person having an [account](#) with a [bank](#) or for whom a bank has agreed to collect [items](#), including a bank that maintains an account at another bank;
- (6) "**Documentary draft**" means a [draft](#) to be presented for acceptance or payment if specified documents, certificated securities (Section [8-102](#)) or instructions for uncertificated securities (Section [8-102](#)), or other certificates, statements, or the like are to be received by the [drawee](#) or other payor before acceptance or payment of the draft;
- (7) "**Draft**" means a [draft](#) as defined in Section [3-104](#) or an [item](#), other than an instrument, that is an order.
- (8) "**Drawee**" means a person ordered in a [draft](#) to make payment.
- (9) "**Item**" means an instrument or a promise or order to pay money handled by a [bank](#) for collection or payment. The term does not include a payment order governed by Article 4A or a credit or debit card slip;
- (10) "**Midnight deadline**" with respect to a [bank](#) is midnight on its next [banking day](#) following the banking day on which it receives the relevant [item](#) or notice or from which the time for taking action commences to run, whichever is later;
- (11) "**Settle**" means to pay in cash, by clearing-house settlement, in a charge or credit or by remittance, or otherwise as agreed. A settlement may be either provisional or final.
- (12) "**Suspends payments**" with respect to a [bank](#) means that it has been closed by order of the supervisory authorities, that a public officer has been appointed to take it over, or that it ceases or refuses to make payments in the ordinary course of business.

(b) Other definitions applying to this Article and the sections in which they appear are:

"**Agreement for electronic presentment**"      Section [4-110](#)

"**Collecting bank**"                      Section [4-105](#)

"Depository bank" Section [4-105](#)  
"Intermediary bank" Section [4-105](#)  
"Payor bank" Section [4-105](#)  
"Presenting bank" Section [4-105](#)  
"Presentment notice" Section [4-110](#)

(c) "Control" as provided in Section [7-106](#) and the following definitions in other Articles apply to this Article:

"Acceptance" Section [3-409](#)  
"Alteration" Section [3-407](#)  
"Cashier's check" Section [3-104](#)  
"Certificate of deposit" Section [3-104](#)  
"Certified check" Section [3-409](#)  
"Check" Section [3-104](#)  
"Holder in due course" Section [3-302](#)  
"Instrument" Section [3-104](#)  
"Notice of dishonor" Section [3-503](#)  
"Order" Section [3-103](#)  
"Ordinary care" Section [3-103](#)  
"Person entitled to enforce" Section [3-301](#)  
"Presentment" Section [3-501](#)  
"Promise" Section [3-103](#)  
"Prove" Section [3-103](#)  
"Record" Section [3-103](#).  
"Remotely-Created consumer item" Section [3-103](#).  
"Teller's check" Section [3-104](#)  
"Unauthorized signature" Section [3-403](#)

(d) In addition, Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

**§ 4-105. "BANK"; "DEPOSITARY BANK"; "PAYOR BANK"; "INTERMEDIARY BANK"; "COLLECTING BANK"; "PRESENTING BANK".**

In this Article :

(1) "**Bank**" means a person engaged in the business of banking, including a savings bank, savings and loan association, credit union, or trust company.

- (2) "**Depository bank**" means the first [bank](#) to take an [item](#) even though it is also the [payor bank](#), unless the item is presented for immediate payment over the counter;
- (3) "**Payor bank**" means a [bank](#) that is the [drawee](#) of a [draft](#);
- (4) "**Intermediary bank**" means a [bank](#) to which an [item](#) is transferred in course of collection except the depository or [payor bank](#);
- (5) "**Collecting bank**" means a [bank](#) handling an [item](#) for collection except the [payor bank](#);
- (6) "**Presenting bank**" means a [bank](#) presenting an [item](#) except a [payor bank](#).

#### **§ 4-106. PAYABLE THROUGH OR PAYABLE AT BANK; COLLECTING BANK.**

(a) If an [item](#) states that it is "payable through" a [bank](#) identified in the item, (i) the item designates the bank as a [collecting bank](#) and does not by itself authorize the bank to pay the item, and (ii) the item may be presented for payment only by or through the bank.

##### **Alternative A**

(b) If an [item](#) states that it is "payable at" a [bank](#) identified in the item, the item is equivalent to a [draft](#) drawn on the bank.

##### **Alternative B**

(b) If an [item](#) states that it is "payable at" a [bank](#) identified in the item, (i) the item designates the bank as a [collecting bank](#) and does not by itself authorize the bank to pay the item, and (ii) the item may be presented for payment only by or through the bank.

(c) If a [draft](#) names a nonbank [drawee](#) and it is unclear whether a [bank](#) named in the draft is a co-drawee or a [collecting bank](#), the bank is a collecting bank.

#### **§ 4-107. SEPARATE OFFICE OF BANK.**

A branch or separate office of a [bank](#) is a separate bank for the purpose of computing the time within which and determining the place at or to which action may be taken or notice or orders must be given under this Article and under Article 3.

#### **§ 4-108. TIME OF RECEIPT OF ITEMS.**

(a) For the purpose of allowing time to process [items](#), prove balances, and make the necessary entries on its books to determine its position for the day, a [bank](#) may fix an [afternoon](#) hour of 2 P.M. or later as a cutoff hour for the handling of money and items and the making of entries on its books.

