

IC 26-1-4

Chapter 4. Bank Deposits and Collections

IC 26-1-4-101

Short title

Sec. 101. IC 26-1-4 may be cited as Uniform Commercial Code – Bank Deposits and Collections.

(Formerly: Acts 1963, c.317, s.4-101.) As amended by P.L.152-1986, SEC.205; P.L.222-1993, SEC.6.

IC 26-1-4-102

Applicability

Sec. 102. (a) To the extent that items within IC 26-1-4 are also within IC 26-1-3.1 and IC 26-1-8.1, they are subject to IC 26-1-3.1 and IC 26-1-8.1. If there is conflict, IC 26-1-4 governs IC 26-1-3.1, but IC 26-1-8.1 governs IC 26-1-4.

(b) The liability of a bank for action or nonaction 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 nonaction 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.

(Formerly: Acts 1963, c.317, s.4-102.) As amended by P.L.152-1986, SEC.206; P.L.222-1993, SEC.7; P.L.247-1995, SEC.5.

IC 26-1-4-102.5

Application of bank provisions to supervised financial organizations

Sec. 102.5. (a) As used in this section, "supervised financial organization" means a person, other than an insurance company or other organization primarily engaged in an insurance business, that is:

- (1) organized, chartered, or holding an authorization certificate under the laws of a state or of the United States that authorizes the person to make loans and to receive deposits, including a savings, share, certificate, or deposit account; and
- (2) subject to supervision by an official or agency of a state or of the United States.

(b) The provisions of IC 26-1-4 which apply to a bank apply equally to any supervised financial organization which is authorized by state or federal law to permit persons to make withdrawals or payments from accounts by negotiable instruments.

As added by Acts 1981, P.L.231, SEC.2. Amended by P.L.152-1986, SEC.207; P.L.35-2010, SEC.95.

IC 26-1-4-103

Variation by agreement; measure of damages; action constituting ordinary care

Sec. 103. (a) The effect of the provisions of IC 26-1-4 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 nonaction approved by IC 26-1-4 or pursuant to federal reserve regulations or operating circulars is the exercise of ordinary care and, in the absence of special instructions, action or nonaction consistent with clearing-house rules and the like or with a general banking usage not disapproved by IC 26-1-4 is prima facie the exercise of ordinary care.

(d) The specification or approval of certain procedures by IC 26-1-4 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.

(Formerly: Acts 1963, c.317, s.4-103.) As amended by P.L.152-1986, SEC.208; P.L.222-1993, SEC.8.

IC 26-1-4-104

Definitions and index of definitions

Sec. 104. (a) In IC 26-1-4, 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, but does not include Saturday, Sunday, or a legal holiday.

(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 (IC 26-1-8.1-102), or instructions for uncertificated securities (IC 26-1-8.1-102) 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 IC 26-1-3.1-104) or an item, other than an instrument, that is an order.

(8) "Drawee" means a person ordered in a draft to make payment.

(9) "Good faith" means honesty in fact in the conduct or transaction concerned.

(10) "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 IC 26-1-4.1 or a credit or debit card slip.

(11) "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.

(12) "Settle" means to pay in cash, by clearing-house settlement, in a charge or credit, or by remittance, or otherwise as instructed. A settlement may be either provisional or final.

(13) "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 IC 26-1-4 and the sections in which they appear are:

"Agreement for electronic presentment". IC 26-1-4-110.

"Bank". IC 26-1-4-105.

"Collecting bank". IC 26-1-4-105.

"Depository bank". IC 26-1-4-105.

"Intermediary bank". IC 26-1-4-105.

"Payor bank". IC 26-1-4-105.

"Presenting bank". IC 26-1-4-105.

"Presentment notice". IC 26-1-4-110.

(c) "Control" as provided in IC 26-1-7-106 and the following definitions in IC 26-1-3.1 apply to IC 26-1-4:

"Acceptance". IC 26-1-3.1-409.

"Alteration". IC 26-1-3.1-407.

"Cashier's check". IC 26-1-3.1-104.

"Certificate of deposit". IC 26-1-3.1-104.

"Certified check". IC 26-1-3.1-409.

"Check". IC 26-1-3.1-104.

"Holder in due course". IC 26-1-3.1-302.

"Instrument". IC 26-1-3.1-104.

"Notice of dishonor". IC 26-1-3.1-503.

"Order". IC 26-1-3.1-103.

"Ordinary care". IC 26-1-3.1-103.

"Person entitled to enforce". IC 26-1-3.1-301.

"Presentment". IC 26-1-3.1-501.

"Promise". IC 26-1-3.1-103.

"Prove". IC 26-1-3.1-103.

"Record". IC 26-1-1-201(33b).

"Remotely-created consumer item". IC 26-1-3.1-103.

