

4608

2015-2016 Regular Sessions

I N S E N A T E

March 30, 2015

Introduced by Sen. FARLEY -- read twice and ordered printed, and when printed to be committed to the Committee on Judiciary

AN ACT to amend the uniform commercial code, in relation to modernizing commercial law in New York state; and to repeal certain provisions of such code relating thereto

THE PEOPLE OF THE STATE OF NEW YORK, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

1 Section 1. Article 3 of the uniform commercial code is REPEALED and a
2 new article 3 is added to read as follows:

3 ARTICLE 3

4 NEGOTIABLE INSTRUMENTS

5 PART 1

6 GENERAL PROVISIONS AND DEFINITIONS

7 SECTION 3--101. SHORT TITLE.

8 THIS ARTICLE MAY BE CITED AS UNIFORM COMMERCIAL CODE--NEGOTIABLE
9 INSTRUMENTS.

10 SECTION 3--102. SUBJECT MATTER.

11 (A) THIS ARTICLE APPLIES TO NEGOTIABLE INSTRUMENTS. IT DOES NOT APPLY
12 TO MONEY, TO PAYMENT ORDERS GOVERNED BY ARTICLE 4A, OR TO SECURITIES
13 GOVERNED BY ARTICLE 8.

14 (B) IF THERE IS CONFLICT BETWEEN THIS ARTICLE AND ARTICLE 4 OR 9,
15 ARTICLES 4 AND 9 GOVERN.

16 (C) REGULATIONS OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE
17 SYSTEM AND OPERATING CIRCULARS OF THE FEDERAL RESERVE BANKS SUPERSEDE
18 ANY INCONSISTENT PROVISION OF THIS ARTICLE TO THE EXTENT OF THE INCON-
19 SISTENCY.

20 SECTION 3--103. DEFINITIONS.

21 (A) IN THIS ARTICLE:

22 (1) "ACCEPTOR" MEANS A DRAWEE WHO HAS ACCEPTED A DRAFT.

23 (2) "CONSUMER ACCOUNT" MEANS AN ACCOUNT ESTABLISHED BY AN INDIVIDUAL
24 PRIMARILY FOR PERSONAL, FAMILY, OR HOUSEHOLD PURPOSES.

EXPLANATION--Matter in ITALICS (underscored) is new; matter in brackets
[] is old law to be omitted.

LBD10173-01-5

(3) "CONSUMER TRANSACTION" MEANS A TRANSACTION IN WHICH AN INDIVIDUAL INCURS AN OBLIGATION PRIMARILY FOR PERSONAL, FAMILY, OR HOUSEHOLD PURPOSES.

(4) "DRAWEE" MEANS A PERSON ORDERED IN A DRAFT TO MAKE PAYMENT.

(5) "DRAWER" MEANS A PERSON WHO SIGNS OR IS IDENTIFIED IN A DRAFT AS A PERSON ORDERING PAYMENT.

(6) "GOOD FAITH" MEANS HONESTY IN FACT AND THE OBSERVANCE OF REASONABLE COMMERCIAL STANDARDS OF FAIR DEALING.

(7) "MAKER" MEANS A PERSON WHO SIGNS OR IS IDENTIFIED IN A NOTE AS A PERSON UNDERTAKING TO PAY.

(8) "ORDER" MEANS A WRITTEN INSTRUCTION TO PAY MONEY SIGNED BY THE PERSON GIVING THE INSTRUCTION. THE INSTRUCTION MAY BE ADDRESSED TO ANY PERSON, INCLUDING THE PERSON GIVING THE INSTRUCTION, OR TO ONE OR MORE PERSONS JOINTLY OR IN THE ALTERNATIVE BUT NOT IN SUCCESSION. AN AUTHORIZATION TO PAY IS NOT AN ORDER UNLESS THE PERSON AUTHORIZED TO PAY IS ALSO INSTRUCTED TO PAY.

(9) "ORDINARY CARE" IN THE CASE OF A PERSON ENGAGED IN BUSINESS MEANS OBSERVANCE OF REASONABLE COMMERCIAL STANDARDS, PREVAILING IN THE AREA IN WHICH THE PERSON IS LOCATED, WITH RESPECT TO THE BUSINESS IN WHICH THE PERSON IS ENGAGED. IN THE CASE OF A BANK THAT TAKES AN INSTRUMENT FOR PROCESSING FOR COLLECTION OR PAYMENT BY AUTOMATED MEANS, REASONABLE COMMERCIAL STANDARDS DO NOT REQUIRE THE BANK TO EXAMINE THE INSTRUMENT IF THE FAILURE TO EXAMINE DOES NOT VIOLATE THE BANK'S PRESCRIBED PROCEDURES AND THE BANK'S PROCEDURES DO NOT VARY UNREASONABLY FROM GENERAL BANKING USAGE NOT DISAPPROVED BY THIS ARTICLE OR ARTICLE 4.

(10) "PARTY" MEANS A PARTY TO AN INSTRUMENT.

(11) "PRINCIPAL OBLIGOR," WITH RESPECT TO AN INSTRUMENT, MEANS THE ACCOMMODATED PARTY OR ANY OTHER PARTY TO THE INSTRUMENT AGAINST WHOM A SECONDARY OBLIGOR HAS RECOURSE UNDER THIS ARTICLE.

(12) "PROMISE" MEANS A WRITTEN UNDERTAKING TO PAY MONEY SIGNED BY THE PERSON UNDERTAKING TO PAY. AN ACKNOWLEDGMENT OF AN OBLIGATION BY THE OBLIGOR IS NOT A PROMISE UNLESS THE OBLIGOR ALSO UNDERTAKES TO PAY THE OBLIGATION.

(13) "PROVE" WITH RESPECT TO A FACT MEANS TO MEET THE BURDEN OF ESTABLISHING THE FACT (SECTION 1-201(B)(8)).

(14) RESERVED.

(15) "REMITTER" MEANS A PERSON WHO PURCHASES AN INSTRUMENT FROM ITS ISSUER IF THE INSTRUMENT IS PAYABLE TO AN IDENTIFIED PERSON OTHER THAN THE PURCHASER.

(16) "REMOTELY-CREATED CONSUMER ITEM" MEANS AN ITEM DRAWN ON A CONSUMER ACCOUNT, WHICH IS NOT CREATED BY THE PAYOR BANK AND DOES NOT BEAR A HANDWRITTEN SIGNATURE PURPORTING TO BE THE SIGNATURE OF THE DRAWER.

(17) "SECONDARY OBLIGOR," WITH RESPECT TO AN INSTRUMENT, MEANS (A) AN INDORSER OR AN ACCOMMODATION PARTY, (B) A DRAWER HAVING THE OBLIGATION DESCRIBED IN SECTION 3-414(D), OR (C) ANY OTHER PARTY TO THE INSTRUMENT THAT HAS RECOURSE AGAINST ANOTHER PARTY TO THE INSTRUMENT PURSUANT TO SECTION 3-116(B).

(B) OTHER DEFINITIONS APPLYING TO THIS ARTICLE AND THE SECTIONS IN WHICH THEY APPEAR ARE:

"ACCEPTANCE".	SECTION 3--409
"ACCOMMODATED PARTY".	SECTION 3--419
"ACCOMMODATION PARTY".	SECTION 3--419
"ACCOUNT".	SECTION 4--104
"ALTERATION".	SECTION 3--407
"ANOMALOUS INDORSEMENT".	SECTION 3--205
"BLANK INDORSEMENT".	SECTION 3--205

1	"CASHIER'S CHECK".	SECTION 3--104
2	"CERTIFICATE OF DEPOSIT".	SECTION 3--104
3	"CERTIFIED CHECK".	SECTION 3--409
4	"CHECK".	SECTION 3--104
5	"CONSIDERATION".	SECTION 3--303
6	"DRAFT".	SECTION 3--104
7	"HOLDER IN DUE COURSE".	SECTION 3--302
8	"INCOMPLETE INSTRUMENT".	SECTION 3--115
9	"INDORSEMENT".	SECTION 3--204
10	"INDORSER".	SECTION 3--204
11	"INSTRUMENT".	SECTION 3--104
12	"ISSUE".	SECTION 3--105
13	"ISSUER".	SECTION 3--105
14	"NEGOTIABLE INSTRUMENT".	SECTION 3--104
15	"NEGOTIATION".	SECTION 3--201
16	"NOTE".	SECTION 3--104
17	"PAYABLE AT A DEFINITE TIME".	SECTION 3--108
18	"PAYABLE ON DEMAND".	SECTION 3--108
19	"PAYABLE TO BEARER".	SECTION 3--109
20	"PAYABLE TO ORDER".	SECTION 3--109
21	"PAYMENT".	SECTION 3--602
22	"PERSON ENTITLED TO ENFORCE".	SECTION 3--301
23	"PRESENTMENT".	SECTION 3--501
24	"REACQUISITION".	SECTION 3--207
25	"SPECIAL INDORSEMENT".	SECTION 3--205
26	"TELLER'S CHECK".	SECTION 3--104
27	"TRANSFER OF INSTRUMENT".	SECTION 3--203
28	"TRAVELER'S CHECK".	SECTION 3--104
29	"VALUE".	SECTION 3--303
30	(C) THE FOLLOWING DEFINITIONS IN OTHER ARTICLES APPLY TO THIS ARTICLE:	
31	"BANKING DAY".	SECTION 4--104
32	"CLEARING HOUSE".	SECTION 4--104
33	"COLLECTING BANK".	SECTION 4--105
34	"DEPOSITARY BANK".	SECTION 4--105
35	"DOCUMENTARY DRAFT".	SECTION 4--104
36	"INTERMEDIARY BANK".	SECTION 4--105
37	"ITEM".	SECTION 4--104
38	"PAYOR BANK".	SECTION 4--105
39	"SUSPENDS PAYMENTS".	SECTION 4--104
40	(D) IN ADDITION, ARTICLE 1 CONTAINS GENERAL DEFINITIONS AND PRINCIPLES	
41	OF CONSTRUCTION AND INTERPRETATION APPLICABLE THROUGHOUT THIS ARTICLE.	
42	SECTION 3--104. NEGOTIABLE INSTRUMENT.	
43	(A) EXCEPT AS PROVIDED IN SUBSECTIONS (C) AND (D), "NEGOTIABLE INSTRU-	
44	MENT" MEANS AN UNCONDITIONAL PROMISE OR ORDER TO PAY A FIXED AMOUNT OF	
45	MONEY, WITH OR WITHOUT INTEREST OR OTHER CHARGES DESCRIBED IN THE PROM-	
46	ISE OR ORDER, IF IT:	
47	(1) IS PAYABLE TO BEARER OR TO ORDER AT THE TIME IT IS ISSUED OR FIRST	
48	COMES INTO POSSESSION OF A HOLDER;	
49	(2) IS PAYABLE ON DEMAND OR AT A DEFINITE TIME; AND	
50	(3) DOES NOT STATE ANY OTHER UNDERTAKING OR INSTRUCTION BY THE PERSON	
51	PROMISING OR ORDERING PAYMENT TO DO ANY ACT IN ADDITION TO THE PAYMENT	
52	OF MONEY, BUT THE PROMISE OR ORDER MAY CONTAIN (I) AN UNDERTAKING OR	
53	POWER TO GIVE, MAINTAIN, OR PROTECT COLLATERAL TO SECURE PAYMENT, (II)	
54	AN AUTHORIZATION OR POWER TO THE HOLDER TO CONFESS JUDGMENT OR REALIZE	
55	ON OR DISPOSE OF COLLATERAL, OR (III) A WAIVER OF THE BENEFIT OF ANY LAW	
56	INTENDED FOR THE ADVANTAGE OR PROTECTION OF AN OBLIGOR.	