(b) An [item](#) or deposit of money received on any day after a cutoff hour so fixed or after the close of the [banking day](#) may be treated as being received at the opening of the next banking day.

#### **§ 4-109. DELAYS.**

(a) Unless otherwise instructed, a [collecting bank](#) in a good faith effort to secure payment of a specific item drawn on a payor other than a [bank](#), and with or without the approval of any person involved, may waive, modify, or extend time limits imposed or permitted by this [Act] for a period not exceeding two additional banking days without discharge of drawers or indorsers or liability to its transferor or a prior party.

(b) Delay by a [collecting bank](#) or [payor bank](#) beyond time limits prescribed or permitted by this [Act] or by instructions is excused if (i) the delay is caused by interruption of communication or computer facilities, suspension of payments by another [bank](#), war, emergency conditions, failure of equipment, or other circumstances beyond the control of the bank, and (ii) the bank exercises such diligence as the circumstances require.

#### **§ 4-110. ELECTRONIC PRESENTMENT.**

(a) "**Agreement for electronic presentment**" means an agreement, clearing-house rule, or Federal Reserve regulation or operating circular, providing that presentment of an [item](#) may be made by transmission of an image of an item or information describing the item ("presentment notice") rather than delivery of the item itself. The agreement may provide for procedures governing retention, presentment, payment, dishonor, and other matters concerning items subject to the agreement.

(b) Presentment of an [item](#) pursuant to an agreement for presentment is made when the presentment notice is received.

(c) If presentment is made by presentment notice, a reference to "item" or "check" in this Article means the presentment notice unless the context otherwise indicates.

#### **§ 4-111. STATUTE OF LIMITATIONS.**

An action to enforce an obligation, duty, or right arising under this Article must be commenced within three years after the [cause of action] accrues.

### PART 2. COLLECTION OF ITEMS: DEPOSITARY AND COLLECTING BANKS [\[Table of Contents\]](#)

#### **§ 4-201. STATUS OF COLLECTING BANK AS AGENT AND PROVISIONAL STATUS OF CREDITS; APPLICABILITY OF ARTICLE; ITEM INDORSED "PAY ANY BANK".**

(a) Unless a contrary intent clearly appears and before the time that a [settlement](#) given by a [collecting bank](#) for an [item](#) is or becomes final, the [bank](#), with respect to the item, is an agent or sub-agent of the owner of the item and any settlement given for the item is provisional. This provision applies regardless of the form of indorsement or lack of indorsement and even though credit given for the item is subject to immediate withdrawal as of right or is in fact withdrawn; but the continuance of ownership of an item by its owner and any rights of the owner to proceeds of the item are subject to rights of a collecting bank, such as those resulting from outstanding advances on the item and rights of recoupment or setoff. If an item is handled by banks for purposes of presentment, payment, collection, or return, the relevant provisions of this Article apply even though action

of the parties clearly establishes that a particular bank has purchased the item and is the owner of it.

(b) After an [item](#) has been indorsed with the words "pay any bank" or the like, only a [bank](#) may acquire the rights of a holder until the item has been:

- (1) returned to the [customer](#) initiating collection; or
- (2) specially indorsed by a [bank](#) to a person who is not a bank.

#### **§ 4-202. RESPONSIBILITY FOR COLLECTION OR RETURN; WHEN ACTION TIMELY.**

(a) A [collecting bank](#) must exercise ordinary care in:

- (1) presenting an [item](#) or sending it for presentment;
- (2) sending notice of dishonor or nonpayment or returning an [item](#) other than a [documentary draft](#) to the [bank's](#) transferor after learning that the item has not been paid or accepted, as the case may be;
- (3) settling for an [item](#) when the [bank](#) receives final [settlement](#); and
- (4) notifying its transferor of any loss or delay in transit within a reasonable time after discovery thereof.

(b) A [collecting bank](#) exercises ordinary care under subsection (a) by taking proper action before its [midnight deadline](#) following receipt of an [item](#), notice, or [settlement](#). Taking proper action within a reasonably longer time may constitute the exercise of ordinary care, but the [bank](#) has the burden of establishing timeliness.

(c) Subject to subsection (a)(1), a [bank](#) is not liable for the insolvency, neglect, misconduct, mistake, or default of another bank or person or for loss or destruction of an [item](#) in the possession of others or in transit .

#### **§ 4-203. EFFECT OF INSTRUCTIONS.**

Subject to Article 3 concerning conversion of instruments (Section [3-420](#)) and restrictive indorsements (Section [3-206](#)), only a [collecting bank's](#) transferor can give instructions that affect the [bank](#) or constitute notice to it, and a collecting bank is not liable to prior parties for any action taken pursuant to the instructions or in accordance with any agreement with its transferor.

#### **§ 4-204. METHODS OF SENDING AND PRESENTING; SENDING DIRECTLY TO PAYOR BANK.**

(a) A [collecting bank](#) shall send [items](#) by a reasonably prompt method, taking into consideration relevant instructions, the nature of the item, the number of those items on hand, the cost of collection involved, and the method generally used by it or others to present those items.

