

How does Check 21 affect you?

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**How does Check 21 affect you?**

**By Roger Sorensen**

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Every year nearly 60,000 airplanes take off and land with an estimated 36 billion paper checks at an annual processing cost of \$8 billion. Who pays this \$8 billion dollars? The banks and credit unions across the nation, that's who. Why do they go to all this effort and expense? Many state commercial codes stipulated that only a canceled check was proof positive of payment.

Since there are nearly 18,000 financial institutions in the United States, most of them have not been able to charge fees to cover this \$8 billion cost of letting you have a checking account. This means that all of that money has to come out of other fees, penalties and loan rates.

At least this was the truth until October 21, 2004 when a new federal law took effect trumping states rights to regulate banks within their borders. The Check 21 Act allows a paper preprint of a check to be considered the equivalent of the original check. In English this means a bank in Oregon can copy a deposited check, send the image to your bank via electronic means and receive their money all in the same day.

Image exchange checks will not replace the old fashioned method of moving paper checks any time soon, though the number of checks written a year is decreasing an estimated 5%. Analysts expect the image exchange checks to surpass paper processing in 2006.

So why do banks want to invest in the equipment and security measures necessary to move checks electronically when the other method works? I can name you 5 reasons for every check every financial institution handles and they are all named Lincoln. Every check a bank does not handle is a savings of 5 cents, for an annual average savings, per bank, per year, of \$266,000.

How will this affect you, the consumer, who writes 120 checks a year for every man, woman, and child in this country? It doesn't affect you very much, except you will likely be receiving a printout of your checks with every statement.

The exception to this is if you are one of the millions of consumers who will write a check on Thursday, the day before your paycheck is deposited. You have become accustomed to writing a check and having a couple days to get the money into the account before the check reaches your bank. You are using what is called the float principle. Simply put, the float principle is the amount of time it takes a check to be deposited, trucked and flown to your bank.

With image exchange, the float is sunk. Through 2006 the banks and credit unions can collect an estimated \$170 million per month in bounced check fees on nearly 7 million checks written on accounts

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before the money was in the account.

That \$170 million translates into 5 cents for every check written in the nation, or nearly \$266,000 per bank, per year. This money will be taken from consumers in the form of "service fees", turning that \$35 check into a \$70 check because of the \$35 bounced check service fee. Who is more likely to have insufficient funds in their checking account – the above average income or the below average income consumers?

I guess it depends on your definition of below average income. The ultra–below make less than \$10,000 a year and mostly operate without checking accounts. The ultra–above make more than \$250,000 and use electronic or plastic means of paying for their purchases and everyday expenses. That leaves the rest of the nation, approximately 200,000,000 of us to provide enough service fees for the banks to average a quarter million dollars in unearned income each year. We're the people writing 10 checks every month for every member of our household. We're the busy parents of active children

trying to do everything and be everything in what we call an American dream.

How can you protect yourself and keep from adding to your banks bottom line? Control your checkbook and perhaps even change your spending habits. As more and more banks switch to the Check 21 system, you have to be ready for when it happens to you.

You can do this in a very simple, practical, and easy manner. Flip–flop the order of writing checks. Let me demonstrate on Sue, a typical mother of two children (12 & 14) who works at a local office building. Every Friday her weekly paycheck is deposited in her checking account electronically.

How Sue will respond to Check 21 is that from now on she will no longer do the grocery shopping on Thursday after soccer practice. Instead she will wait until Saturday after gymnastics, or even Monday on her way home from work to swing by the store and pickup a couple bags groceries for the week. By making this switch in routine, she will know the money for the groceries is in the bank.

Now let's make the assumption that instead of some imaginary woman named Sue, this person was you. Did you see what happened? Instead of writing a check before the money was in your account, you waited to write the check after the money was in available. This guaranteed your check would clear and you would not be charged any unexpected service fees.

By waiting to write checks until after the funds are in the account will take a little practice on your part and might be more difficult to do than it sounds. If you make the effort, and train yourself to think like a banker so you can avoid service fees, you will come out money ahead.

As the rules of banking change, you have to know and understand your rights and what these rule changes mean to you. Check 21 legislation was enacted to make check processing easier and more convenient for financial institutions across the country. They are also anticipating a surge in income through service fees. Do your best to avoid padding their bottom line – write checks only after the money is in your account.

Roger Sorensen is a Financial Literacy Speaker and Author – his book "You Don't Own Money" is available online at <http://www.amazon.com/exec/obidos/ASIN/0595186815/brighterfutur-20>.

Roger Sorensen is a Financial Author and Speaker, and the editor of Money Basics, a monthly personal finance newsletter found online at [www.brighterfutures.com](http://www.brighterfutures.com). After filling in his own debt pit equal to 150% of his annual income, Roger has turned the experience into Brighter Futures, a Financial Literacy company. "There is hope for you, no matter how large your debt load might be."

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### How Will Check 21 Affect You?

**By Shannon Jarvies**

You may already be familiar with Check 21, a federal law that goes into effect on October 28, 2004. If you're like me, this may be something you hadn't heard about until just yesterday. The Check Clearing for the 21st Century Act, otherwise known as Check 21, is the process of turning the checks you write into images and transmitting them by computer.

What does this mean to you?

Expect the time your check clears to decrease drastically. If you live paycheck to paycheck and often count on a one or two day "grace period" to get funds into your account after paying bills, you'll need to re-organize your budgeting process. Checks will clear in a matter of hours now, not days.

You will no longer be getting your cancelled checks back with your bank statement. If you get anything at all, it will be a "substitute check" which is a certain kind of copy of your original check.

You may be charged extra fees. It's possible that by using this method, your check will be paid twice: once with the original and once with the scanned image. Or there may be an error made in the amount a check was written for in the process of turning an paper check into an electronic check.

What you should do:

Re-organize your budget. You have to make sure that you have the funds in your account to cover every check you write to avoid bouncing any checks.

Request substitute checks. You will not be entitled to a credit to your account if an error has been made unless you have a substitute check.

Balance your checkbook. If you are not in the habit of balancing your checkbook with your bank statement each month, you need to start. This will ensure that you'll find any mistakes that may have been made.

Learn more. Consumer's Union did not support Check 21. Find out why and learn more about Check 21 [HERE](#)

Shannon Jarvies is a WAHM with five beautiful children and a wonderful husband. She also runs a Debt Management Website where you can find resources on how to eliminate debt including debt consolidation, budgeting help and money saving tips and ideas.

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