"Teller's check". IC 26-1-3.1-104.

"Unauthorized signature". IC 26-1-3.1-403.

(d) In addition, IC 26-1-1 contains general definitions and principles of construction and interpretation applicable throughout IC 26-1-4.

(Formerly: Acts 1963, c.317, s.4-104.) As amended by P.L.152-1986, SEC.209; P.L.263-1987, SEC.1; P.L.222-1993, SEC.9; P.L.247-1995, SEC.6; P.L.143-2007, SEC.22; P.L.135-2009, SEC.15.

IC 26-1-4-105

"Bank"; "depository bank"; "payor bank"; "intermediary bank"; "collecting bank"; "presenting bank"

Sec. 105. In IC 26-1-4:

(1) "Bank" means a person engaged in the business of banking, including a savings bank, savings 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.

(Formerly: Acts 1963, c.317, s.4-105.) As amended by P.L.152-1986, SEC.210; P.L.222-1993, SEC.10; P.L.79-1998, SEC.28.

IC 26-1-4-106

Payable through or payable at bank; collecting bank

Sec. 106. (a) If an item states that it is "payable through" a bank identified in the item:

(1) the item designates the bank as a collecting bank and does not by itself authorize the bank to pay the item; and

(2) the item may be presented for payment only by or through the bank.

(b) If an item states that it is "payable at" a bank identified in the item:

(1) the item designates the bank as a collecting bank and does not by itself authorize the bank to pay the item; and

(2) 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.

(Formerly: Acts 1963, c.317, s.4-106.) As amended by P.L.152-1986,

SEC.211; P.L.222-1993, SEC.11.

IC 26-1-4-107

Separate office of bank

Sec. 107. 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 notices or orders must be given under IC 26-1-4 and under IC 26-1-3.1.

(Formerly: Acts 1963, c.317, s.4-107.) As amended by Acts 1977, P.L.278, SEC.1; P.L.263-1987, SEC.2; P.L.222-1993, SEC.12.

IC 26-1-4-108

Time of receipt of items

Sec. 108. (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 2:00 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.

(Formerly: Acts 1963, c.317, s.4-108.) As amended by P.L.152-1986, SEC.212; P.L.222-1993, SEC.13.

IC 26-1-4-109

Delays

Sec. 109. (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 IC 26-1 for a period not exceeding two (2) additional banking days without discharge of drawers or endorsers 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 IC 26-1 or by instructions is excused if:

(1) 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

(2) the bank exercises such diligence as the circumstances require.

(Formerly: Acts 1963, c.317, s.4-109.) As amended by P.L.222-1993, SEC.14.

IC 26-1-4-110

Electronic presentment

Sec. 110. (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 under 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 IC 26-1-4 means the presentment notice unless the context otherwise indicates.

As added by P.L.222-1993, SEC.15.

IC 26-1-4-111

Statute of limitations

Sec. 111. An action to enforce an obligation, duty, or right arising under IC 26-1-4 must be commenced within three (3) years after the cause of action accrues.

As added by P.L.222-1993, SEC.16.

IC 26-1-4-201

Status of collecting banks as agent and provisional status of credits; applicability of chapter; item endorsed "pay any bank"

Sec. 201. (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 subagent of the owner of the item, and any settlement given for the item is provisional. This provision applies regardless of the form of endorsement or lack of endorsement 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 IC 26-1-4 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 endorsed 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 endorsed by a bank to a person who is not a bank.

(Formerly: Acts 1963, c.317, s.4-201.) As amended by P.L.152-1986, SEC.213; P.L.222-1993, SEC.17.

IC 26-1-4-202

Responsibility for collection or return; when action timely

Sec. 202. (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.

(Formerly: Acts 1963, c.317, s.4-202.) As amended by P.L.152-1986, SEC.214; P.L.222-1993, SEC.18.

IC 26-1-4-203

Effect of instructions

Sec. 203. Subject to of IC 26-1-3.1-420 concerning conversion of instruments and the provisions of both IC 26-1-3.1 and IC 26-1-4 concerning restrictive endorsements (IC 26-1-3.1-206), 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.

(Formerly: Acts 1963, c.317, s.4-203.) As amended by P.L.152-1986, SEC.215; P.L.222-1993, SEC.19.

IC 26-1-4-204

Methods of sending and presenting; sending directly to payor bank

Sec. 204. (a) A collecting bank shall send items by 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.

(Formerly: Acts 1963, c.317, s.4-204.) As amended by P.L.222-1993, SEC.20.

IC 26-1-4-205**Depository bank holder of unendorsed items**

Sec. 205. 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 endorses the item, and, if the bank satisfies the other requirements of IC 26-1-3.1-302, 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.