(B) "INSTRUMENT" MEANS A NEGOTIABLE INSTRUMENT.

(C) AN ORDER THAT MEETS ALL OF THE REQUIREMENTS OF SUBSECTION (A), EXCEPT PARAGRAPH (1), AND OTHERWISE FALLS WITHIN THE DEFINITION OF "CHECK" IN SUBSECTION (F) IS A NEGOTIABLE INSTRUMENT AND A CHECK.

(D) A PROMISE OR ORDER OTHER THAN A CHECK IS NOT AN INSTRUMENT IF, AT THE TIME IT IS ISSUED OR FIRST COMES INTO POSSESSION OF A HOLDER, IT CONTAINS A CONSPICUOUS STATEMENT, HOWEVER EXPRESSED, TO THE EFFECT THAT THE PROMISE OR ORDER IS NOT NEGOTIABLE OR IS NOT AN INSTRUMENT GOVERNED BY THIS ARTICLE.

(E) AN INSTRUMENT IS A "NOTE" IF IT IS A PROMISE AND IS A "DRAFT" IF IT IS AN ORDER. IF AN INSTRUMENT FALLS WITHIN THE DEFINITION OF BOTH "NOTE" AND "DRAFT," A PERSON ENTITLED TO ENFORCE THE INSTRUMENT MAY TREAT IT AS EITHER.

(F) "CHECK" MEANS (I) A DRAFT, OTHER THAN A DOCUMENTARY DRAFT, PAYABLE ON DEMAND AND DRAWN ON A BANK OR (II) A CASHIER'S CHECK OR TELLER'S CHECK. AN INSTRUMENT MAY BE A CHECK EVEN THOUGH IT IS DESCRIBED ON ITS FACE BY ANOTHER TERM, SUCH AS "MONEY ORDER."

(G) "CASHIER'S CHECK" MEANS A DRAFT WITH RESPECT TO WHICH THE DRAWER AND DRAWEE ARE THE SAME BANK OR BRANCHES OF THE SAME BANK.

(H) "TELLER'S CHECK" MEANS A DRAFT DRAWN BY A BANK (I) ON ANOTHER BANK, OR (II) PAYABLE AT OR THROUGH A BANK.

(I) "TRAVELER'S CHECK" MEANS AN INSTRUMENT THAT (I) IS PAYABLE ON DEMAND, (II) IS DRAWN ON OR PAYABLE AT OR THROUGH A BANK, (III) IS DESIGNATED BY THE TERM "TRAVELER'S CHECK" OR BY A SUBSTANTIALLY SIMILAR TERM, AND (IV) REQUIRES, AS A CONDITION TO PAYMENT, A COUNTERSIGNATURE BY A PERSON WHOSE SPECIMEN SIGNATURE APPEARS ON THE INSTRUMENT.

(J) "CERTIFICATE OF DEPOSIT" MEANS AN INSTRUMENT CONTAINING AN ACKNOWLEDGMENT BY A BANK THAT A SUM OF MONEY HAS BEEN RECEIVED BY THE BANK AND A PROMISE BY THE BANK TO REPAY THE SUM OF MONEY. A CERTIFICATE OF DEPOSIT IS A NOTE OF THE BANK.

SECTION 3--105. ISSUE OF INSTRUMENT.

(A) "ISSUE" MEANS THE FIRST DELIVERY OF AN INSTRUMENT BY THE MAKER OR DRAWER, WHETHER TO A HOLDER OR NONHOLDER, FOR THE PURPOSE OF GIVING RIGHTS ON THE INSTRUMENT TO ANY PERSON.

(B) AN UNISSUED INSTRUMENT, OR AN UNISSUED INCOMPLETE INSTRUMENT THAT IS COMPLETED, IS BINDING ON THE MAKER OR DRAWER, BUT NONISSUANCE IS A DEFENSE. AN INSTRUMENT THAT IS CONDITIONALLY ISSUED OR IS ISSUED FOR A SPECIAL PURPOSE IS BINDING ON THE MAKER OR DRAWER, BUT FAILURE OF THE CONDITION OR SPECIAL PURPOSE TO BE FULFILLED IS A DEFENSE.

(C) "ISSUER" APPLIES TO ISSUED AND UNISSUED INSTRUMENTS AND MEANS A MAKER OR DRAWER OF AN INSTRUMENT.

SECTION 3--106. UNCONDITIONAL PROMISE OR ORDER.

(A) EXCEPT AS PROVIDED IN THIS SECTION, FOR THE PURPOSES OF SECTION 3--104(A), A PROMISE OR ORDER IS UNCONDITIONAL UNLESS IT STATES (I) AN EXPRESS CONDITION TO PAYMENT, (II) THAT THE PROMISE OR ORDER IS SUBJECT TO OR GOVERNED BY ANOTHER RECORD, OR (III) THAT RIGHTS OR OBLIGATIONS WITH RESPECT TO THE PROMISE OR ORDER ARE STATED IN ANOTHER RECORD. A REFERENCE TO ANOTHER RECORD DOES NOT OF ITSELF MAKE THE PROMISE OR ORDER CONDITIONAL.

(B) A PROMISE OR ORDER IS NOT MADE CONDITIONAL (I) BY A REFERENCE TO ANOTHER RECORD FOR A STATEMENT OF RIGHTS WITH RESPECT TO COLLATERAL, PREPAYMENT, OR ACCELERATION, OR (II) BECAUSE PAYMENT IS LIMITED TO RESORT TO A PARTICULAR FUND OR SOURCE.

(C) IF A PROMISE OR ORDER REQUIRES, AS A CONDITION TO PAYMENT, A COUNTERSIGNATURE BY A PERSON WHOSE SPECIMEN SIGNATURE APPEARS ON THE PROMISE OR ORDER, THE CONDITION DOES NOT MAKE THE PROMISE OR ORDER CONDITIONAL

FOR THE PURPOSES OF SECTION 3--104(A). IF THE PERSON WHOSE SPECIMEN SIGNATURE APPEARS ON AN INSTRUMENT FAILS TO COUNTERSIGN THE INSTRUMENT, THE FAILURE TO COUNTERSIGN IS A DEFENSE TO THE OBLIGATION OF THE ISSUER, BUT THE FAILURE DOES NOT PREVENT A TRANSFEREE OF THE INSTRUMENT FROM BECOMING A HOLDER OF THE INSTRUMENT.

(D) IF A PROMISE OR ORDER AT THE TIME IT IS ISSUED OR FIRST COMES INTO POSSESSION OF A HOLDER CONTAINS A STATEMENT, REQUIRED BY APPLICABLE STATUTORY OR ADMINISTRATIVE LAW, TO THE EFFECT THAT THE RIGHTS OF A HOLDER OR TRANSFEREE ARE SUBJECT TO CLAIMS OR DEFENSES THAT THE ISSUER COULD ASSERT AGAINST THE ORIGINAL PAYEE, THE PROMISE OR ORDER IS NOT THEREBY MADE CONDITIONAL FOR THE PURPOSES OF SECTION 3-104(A); BUT IF THE PROMISE OR ORDER IS AN INSTRUMENT, THERE CANNOT BE A HOLDER IN DUE COURSE OF THE INSTRUMENT.

SECTION 3--107. INSTRUMENT PAYABLE IN FOREIGN MONEY.

UNLESS THE INSTRUMENT OTHERWISE PROVIDES, AN INSTRUMENT THAT STATES THE AMOUNT PAYABLE IN FOREIGN MONEY MAY BE PAID IN THE FOREIGN MONEY OR IN AN EQUIVALENT AMOUNT IN DOLLARS CALCULATED BY USING THE CURRENT BANK-OFFERED SPOT RATE AT THE PLACE OF PAYMENT FOR THE PURCHASE OF DOLLARS ON THE DAY ON WHICH THE INSTRUMENT IS PAID.

SECTION 3--108. PAYABLE ON DEMAND OR AT DEFINITE TIME.

(A) A PROMISE OR ORDER IS "PAYABLE ON DEMAND" IF IT (I) STATES THAT IT IS PAYABLE ON DEMAND OR AT SIGHT, OR OTHERWISE INDICATES THAT IT IS PAYABLE AT THE WILL OF THE HOLDER, OR (II) DOES NOT STATE ANY TIME OF PAYMENT.

(B) A PROMISE OR ORDER IS "PAYABLE AT A DEFINITE TIME" IF IT IS PAYABLE ON ELAPSE OF A DEFINITE PERIOD OF TIME AFTER SIGHT OR ACCEPTANCE OR AT A FIXED DATE OR DATES OR AT A TIME OR TIMES READILY ASCERTAINABLE AT THE TIME THE PROMISE OR ORDER IS ISSUED, SUBJECT TO RIGHTS OF (I) PREPAYMENT, (II) ACCELERATION, (III) EXTENSION AT THE OPTION OF THE HOLDER, OR (IV) EXTENSION TO A FURTHER DEFINITE TIME AT THE OPTION OF THE MAKER OR ACCEPTOR OR AUTOMATICALLY UPON OR AFTER A SPECIFIED ACT OR EVENT.

(C) IF AN INSTRUMENT, PAYABLE AT A FIXED DATE, IS ALSO PAYABLE UPON DEMAND MADE BEFORE THE FIXED DATE, THE INSTRUMENT IS PAYABLE ON DEMAND UNTIL THE FIXED DATE AND, IF DEMAND FOR PAYMENT IS NOT MADE BEFORE THAT DATE, BECOMES PAYABLE AT A DEFINITE TIME ON THE FIXED DATE.

SECTION 3--109. PAYABLE TO BEARER OR TO ORDER.

(A) A PROMISE OR ORDER IS PAYABLE TO BEARER IF IT:

(1) STATES THAT IT IS PAYABLE TO BEARER OR TO THE ORDER OF BEARER OR OTHERWISE INDICATES THAT THE PERSON IN POSSESSION OF THE PROMISE OR ORDER IS ENTITLED TO PAYMENT;

(2) DOES NOT STATE A PAYEE; OR

(3) STATES THAT IT IS PAYABLE TO OR TO THE ORDER OF CASH OR OTHERWISE INDICATES THAT IT IS NOT PAYABLE TO AN IDENTIFIED PERSON.

(B) A PROMISE OR ORDER THAT IS NOT PAYABLE TO BEARER IS PAYABLE TO ORDER IF IT IS PAYABLE (I) TO THE ORDER OF AN IDENTIFIED PERSON OR (II) TO AN IDENTIFIED PERSON OR ORDER. A PROMISE OR ORDER THAT IS PAYABLE TO ORDER IS PAYABLE TO THE IDENTIFIED PERSON.

(C) AN INSTRUMENT PAYABLE TO BEARER MAY BECOME PAYABLE TO AN IDENTIFIED PERSON IF IT IS SPECIALLY INDORSED PURSUANT TO SECTION 3--205(A). AN INSTRUMENT PAYABLE TO AN IDENTIFIED PERSON MAY BECOME PAYABLE TO BEARER IF IT IS INDORSED IN BLANK PURSUANT TO SECTION 3--205(B).

SECTION 3--110. IDENTIFICATION OF PERSON TO WHOM INSTRUMENT IS PAYABLE.

