

## **Payment Systems and Other Financial Transactions**

### **Assignment #1 - The Basic Checking Relationship and the Bank's Right to Pay Checks**

#### **A. The Basic Relationship**

Figure 1.3 - Payment by Check

#### **B. The Bank's Right to Pay**

##### **1. When is it Proper for the Bank to Pay**

- (a) Overdrafts
- (b) Stopping Payment
- (c) Death or Incompetence of the Drawer

##### **2. Remedies for Improper Payment**

### **Assignment #2 - The Bank's Obligation to Pay Checks**

#### **A. When Are Funds Available for Payment?**

##### **1. Time of Evaluation**

##### **2. Availability of Funds**

Figure 2.1 - Basic Funds Availability Rules

Figure 2.2 - Low-Risk Items Availability Rules

*First National Bank v. Colonial Bank*

#### **B. Wrongful Dishonor: What Happens if the Bank Refuses to Pay?**

### **Assignment #3 - Collection of Checks**

#### **A. The Payor Bank's Obligation to the Payee**

*Outdoor Technologies, Inc. v. Allfirst Financial, Inc.*

#### **B. The Process of Collection**

##### **1. Obtaining Payment Directly**

Figure 3.1 - Direct Presentment

##### **2. Obtaining Payment Through Intermediaries**

- (a) Payee/Customer to Depository Bank**
- (b) Depository Bank to Payor Bank**

- (i) Multilateral arrangements (clearinghouses)

*Kimberly A. Allen Trust v. FirstBank of Lakewood, N.A.*  
Figure 3.2 - Clearinghouse Collection

- (ii) Bilateral Arrangements (direct-send and correspondent clearing)

Figure 3.3 - Direct-Send Collection

- (iii) Collection through the Federal Reserve system

Figure 3.4 - Federal Reserve Collection  
**The Regulation CC return deadline**  
**Regulation CC and the UCC's midnight deadline**  
**The Regulation CC notice of nonpayment deadline**

Figure 3.5 - Sample EARNs Notice  
Figure 3.6 - Return Obligations

## **Assignment #4 - Risk of Loss in the Checking System - The Basic Framework**

### **A. Non-payment**

Figure 4.1 - Indorser Liability

### **B. Forged Signatures**

#### **1. Forged Drawers' Signatures and the Rule of Price v. Neal**

- (a) What if the Payor Bank Pays the Forged Check?**

Figure 4.2 - Presentment and Transfer Warranties  
*Decibel Credit Union v. Pueblo Bank & Trust Company*

- (b) What if the Payor Bank Dishonors the Forged Check?**

#### **2. Forged Indorsements**

- (a) What if the Payor Bank Pays the Check Despite the Forged Indorsement?**
- (b) What if the Payor Bank Dishonors the Check because of the Forged Indorsement?**
- (c) Conversion**

**C. Alteration**

**Assignment #5 - Special Rules for Checking Losses**

**A. Negligence**

*HSBC Bank USA v. F & M Bank Northern Virginia*

**B. Bank Statements**

*Stowell v. Cloquet Co-op Credit Union*

**C. Theft by Employees**

*Cable Cast Magazine v. Premier Bank*  
*Gina Chin & Associates v. First Union Bank*

**D. Impostors**

*Meng v. Maywood Proviso State Bank*

**Assignment #6 - The Credit Card System**

**A. The Issuer/Cardholder Relationship**

**B. Using the Credit-Card Account**

**C. Collection by the Payee**

**1. The Mechanics of Collection**

Figure 6.1 - Payment by Credit Card

Figure 6.2 - Dividing the Credit-Card Dollar

**2. Finality of Payment**

*Hyland v. First USA Bank*

**Problem Set 6**

**Assignment #7 - Error and Fraud in Credit-Card Transactions**

**A. Erroneous Charges**

*Belmont v. Associates National Bank (Delaware)*

**B. Unauthorized Charges**

*Minskoff v. American Express Travel Related Services Co.*

## **Assignment #8 - Debit Cards**

### **A. Payment with a Debit Card**

- 1. Establishing the Debit-Card Relationship**
- 2. Transferring Funds with a Debit Card**
- 3. Collection by the Payee**