(Formerly: Acts 1963, c.317, s.4-205.) As amended by P.L.222-1993, SEC.21.

IC 26-1-4-206**Transfer between banks**

Sec. 206. Any agreed method that identifies the transferor bank is sufficient for the item's further transfer to another bank.

(Formerly: Acts 1963, c.317, s.4-206.) As amended by P.L.222-1993, SEC.22.

IC 26-1-4-207**Transfer warranties**

Sec. 207. (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 (IC 26-1-3.1-305(a)) of any party that can be asserted against the warrantor;

(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 a remotely-created consumer item, 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:

(1) according to the terms of the item at the time it was transferred; or

(2) if the transfer was of an incomplete item, according to its terms when completed as stated in IC 26-1-3.1-115 and IC 26-1-3.1-407.

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 endorsement 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 thirty (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.

(Formerly: Acts 1963, c.317, s.4-207.) As amended by P.L.222-1993, SEC.23; P.L.135-2009, SEC.16.

IC 26-1-4-208

Presentment warranties

Sec. 208. (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;
- (3) the warrantor has no knowledge that the signature of the purported drawer of the draft is unauthorized; and
- (4) with respect to a remotely-created consumer item, 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:

- (1) breach of warranty is a defense to the obligation of the acceptor; and
- (2) 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 endorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the endorsement is effective under IC 26-1-3.1-404 or IC 26-1-3.1-405 or the drawer is precluded under IC 26-1-3.1-406 or IC 26-1-4-406 from asserting against the drawee the unauthorized endorsement or alteration.

(d) If:

(1) a dishonored draft is presented for payment to the drawer or an endorser; or

(2) 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 thirty (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.

(Formerly: Acts 1963, c.317, s.4-208.) As amended by P.L.152-1986, SEC.216; P.L.222-1993, SEC.24; P.L.135-2009, SEC.17.

IC 26-1-4-209

Encoding and retention warranties

Sec. 209. (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.

(Formerly: Acts 1963, c.317, s.4-209.) As amended by P.L.152-1986, SEC.217; P.L.222-1993, SEC.25.

IC 26-1-4-210

Security interest of collecting bank in items, accompanying documents, and proceeds

Sec. 210. (a) A collecting bank has a security interest in an item and any accompanying documents or the proceeds of either:

- (1) in the 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 the 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 (1) time or under 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 IC 26-1-9.1, but:

- (1) no security agreement is necessary to make the security interest enforceable (IC 26-1-9.1-203(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.

(Formerly: Acts 1963, c.317, s.4-210.) As amended by P.L.152-1986, SEC.218; P.L.222-1993, SEC.26; P.L.57-2000, SEC.29; P.L.1-2002, SEC.100; P.L.143-2007, SEC.23.

IC 26-1-4-211

When bank gives value for purposes of holder in due course

Sec. 211. 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 IC 26-1-3.1-302 on what constitutes a holder in due course.

(Formerly: Acts 1963, c.317, s.4-211.) As amended by P.L.222-1993, SEC.27.

IC 26-1-4-212

Presentment by notice of item not payable by, through, or at bank;

liability of drawer or endorser

Sec. 212. (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 IC 26-1-3.1-501 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 IC 26-1-3.1-501 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 endorser by sending it notice of the facts.

(Formerly: Acts 1963, c.317, s.4-212.) As amended by P.L.152-1986, SEC.219; P.L.222-1993, SEC.28; P.L.135-2009, SEC.18.

IC 26-1-4-213**Medium and time of settlement by bank**

Sec. 213. (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 of or specified by the person to receive settlement; and

(2) the time of settlement is:

(A) 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;

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

(C) 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

(D) with respect to tender of settlement by a funds transfer, when payment is made under IC 26-1-4.1-406(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.

(Formerly: Acts 1963, c.317, s.4-213.) As amended by P.L.152-1986, SEC.220; P.L.243-1989, SEC.1; P.L.222-1993, SEC.29.

IC 26-1-4-214

Right of charge-back or refund; liability of collecting bank; return of item

Sec. 214. (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 under 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 (IC 26-1-4-301).

(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.

(Formerly: Acts 1963, c.317, s.4-214.) As amended by P.L.152-1986, SEC.221; P.L.222-1993, SEC.30.

IC 26-1-4-215**Final payment of item by payor bank; when provisional debits and credits become final; when certain credits become available for withdrawal**

Sec. 215. (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.
- (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; or
- (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.

As added by P.L.222-1993, SEC.31.

IC 26-1-4-216**Insolvency and preference**

Sec. 216. (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.

As added by P.L.222-1993, SEC.32.