(A) THE PERSON TO WHOM AN INSTRUMENT IS INITIALLY PAYABLE IS DETERMINED BY THE INTENT OF THE PERSON, WHETHER OR NOT AUTHORIZED, SIGNING AS, OR IN THE NAME OR BEHALF OF, THE ISSUER OF THE INSTRUMENT. THE

INSTRUMENT IS PAYABLE TO THE PERSON INTENDED BY THE SIGNER EVEN IF THAT PERSON IS IDENTIFIED IN THE INSTRUMENT BY A NAME OR OTHER IDENTIFICATION THAT IS NOT THAT OF THE INTENDED PERSON. IF MORE THAN ONE PERSON SIGNS IN THE NAME OR BEHALF OF THE ISSUER OF AN INSTRUMENT AND ALL THE SIGNERS DO NOT INTEND THE SAME PERSON AS PAYEE, THE INSTRUMENT IS PAYABLE TO ANY PERSON INTENDED BY ONE OR MORE OF THE SIGNERS.

(B) IF THE SIGNATURE OF THE ISSUER OF AN INSTRUMENT IS MADE BY AUTOMATED MEANS, SUCH AS A CHECK-WRITING MACHINE, THE PAYEE OF THE INSTRUMENT IS DETERMINED BY THE INTENT OF THE PERSON WHO SUPPLIED THE NAME OR IDENTIFICATION OF THE PAYEE, WHETHER OR NOT AUTHORIZED TO DO SO.

(C) A PERSON TO WHOM AN INSTRUMENT IS PAYABLE MAY BE IDENTIFIED IN ANY WAY, INCLUDING BY NAME, IDENTIFYING NUMBER, OFFICE, OR ACCOUNT NUMBER. FOR THE PURPOSE OF DETERMINING THE HOLDER OF AN INSTRUMENT, THE FOLLOWING RULES APPLY:

(1) IF AN INSTRUMENT IS PAYABLE TO AN ACCOUNT AND THE ACCOUNT IS IDENTIFIED ONLY BY NUMBER, THE INSTRUMENT IS PAYABLE TO THE PERSON TO WHOM THE ACCOUNT IS PAYABLE. IF AN INSTRUMENT IS PAYABLE TO AN ACCOUNT IDENTIFIED BY NUMBER AND BY THE NAME OF A PERSON, THE INSTRUMENT IS PAYABLE TO THE NAMED PERSON, WHETHER OR NOT THAT PERSON IS THE OWNER OF THE ACCOUNT IDENTIFIED BY NUMBER.

(2) IF AN INSTRUMENT IS PAYABLE TO:

(I) A TRUST, AN ESTATE, OR A PERSON DESCRIBED AS TRUSTEE OR REPRESENTATIVE OF A TRUST OR ESTATE, THE INSTRUMENT IS PAYABLE TO THE TRUSTEE, THE REPRESENTATIVE, OR A SUCCESSOR OF EITHER, WHETHER OR NOT THE BENEFICIARY OR ESTATE IS ALSO NAMED;

(II) A PERSON DESCRIBED AS AGENT OR SIMILAR REPRESENTATIVE OF A NAMED OR IDENTIFIED PERSON, THE INSTRUMENT IS PAYABLE TO THE REPRESENTED PERSON, THE REPRESENTATIVE, OR A SUCCESSOR OF THE REPRESENTATIVE;

(III) A FUND OR ORGANIZATION THAT IS NOT A LEGAL ENTITY, THE INSTRUMENT IS PAYABLE TO A REPRESENTATIVE OF THE MEMBERS OF THE FUND OR ORGANIZATION; OR

(IV) AN OFFICE OR TO A PERSON DESCRIBED AS HOLDING AN OFFICE, THE INSTRUMENT IS PAYABLE TO THE NAMED PERSON, THE INCUMBENT OF THE OFFICE, OR A SUCCESSOR TO THE INCUMBENT.

(D) IF AN INSTRUMENT IS PAYABLE TO TWO OR MORE PERSONS ALTERNATIVELY, IT IS PAYABLE TO ANY OF THEM AND MAY BE NEGOTIATED, DISCHARGED, OR ENFORCED BY ANY OR ALL OF THEM IN POSSESSION OF THE INSTRUMENT. IF AN INSTRUMENT IS PAYABLE TO TWO OR MORE PERSONS NOT ALTERNATIVELY, IT IS PAYABLE TO ALL OF THEM AND MAY BE NEGOTIATED, DISCHARGED, OR ENFORCED ONLY BY ALL OF THEM. IF AN INSTRUMENT PAYABLE TO TWO OR MORE PERSONS IS AMBIGUOUS AS TO WHETHER IT IS PAYABLE TO THE PERSONS ALTERNATIVELY, THE INSTRUMENT IS PAYABLE TO THE PERSONS ALTERNATIVELY.

SECTION 3--111. PLACE OF PAYMENT.

EXCEPT AS OTHERWISE PROVIDED FOR ITEMS IN ARTICLE 4, AN INSTRUMENT IS PAYABLE AT THE PLACE OF PAYMENT STATED IN THE INSTRUMENT. IF NO PLACE OF PAYMENT IS STATED, AN INSTRUMENT IS PAYABLE AT THE ADDRESS OF THE DRAWEE OR MAKER STATED IN THE INSTRUMENT. IF NO ADDRESS IS STATED, THE PLACE OF PAYMENT IS THE PLACE OF BUSINESS OF THE DRAWEE OR MAKER. IF A DRAWEE OR MAKER HAS MORE THAN ONE PLACE OF BUSINESS, THE PLACE OF PAYMENT IS ANY PLACE OF BUSINESS OF THE DRAWEE OR MAKER CHOSEN BY THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT. IF THE DRAWEE OR MAKER HAS NO PLACE OF BUSINESS, THE PLACE OF PAYMENT IS THE RESIDENCE OF THE DRAWEE OR MAKER.

SECTION 3--112. INTEREST.

(A) UNLESS OTHERWISE PROVIDED IN THE INSTRUMENT, (I) AN INSTRUMENT IS NOT PAYABLE WITH INTEREST, AND (II) INTEREST ON AN INTEREST-BEARING INSTRUMENT IS PAYABLE FROM THE DATE OF THE INSTRUMENT.

(B) INTEREST MAY BE STATED IN AN INSTRUMENT AS A FIXED OR VARIABLE AMOUNT OF MONEY OR IT MAY BE EXPRESSED AS A FIXED OR VARIABLE RATE OR RATES. THE AMOUNT OR RATE OF INTEREST MAY BE STATED OR DESCRIBED IN THE INSTRUMENT IN ANY MANNER AND MAY REQUIRE REFERENCE TO INFORMATION NOT CONTAINED IN THE INSTRUMENT. IF AN INSTRUMENT PROVIDES FOR INTEREST, BUT THE AMOUNT OF INTEREST PAYABLE CANNOT BE ASCERTAINED FROM THE DESCRIPTION, INTEREST IS PAYABLE AT THE JUDGMENT RATE IN EFFECT AT THE PLACE OF PAYMENT OF THE INSTRUMENT AND AT THE TIME INTEREST FIRST ACCRUES.

SECTION 3--113. DATE OF INSTRUMENT.

(A) AN INSTRUMENT MAY BE ANTEDATED OR POSTDATED. THE DATE STATED DETERMINES THE TIME OF PAYMENT IF THE INSTRUMENT IS PAYABLE AT A FIXED PERIOD AFTER THE DATE. EXCEPT AS PROVIDED IN SECTION 4--401(C), AN INSTRUMENT PAYABLE ON DEMAND IS NOT PAYABLE BEFORE THE DATE OF THE INSTRUMENT.

(B) IF AN INSTRUMENT IS UNDATED, ITS DATE IS THE DATE OF ITS ISSUE OR, IN THE CASE OF AN UNISSUED INSTRUMENT, THE DATE IT FIRST COMES INTO POSSESSION OF A HOLDER.

SECTION 3--114. CONTRADICTORY TERMS OF INSTRUMENT.

IF AN INSTRUMENT CONTAINS CONTRADICTORY TERMS, TYPEWRITTEN TERMS PREVAIL OVER PRINTED TERMS, HANDWRITTEN TERMS PREVAIL OVER BOTH, AND WORDS PREVAIL OVER NUMBERS.

SECTION 3--115. INCOMPLETE INSTRUMENT.

(A) "INCOMPLETE INSTRUMENT" MEANS A SIGNED WRITING, WHETHER OR NOT ISSUED BY THE SIGNER, THE CONTENTS OF WHICH SHOW AT THE TIME OF SIGNING THAT IT IS INCOMPLETE BUT THAT THE SIGNER INTENDED IT TO BE COMPLETED BY THE ADDITION OF WORDS OR NUMBERS.

(B) SUBJECT TO SUBSECTION (C), IF AN INCOMPLETE INSTRUMENT IS AN INSTRUMENT UNDER SECTION 3--104, IT MAY BE ENFORCED ACCORDING TO ITS TERMS IF IT IS NOT COMPLETED, OR ACCORDING TO ITS TERMS AS AUGMENTED BY COMPLETION. IF AN INCOMPLETE INSTRUMENT IS NOT AN INSTRUMENT UNDER SECTION 3--104, BUT, AFTER COMPLETION, THE REQUIREMENTS OF SECTION 3--104 ARE MET, THE INSTRUMENT MAY BE ENFORCED ACCORDING TO ITS TERMS AS AUGMENTED BY COMPLETION.

(C) IF WORDS OR NUMBERS ARE ADDED TO AN INCOMPLETE INSTRUMENT WITHOUT AUTHORITY OF THE SIGNER, THERE IS AN ALTERATION OF THE INCOMPLETE INSTRUMENT UNDER SECTION 3--407.

(D) THE BURDEN OF ESTABLISHING THAT WORDS OR NUMBERS WERE ADDED TO AN INCOMPLETE INSTRUMENT WITHOUT AUTHORITY OF THE SIGNER IS ON THE PERSON ASSERTING THE LACK OF AUTHORITY.

SECTION 3--116. JOINT AND SEVERAL LIABILITY; CONTRIBUTION.

(A) EXCEPT AS OTHERWISE PROVIDED IN THE INSTRUMENT, TWO OR MORE PERSONS WHO HAVE THE SAME LIABILITY ON AN INSTRUMENT AS MAKERS, DRAWERS, ACCEPTORS, INDORSERS WHO INDORSE AS JOINT PAYEES, OR ANOMALOUS INDORSERS ARE JOINTLY AND SEVERALLY LIABLE IN THE CAPACITY IN WHICH THEY SIGN.

(B) EXCEPT AS PROVIDED IN SECTION 3--419(F) OR BY AGREEMENT OF THE AFFECTED PARTIES, A PARTY HAVING JOINT AND SEVERAL LIABILITY WHO PAYS THE INSTRUMENT IS ENTITLED TO RECEIVE FROM ANY PARTY HAVING THE SAME JOINT AND SEVERAL LIABILITY CONTRIBUTION IN ACCORDANCE WITH APPLICABLE LAW.

SECTION 3--117. OTHER AGREEMENTS AFFECTING INSTRUMENT.