(b) A [collecting bank](#) may send:

- (1) an [item](#) directly to the [payor bank](#);
- (2) an [item](#) to a nonbank payor if authorized by its transferor; and

(3) an [item](#) other than [documentary drafts](#) to a nonbank payor, if authorized by Federal Reserve regulation or operating circular, clearing-house rule, or the like.

(c) Presentment may be made by a [presenting bank](#) at a place where the [payor bank](#) or other payor has requested that presentment be made.

#### **§ 4-205. DEPOSITARY BANK HOLDER OF UNINDORSED ITEM.**

If a [customer](#) delivers an [item](#) to a [depository bank](#) for collection:

(1) the [depository bank](#) becomes a holder of the [item](#) at the time it receives the item for collection if the [customer](#) at the time of delivery was a holder of the item, whether or not the customer indorses the item, and, if the [bank](#) satisfies the other requirements of Section [3-302](#), it is a holder in due course; and

(2) the [depository bank](#) warrants to [collecting banks](#), the [payor bank](#) or other payor, and the drawer that the amount of the [item](#) was paid to the [customer](#) or deposited to the customer's [account](#).

#### **§ 4-206. TRANSFER BETWEEN BANKS.**

Any agreed method that identifies the transferor [bank](#) is sufficient for the [item's](#) further transfer to another bank.

#### **§ 4-207. TRANSFER WARRANTIES.**

(a) A [customer](#) or [collecting bank](#) that transfers an [item](#) and receives a [settlement](#) or other consideration warrants to the transferee and to any subsequent collecting bank that:

(1) the warrantor is a person entitled to enforce the [item](#);

(2) all signatures on the [item](#) are authentic and authorized;

(3) the [item](#) has not been altered;

(4) the [item](#) is not subject to a defense or claim in recoupment (Section [3-305\(a\)](#)) of any party that can be asserted against the warrantor; and

(5) the warrantor has no knowledge of any insolvency proceeding commenced with respect to the maker or acceptor or, in the case of an unaccepted [draft](#), the drawer; and

(6) with respect to any remotely-created consumer item, that the person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.

(b) If an [item](#) is dishonored, a [customer](#) or [collecting bank](#) transferring the item and receiving [settlement](#) or other consideration is obliged to pay the amount due on the item (i) according to the terms of the item at the time it was transferred, or (ii) if the transfer was of an incomplete item, according to its terms when completed as stated in Sections [3-115](#) and [3-407](#). The obligation of a transferor is owed to the transferee and to any subsequent collecting bank that takes the item in good faith. A transferor cannot disclaim its obligation under this subsection by

an indorsement stating that it is made "without recourse" or otherwise disclaiming liability.

(c) A person to whom the warranties under subsection (a) are made and who took the [item](#) in good faith may recover from the warrantor as damages for breach of warranty an amount equal to the loss suffered as a result of the breach, but not more than the amount of the item plus expenses and loss of interest incurred as a result of the breach.

(d) The warranties stated in subsection (a) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within 30 days after the claimant has reason to know of the breach and the identity of the warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(e) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

#### **§ 4-208. PRESENTMENT WARRANTIES.**

(a) If an unaccepted [draft](#) is presented to the [drawee](#) for payment or acceptance and the drawee pays or accepts the draft, (i) the person obtaining payment or acceptance, at the time of presentment, and (ii) a previous transferor of the draft, at the time of transfer, warrant to the drawee that pays or accepts the draft in good faith that:

(1) the warrantor is, or was, at the time the warrantor transferred the [draft](#), a person entitled to enforce the draft or authorized to obtain payment or acceptance of the draft on behalf of a person entitled to enforce the draft;

(2) the [draft](#) has not been altered; and

(3) the warrantor has no knowledge that the signature of the purported drawer of the [draft](#) is unauthorized; and

(4) with respect to any remotely-created consumer item, that the person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.

(b) A [drawee](#) making payment may recover from a warrantor damages for breach of warranty equal to the amount paid by the drawee less the amount the drawee received or is entitled to receive from the drawer because of the payment. In addition, the drawee is entitled to compensation for expenses and loss of interest resulting from the breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the [draft](#) (i) breach of warranty is a defense to the obligation of the acceptor, and (ii) if the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from a warrantor for breach of warranty the amounts stated in this subsection.

(c) If a [drawee](#) asserts a claim for breach of warranty under subsection (a) based on an unauthorized indorsement of the [draft](#) or an alteration of the draft, the



warrantor may defend by proving that the indorsement is effective under Section [3-404](#) or [3-405](#) or the drawer is precluded under Section [3-406](#) or [4-406](#) from asserting against the drawee the unauthorized indorsement or alteration.

(d) If (i) a dishonored [draft](#) is presented for payment to the drawer or an indorser or (ii) any other [item](#) is presented for payment to a party obliged to pay the item, and the item is paid, the person obtaining payment and a prior transferor of the item warrant to the person making payment in good faith that the warrantor is, or was, at the time the warrantor transferred the item, a person entitled to enforce the item or authorized to obtain payment on behalf of a person entitled to enforce the item. The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.

(e) The warranties stated in subsections (a) and (d) cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within 30 days after the claimant has reason to know of the breach and the identity of the warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.

(f) A cause of action for breach of warranty under this section accrues when the claimant has reason to know of the breach.

