

10-1 Using Negotiable Instruments

Chapter 10 Banking and Negotiable Instruments

What You'll Learn

- Describe the function of negotiable instruments
- Identify the different types of negotiable instruments
- List the essential elements of negotiable instruments
- Differentiate between a draft, a note, and a certificate of deposit.

If you ever get a certificate of deposit or borrow money to buy a car, you need to know about the law of negotiable instruments.

Key Terms

- Negotiable instrument
- Note
- Maker
- Payee
- Draft
- Drawer
- Drawee
- Negotiation

Holder

- Assignment
- Indorsement
- Holder in due course

Academic Vocabulary

- Advantage
- Signature
- Unconditional

How do people pay for their purchases?

Negotiable instruments, also called commercial _____, are written and signed orders or _____ to transfer money to someone else.

Imagine you live in a country in which paper money and negotiable instruments have no value.

Everything must be purchased with precious metals such as silver or gold. Which one do you consider the best method? What would be the good and bad of each method?

There are two basic kinds of negotiable instruments:

- 1.
- 2.

Using Negotiable Instruments

A **note** is a written _____ to pay money.

The party who promises to pay is the _____. The party the promise is made to is the **payee**.

Negotiable Instruments

Examples of notes are:

- _____ agreements
- Certificates of deposit (CDs)
 - _____ by a bank
 - that earns interest _____ time
 - Written for _____ time periods such as 6, 12, 18, 24, 30, 36 months.

- Interest tends to be _____.
- Demand note - payable at the time the payee _____ payment
- Time note - payable at a _____ date.
- Installment note - paid in a _____ of payments (such as buying a car or house)

Negotiable Instruments

A **draft** is a written _____ to pay money.

The party who orders the money to be paid is the **drawer**. The _____ who is ordered to pay the money is the **drawee**. The party to be _____ is the **payee**.

Using Negotiable Instruments

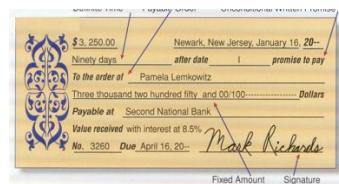
Examples of drafts are:

- _____ checks
- _____ checks
- _____ orders

Negotiable Instruments

To be negotiable, a negotiable instrument must have _____ elements:

- It must be in _____
- It must be _____ by the maker of drawer
- It must _____ have any conditions



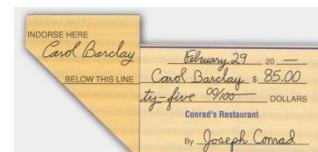
Using Negotiable Instruments

To be negotiable, a negotiable _____ must have certain elements:

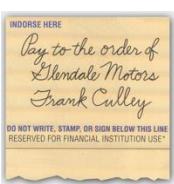
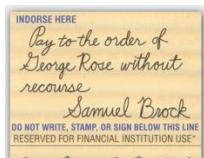
- It must be for a _____ sum of money
- It must be _____ on demand or at a certain time
- _____ for checks, it must be payable to order or to bearer

The act of placing one's _____ on an instrument to transfer it to someone else is called an **indorsement**.

What is a digital signature?



There are _____ main types of indorsements:

- **Blank Indorsement** – a blank indorsement consists of _____ the signature of the payee.
 
- **Special Indorsement** - A special indorsement _____ the party the instrument is indorsed to and must be _____ (signed) by that party.
 
- **Restrictive Indorsement** - A restrictive indorsement includes words that _____ how the instrument may be _____.
 
- **Qualified Indorsement** - A qualified indorsement limits the _____ of the indorser if, for example, the indorser is signing on _____ of someone else.

10.1 Wrap Up:

1. The drawer is the party who:
 - a. promises to pay money
 - b. orders money to be paid
 - c. is ordered to pay money
 - d. receives money
2. A negotiable instrument does not need to be in writing.
3. The act of placing one's signature on an instrument is called a(n):
 - a. note
 - b. draft
 - c. indorsement
 - d. forgery
4. What is the difference between a note and a draft?
5. What qualifies as a signature on a note or draft?

