



**SUBSTITUTE CHECK DISCLOSURE
IMPORTANT INFORMATION ABOUT YOUR CHECKING ACCOUNT**

What is a substitute Check?

To make check processing faster, federal law permits financial institutions to replace original checks with "substitute checks" These checks are similar in size to original checks with a slightly reduced image of the front and back of the original check. The front of a substitute check states: "This is a legal copy of your check. You can use it the same way you would use the original check." You may use a substitute check as proof of payment just like the original check.

Some of the checks you receive back from us may be substitute checks. This notice describes rights you have when you receive substitute checks from us. The rights in this notice do not apply to original checks or to electronic debits to your account. However, you have rights under other law with respect to those transactions.

What are my rights regarding substitute checks?

In certain cases, federal law provides a special procedure that allows you to request a refund for losses you suffer if a substitute check is posted to your account (for example, if you think that we withdrew money from your account more than once for the same check). The losses you may attempt to recover under this procedure may include the amount that was withdrawn from you account and fees that were charged as a result of the withdrawal (for example, insufficient funds check fees).

The amount of your refund under this procedure is limited to the amount of your loss or the amount of the substitute check whichever is less. You also are entitled to interest on the amount of your refund if you account is an interest bearing account. If your loss exceeds the amount of the substitute check, you may be able to recover additional amounts under other law.

If you use this procedure, you may receive up to \$2500 of your refund (plus interest if your account earns interest) within not more than 10 business days after we received your claim and the remainder of your refund (plus interest if your account earns interest) not later than 45 calendar days after we received your claim.

We may reverse the refund (including any interest on the refund) if we later are able to demonstrate that the substitute check was correctly posted to your account.

How do I make a claim for a refund?

If you believe that you have suffered a loss relating to a substitute check that you received and that was posted to your account, please contact us at:

**Ball State Federal Credit Union
2900 North Oakwood Avenue
Muncie, Indiana 47304**

Telephone Numbers (765) 741-2728 or (800) 795-3998

You must contact us within 40 calendar days of the date that we mailed (or otherwise delivered by a means in which you agreed) the substitute check in question or the account statement showing that a substitute check was posted to your account., whichever is later. We will extend this time period if you were not able to make a timely claim because of extraordinary circumstances.

Substitute Checks and Your Rights Notice

Your claim must include

1. A description of why you suffered a loss (for example, you think that amount withdrawn was incorrect).
2. An estimate of the amount of your loss
3. An explanation of why the substitute check you received is insufficient to confirm that you suffered a loss
4. A copy of the substitute check and the following information
 - a. Check number
 - b. The name of the person to whom you wrote the check
 - c. The amount of the check

Questions and Answers About Check 21 and Substitute Checks

What is Check 21?

The official name of Check 21 is "Check Clearing for The 21st Century Act". The new Act was passed by Congress in the summer of 2003 and was signed into law by President Bush on October 23, 2003. The new law goes into effect on October 28, 2004. Check 21 provides for the creation of a new negotiable instrument known as a "substitute Check".

What are the benefits of the new Act?

There are several benefits that will be realized for both credit unions and credit union members including:

- Provides for faster collection, return of check
- Eliminates the risk of transporting documents (transportation risks, weather, etc)
- Removes the legal barriers to truncation, encouraging financial institutions to begin using image technology/electronification
- Improves the efficiency of the U.S. payment system

What is a substitute check?

A substitute Check is a paper reproduction of the original check. The substitute check is created from an image of the original check and also must:

- Contain an image of the front and back of the original check
 - Bear an MICR line containing all the information appearing on the MICR line of the original check
 - Conform in paper stock, and otherwise with generally applicable industry standards for Substitute Checks
 - Be suitable for automated processing in the same manner as the original check
- Substitute Checks have been referred to as IRDS or Image Replacement Documents. The terms are interchangeable but the Act specifically refers to these new items as Substitute Checks.

Is a Substitute Check a real check?

If a Substitute Check meets all the legal requirements of the original check, then the Substitute Check is indeed a real check and possesses the same legal equivalence of the original check. No financial institution can refuse to pay a Substitute Check. If your credit union receives a Substitute Check in place of the original share draft from your processor, Mid-States Corporate, SCIP or others, you must accept the Substitute Check.

When could a Substitute Check be received?

If your credit union does not return the original share drafts in their account statements, then you could possibly see a copy of a Substitute Check when a copy is requested or a member could also view images of a share draft via a home banking system. A member may also come into contact with a Substitute Check when a deposited check is returned to them. The returned deposited check may have been converted to a Substituted Check. This document is a legal document and must be accepted.

What happened to the original check?

At some point in the process of the check, the original item will probably be destroyed. The destruction will occur once an electronic image of the original has been obtained. Each financial institution will determine their retention policy for the original check.

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What does truncation mean?

Truncation occurs when an original paper check is removed from the collection process. The check's information is stored electronically and the original check is destroyed. Members who do not receive original checks back with their account statement have what is known as truncated accounts.

What type of checks can become Substitute Checks?

Every type of U.S. check can become a Substitute Check including:

- Consumer Checks
- Business Checks
- Governments Warrants
- Treasury Checks
- Money Orders
- Controlled Disbursement Checks
- Payable Through Drafts
- Traveler's Checks

Do we have to accept Substitute Checks?

YES! Everyone, including banks, credit unions, paying customers, depositing customers, consumers, corporations, the Fed, must accept a **LEGITIMATE** Substitute Check for payment.

What do I do if I have a problem/error with a Substitute Check?

If a member currently does not receive their original checks back in their account statement, then the problem/error can be handled by the credit union just like any other error including encoding errors, etc. If the member does receive their original checks back in their account statement and suffer a loss due to the receipt of a Substitute Check and the loss is because the original check was not provided, the member should contact the credit union for further assistance. The member may be able to file an Expedited Recredit Claim for the loss incurred.