SUBJECT TO APPLICABLE LAW REGARDING EXCLUSION OF PROOF OF CONTEMPORANEOUS OR PREVIOUS AGREEMENTS, THE OBLIGATION OF A PARTY TO AN INSTRUMENT TO PAY THE INSTRUMENT MAY BE MODIFIED, SUPPLEMENTED, OR NULLIFIED BY A SEPARATE AGREEMENT OF THE OBLIGOR AND A PERSON ENTITLED TO ENFORCE THE INSTRUMENT, IF THE INSTRUMENT IS ISSUED OR THE OBLIGATION IS INCURRED IN

1 RELIANCE ON THE AGREEMENT OR AS PART OF THE SAME TRANSACTION GIVING RISE
2 TO THE AGREEMENT. TO THE EXTENT AN OBLIGATION IS MODIFIED, SUPPLEMENTED,
3 OR NULLIFIED BY AN AGREEMENT UNDER THIS SECTION, THE AGREEMENT IS A
4 DEFENSE TO THE OBLIGATION.

5 SECTION 3--118. STATUTE OF LIMITATIONS.

6 (A) EXCEPT AS PROVIDED IN SUBSECTION (E), AN ACTION TO ENFORCE THE
7 OBLIGATION OF A PARTY TO PAY A NOTE PAYABLE AT A DEFINITE TIME MUST BE
8 COMMENCED WITHIN SIX YEARS AFTER THE DUE DATE OR DATES STATED IN THE
9 NOTE OR, IF A DUE DATE IS ACCELERATED, WITHIN SIX YEARS AFTER THE ACCEL-
10 ERATED DUE DATE.

11 (B) EXCEPT AS PROVIDED IN SUBSECTION (D) OR (E), IF DEMAND FOR PAYMENT
12 IS MADE TO THE MAKER OF A NOTE PAYABLE ON DEMAND, AN ACTION TO ENFORCE
13 THE OBLIGATION OF A PARTY TO PAY THE NOTE MUST BE COMMENCED WITHIN SIX
14 YEARS AFTER THE DEMAND. IF NO DEMAND FOR PAYMENT IS MADE TO THE MAKER,
15 AN ACTION TO ENFORCE THE NOTE IS BARRED IF NEITHER PRINCIPAL NOR INTER-
16 EST ON THE NOTE HAS BEEN PAID FOR A CONTINUOUS PERIOD OF TEN YEARS.

17 (C) EXCEPT AS PROVIDED IN SUBSECTION (D), AN ACTION TO ENFORCE THE
18 OBLIGATION OF A PARTY TO AN UNACCEPTED DRAFT TO PAY THE DRAFT MUST BE
19 COMMENCED WITHIN THREE YEARS AFTER DISHONOR OF THE DRAFT OR TEN YEARS
20 AFTER THE DATE OF THE DRAFT, WHICHEVER PERIOD EXPIRES FIRST.

21 (D) AN ACTION TO ENFORCE THE OBLIGATION OF THE ACCEPTOR OF A CERTIFIED
22 CHECK OR THE ISSUER OF A TELLER'S CHECK, CASHIER'S CHECK, OR TRAVELER'S
23 CHECK MUST BE COMMENCED WITHIN THREE YEARS AFTER DEMAND FOR PAYMENT IS
24 MADE TO THE ACCEPTOR OR ISSUER, AS THE CASE MAY BE.

25 (E) AN ACTION TO ENFORCE THE OBLIGATION OF A PARTY TO A CERTIFICATE OF
26 DEPOSIT TO PAY THE INSTRUMENT MUST BE COMMENCED WITHIN SIX YEARS AFTER
27 DEMAND FOR PAYMENT IS MADE TO THE MAKER, BUT IF THE INSTRUMENT STATES A
28 DUE DATE AND THE MAKER IS NOT REQUIRED TO PAY BEFORE THAT DATE, THE
29 SIX-YEAR PERIOD BEGINS WHEN A DEMAND FOR PAYMENT IS IN EFFECT AND THE
30 DUE DATE HAS PASSED.

31 (F) AN ACTION TO ENFORCE THE OBLIGATION OF A PARTY TO PAY AN ACCEPTED
32 DRAFT, OTHER THAN A CERTIFIED CHECK, MUST BE COMMENCED (1) WITHIN SIX
33 YEARS AFTER THE DUE DATE OR DATES STATED IN THE DRAFT OR ACCEPTANCE IF
34 THE OBLIGATION OF THE ACCEPTOR IS PAYABLE AT A DEFINITE TIME, OR (2)
35 WITHIN SIX YEARS AFTER THE DATE OF THE ACCEPTANCE IF THE OBLIGATION OF
36 THE ACCEPTOR IS PAYABLE ON DEMAND.

37 (G) UNLESS GOVERNED BY OTHER LAW REGARDING CLAIMS FOR INDEMNITY OR
38 CONTRIBUTION, AN ACTION (1) FOR CONVERSION OF AN INSTRUMENT, FOR MONEY
39 HAD AND RECEIVED, OR LIKE ACTION BASED ON CONVERSION, (2) FOR BREACH OF
40 WARRANTY, OR (3) TO ENFORCE AN OBLIGATION, DUTY, OR RIGHT ARISING UNDER
41 THIS ARTICLE AND NOT GOVERNED BY THIS SECTION MUST BE COMMENCED WITHIN
42 THREE YEARS AFTER THE CAUSE OF ACTION ACCRUES.

43 SECTION 3--119. NOTICE OF RIGHT TO DEFEND ACTION.

44 IN AN ACTION FOR BREACH OF AN OBLIGATION FOR WHICH A THIRD PERSON IS
45 ANSWERABLE OVER PURSUANT TO THIS ARTICLE OR ARTICLE 4, THE DEFENDANT MAY
46 GIVE THE THIRD PERSON NOTICE OF THE LITIGATION IN A RECORD, AND THE
47 PERSON NOTIFIED MAY THEN GIVE SIMILAR NOTICE TO ANY OTHER PERSON WHO IS
48 ANSWERABLE OVER. IF THE NOTICE STATES (1) THAT THE PERSON NOTIFIED MAY
49 COME IN AND DEFEND AND (2) THAT FAILURE TO DO SO WILL BIND THE PERSON
50 NOTIFIED IN AN ACTION LATER BROUGHT BY THE PERSON GIVING THE NOTICE AS
51 TO ANY DETERMINATION OF FACT COMMON TO THE TWO LITIGATIONS, THE PERSON
52 NOTIFIED IS SO BOUND UNLESS AFTER SEASONABLE RECEIPT OF THE NOTICE THE
53 PERSON NOTIFIED DOES COME IN AND DEFEND.

54 PART 2

55 NEGOTIATION, TRANSFER, AND INDORSEMENT

56 SECTION 3--201. NEGOTIATION.

1 (A) "NEGOTIATION" MEANS A TRANSFER OF POSSESSION, WHETHER VOLUNTARY OR
2 INVOLUNTARY, OF AN INSTRUMENT BY A PERSON OTHER THAN THE ISSUER TO A
3 PERSON WHO THEREBY BECOMES ITS HOLDER.

4 (B) EXCEPT FOR NEGOTIATION BY A REMITTER, IF AN INSTRUMENT IS PAYABLE
5 TO AN IDENTIFIED PERSON, NEGOTIATION REQUIRES TRANSFER OF POSSESSION OF
6 THE INSTRUMENT AND ITS INDORSEMENT BY THE HOLDER. IF AN INSTRUMENT IS
7 PAYABLE TO BEARER, IT MAY BE NEGOTIATED BY TRANSFER OF POSSESSION ALONE.
8 SECTION 3--202. NEGOTIATION SUBJECT TO RESCISSION.

9 (A) NEGOTIATION IS EFFECTIVE EVEN IF OBTAINED (1) FROM AN INFANT, A
10 CORPORATION EXCEEDING ITS POWERS, OR A PERSON WITHOUT CAPACITY, (2) BY
11 FRAUD, DURESS, OR MISTAKE, OR (3) IN BREACH OF DUTY OR AS PART OF AN
12 ILLEGAL TRANSACTION.

13 (B) TO THE EXTENT PERMITTED BY OTHER LAW, NEGOTIATION MAY BE RESCINDED
14 OR MAY BE SUBJECT TO OTHER REMEDIES, BUT THOSE REMEDIES MAY NOT BE
15 ASSERTED AGAINST A SUBSEQUENT HOLDER IN DUE COURSE OR A PERSON PAYING
16 THE INSTRUMENT IN GOOD FAITH AND WITHOUT KNOWLEDGE OF FACTS THAT ARE A
17 BASIS FOR RESCISSION OR OTHER REMEDY.

18 SECTION 3--203. TRANSFER OF INSTRUMENT; RIGHTS ACQUIRED BY TRANSFER.

19 (A) AN INSTRUMENT IS TRANSFERRED WHEN IT IS DELIVERED BY A PERSON
20 OTHER THAN ITS ISSUER FOR THE PURPOSE OF GIVING TO THE PERSON RECEIVING
21 DELIVERY THE RIGHT TO ENFORCE THE INSTRUMENT.

22 (B) TRANSFER OF AN INSTRUMENT, WHETHER OR NOT THE TRANSFER IS A NEGO-
23 TIATION, VESTS IN THE TRANSFEREE ANY RIGHT OF THE TRANSFEROR TO ENFORCE
24 THE INSTRUMENT, INCLUDING ANY RIGHT AS A HOLDER IN DUE COURSE, BUT THE
25 TRANSFEREE CANNOT ACQUIRE RIGHTS OF A HOLDER IN DUE COURSE BY A TRANS-
26 FER, DIRECTLY OR INDIRECTLY, FROM A HOLDER IN DUE COURSE IF THE TRANS-
27 FEREES ENGAGED IN FRAUD OR ILLEGALITY AFFECTING THE INSTRUMENT.

28 (C) UNLESS OTHERWISE AGREED, IF AN INSTRUMENT IS TRANSFERRED FOR VALUE
29 AND THE TRANSFEREE DOES NOT BECOME A HOLDER BECAUSE OF LACK OF INDORSE-
30 MENT BY THE TRANSFEROR, THE TRANSFEREE HAS A SPECIFICALLY ENFORCEABLE
31 RIGHT TO THE UNQUALIFIED INDORSEMENT OF THE TRANSFEROR, BUT NEGOTIATION
32 OF THE INSTRUMENT DOES NOT OCCUR UNTIL THE INDORSEMENT IS MADE.

33 (D) IF A TRANSFEROR PURPORTS TO TRANSFER LESS THAN THE ENTIRE INSTRU-
34 MENT, NEGOTIATION OF THE INSTRUMENT DOES NOT OCCUR. THE TRANSFEREE
35 OBTAINS NO RIGHTS UNDER THIS ARTICLE AND HAS ONLY THE RIGHTS OF A
36 PARTIAL ASSIGNEE.

37 SECTION 3--204. INDORSEMENT.

38 (A) "INDORSEMENT" MEANS A SIGNATURE, OTHER THAN THAT OF A SIGNER AS
39 MAKER, DRAWER, OR ACCEPTOR, THAT ALONE OR ACCOMPANIED BY OTHER WORDS IS
40 MADE ON AN INSTRUMENT FOR THE PURPOSE OF (1) NEGOTIATING THE INSTRUMENT,
41 (2) RESTRICTING PAYMENT OF THE INSTRUMENT, OR (3) INCURRING INDORSE-
42 LIABILITY ON THE INSTRUMENT, BUT REGARDLESS OF THE INTENT OF THE SIGNER,
43 A SIGNATURE AND ITS ACCOMPANYING WORDS IS AN INDORSEMENT UNLESS THE
44 ACCOMPANYING WORDS, TERMS OF THE INSTRUMENT, PLACE OF THE SIGNATURE, OR
45 OTHER CIRCUMSTANCES UNAMBIGUOUSLY INDICATE THAT THE SIGNATURE WAS MADE
46 FOR A PURPOSE OTHER THAN INDORSEMENT. FOR THE PURPOSE OF DETERMINING
47 WHETHER A SIGNATURE IS MADE ON AN INSTRUMENT, A PAPER AFFIXED TO THE
48 INSTRUMENT IS A PART OF THE INSTRUMENT.