#### **§ 4-209. ENCODING AND RETENTION WARRANTIES.**

(a) A person who encodes information on or with respect to an [item](#) after issue warrants to any subsequent [collecting bank](#) and to the [payor bank](#) or other payor that the information is correctly encoded. If the [customer](#) of a [depository bank](#) encodes, that [bank](#) also makes the warranty.

(b) A person who undertakes to retain an [item](#) pursuant to an [agreement for electronic presentment](#) warrants to any subsequent [collecting bank](#) and to the [payor bank](#) or other payor that retention and presentment of the item comply with the agreement. If a [customer](#) of a [depository bank](#) undertakes to retain an item, that [bank](#) also makes this warranty.

(c) A person to whom warranties are made under this section and who took the [item](#) in good faith may recover from the warrantor as damages for breach of warranty an amount equal to the loss suffered as a result of the breach, plus expenses and loss of interest incurred as a result of the breach.

#### **§ 4-210. SECURITY INTEREST OF COLLECTING BANK IN ITEMS, ACCOMPANYING DOCUMENTS AND PROCEEDS.**

(a) A collecting [bank](#) has a security interest in an [item](#) and any accompanying documents or the proceeds of either:

(1) in case of an [item](#) deposited in an [account](#), to the extent to which credit given for the item has been withdrawn or applied;

(2) in case of an [item](#) for which it has given credit available for withdrawal as of right, to the extent of the credit given, whether or not the credit is drawn upon or there is a right of charge-back; or

(3) if it makes an advance on or against the [item](#).

(b) If credit given for several [items](#) received at one time or pursuant to a single agreement is withdrawn or applied in part, the security interest remains upon all the items, any accompanying documents or the proceeds of either. For the purpose of this section, credits first given are first withdrawn.

(c) Receipt by a [collecting bank](#) of a final [settlement](#) for an [item](#) is a realization on its security interest in the item, accompanying documents, and proceeds. So long as the bank does not receive final settlement for the item or give up possession of the item or possession or control of the accompanying documents for purposes other than collection, the security interest continues to that extent and is subject to Article 9, but:

(1) no security agreement is necessary to make the security interest enforceable (Section [9-203\(b\)\(3\)\(A\)](#));

(2) no filing is required to perfect the security interest; and

(3) the security interest has priority over conflicting perfected security interests in the [item](#), accompanying documents, or proceeds.

#### **§ 4-211. WHEN BANK GIVES VALUE FOR PURPOSES OF HOLDER IN DUE COURSE.**

For purposes of determining its status as a holder in due course, a [bank](#) has given value to the extent it has a security interest in an [item](#), if the bank otherwise complies with the requirements of Section [3-302](#) on what constitutes a holder in due course.

#### **§ 4-212. PRESENTMENT BY NOTICE OF ITEM NOT PAYABLE BY, THROUGH, OR AT BANK; LIABILITY OF DRAWER OR INDORSER.**

(a) Unless otherwise instructed, a [collecting bank](#) may present an [item](#) not payable by, through, or at a [bank](#) by sending to the party to accept or pay a record providing notice that the bank holds the item for acceptance or payment. The notice must be sent in time to be received on or before the day when presentment is due and the bank must meet any requirement of the party to accept or pay under Section [3-501](#) by the close of the bank's next [banking day](#) after it knows of the requirement.

(b) If presentment is made by notice and payment, acceptance, or request for compliance with a requirement under Section [3-501](#) is not received by the close of business on the day after maturity or, in the case of demand [items](#), by the close of business on the third [banking day](#) after notice was sent, the [presenting bank](#) may treat the item as dishonored and charge any drawer or indorser by sending it notice of the facts.

#### **§ 4-213. MEDIUM AND TIME OF SETTLEMENT BY BANK.**

(a) With respect to [settlement](#) by a [bank](#), the medium and time of settlement may be prescribed by Federal Reserve regulations or circulars, clearing-house rules, and the like, or agreement. In the absence of such prescription:

(1) the medium of [settlement](#) is cash or credit to an [account](#) in a Federal Reserve [bank](#) or specified by the person to receive settlement; and

(2) the time of [settlement](#), is:

(i) with respect to tender of [settlement](#) by cash, a cashier's check, or teller's check, when the cash or check is sent or delivered;

(ii) with respect to tender of [settlement](#) by credit in an [account](#) in a Federal Reserve Bank, when the credit is made;

(iii) with respect to tender of [settlement](#) by a credit or debit to an [account](#) in a [bank](#), when the credit or debit is made or, in the case of tender of settlement by authority to charge an account, when the authority is sent or delivered; or

(iv) with respect to tender of [settlement](#) by a funds transfer, when payment is made pursuant to Section [4A-406\(a\)](#) to the person receiving settlement.

(b) If the tender of [settlement](#) is not by a medium authorized by subsection (a) or the time of settlement is not fixed by subsection (a), no settlement occurs until the tender of settlement is accepted by the person receiving settlement.

(c) If [settlement](#) for an [item](#) is made by cashier's check or teller's check and the person receiving settlement, before its [midnight deadline](#):

(1) presents or forwards the check for collection, settlement is final when the check is finally paid; or

(2) fails to present or forward the check for collection, settlement is final at the midnight deadline of the person receiving settlement.