IC 26-1-4-301

Deferred posting; recovery of payment by return of items; time of dishonor; return of items by payor bank

Sec. 301. (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; or
- (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 received 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 its rules; or
- (2) in all other cases, when it is sent or delivered to the bank's customer or transferor or pursuant to instructions.

(Formerly: Acts 1963, c.317, s.4-301.) As amended by P.L.152-1986, SEC.222; P.L.222-1993, SEC.33; P.L.135-2009, SEC.19.

IC 26-1-4-302

Payor bank's responsibility for late return of item

Sec. 302. (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 depositary bank, retains the item beyond midnight of the banking day of receipt without settling for it or, whether or not it is also the depositary 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 under subsection (a) is subject to defenses based on breach of a presentment warranty (IC 26-1-4-208) or proof that the person seeking enforcement of the liability presented or transferred the item for the purpose of defrauding the payor bank.

(Formerly: Acts 1963, c.317, s.4-302.) As amended by P.L.152-1986, SEC.223; P.L.222-1993, SEC.34.

IC 26-1-4-303**When items subject to notice, stop-payment order, legal process, or setoff; order in which items may be charged or certified**

Sec. 303. (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 IC 26-1-4-302 dealing with the payor bank's responsibility for late return of items.

(5) With respect to checks, a cutoff hour not earlier than one (1) hour after the opening of the next banking day after the banking day on which the bank received the check and not 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.

(Formerly: Acts 1963, c.317, s.4-303.) As amended by P.L.152-1986,

SEC.224; P.L.222-1993, SEC.35.

IC 26-1-4-401

When bank may charge customer's account

Sec. 401. (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 the 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 IC 26-1-4-403(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 IC 26-1-4-303. 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 IC 26-1-4-402.

(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.

(Formerly: Acts 1963, c.317, s.4-401.) As amended by P.L.222-1993, SEC.36.

IC 26-1-4-402

Bank's liability to customer for wrongful dishonor; time of determining insufficiency of account

Sec. 402. (a) Except as otherwise provided in IC 26-1-4, 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 (1) 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.

(Formerly: Acts 1963, c.317, s.4-402.) As amended by P.L.222-1993, SEC.37.

IC 26-1-4-403

Customer's right to stop payment; burden of proof of loss

Sec. 403. (a) A customer or any person authorized to draw on the account if there is more than one (1) 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 IC 26-1-4-303. If the signature of more than one (1) 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 (6) months, but it lapses after fourteen (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 (6) 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 IC 26-1-4-402.

(Formerly: Acts 1963, c.317, s.4-403.) As amended by P.L.152-1986, SEC.225; P.L.222-1993, SEC.38; P.L.135-2009, SEC.20.

IC 26-1-4-404

Bank not obligated to pay check more than six months old

Sec. 404. 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 (6) months after its date, but it may charge its customer's account for a payment made thereafter in good faith.

(Formerly: Acts 1963, c.317, s.4-404.)

IC 26-1-4-405

Death or incompetence of customer

Sec. 405. (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 the mental 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 mental 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 ten (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.

(Formerly: Acts 1963, c.317, s.4-405.) As amended by P.L.33-1989, SEC.25; P.L.222-1993, SEC.39.

IC 26-1-4-406

Customer's duty to discover and report unauthorized signature or alteration

Sec. 406. (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 (7) 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 under 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 thirty (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 (1) 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 IC 26-1-4-208 with respect to the unauthorized signature or alteration to which the preclusion applies.

(Formerly: Acts 1963, c.317, s.4-406.) As amended by P.L.222-1993, SEC.40.

IC 26-1-4-407

Payor bank's right to subrogation on improper payment

Sec. 407. 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.

(Formerly: Acts 1963, c.317, s.4-407.) As amended by P.L.222-1993, SEC.41.

IC 26-1-4-501

Handling of documentary drafts; duty to send for presentment and to notify customer of dishonor

Sec. 501. 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.

(Formerly: Acts 1963, c.317, s.4-501.) As amended by P.L.222-1993, SEC.42.

IC 26-1-4-502

Presentment of "on arrival" drafts

Sec. 502. 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.

(Formerly: Acts 1963, c.317, s.4-502.) As amended by P.L.222-1993, SEC.43.

IC 26-1-4-503

Responsibility of presenting bank for documents and goods; report of reasons for dishonor; referee in case needed

Sec. 503. Unless otherwise instructed and except as provided in IC 26-1-5.1, 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 (3) 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.

(Formerly: Acts 1963, c.317, s.4-503.) As amended by P.L.152-1986, SEC.226; P.L.222-1993, SEC.44; P.L.183-1996, SEC.3.

IC 26-1-4-504

Privilege of presenting bank to deal with goods; security interest for expenses

Sec. 504. (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.

(Formerly: Acts 1963, c.317, s.4-504.) As amended by P.L.222-1993, SEC.45.