49 (B) "INDORSER" MEANS A PERSON WHO MAKES AN INDORSEMENT.

50 (C) FOR THE PURPOSE OF DETERMINING WHETHER THE TRANSFEREE OF AN
51 INSTRUMENT IS A HOLDER, AN INDORSEMENT THAT TRANSFERS A SECURITY INTER-
52 EST IN THE INSTRUMENT IS EFFECTIVE AS AN UNQUALIFIED INDORSEMENT OF THE
53 INSTRUMENT.

54 (D) IF AN INSTRUMENT IS PAYABLE TO A HOLDER UNDER A NAME THAT IS NOT
55 THE NAME OF THE HOLDER, INDORSEMENT MAY BE MADE BY THE HOLDER IN THE
56 NAME STATED IN THE INSTRUMENT OR IN THE HOLDER'S NAME OR BOTH, BUT

SIGNATURE IN BOTH NAMES MAY BE REQUIRED BY A PERSON PAYING OR TAKING THE INSTRUMENT FOR VALUE OR COLLECTION.

SECTION 3--205. SPECIAL INDORSEMENT; BLANK INDORSEMENT; ANOMALOUS INDORSEMENT.

(A) IF AN INDORSEMENT IS MADE BY THE HOLDER OF AN INSTRUMENT, WHETHER PAYABLE TO AN IDENTIFIED PERSON OR PAYABLE TO BEARER, AND THE INDORSEMENT IDENTIFIES A PERSON TO WHOM IT MAKES THE INSTRUMENT PAYABLE, IT IS A "SPECIAL INDORSEMENT." WHEN SPECIALLY INDORSED, AN INSTRUMENT BECOMES PAYABLE TO THE IDENTIFIED PERSON AND MAY BE NEGOTIATED ONLY BY THE INDORSEMENT OF THAT PERSON. THE PRINCIPLES STATED IN SECTION 3--110 APPLY TO SPECIAL INDORSEMENTS.

(B) IF AN INDORSEMENT IS MADE BY THE HOLDER OF AN INSTRUMENT AND IT IS NOT A SPECIAL INDORSEMENT, IT IS A "BLANK INDORSEMENT." WHEN INDORSED IN BLANK, AN INSTRUMENT BECOMES PAYABLE TO BEARER AND MAY BE NEGOTIATED BY TRANSFER OF POSSESSION ALONE UNTIL SPECIALLY INDORSED.

(C) THE HOLDER MAY CONVERT A BLANK INDORSEMENT THAT CONSISTS ONLY OF A SIGNATURE INTO A SPECIAL INDORSEMENT BY WRITING, ABOVE THE SIGNATURE OF THE INDORSER, WORDS IDENTIFYING THE PERSON TO WHOM THE INSTRUMENT IS MADE PAYABLE.

(D) "ANOMALOUS INDORSEMENT" MEANS AN INDORSEMENT MADE BY A PERSON WHO IS NOT THE HOLDER OF THE INSTRUMENT. AN ANOMALOUS INDORSEMENT DOES NOT AFFECT THE MANNER IN WHICH THE INSTRUMENT MAY BE NEGOTIATED.

SECTION 3--206. RESTRICTIVE INDORSEMENT.

(A) AN INDORSEMENT LIMITING PAYMENT TO A PARTICULAR PERSON OR OTHERWISE PROHIBITING FURTHER TRANSFER OR NEGOTIATION OF THE INSTRUMENT IS NOT EFFECTIVE TO PREVENT FURTHER TRANSFER OR NEGOTIATION OF THE INSTRUMENT.

(B) AN INDORSEMENT STATING A CONDITION TO THE RIGHT OF THE INDORSEE TO RECEIVE PAYMENT DOES NOT AFFECT THE RIGHT OF THE INDORSEE TO ENFORCE THE INSTRUMENT. A PERSON PAYING THE INSTRUMENT OR TAKING IT FOR VALUE OR COLLECTION MAY DISREGARD THE CONDITION, AND THE RIGHTS AND LIABILITIES OF THAT PERSON ARE NOT AFFECTED BY WHETHER THE CONDITION HAS BEEN FULFILLED.

(C) IF AN INSTRUMENT BEARS AN INDORSEMENT (I) DESCRIBED IN SECTION 4--201(B), OR (II) IN BLANK OR TO A PARTICULAR BANK USING THE WORDS "FOR DEPOSIT," "FOR COLLECTION," OR OTHER WORDS INDICATING A PURPOSE OF HAVING THE INSTRUMENT COLLECTED BY A BANK FOR THE INDORSER OR FOR A PARTICULAR ACCOUNT, THE FOLLOWING RULES APPLY:

(1) A PERSON, OTHER THAN A BANK, WHO PURCHASES THE INSTRUMENT WHEN SO INDORSED CONVERTS THE INSTRUMENT UNLESS THE AMOUNT PAID FOR THE INSTRUMENT IS RECEIVED BY THE INDORSER OR APPLIED CONSISTENTLY WITH THE INDORSEMENT.

(2) A DEPOSITARY BANK THAT PURCHASES THE INSTRUMENT OR TAKES IT FOR COLLECTION WHEN SO INDORSED CONVERTS THE INSTRUMENT UNLESS THE AMOUNT PAID BY THE BANK WITH RESPECT TO THE INSTRUMENT IS RECEIVED BY THE INDORSER OR APPLIED CONSISTENTLY WITH THE INDORSEMENT.

(3) A PAYOR BANK THAT IS ALSO THE DEPOSITARY BANK OR THAT TAKES THE INSTRUMENT FOR IMMEDIATE PAYMENT OVER THE COUNTER FROM A PERSON OTHER THAN A COLLECTING BANK CONVERTS THE INSTRUMENT UNLESS THE PROCEEDS OF THE INSTRUMENT ARE RECEIVED BY THE INDORSER OR APPLIED CONSISTENTLY WITH THE INDORSEMENT.

(4) EXCEPT AS OTHERWISE PROVIDED IN PARAGRAPH (3), A PAYOR BANK OR INTERMEDIARY BANK MAY DISREGARD THE INDORSEMENT AND IS NOT LIABLE IF THE PROCEEDS OF THE INSTRUMENT ARE NOT RECEIVED BY THE INDORSER OR APPLIED CONSISTENTLY WITH THE INDORSEMENT.

(D) EXCEPT FOR AN INDORSEMENT COVERED BY SUBSECTION (C), IF AN INSTRUMENT BEARS AN INDORSEMENT USING WORDS TO THE EFFECT THAT PAYMENT IS TO BE MADE TO THE INDORSEE AS AGENT, TRUSTEE, OR OTHER FIDUCIARY FOR THE BENEFIT OF THE INDORSER OR ANOTHER PERSON, THE FOLLOWING RULES APPLY:

(1) UNLESS THERE IS NOTICE OF BREACH OF FIDUCIARY DUTY AS PROVIDED IN SECTION 3--307, A PERSON WHO PURCHASES THE INSTRUMENT FROM THE INDORSEE OR TAKES THE INSTRUMENT FROM THE INDORSEE FOR COLLECTION OR PAYMENT MAY PAY THE PROCEEDS OF PAYMENT OR THE VALUE GIVEN FOR THE INSTRUMENT TO THE INDORSEE WITHOUT REGARD TO WHETHER THE INDORSEE VIOLATES A FIDUCIARY DUTY TO THE INDORSER.

(2) A SUBSEQUENT TRANSFEREE OF THE INSTRUMENT OR PERSON WHO PAYS THE INSTRUMENT IS NEITHER GIVEN NOTICE NOR OTHERWISE AFFECTED BY THE RESTRICTION IN THE INDORSEMENT UNLESS THE TRANSFEREE OR PAYOR KNOWS THAT THE FIDUCIARY DEALT WITH THE INSTRUMENT OR ITS PROCEEDS IN BREACH OF FIDUCIARY DUTY.

(E) THE PRESENCE ON AN INSTRUMENT OF AN INDORSEMENT TO WHICH THIS SECTION APPLIES DOES NOT PREVENT A PURCHASER OF THE INSTRUMENT FROM BECOMING A HOLDER IN DUE COURSE OF THE INSTRUMENT UNLESS THE PURCHASER IS A CONVERTER UNDER SUBSECTION (C) OR HAS NOTICE OR KNOWLEDGE OF BREACH OF FIDUCIARY DUTY AS STATED IN SUBSECTION (D).

(F) IN AN ACTION TO ENFORCE THE OBLIGATION OF A PARTY TO PAY THE INSTRUMENT, THE OBLIGOR HAS A DEFENSE IF PAYMENT WOULD VIOLATE AN INDORSEMENT TO WHICH THIS SECTION APPLIES AND THE PAYMENT IS NOT PERMITTED BY THIS SECTION.

SECTION 3--207. REACQUISITION.

REACQUISITION OF AN INSTRUMENT OCCURS IF IT IS TRANSFERRED TO A FORMER HOLDER, BY NEGOTIATION OR OTHERWISE. A FORMER HOLDER WHO REACQUIRES THE INSTRUMENT MAY CANCEL INDORSEMENTS MADE AFTER THE REACQUIRER FIRST BECAME A HOLDER OF THE INSTRUMENT. IF THE CANCELLATION CAUSES THE INSTRUMENT TO BE PAYABLE TO THE REACQUIRER OR TO BEARER, THE REACQUIRER MAY NEGOTIATE THE INSTRUMENT. AN INDORSER WHOSE INDORSEMENT IS CANCELED IS DISCHARGED, AND THE DISCHARGE IS EFFECTIVE AGAINST ANY SUBSEQUENT HOLDER.

PART 3 ENFORCEMENT OF INSTRUMENTS

SECTION 3--301. PERSON ENTITLED TO ENFORCE INSTRUMENT.

"PERSON ENTITLED TO ENFORCE" AN INSTRUMENT MEANS (1) THE HOLDER OF THE INSTRUMENT, (2) A NONHOLDER IN POSSESSION OF THE INSTRUMENT WHO HAS THE RIGHTS OF A HOLDER, OR (3) A PERSON NOT IN POSSESSION OF THE INSTRUMENT WHO IS ENTITLED TO ENFORCE THE INSTRUMENT PURSUANT TO SECTION 3--309 OR 3--418(D). A PERSON MAY BE A PERSON ENTITLED TO ENFORCE THE INSTRUMENT EVEN THOUGH THE PERSON IS NOT THE OWNER OF THE INSTRUMENT OR IS IN WRONGFUL POSSESSION OF THE INSTRUMENT.

SECTION 3--302. HOLDER IN DUE COURSE.