(d) If [settlement](#) for an [item](#) is made by giving authority to charge the [account](#) of the [bank](#) giving settlement in the bank receiving settlement, settlement is final when the charge is made by the bank receiving settlement if there are funds available in the account for the amount of the item.

#### **§ 4-214. RIGHT OF CHARGE-BACK OR REFUND; LIABILITY OF COLLECTING BANK; RETURN OF ITEM.**

(a) If a [collecting bank](#) has made provisional [settlement](#) with its [customer](#) for an [item](#) and fails by reason of dishonor, suspension of payments by a [bank](#), or otherwise to receive settlement for the item which is or becomes final, the bank may revoke the settlement given by it, charge back the amount of any credit given for the item to its customer's [account](#), or obtain refund from its customer, whether or not it is able to return the item, if by its [midnight deadline](#) or within a longer reasonable time after it learns the facts it returns the item or sends notification of the facts. If the return or notice is delayed beyond the bank's midnight deadline or a longer reasonable time after it learns the facts, the bank may revoke the settlement, charge back the credit, or obtain refund from its customer, but it is

liable for any loss resulting from the delay. These rights to revoke, charge back, and obtain refund terminate if and when a settlement for the item received by the bank is or becomes final .

(b) A [collecting bank](#) returns an [item](#) when it is sent or delivered to the [bank's customer](#) or transferor or pursuant to its instructions.

(c) A [depository bank](#) that is also the payor may charge back the amount of an [item](#) to its [customer's account](#) or obtain refund in accordance with the section governing return of an item received by a [payor bank](#) for credit on its books (Section [4-301](#)).

(d) The right to charge back is not affected by:

- (1) previous use of a credit given for the [item](#); or
- (2) failure by any [bank](#) to exercise ordinary care with respect to the [item](#), but a bank so failing remains liable.

(e) A failure to charge back or claim refund does not affect other rights of the [bank](#) against the [customer](#) or any other party.

(f) If credit is given in dollars as the equivalent of the value of an [item](#) payable in foreign money, the dollar amount of any charge-back or refund must be calculated on the basis of the bank-offered spot rate for the foreign money prevailing on the day when the person entitled to the charge-back or refund learns that it will not receive payment in ordinary course.

#### **§ 4-215. FINAL PAYMENT OF ITEM BY PAYOR BANK; WHEN PROVISIONAL DEBITS AND CREDITS BECOME FINAL; WHEN CERTAIN CREDITS BECOME AVAILABLE FOR WITHDRAWAL.**

(a) An [item](#) is finally paid by a [payor bank](#) when the [bank](#) has first done any of the following:

- (1) paid the [item](#) in cash;
- (2) [settled](#) for the [item](#) without having a right to revoke the [settlement](#) under statute, clearing-house rule, or agreement; or
- (3) made a provisional [settlement](#) for the [item](#) and failed to revoke the settlement in the time and manner permitted by statute, clearing-house rule, or agreement.

(b) If provisional [settlement](#) for an [item](#) does not become final, the item is not finally paid.

(c) If provisional [settlement](#) for an [item](#) between the presenting and [payor banks](#) is made through a [clearing house](#) or by debits or credits in an [account](#) between them, then to the extent that provisional debits or credits for the item are entered in accounts between the presenting and payor banks or between the presenting and successive prior [collecting banks](#) seriatim, they become final upon final payment of the items by the payor bank.

(d) If a [collecting bank](#) receives a [settlement](#) for an [item](#) which is or becomes final, the [bank](#) is accountable to its [customer](#) for the amount of the item and any provisional credit given for the item in an [account](#) with its customer becomes final.

(e) Subject to (i) applicable law stating a time for availability of funds and (ii) any right of the [bank](#) to apply the credit to an obligation of the [customer](#), credit given by a bank for an [item](#) in a [customer's account](#) becomes available for withdrawal as of right:

(1) if the [bank](#) has received a provisional [settlement](#) for the [item](#), when the settlement becomes final and the bank has had a reasonable time to receive return of the item and the item has not been received within that time;

(2) if the [bank](#) is both the [depository bank](#) and the [payor bank](#), and the [item](#) is finally paid, at the opening of the bank's second [banking day](#) following receipt of the item.

(f) Subject to applicable law stating a time for availability of funds and any right of a bank to apply a deposit to an obligation of the depositor, a deposit of money becomes available for withdrawal as of right at the opening of the bank's next [banking day](#) after receipt of the deposit.

#### **§ 4-216. INSOLVENCY AND PREFERENCE.**

(a) If an [item](#) is in or comes into the possession of a payor or [collecting bank](#) that suspends payment and the item has not been finally paid, the item must be returned by the receiver, trustee, or agent in charge of the closed [bank](#) to the [presenting bank](#) or the closed bank's [customer](#).

(b) If a [payor bank](#) finally pays an [item](#) and [suspends payments](#) without making a [settlement](#) for the item with its [customer](#) or the [presenting bank](#) which settlement is or becomes final, the owner of the item has a preferred claim against the [payor bank](#).

(c) If a [payor bank](#) gives or a [collecting bank](#) gives or receives a provisional [settlement](#) for an [item](#) and thereafter [suspends payments](#), the suspension does not prevent or interfere with the settlement's becoming final if the finality occurs automatically upon the lapse of certain time or the happening of certain events .