6. What is an indorsement?
7. Why do you think a person who writes a negotiable instrument in pencil would be responsible for any loss due to negligence?

10-2 Banking Basics

Chapter 10 – Banking and Negotiable Instruments

What you will learn:

- Explain the contractual relationship between a bank and its customers
- Distinguish stop payment orders, forgeries, and material alteration
- Differentiate between types of checks
- Define electronic fund transfers

You need to know what your legal rights and duties are when you open a checking account

Key Terms

- Forgery
- Electronic fund transfer (EFT)

Academic Vocabulary

- Schedule
- Reconcile
- Substitute

Section 10.2 Banking Basics

The most _____ type of negotiable instrument is the check.

You _____ a checking account by depositing money in a bank.

The Check 21 Act: A substitute check is issued and can be processed electronically to clear quickly and safely.

- _____ processing of checks
- _____ maybe different
- More _____
- _____ different on bank statement

A checking account creates a _____ relationship between a bank and a _____

- *What do I need to do to open a bank account?*
 - *Choose an Institution*
 - *Visit the Bank Branch or Website*
 - *Pick the Product You Want*
 - *Provide Your Information*
 - *Name*
 - *Birthday*
 - *Identification number (most like Social Security number)*
 - *Agree to Terms*
 - *Print, Sign, and Mail (If Applicable)*

When you write a check, you _____ your bank to pay _____ from your account.

Writing checks: make sure to take precautions to ensure someone cannot alter your checks

Other Types of Checks:

- **Certified checks**, which are checks guaranteed by a bank
- **Cashier's checks**, which are checks drawn by a bank upon itself
- **Bank drafts**, which are drawn by a bank against funds the bank has on deposit with another bank
- **Money orders**, which are drafts that substitute for checks and may be purchased from places such as banks and post offices
- **Traveler's checks**, which are like cashier's checks in that the financial institution that issues them is both the drawer and the drawee

The bank _____ to pay money up to the _____ you have in the account.

It is a _____ offense to write a bad check, also called a _____ or rubber check.

A bad check is a check written by _____ who knows he or she does not have _____ money in the account to cover it.

Have you got to pay for something and seen a sign that says \$50 fee charged for all returned check?

If you want to _____ payment on a check you wrote because, for example, you think you have been _____, you can issue a stop-payment _____ on the check.

The stop-payment order can be _____ orally or in writing.

If the bank _____ the check after you issue the stop-payment order,

you are not _____ for the amount.

- *Orally good for 14 days and in writing good for 6 mths*

_____ a signature or altering the amount on a check is called **forgery**.
Forgery is a _____ offense punishable by a fine and imprisonment.

If your bank cashes a check that has been _____ in your name, you are not liable for the _____.

Material Alterations: *Patricia wrote a check to her dry cleaner for \$35.50. When the check is paid the bank pays \$85.50. The "3" had been changed to an "8". Is this considered a crime?*

Most banking is now done using _____ fund transfer.

Electronic fund transfer (EFT) consists of _____ money using computers rather than paper.

_____ of EFT include:

- Using ATMs
- Paying bills over the Internet
- Using debit cards in place of checks

To regulate this means of banking, the federal government enacted the Electronic Fund Transfer Act (EFTA).

Under the EFTA you can:

- *Purchase merchandise at a store with your debit card*
- *Withdraw money from your bank at an automated teller machine (ATM) 24 hours a day*
- *Authorize your employer to deposit your earnings directly into your bank account*
- *Authorize direct withdrawals from your account to pay bills automatically*
- *Make payments from your bank by telephone*
- *Use your computer to view your account balances and pay bills electronically*
- *Have your paper check changed to an e-check (electronic check) so that it can be processed instantly*

You must notify your bank or you could be liable for up to \$500 or more if 60 days has passed

10.2 Wrap Up:

1. You are not liable for checks forged in your name.

True or False

2. Examples of EFT include:

- a. using ATMs
- b. paying bills over the Internet
- c. using debit cards in place of checks
- d. all of the above

3. How do you open a checking account?

4. Summarize the process of balancing your checkbook

5. What should you take care to do when writing a check?

6. Why might you want to stop payment on a check?