(A) SUBJECT TO SUBSECTION (C) AND SECTION 3--106(D), "HOLDER IN DUE COURSE" MEANS THE HOLDER OF AN INSTRUMENT IF:

(1) THE INSTRUMENT WHEN ISSUED OR NEGOTIATED TO THE HOLDER DOES NOT BEAR SUCH APPARENT EVIDENCE OF FORGERY OR ALTERATION OR IS NOT OTHERWISE SO IRREGULAR OR INCOMPLETE AS TO CALL INTO QUESTION ITS AUTHENTICITY; AND

(2) THE HOLDER TOOK THE INSTRUMENT (I) FOR VALUE, (II) IN GOOD FAITH, (III) WITHOUT NOTICE THAT THE INSTRUMENT IS OVERDUE OR HAS BEEN DISHONORED OR THAT THERE IS AN UNCURED DEFAULT WITH RESPECT TO PAYMENT OF ANOTHER INSTRUMENT ISSUED AS PART OF THE SAME SERIES, (IV) WITHOUT

1 NOTICE THAT THE INSTRUMENT CONTAINS AN UNAUTHORIZED SIGNATURE OR HAS
2 BEEN ALTERED, (V) WITHOUT NOTICE OF ANY CLAIM TO THE INSTRUMENT
3 DESCRIBED IN SECTION 3--306, AND (VI) WITHOUT NOTICE THAT ANY PARTY HAS
4 A DEFENSE OR CLAIM IN RECOUPMENT DESCRIBED IN SECTION 3--305(A).

5 (B) NOTICE OF DISCHARGE OF A PARTY, OTHER THAN DISCHARGE IN AN INSOL-
6 VENCY PROCEEDING, IS NOT NOTICE OF A DEFENSE UNDER SUBSECTION (A), BUT
7 DISCHARGE IS EFFECTIVE AGAINST A PERSON WHO BECAME A HOLDER IN DUE
8 COURSE WITH NOTICE OF THE DISCHARGE. PUBLIC FILING OR RECORDING OF A
9 DOCUMENT DOES NOT OF ITSELF CONSTITUTE NOTICE OF A DEFENSE, CLAIM IN
10 RECOUPMENT, OR CLAIM TO THE INSTRUMENT.

11 (C) EXCEPT TO THE EXTENT A TRANSFEROR OR PREDECESSOR IN INTEREST HAS
12 RIGHTS AS A HOLDER IN DUE COURSE, A PERSON DOES NOT ACQUIRE RIGHTS OF A
13 HOLDER IN DUE COURSE OF AN INSTRUMENT TAKEN (1) BY LEGAL PROCESS OR BY
14 PURCHASE IN AN EXECUTION, BANKRUPTCY, OR CREDITOR'S SALE OR SIMILAR
15 PROCEEDING, (2) BY PURCHASE AS PART OF A BULK TRANSACTION NOT IN ORDI-
16 NARY COURSE OF BUSINESS OF THE TRANSFEROR, OR (3) AS THE SUCCESSOR IN
17 INTEREST TO AN ESTATE OR OTHER ORGANIZATION.

18 (D) IF, UNDER SECTION 3--303(A)(1), THE PROMISE OF PERFORMANCE THAT IS
19 THE CONSIDERATION FOR AN INSTRUMENT HAS BEEN PARTIALLY PERFORMED, THE
20 HOLDER MAY ASSERT RIGHTS AS A HOLDER IN DUE COURSE OF THE INSTRUMENT
21 ONLY TO THE FRACTION OF THE AMOUNT PAYABLE UNDER THE INSTRUMENT EQUAL TO
22 THE VALUE OF THE PARTIAL PERFORMANCE DIVIDED BY THE VALUE OF THE PROM-
23 ISED PERFORMANCE.

24 (E) IF (1) THE PERSON ENTITLED TO ENFORCE AN INSTRUMENT HAS ONLY A
25 SECURITY INTEREST IN THE INSTRUMENT AND (2) THE PERSON OBLIGED TO PAY
26 THE INSTRUMENT HAS A DEFENSE, CLAIM IN RECOUPMENT, OR CLAIM TO THE
27 INSTRUMENT THAT MAY BE ASSERTED AGAINST THE PERSON WHO GRANTED THE SECU-
28 RITY INTEREST, THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT MAY ASSERT
29 RIGHTS AS A HOLDER IN DUE COURSE ONLY TO AN AMOUNT PAYABLE UNDER THE
30 INSTRUMENT WHICH, AT THE TIME OF ENFORCEMENT OF THE INSTRUMENT, DOES NOT
31 EXCEED THE AMOUNT OF THE UNPAID OBLIGATION SECURED.

32 (F) TO BE EFFECTIVE, NOTICE MUST BE RECEIVED AT A TIME AND IN A MANNER
33 THAT GIVES A REASONABLE OPPORTUNITY TO ACT ON IT.

34 (G) THIS SECTION IS SUBJECT TO ANY LAW LIMITING STATUS AS A HOLDER IN
35 DUE COURSE IN PARTICULAR CLASSES OF TRANSACTIONS.

36 SECTION 3--303. VALUE AND CONSIDERATION.

37 (A) AN INSTRUMENT IS ISSUED OR TRANSFERRED FOR VALUE IF:

38 (1) THE INSTRUMENT IS ISSUED OR TRANSFERRED FOR A PROMISE OF PERFORM-
39 ANCE, TO THE EXTENT THE PROMISE HAS BEEN PERFORMED;

40 (2) THE TRANSFEREE ACQUIRES A SECURITY INTEREST OR OTHER LIEN IN THE
41 INSTRUMENT OTHER THAN A LIEN OBTAINED BY JUDICIAL PROCEEDING;

42 (3) THE INSTRUMENT IS ISSUED OR TRANSFERRED AS PAYMENT OF, OR AS SECU-
43 RITY FOR, AN ANTECEDENT CLAIM AGAINST ANY PERSON, WHETHER OR NOT THE
44 CLAIM IS DUE;

45 (4) THE INSTRUMENT IS ISSUED OR TRANSFERRED IN EXCHANGE FOR A NEGOTI-
46 ABLE INSTRUMENT; OR

47 (5) THE INSTRUMENT IS ISSUED OR TRANSFERRED IN EXCHANGE FOR THE INCUR-
48 RING OF AN IRREVOCABLE OBLIGATION TO A THIRD PARTY BY THE PERSON TAKING
49 THE INSTRUMENT.

50 (B) "CONSIDERATION" MEANS ANY CONSIDERATION SUFFICIENT TO SUPPORT A
51 SIMPLE CONTRACT. THE DRAWER OR MAKER OF AN INSTRUMENT HAS A DEFENSE IF
52 THE INSTRUMENT IS ISSUED WITHOUT CONSIDERATION. IF AN INSTRUMENT IS
53 ISSUED FOR A PROMISE OF PERFORMANCE, THE ISSUER HAS A DEFENSE TO THE
54 EXTENT PERFORMANCE OF THE PROMISE IS DUE AND THE PROMISE HAS NOT BEEN
55 PERFORMED. IF AN INSTRUMENT IS ISSUED FOR VALUE AS STATED IN SUBSECTION

56 (A), THE INSTRUMENT IS ALSO ISSUED FOR CONSIDERATION.

1 SECTION 3--304. OVERDUE INSTRUMENT.

2 (A) AN INSTRUMENT PAYABLE ON DEMAND BECOMES OVERDUE AT THE EARLIEST OF
3 THE FOLLOWING TIMES:

4 (1) ON THE DAY AFTER THE DAY DEMAND FOR PAYMENT IS DULY MADE;

5 (2) IF THE INSTRUMENT IS A CHECK, NINETY DAYS AFTER ITS DATE; OR

6 (3) IF THE INSTRUMENT IS NOT A CHECK, WHEN THE INSTRUMENT HAS BEEN
7 OUTSTANDING FOR A PERIOD OF TIME AFTER ITS DATE WHICH IS UNREASONABLY
8 LONG UNDER THE CIRCUMSTANCES OF THE PARTICULAR CASE IN LIGHT OF THE
9 NATURE OF THE INSTRUMENT AND USAGE OF THE TRADE.

10 (B) WITH RESPECT TO AN INSTRUMENT PAYABLE AT A DEFINITE TIME THE
11 FOLLOWING RULES APPLY:

12 (1) IF THE PRINCIPAL IS PAYABLE IN INSTALLMENTS AND A DUE DATE HAS NOT
13 BEEN ACCELERATED, THE INSTRUMENT BECOMES OVERDUE UPON DEFAULT UNDER THE
14 INSTRUMENT FOR NONPAYMENT OF AN INSTALLMENT, AND THE INSTRUMENT REMAINS
15 OVERDUE UNTIL THE DEFAULT IS CURED.

16 (2) IF THE PRINCIPAL IS NOT PAYABLE IN INSTALLMENTS AND THE DUE DATE
17 HAS NOT BEEN ACCELERATED, THE INSTRUMENT BECOMES OVERDUE ON THE DAY
18 AFTER THE DUE DATE.

19 (3) IF A DUE DATE WITH RESPECT TO PRINCIPAL HAS BEEN ACCELERATED, THE
20 INSTRUMENT BECOMES OVERDUE ON THE DAY AFTER THE ACCELERATED DUE DATE.

21 (C) UNLESS THE DUE DATE OF PRINCIPAL HAS BEEN ACCELERATED, AN INSTRU-
22 MENT DOES NOT BECOME OVERDUE IF THERE IS DEFAULT IN PAYMENT OF INTEREST
23 BUT NO DEFAULT IN PAYMENT OF PRINCIPAL.

24 SECTION 3--305. DEFENSES AND CLAIMS IN RECOUPMENT; CLAIMS IN CONSUMER
25 TRANSACTIONS.

26 (A) EXCEPT AS OTHERWISE PROVIDED IN THIS SECTION, THE RIGHT TO ENFORCE
27 THE OBLIGATION OF A PARTY TO PAY AN INSTRUMENT IS SUBJECT TO THE FOLLOW-
28 ING:

29 (1) A DEFENSE OF THE OBLIGOR BASED ON (I) INFANCY OF THE OBLIGOR TO
30 THE EXTENT IT IS A DEFENSE TO A SIMPLE CONTRACT, (II) DURESS, LACK OF
31 LEGAL CAPACITY, OR ILLEGALITY OF THE TRANSACTION WHICH, UNDER OTHER LAW,
32 NULLIFIES THE OBLIGATION OF THE OBLIGOR, (III) FRAUD THAT INDUCED THE
33 OBLIGOR TO SIGN THE INSTRUMENT WITH NEITHER KNOWLEDGE NOR REASONABLE
34 OPPORTUNITY TO LEARN OF ITS CHARACTER OR ITS ESSENTIAL TERMS, OR (IV)
35 DISCHARGE OF THE OBLIGOR IN INSOLVENCY PROCEEDINGS;

36 (2) A DEFENSE OF THE OBLIGOR STATED IN ANOTHER SECTION OF THIS ARTICLE
37 OR A DEFENSE OF THE OBLIGOR THAT WOULD BE AVAILABLE IF THE PERSON ENTI-
38 TLED TO ENFORCE THE INSTRUMENT WERE ENFORCING A RIGHT TO PAYMENT UNDER A
39 SIMPLE CONTRACT; AND

40 (3) A CLAIM IN RECOUPMENT OF THE OBLIGOR AGAINST THE ORIGINAL PAYEE OF
41 THE INSTRUMENT IF THE CLAIM AROSE FROM THE TRANSACTION THAT GAVE RISE TO
42 THE INSTRUMENT; BUT THE CLAIM OF THE OBLIGOR MAY BE ASSERTED AGAINST A
43 TRANSFEREE OF THE INSTRUMENT ONLY TO REDUCE THE AMOUNT OWING ON THE
44 INSTRUMENT AT THE TIME THE ACTION IS BROUGHT.