(d) If a [collecting bank](#) receives from subsequent parties [settlement](#) for an [item](#), which settlement is or becomes final and the [bank suspends payments](#) without making a settlement for the item with its [customer](#) which settlement is or becomes final, the owner of the [item](#) has a preferred claim against the collecting bank.

#### PART 3. COLLECTION OF ITEMS: PAYOR BANKS. [\[Table of Contents\]](#)

#### **§ 4-301. DEFERRED POSTING; RECOVERY OF PAYMENT BY RETURN OF ITEMS; TIME OF DISHONOR; RETURN OF ITEMS BY PAYOR BANK.**

(a) If a [payor bank settles](#) for a demand [item](#) other than a [documentary draft](#) presented otherwise than for immediate payment over the counter before midnight of the [banking day](#) of receipt, the payor bank may revoke

the [settlement](#) and recover the settlement if, before it has made final payment and before its [midnight deadline](#), it

- (1) returns the [item](#);
- (2) returns an image of the [item](#), if the party to which the return is made has entered into an agreement to accept an image as a return of the item; and the image is returned in accordance with that agreement;
- (3) sends a record providing notice of dishonor or nonpayment if the [item](#) is unavailable for return.

(b) If a demand [item](#) is received by a [payor bank](#) for credit on its books, it may return the item or send notice of dishonor and may revoke any credit given or recover the amount thereof withdrawn by its [customer](#), if it acts within the time limit and in the manner specified in subsection (a).

(c) Unless previous notice of dishonor has been sent, an [item](#) is dishonored at the time when for purposes of dishonor it is returned or notice sent in accordance with this section.

(d) An [item](#) is returned:

- (1) as to an [item](#) presented through a [clearing house](#), when it is delivered to the presenting or last [collecting bank](#) or to the clearing house or is sent or delivered in accordance with clearing-house rules; or
- (2) in all other cases, when it is sent or delivered to the [bank's customer](#) or transferor or pursuant to instructions.

#### **§ 4-302. PAYOR BANK'S RESPONSIBILITY FOR LATE RETURN OF ITEM.**

(a) If an [item](#) is presented to and received by a [payor bank](#), the [bank](#) is accountable for the amount of:

- (1) a demand [item](#), other than a [documentary draft](#), whether [properly payable](#) or not, if the [bank](#), in any case in which it is not also the [depository bank](#), retains the [item](#) beyond midnight of the [banking day](#) of receipt without settling for it or, whether or not it is also the depository bank, does not pay or return the item or send notice of dishonor until after its [midnight deadline](#); or
- (2) any other [properly payable item](#) unless, within the time allowed for acceptance or payment of that item, the [bank](#) either accepts or pays the item or returns it and accompanying documents.

(b) The liability of a [payor bank](#) to pay an [item](#) pursuant to subsection (a) is subject to defenses based on breach of a presentment warranty (Section [4-208](#)) or proof that the person seeking enforcement of the liability presented or transferred the item for the purpose of defrauding the payor bank.

#### **§ 4-303. WHEN ITEMS SUBJECT TO NOTICE, STOP-PAYMENT ORDER, LEGAL PROCESS, OR SETOFF; ORDER IN WHICH ITEMS MAY BE CHARGED OR CERTIFIED.**

(a) Any knowledge, notice, or stop-payment order received by, legal process served upon, or setoff exercised by a [payor bank](#) comes too late to terminate,

suspend, or modify the [bank's](#) right or duty to pay an [item](#) or to charge its [customer's account](#) for the item if the knowledge, notice, stop-payment order, or legal process is received or served and a reasonable time for the [bank](#) to act thereon expires or the setoff is exercised after the earliest of the following:

- (1) the [bank](#) accepts or certifies the [item](#);
- (2) the [bank](#) pays the [item](#) in cash;
- (3) the [bank settles](#) for the [item](#) without having a right to revoke the settlement under statute, clearing-house rule, or agreement;
- (4) the [bank](#) becomes accountable for the amount of the [item](#) under Section [4-302](#) dealing with the [payor bank's](#) responsibility for late return of [items](#); or
- (5) with respect to checks, a cutoff hour no earlier than one hour after the opening of the next [banking day](#) after the banking day on which the [bank](#) received the check and no later than the close of that next banking day or, if no cutoff hour is fixed, the close of the next banking day after the banking day on which the bank received the check.

(b) Subject to subsection (a), [items](#) may be accepted, paid, certified, or charged to the indicated [account](#) of its [customer](#) in any order.

#### PART 4. RELATIONSHIP BETWEEN PAYOR BANK AND ITS CUSTOMER [\[Table of Contents\]](#)

##### **§ 4-401. WHEN BANK MAY CHARGE CUSTOMER'S ACCOUNT.**

(a) A [bank](#) may charge against the [account](#) of a customer an [item](#) that is [properly payable](#) from that [account](#) even though the charge creates an overdraft. An item is properly payable if it is authorized by the customer and is in accordance with any agreement between the customer and bank.

(b) A [customer](#) is not liable for the amount of an overdraft if the customer neither signed the [item](#) nor benefited from the proceeds of the item.