- (a) PIN-Based Debit Cards
- (b) PIN-Less Debit Cards

### **B. Error and Fraud in Debit-Card Transactions**

- 1. Erroneous Transactions**
- 2. Fraudulent Transactions**

*Heritage Bank v. Lovett*

## **Assignment #9 - Automated Clearinghouse Payments**

### **A. The Basic Terminology of ACH Transfers**

Figure 9.1 - ACH Entries

### **B. The Mechanics of ACH Entries**

### **C. Types of ACH Entries**

### **D. Finality, Fraud, and Error in ACH Transfers**

- 1. Finality**
- 2. Fraud and Error in ACH Transfers**

### **Problem Set 9**

### **Appendix: NACHA Rules (Selected)**

## **Assignment #10 - The Wire-Transfer System**

### **A. The Basic Terminology of ACH Transfers**

#### **A. Introduction**

#### **B. How Does It Work?**

**1. Initiating the Wire Transfer: From the Originator to the Originator's Bank**

Figure 10.1 - Payment by Wire Transfer  
*Banco de la Provincia v. BayBank Boston N.A.*

**2. Executing the Transfer: From the Originator's Bank to the Beneficiary's Bank**

- (a) Bilateral Systems (Including SWIFT)**
- (b) CHIPS**

Figure 10.2 - Multilateral Netting on Chips

- (c) Fedwire**

Figure 10.3 - Sample Fedwire Message (txt)

**3. Completing the Funds Transfer: From the Beneficiary's Bank to the Beneficiary****C. Discharge of the Originator's Underlying Obligation****D. Finality of Payment**

*Aleo International, Ltd. v. Citibank, N.A.*

**Problem Set 10****Assignment #11 - Error in Wire-Transfer Transactions****A. Recovering from Parties in the System****1. Errors by the Originator**

*Corfan Banco Asuncion Paraguay v. Ocean Bank*

**2. Errors in the System**

- (a) Sending Excessive Funds**
- (b) Sending Inadequate Funds**
- (c) Bank-Statement Rule**

**B. Recovering from the Mistaken Recipient****Problem Set 11**

## **Assignment #12 - Fraud, System Failure, and International Issues in Wire-Transfer Transactions**

### **A. Fraud**

### **B. System Failure**

### **C. International Transfers**

#### **1. Choice-of-Law Rules**

*Grain Traders, Inc. v. Citibank, N.A.*

#### **2. Error and Fraud in SWIFT Transactions**

### **Problem Set 12**

## **Assignment #13 - Letters of Credit - The Basics**

### **A. The Underlying Transaction**

Figure 13.1 - Irrevocable Commercial Letter of Credit

### **B. Advising and Confirming Banks**

Figure 13.2 - The Letter of Credit Transaction

### **C. The Terms of the Credit**

### **D. Drawing on the Credit**

*Samuel Rappaport Family Partnership v. Meridian Bank*

### **E. Reimbursement**

Figure 13.3 - Payment with a Letter of Credit

### **Problem Set 13**

## **Appendix - Excerpts from the ICC Uniform Customs and Practices for Documentary Credits**

## **Assignment #14 - Letters of Credit - Advanced Topics**

### **A. Error and Fraud in Letter-of-Credit Transactions**

1. Wrongful Honor
2. Wrongful Dishonor
3. Fraud

- (a) Forged Drafts
- (b) Fraudulent Submissions by the Beneficiary

**B. Assigning Letters of Credit**

**C. Choice-of-Law Rules**

**Problem Set 14**

**Assignment #15 - Promissory Notes and Interest Rates**

**A. Promissory Notes**

*Schillace v. Channell Shopping Partnership*  
Promissory Note

**B. Determining the Amount of Compensation**

1. Fixed and Variable Interest Rates
2. Interest-Rate Swaps

Figure 15.1 - Interest-Rate Swap

3. The Enforceability of Interest-Rate Agreements

**Problem Set 15**

**Assignment #16 - Usury**

**A. The Basic Concept**

*Schnee v. Plemmons*

**B. Typical Usury Problems**

**C. Exemptions from Usury Statutes**

*Trapp v. Hancuh*

**Problem Set 16**

**Assignment #17 - Late Payment and Prepayment**

**A. Late Payment**

*Mattvidi Associates Limited Partnership v. NationsBank*

**B. Prepayment**

*Carlyle Apartments Joint Venture v. AIG Life Insurance Co.*

**Problem Set 17**

**Assignment #18 - Credit Enhancement by Guaranty**

**A. The Role of Guaranties**

**Thomas S. Hemmendinger, Hillman on Commercial Loan Documentation -  
Continuing Guaranty**

**B. Rights of the Creditor Against the Guarantor**

*F.T.L., Inc. v. Crestar Bank (In re F.T.L., Inc.)*

**Problem Set 18**

**Assignment #19 - Protections for Guarantors**

**A. Rights of the Guarantor Against the Principal**

- 1. Performance**
- 2. Reimbursement**

Figure 19.1 - **Rights of the Guarantor**

**3. Subrogation**

*Corporate Buying Service v. Lenox Hill Radiology Associates*  
Figure 19.2 - **Guarantor Preferences**