45 (B) THE RIGHT OF A HOLDER IN DUE COURSE TO ENFORCE THE OBLIGATION OF A
46 PARTY TO PAY THE INSTRUMENT IS SUBJECT TO DEFENSES OF THE OBLIGOR STATED
47 IN SUBSECTION (A)(1), BUT IS NOT SUBJECT TO DEFENSES OF THE OBLIGOR
48 STATED IN SUBSECTION (A)(2) OR CLAIMS IN RECOUPMENT STATED IN SUBSECTION
49 (A)(3) AGAINST A PERSON OTHER THAN THE HOLDER.

50 (C) EXCEPT AS STATED IN SUBSECTION (D), IN AN ACTION TO ENFORCE THE
51 OBLIGATION OF A PARTY TO PAY THE INSTRUMENT, THE OBLIGOR MAY NOT ASSERT
52 AGAINST THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT A DEFENSE, CLAIM
53 IN RECOUPMENT, OR CLAIM TO THE INSTRUMENT (SECTION 3--306) OF ANOTHER
54 PERSON, BUT THE OTHER PERSON'S CLAIM TO THE INSTRUMENT MAY BE ASSERTED
55 BY THE OBLIGOR IF THE OTHER PERSON IS JOINED IN THE ACTION AND
56 PERSONALLY ASSERTS THE CLAIM AGAINST THE PERSON ENTITLED TO ENFORCE THE

INSTRUMENT. AN OBLIGOR IS NOT OBLIGED TO PAY THE INSTRUMENT IF THE PERSON SEEKING ENFORCEMENT OF THE INSTRUMENT DOES NOT HAVE RIGHTS OF A HOLDER IN DUE COURSE AND THE OBLIGOR PROVES THAT THE INSTRUMENT IS A LOST OR STOLEN INSTRUMENT.

(D) IN AN ACTION TO ENFORCE THE OBLIGATION OF AN ACCOMMODATION PARTY TO PAY AN INSTRUMENT, THE ACCOMMODATION PARTY MAY ASSERT AGAINST THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT ANY DEFENSE OR CLAIM IN RECOUPMENT UNDER SUBSECTION (A) THAT THE ACCOMMODATED PARTY COULD ASSERT AGAINST THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT, EXCEPT THE DEFENSES OF DISCHARGE IN INSOLVENCY PROCEEDINGS, INFANCY, AND LACK OF LEGAL CAPACITY.

(E) IN A CONSUMER TRANSACTION, IF LAW OTHER THAN THIS ARTICLE REQUIRES THAT AN INSTRUMENT INCLUDE A STATEMENT TO THE EFFECT THAT THE RIGHTS OF A HOLDER OR TRANSFEREE ARE SUBJECT TO A CLAIM OR DEFENSE THAT THE ISSUER COULD ASSERT AGAINST THE ORIGINAL PAYEE, AND THE INSTRUMENT DOES NOT INCLUDE SUCH A STATEMENT:

(1) THE INSTRUMENT HAS THE SAME EFFECT AS IF THE INSTRUMENT INCLUDED SUCH A STATEMENT;

(2) THE ISSUER MAY ASSERT AGAINST THE HOLDER OR TRANSFEREE ALL CLAIMS AND DEFENSES THAT WOULD HAVE BEEN AVAILABLE IF THE INSTRUMENT INCLUDED SUCH A STATEMENT; AND

(3) THE EXTENT TO WHICH CLAIMS MAY BE ASSERTED AGAINST THE HOLDER OR TRANSFEREE IS DETERMINED AS IF THE INSTRUMENT INCLUDED SUCH A STATEMENT.

(F) THIS SECTION IS SUBJECT TO LAW OTHER THAN THIS ARTICLE THAT ESTABLISHES A DIFFERENT RULE FOR CONSUMER TRANSACTIONS.
SECTION 3--306. CLAIMS TO AN INSTRUMENT.

A PERSON TAKING AN INSTRUMENT, OTHER THAN A PERSON HAVING RIGHTS OF A HOLDER IN DUE COURSE, IS SUBJECT TO A CLAIM OF A PROPERTY OR POSSESSORY RIGHT IN THE INSTRUMENT OR ITS PROCEEDS, INCLUDING A CLAIM TO RESCIND A NEGOTIATION AND TO RECOVER THE INSTRUMENT OR ITS PROCEEDS. A PERSON HAVING RIGHTS OF A HOLDER IN DUE COURSE TAKES FREE OF THE CLAIM TO THE INSTRUMENT.

SECTION 3--307. NOTICE OF BREACH OF FIDUCIARY DUTY.

(A) IN THIS SECTION:

(1) "FIDUCIARY" MEANS AN AGENT, TRUSTEE, PARTNER, CORPORATE OFFICER OR DIRECTOR, OR OTHER REPRESENTATIVE OWING A FIDUCIARY DUTY WITH RESPECT TO AN INSTRUMENT.

(2) "REPRESENTED PERSON" MEANS THE PRINCIPAL, BENEFICIARY, PARTNERSHIP, CORPORATION, OR OTHER PERSON TO WHOM THE DUTY STATED IN PARAGRAPH (1) IS OWED.

(B) IF (1) AN INSTRUMENT IS TAKEN FROM A FIDUCIARY FOR PAYMENT OR COLLECTION OR FOR VALUE, (2) THE TAKER HAS KNOWLEDGE OF THE FIDUCIARY STATUS OF THE FIDUCIARY, AND (3) THE REPRESENTED PERSON MAKES A CLAIM TO THE INSTRUMENT OR ITS PROCEEDS ON THE BASIS THAT THE TRANSACTION OF THE FIDUCIARY IS A BREACH OF FIDUCIARY DUTY, THE FOLLOWING RULES APPLY:

(I) NOTICE OF BREACH OF FIDUCIARY DUTY BY THE FIDUCIARY IS NOTICE OF THE CLAIM OF THE REPRESENTED PERSON.

(II) IN THE CASE OF AN INSTRUMENT PAYABLE TO THE REPRESENTED PERSON OR THE FIDUCIARY AS SUCH, THE TAKER HAS NOTICE OF THE BREACH OF FIDUCIARY DUTY IF THE INSTRUMENT IS (A) TAKEN IN PAYMENT OF OR AS SECURITY FOR A DEBT KNOWN BY THE TAKER TO BE THE PERSONAL DEBT OF THE FIDUCIARY, (B) TAKEN IN A TRANSACTION KNOWN BY THE TAKER TO BE FOR THE PERSONAL BENEFIT OF THE FIDUCIARY, OR (C) DEPOSITED TO AN ACCOUNT OTHER THAN AN ACCOUNT OF THE FIDUCIARY, AS SUCH, OR AN ACCOUNT OF THE REPRESENTED PERSON.

(III) IF AN INSTRUMENT IS ISSUED BY THE REPRESENTED PERSON OR THE FIDUCIARY AS SUCH, AND MADE PAYABLE TO THE FIDUCIARY PERSONALLY, THE

1 TAKER DOES NOT HAVE NOTICE OF THE BREACH OF FIDUCIARY DUTY UNLESS THE
2 TAKER KNOWS OF THE BREACH OF FIDUCIARY DUTY.

3 (IV) IF AN INSTRUMENT IS ISSUED BY THE REPRESENTED PERSON OR THE FIDU-
4 CIARY AS SUCH, TO THE TAKER AS PAYEE, THE TAKER HAS NOTICE OF THE BREACH
5 OF FIDUCIARY DUTY IF THE INSTRUMENT IS (A) TAKEN IN PAYMENT OF OR AS
6 SECURITY FOR A DEBT KNOWN BY THE TAKER TO BE THE PERSONAL DEBT OF THE
7 FIDUCIARY, (B) TAKEN IN A TRANSACTION KNOWN BY THE TAKER TO BE FOR THE
8 PERSONAL BENEFIT OF THE FIDUCIARY, OR (C) DEPOSITED TO AN ACCOUNT OTHER
9 THAN AN ACCOUNT OF THE FIDUCIARY, AS SUCH, OR AN ACCOUNT OF THE REPRES-
10 ENTED PERSON.

11 SECTION 3--308. PROOF OF SIGNATURES AND STATUS AS HOLDER IN DUE COURSE.

12 (A) IN AN ACTION WITH RESPECT TO AN INSTRUMENT, THE AUTHENTICITY OF,
13 AND AUTHORITY TO MAKE, EACH SIGNATURE ON THE INSTRUMENT IS ADMITTED
14 UNLESS SPECIFICALLY DENIED IN THE PLEADINGS. IF THE VALIDITY OF A SIGNA-
15 TURE IS DENIED IN THE PLEADINGS, THE BURDEN OF ESTABLISHING VALIDITY IS
16 ON THE PERSON CLAIMING VALIDITY, BUT THE SIGNATURE IS PRESUMED TO BE
17 AUTHENTIC AND AUTHORIZED UNLESS THE ACTION IS TO ENFORCE THE LIABILITY
18 OF THE PURPORTED SIGNER AND THE SIGNER IS DEAD OR INCOMPETENT AT THE
19 TIME OF TRIAL OF THE ISSUE OF VALIDITY OF THE SIGNATURE. IF AN ACTION TO
20 ENFORCE THE INSTRUMENT IS BROUGHT AGAINST A PERSON AS THE UNDISCLOSED
21 PRINCIPAL OF A PERSON WHO SIGNED THE INSTRUMENT AS A PARTY TO THE
22 INSTRUMENT, THE PLAINTIFF HAS THE BURDEN OF ESTABLISHING THAT THE
23 DEFENDANT IS LIABLE ON THE INSTRUMENT AS A REPRESENTED PERSON UNDER
24 SECTION 3--402(A).

25 (B) IF THE VALIDITY OF SIGNATURES IS ADMITTED OR PROVED AND THERE IS
26 COMPLIANCE WITH SUBSECTION (A), A PLAINTIFF PRODUCING THE INSTRUMENT IS
27 ENTITLED TO PAYMENT IF THE PLAINTIFF PROVES ENTITLEMENT TO ENFORCE THE
28 INSTRUMENT UNDER SECTION 3--301, UNLESS THE DEFENDANT PROVES A DEFENSE
29 OR CLAIM IN RECOUPMENT. IF A DEFENSE OR CLAIM IN RECOUPMENT IS PROVED,
30 THE RIGHT TO PAYMENT OF THE PLAINTIFF IS SUBJECT TO THE DEFENSE OR
31 CLAIM, EXCEPT TO THE EXTENT THE PLAINTIFF PROVES THAT THE PLAINTIFF HAS
32 RIGHTS OF A HOLDER IN DUE COURSE WHICH ARE NOT SUBJECT TO THE DEFENSE OR
33 CLAIM.

34 SECTION 3--309. ENFORCEMENT OF LOST, DESTROYED, OR STOLEN INSTRUMENT.

35 (A) A PERSON NOT IN POSSESSION OF AN INSTRUMENT IS ENTITLED TO ENFORCE
36 THE INSTRUMENT IF:

37 (1) THE PERSON SEEKING TO ENFORCE THE INSTRUMENT:

38 (A) WAS ENTITLED TO ENFORCE THE INSTRUMENT WHEN LOSS OF POSSESSION
39 OCCURRED; OR

40 (B) HAS DIRECTLY OR INDIRECTLY ACQUIRED OWNERSHIP OF THE INSTRUMENT
41 FROM A PERSON WHO WAS ENTITLED TO ENFORCE THE INSTRUMENT WHEN LOSS OF
42 POSSESSION OCCURRED;

43 (2) THE LOSS OF POSSESSION WAS NOT THE RESULT OF A TRANSFER BY THE
44 PERSON OR A LAWFUL SEIZURE; AND

45 (3) THE PERSON CANNOT REASONABLY OBTAIN POSSESSION OF THE INSTRUMENT
46 BECAUSE THE INSTRUMENT WAS DESTROYED, ITS WHEREABOUTS CANNOT BE DETER-
47 MINED, OR IT IS IN THE WRONGFUL POSSESSION OF AN UNKNOWN PERSON OR A
48 PERSON THAT CANNOT BE FOUND OR IS NOT AMENABLE TO SERVICE OF PROCESS.

