

Name _____ Date _____

ACTIVITY THREE - BANKING LAWS

Banks are potential targets for people engaging in fraud involving checks. In the past, banks have protected themselves from check fraud by reserving the right to delay paying out on checks until they have cleared. In some cases, a bank would wait five business days to clear a check.

In 1987, the Expedited Funds Availability Act changed this practice. This law requires a bank to make cash and check deposits available on the next business day. Deposits include certified checks, teller's checks, and any check drawn on a local bank. Many people were happy the government finally passed the law. The law was passed to satisfy critics of the banking industry who claimed that banks held onto checks for five days so they could invest the money on their own behalf.

On the other hand, banks are concerned about the law making deposits available on the next business day. Banks claim that the Expedited Funds Availability Act gives people license to defraud banks. Bank fraud losses currently exceed ten billion dollars a year. The new law allows individuals to deposit stolen or forged checks into a new account and withdraw the money the next day, before the funds have cleared. The depository bank suffers the loss.

However, banks have no choice but to comply with this law, and all bank customers have been affected because the banks have passed along their losses to the customer in the form of higher checking costs and other bank fees.

How might this 1987 law affect the bank tellers of today?

[The fact that banks can no longer wait for a check to clear before they pay out on it leaves them vulnerable to fraud. So, more emphasis is probably put on the job of the teller, who must authenticate all checks he/she receives. It is very important for tellers to be knowledgeable about fraud, especially because of the Expedited Funds Availability Act]

What challenges are there for banks and what benefits are there for customers?

[Banks face the possibility of increased fraud. They are required to pay checks before they have cleared, creating the opportunity for a person to deposit a stolen or forged check, and then withdraw it before it clears. The law benefits customers by allowing them access to funds much more quickly. Customers now have access to funds the next business day after a deposit, as opposed to waiting several days.]

* Taken from the National Academy Foundation.