(c) A [bank](#) may charge against the [account](#) of a [customer](#) a check that is otherwise [properly payable](#) from the account, even though payment was made before the date of the check, unless the customer has given notice to the bank of the postdating describing the check with reasonable certainty. The notice is effective for the period stated in Section [4-403\(b\)](#) for stop-payment orders, and must be received at such time and in such manner as to afford the bank a reasonable opportunity to act on it before the bank takes any action with respect to the check described in Section [4-303](#). If a bank charges against the account of a customer a check before the date stated in the notice of postdating, the bank is liable for damages for the loss resulting from its act. The loss may include damages for dishonor of subsequent [items](#) under Section [4-402](#).

(d) A [bank](#) that in good faith makes payment to a holder may charge the indicated [account](#) of its [customer](#) according to:

- (1) the original terms of the altered [item](#); or

(2) the terms of the completed item, even though the bank knows the item has been completed unless the bank has notice that the completion was improper.

**§ 4-402. BANK'S LIABILITY TO CUSTOMER FOR WRONGFUL DISHONOR; TIME OF DETERMINING INSUFFICIENCY OF ACCOUNT.**

(a) Except as otherwise provided in this Article, a [payor bank](#) wrongfully dishonors an [item](#) if it dishonors an item that is [properly payable](#), but a [bank](#) may dishonor an item that would create an overdraft unless it has agreed to pay the overdraft.

(b) A [payor bank](#) is liable to its [customer](#) for damages proximately caused by the wrongful dishonor of an [item](#). Liability is limited to actual damages proved and may include damages for an arrest or prosecution of the customer or other consequential damages. Whether any consequential damages are proximately caused by the wrongful dishonor is a question of fact to be determined in each case.

(c) A [payor bank's](#) determination of the [customer's account](#) balance on which a decision to dishonor for insufficiency of available funds is based may be made at any time between the time the [item](#) is received by the payor bank and the time that the payor bank returns the item or gives notice in lieu of return, and no more than one determination need be made. If, at the election of the payor bank, a subsequent balance determination is made for the purpose of reevaluating the [bank's](#) decision to dishonor the item, the account balance at that time is determinative of whether a dishonor for insufficiency of available funds is wrongful.

**§ 4-403. CUSTOMER'S RIGHT TO STOP PAYMENT; BURDEN OF PROOF OF LOSS.**

(a) A [customer](#) or any person authorized to draw on the account if there is more than one person may stop payment of any item drawn on the customer's account or close the account by an order to the bank describing the item or account with reasonable certainty received at a time and in a manner that affords the bank a reasonable opportunity to act on it before any action by the bank with respect to the item described in Section [4-303](#). If the signature of more than one person is required to draw on an account, any of these persons may stop payment or close the account.

(b) A stop-payment order is effective for six months, but it lapses after 14 calendar days if the original order was oral and was not confirmed in a record within that period. A stop-payment order may be renewed for additional six-month periods by a record given to the [bank](#) within a period during which the stop-payment order is effective.

(c) The burden of establishing the fact and amount of loss resulting from the payment of an [item](#) contrary to a stop-payment order or order to close an [account](#) is on the [customer](#). The loss from payment of an item contrary to a stop-payment order may include damages for dishonor of subsequent items under Section [4-402](#).

**§ 4-404. BANK NOT OBLIGED TO PAY CHECK MORE THAN SIX MONTHS OLD.**



A [bank](#) is under no obligation to a [customer](#) having a checking [account](#) to pay a check, other than a certified check, which is presented more than six months after its date, but it may charge its customer's account for a payment made thereafter in good faith.

#### **§ 4-405. DEATH OR INCOMPETENCE OF CUSTOMER.**

(a) A payor or [collecting bank's](#) authority to accept, pay, or collect an [item](#) or to [account](#) for proceeds of its collection, if otherwise effective, is not rendered ineffective by incompetence of a [customer](#) of either [bank](#) existing at the time the item is issued or its collection is undertaken if the bank does not know of an adjudication of incompetence. Neither death nor incompetence of a customer revokes the authority to accept, pay, collect, or account until the bank knows of the fact of death or of an adjudication of incompetence and has reasonable opportunity to act on it.

(b) Even with knowledge, a [bank](#) may for 10 days after the date of death pay or certify checks drawn on or before that date unless ordered to stop payment by a person claiming an interest in the [account](#).

#### **§ 4-406. CUSTOMER'S DUTY TO DISCOVER AND REPORT UNAUTHORIZED SIGNATURE OR ALTERATION.**

(a) A [bank](#) that sends or makes available to a [customer](#) a statement of [account](#) showing payment of [items](#) for the account shall either return or make available to the customer the items paid or provide information in the statement of account sufficient to allow the customer reasonably to identify the items paid. The statement of account provides sufficient information if the item is described by item number, amount, and date of payment.

(b) If the [items](#) are not returned to the [customer](#), the person retaining the items shall either retain the items or, if the items are destroyed, maintain the capacity to furnish legible copies of the items until the expiration of seven years after receipt of the items. A customer may request an item from the [bank](#) that paid the item, and that bank must provide in a reasonable time either the item or, if the item has been destroyed or is not otherwise obtainable, a legible copy of the item.

(c) If a [bank](#) sends or makes available a statement of [account](#) or [items](#) pursuant to subsection (a), the [customer](#) must exercise reasonable promptness in examining the statement or the items to determine whether any payment was not authorized because of an alteration of an item or because a purported signature by or on behalf of the customer was not authorized. If, based on the statement or items provided, the customer should reasonably have discovered the unauthorized payment, the customer must promptly notify the bank of the relevant facts.