**B. Rights of the Guarantor Against the Creditor**

- 1. Suretyship Defenses**
- 2. Waiver of Suretyship Defenses**

*Modern Photo Offset Supply v. The Woodfield Group*

**C. Bankruptcy of the Guarantor**



*Trimec, Inc. v. Zale Corporation***Problem Set 19****Assignment #20 - Third-Party Credit Enhancement - Standby Letters of Credit****A. The Standby Letter-of-Credit Transaction**

Figure 20.1 - Standby Letters of Credit

Figure 20.2 - Form Standby Letter of Credit

*Wood v. State Bank***B. Problems in Standby Letter-of-Credit Transactions****1. Bankruptcy of the Applicant***In re Ocana***2. The Issuer's Right of Subrogation***CCF, Inc. v. First National Bank (In re Slamans)***Problem Set 20****Assignment #21 - Negotiable Instruments****A. Negotiability and Liquidity****B. A Typical Transaction**

Figure 21.1 - Sample Negotiable Draft

**C. The Negotiability Requirements**

Diagram 21.2 - The Players in a Negotiable Draft Transaction

Diagram 21.3 - The Negotiability Requirements

**1. The Promise or Order Requirement****2. The Unconditional Requirement***DBA Enterprises, Inc. v. Findlay***3. The Money Requirement****4. The Fixed Amount Requirement**

*Nagel v. Cronebaugh*

5. The Payable-to-Bearer-or-Order Requirement
6. The Demand or Definite Time Requirement
7. The No Extraneous Undertakings Requirement

## Problem Set 21

**Assignment #22 - Transfer and Enforcement of Negotiable Instruments****A. Transferring a Negotiable Instrument**

1. Negotiation and Status as a Holder
2. Special and Blank Indorsements
3. Restrictive and Anomalous Indorsements

**B. Enforcement and Collection of Instruments**

1. The Right To Enforce an Instrument
2. Presentment and Dishonor
3. Defenses to Enforcement

*Turman v. Ward's Home Improvement, Inc.***C. Liability on an Instrument**

Figure 22.1 - Liability on an Instrument

**D. The Effect of the Instrument on the Underlying Obligation***McMahon Food Corp. v. Burger Dairy Co.*

## Problem Set 22

**Assignment #23 - Holders in Due Course****A. Holder-in-Due-Course Status**

1. The Requirements for Holder-in-Due-Course Status
2. Rights of Holders in Due Course

*State St. Bank & Trust co. v. Strawser*

3. Payment and Discharge
4. Transferees Without Holder-in-Due-Course Status

**B. The Fading Role of Negotiability**

1. Declining Use of Negotiable Instruments
2. The Decreasing Relevance of Negotiability to Negotiable Instruments

**Problem Set 23**

**Assignment #24 - Documents of Title**

**A. The Mechanics of Documents of Title**

1. Delivering Goods to a Carrier
2. Recovering Goods from a Carrier

**(a) Nonnegotiable Documents**

Figure 24.1 - Negotiable Bill of Lading

**(b) Negotiable Documents**

**B. Transactions with Documentary Drafts**

1. The Role of Documentary Draft Transactions
2. Steps in the Transaction

**(a) Preliminaries - Sale Contract, Shipment, and Issuance of the Draft**

Figure 24.2 - Documentary Collection: Parties/Document Flow

**(b) Processing by the Remitting Bank**

Figure 24.3 - Sight Draft for Documentary Collection

Figure 24.4 - Form Collection Document

**(c) Processing by the Presenting Bank**

**C. Credit Transactions and Banker's Acceptances**

Figure 24.5 - Banker's Acceptance Transaction

**Problem Set 24**

**Assignment #25 - Securitization**

**A. Securitization and Liquidity**

**B. The Rise of Securitization**

**C. Investment Securities and Article 8**

- 1. The Subject Matter: What Is a Security?**
- 2. The Obligation of the Issue**
- 3. The Two Holding Systems**

**(a) The Direct Holding System**

- (I) Making the Transfer Effective as Between Seller and Purchaser**
- (II) Making the Transfer Effective Against the Issuer**
- (III) The Effect of a Transfer on Third Parties**

**(b) The Indirect Holding System**

- (I) The Basic Framework**
- (II) Rights Against the Intermediary**
- (III) Rights Against Third Parties**

**Problem Set 25**