(d) If the [bank](#) proves that the [customer](#) failed, with respect to an [item](#), to comply with the duties imposed on the customer by subsection (c), the customer is precluded from asserting against the bank:

(1) the [customer's](#) unauthorized signature or any alteration on the [item](#), if the [bank](#) also proves that it suffered a loss by reason of the failure; and

(2) the [customer](#)'s unauthorized signature or alteration by the same wrongdoer on any other [item](#) paid in good faith by the [bank](#) if the payment was made before the bank received notice from the customer of the unauthorized signature or alteration and after the customer had been afforded a reasonable period of time, not exceeding 30 days, in which to examine the item or statement of [account](#) and notify the bank.

(e) If subsection (d) applies and the [customer](#) proves that the [bank](#) failed to exercise ordinary care in paying the [item](#) and that the failure substantially contributed to loss, the loss is allocated between the customer precluded and the bank asserting the preclusion according to the extent to which the failure of the customer to comply with subsection (c) and the failure of the bank to exercise ordinary care contributed to the loss. If the customer proves that the bank did not pay the item in good faith, the preclusion under subsection (d) does not apply.

(f) Without regard to care or lack of care of either the [customer](#) or the [bank](#), a customer who does not within one year after the statement or [items](#) are made available to the customer (subsection (a)) discover and report the customer's unauthorized signature on or any alteration on the item is precluded from asserting against the bank the unauthorized signature or alteration. If there is a preclusion under this subsection, the [payor bank](#) may not recover for breach of warranty under Section [4-208](#) with respect to the unauthorized signature or alteration to which the preclusion applies.

#### **§ 4-407. PAYOR BANK'S RIGHT TO SUBROGATION ON IMPROPER PAYMENT.**

If a [payor bank](#) has paid an [item](#) over the order of the drawer or maker to stop payment, or after an [account](#) has been closed, or otherwise under circumstances giving a basis for objection by the drawer or maker, to prevent unjust enrichment and only to the extent necessary to prevent loss to the [bank](#) by reason of its payment of the item, the payor bank is subrogated to the rights

- (1) of any holder in due course on the [item](#) against the drawer or maker;
- (2) of the payee or any other holder of the item against the drawer or maker either on the item or under the transaction out of which the item arose; and
- (3) of the drawer or maker against the payee or any other holder of the item with respect to the transaction out of which the item arose.

#### PART 5. COLLECTION OF DOCUMENTARY DRAFTS [\[Table of Contents\]](#)

#### **§ 4-501. HANDLING OF DOCUMENTARY DRAFTS; DUTY TO SEND FOR PRESENTMENT AND TO NOTIFY CUSTOMER OF DISHONOR.**

A [bank](#) that takes a [documentary draft](#) for collection shall present or send the [draft](#) and accompanying documents for presentment and, upon learning that the draft has not been paid or accepted in due course, shall seasonably notify its [customer](#) of the fact even though it may have discounted or bought the draft or extended credit available for withdrawal as of right.

#### **§ 4-502. PRESENTMENT OF "ON ARRIVAL" DRAFTS.**

If a [draft](#) or the relevant instructions require presentment "on arrival", "when goods arrive" or the like, the [collecting bank](#) need not present until in its judgment a reasonable time for arrival of the goods has expired. Refusal to pay or accept because the goods have not arrived is not dishonor; the [bank](#) must notify its transferor of the refusal but need not present the draft again until it is instructed to do so or learns of the arrival of the goods.

**§ 4-503. RESPONSIBILITY OF PRESENTING BANK FOR DOCUMENTS AND GOODS; REPORT OF REASONS FOR DISHONOR; REFEREE IN CASE OF NEED.**

Unless otherwise instructed and except as provided in Article 5, a [bank](#) presenting a [documentary draft](#):

- (1) must deliver the documents to the [drawee](#) on acceptance of the [draft](#) if it is payable more than three days after presentment; otherwise, only on payment; and
- (2) upon dishonor, either in the case of presentment for acceptance or presentment for payment, may seek and follow instructions from any referee in case of need designated in the [draft](#) or, if the [presenting bank](#) does not choose to utilize the referee's services, it must use diligence and good faith to ascertain the reason for dishonor, must notify its transferor of the dishonor and of the results of its effort to ascertain the reasons therefor, and must request instructions.

However the presenting bank is under no obligation with respect to goods represented by the documents except to follow any reasonable instructions seasonably received; it has a right to reimbursement for any expense incurred in following instructions and to prepayment of or indemnity for those expenses.

**§ 4-504. PRIVILEGE OF PRESENTING BANK TO DEAL WITH GOODS; SECURITY INTEREST FOR EXPENSES.**

- (a) A [presenting bank](#) that, following the dishonor of a [documentary draft](#), has seasonably requested instructions but does not receive them within a reasonable time may store, sell, or otherwise deal with the goods in any [reasonable manner](#).
- (b) For its reasonable expenses incurred by action under subsection (a), the [presenting bank](#) has a lien upon the goods or their proceeds, which may be foreclosed in the same manner as an unpaid seller's lien.