49 (B) A PERSON SEEKING ENFORCEMENT OF AN INSTRUMENT UNDER SUBSECTION (A)
50 MUST PROVE THE TERMS OF THE INSTRUMENT AND THE PERSON'S RIGHT TO ENFORCE
51 THE INSTRUMENT. IF THAT PROOF IS MADE, SECTION 3--308 APPLIES TO THE
52 CASE AS IF THE PERSON SEEKING ENFORCEMENT HAD PRODUCED THE INSTRUMENT.
53 THE COURT MAY NOT ENTER JUDGMENT IN FAVOR OF THE PERSON SEEKING ENFORCE-
54 MENT UNLESS IT FINDS THAT THE PERSON REQUIRED TO PAY THE INSTRUMENT IS
55 ADEQUATELY PROTECTED AGAINST LOSS THAT MIGHT OCCUR BY REASON OF A CLAIM

1 BY ANOTHER PERSON TO ENFORCE THE INSTRUMENT. ADEQUATE PROTECTION MAY BE
2 PROVIDED BY ANY REASONABLE MEANS.

3 SECTION 3--310. EFFECT OF INSTRUMENT ON OBLIGATION FOR WHICH TAKEN.

4 (A) UNLESS OTHERWISE AGREED, IF A CERTIFIED CHECK, CASHIER'S CHECK, OR
5 TELLER'S CHECK IS TAKEN FOR AN OBLIGATION, THE OBLIGATION IS DISCHARGED
6 TO THE SAME EXTENT DISCHARGE WOULD RESULT IF AN AMOUNT OF MONEY EQUAL TO
7 THE AMOUNT OF THE INSTRUMENT WERE TAKEN IN PAYMENT OF THE OBLIGATION.
8 DISCHARGE OF THE OBLIGATION DOES NOT AFFECT ANY LIABILITY THAT THE OBLI-
9 GOR MAY HAVE AS AN INDORSER OF THE INSTRUMENT.

10 (B) UNLESS OTHERWISE AGREED AND EXCEPT AS PROVIDED IN SUBSECTION (A),
11 IF A NOTE OR AN UNCERTIFIED CHECK IS TAKEN FOR AN OBLIGATION, THE OBLI-
12 GATION IS SUSPENDED TO THE SAME EXTENT THE OBLIGATION WOULD BE
13 DISCHARGED IF AN AMOUNT OF MONEY EQUAL TO THE AMOUNT OF THE INSTRUMENT
14 WERE TAKEN, AND THE FOLLOWING RULES APPLY:

15 (1) IN THE CASE OF AN UNCERTIFIED CHECK, SUSPENSION OF THE OBLIGATION
16 CONTINUES UNTIL DISHONOR OF THE CHECK OR UNTIL IT IS PAID OR CERTIFIED.
17 PAYMENT OR CERTIFICATION OF THE CHECK RESULTS IN DISCHARGE OF THE OBLI-
18 GATION TO THE EXTENT OF THE AMOUNT OF THE CHECK.

19 (2) IN THE CASE OF A NOTE, SUSPENSION OF THE OBLIGATION CONTINUES
20 UNTIL DISHONOR OF THE NOTE OR UNTIL IT IS PAID. PAYMENT OF THE NOTE
21 RESULTS IN DISCHARGE OF THE OBLIGATION TO THE EXTENT OF THE PAYMENT.

22 (3) EXCEPT AS PROVIDED IN PARAGRAPH (4), IF THE CHECK OR NOTE IS
23 DISHONORED AND THE OBLIGEE OF THE OBLIGATION FOR WHICH THE INSTRUMENT
24 WAS TAKEN IS THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT, THE OBLIGEE
25 MAY ENFORCE EITHER THE INSTRUMENT OR THE OBLIGATION. IN THE CASE OF AN
26 INSTRUMENT OF A THIRD PERSON WHICH IS NEGOTIATED TO THE OBLIGEE BY THE
27 OBLIGOR, DISCHARGE OF THE OBLIGOR ON THE INSTRUMENT ALSO DISCHARGES THE
28 OBLIGATION.

29 (4) IF THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT TAKEN FOR AN
30 OBLIGATION IS A PERSON OTHER THAN THE OBLIGEE, THE OBLIGEE MAY NOT
31 ENFORCE THE OBLIGATION TO THE EXTENT THE OBLIGATION IS SUSPENDED. IF THE
32 OBLIGEE IS THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT BUT NO LONGER
33 HAS POSSESSION OF IT BECAUSE IT WAS LOST, STOLEN, OR DESTROYED, THE
34 OBLIGATION MAY NOT BE ENFORCED TO THE EXTENT OF THE AMOUNT PAYABLE ON
35 THE INSTRUMENT, AND TO THAT EXTENT THE OBLIGEE'S RIGHTS AGAINST THE
36 OBLIGOR ARE LIMITED TO ENFORCEMENT OF THE INSTRUMENT.

37 (C) IF AN INSTRUMENT OTHER THAN ONE DESCRIBED IN SUBSECTION (A) OR (B)
38 IS TAKEN FOR AN OBLIGATION, THE EFFECT IS (1) THAT STATED IN SUBSECTION
39 (A) IF THE INSTRUMENT IS ONE ON WHICH A BANK IS LIABLE AS MAKER OR
40 ACCEPTOR, OR (2) THAT STATED IN SUBSECTION (B) IN ANY OTHER CASE.

41 SECTION 3--311. ACCORD AND SATISFACTION BY USE OF INSTRUMENT.

42 (A) IF A PERSON AGAINST WHOM A CLAIM IS ASSERTED PROVES THAT (1) THAT
43 PERSON IN GOOD FAITH TENDERED AN INSTRUMENT TO THE CLAIMANT AS FULL
44 SATISFACTION OF THE CLAIM, (2) THE AMOUNT OF THE CLAIM WAS UNLIQUIDATED
45 OR SUBJECT TO A BONA FIDE DISPUTE, AND (3) THE CLAIMANT OBTAINED PAYMENT
46 OF THE INSTRUMENT, THE FOLLOWING SUBSECTIONS APPLY.

47 (B) UNLESS SUBSECTION (C) APPLIES, THE CLAIM IS DISCHARGED IF THE
48 PERSON AGAINST WHOM THE CLAIM IS ASSERTED PROVES THAT THE INSTRUMENT OR
49 AN ACCOMPANYING WRITTEN COMMUNICATION CONTAINED A CONSPICUOUS STATEMENT
50 TO THE EFFECT THAT THE INSTRUMENT WAS TENDERED AS FULL SATISFACTION OF
51 THE CLAIM.

52 (C) SUBJECT TO SUBSECTION (D), A CLAIM IS NOT DISCHARGED UNDER
53 SUBSECTION (B) IF EITHER OF THE FOLLOWING APPLIES:

54 (1) THE CLAIMANT, IF AN ORGANIZATION, PROVES THAT (I) WITHIN A REASON-
55 ABLE TIME BEFORE THE TENDER, THE CLAIMANT SENT A CONSPICUOUS STATEMENT
56 TO THE PERSON AGAINST WHOM THE CLAIM IS ASSERTED THAT COMMUNICATIONS

1 CONCERNING DISPUTED DEBTS, INCLUDING AN INSTRUMENT TENDERED AS FULL
2 SATISFACTION OF A DEBT, ARE TO BE SENT TO A DESIGNATED PERSON, OFFICE,
3 OR PLACE, AND (II) THE INSTRUMENT OR ACCOMPANYING COMMUNICATION WAS NOT
4 RECEIVED BY THAT DESIGNATED PERSON, OFFICE, OR PLACE.

5 (2) THE CLAIMANT, WHETHER OR NOT AN ORGANIZATION, PROVES THAT WITHIN
6 NINETY DAYS AFTER PAYMENT OF THE INSTRUMENT, THE CLAIMANT TENDERED
7 REPAYMENT OF THE AMOUNT OF THE INSTRUMENT TO THE PERSON AGAINST WHOM THE
8 CLAIM IS ASSERTED. THIS PARAGRAPH DOES NOT APPLY IF THE CLAIMANT IS AN
9 ORGANIZATION THAT SENT A STATEMENT COMPLYING WITH PARAGRAPH (1)(I).

10 (D) A CLAIM IS DISCHARGED IF THE PERSON AGAINST WHOM THE CLAIM IS
11 ASSERTED PROVES THAT WITHIN A REASONABLE TIME BEFORE COLLECTION OF THE
12 INSTRUMENT WAS INITIATED, THE CLAIMANT, OR AN AGENT OF THE CLAIMANT
13 HAVING DIRECT RESPONSIBILITY WITH RESPECT TO THE DISPUTED OBLIGATION,
14 KNEW THAT THE INSTRUMENT WAS TENDERED IN FULL SATISFACTION OF THE CLAIM.
15 SECTION 3--312. LOST, DESTROYED, OR STOLEN CASHIER'S CHECK, TELLER'S
16 CHECK, OR CERTIFIED CHECK.

17 (A) IN THIS SECTION:

18 (1) "CHECK" MEANS A CASHIER'S CHECK, TELLER'S CHECK, OR CERTIFIED
19 CHECK.

20 (2) "CLAIMANT" MEANS A PERSON WHO CLAIMS THE RIGHT TO RECEIVE THE
21 AMOUNT OF A CASHIER'S CHECK, TELLER'S CHECK, OR CERTIFIED CHECK THAT WAS
22 LOST, DESTROYED, OR STOLEN.

23 (3) "DECLARATION OF LOSS" MEANS A STATEMENT, MADE IN A RECORD UNDER
24 PENALTY OF PERJURY, TO THE EFFECT THAT (I) THE DECLARER LOST POSSESSION
25 OF A CHECK, (II) THE DECLARER IS THE DRAWER OR PAYEE OF THE CHECK, IN
26 THE CASE OF A CERTIFIED CHECK, OR THE REMITTER OR PAYEE OF THE CHECK, IN
27 THE CASE OF A CASHIER'S CHECK OR TELLER'S CHECK, (III) THE LOSS OF
28 POSSESSION WAS NOT THE RESULT OF A TRANSFER BY THE DECLARER OR A LAWFUL
29 SEIZURE, AND (IV) THE DECLARER CANNOT REASONABLY OBTAIN POSSESSION OF
30 THE CHECK BECAUSE THE CHECK WAS DESTROYED, ITS WHEREABOUTS CANNOT BE
31 DETERMINED, OR IT IS IN THE WRONGFUL POSSESSION OF AN UNKNOWN PERSON OR
32 A PERSON THAT CANNOT BE FOUND OR IS NOT AMENABLE TO SERVICE OF PROCESS.

33 (4) "OBLIGATED BANK" MEANS THE ISSUER OF A CASHIER'S CHECK OR TELLER'S
34 CHECK OR THE ACCEPTOR OF A CERTIFIED CHECK.

35 (B) A CLAIMANT MAY ASSERT A CLAIM TO THE AMOUNT OF A CHECK BY A COMMU-
36 NICATION TO THE OBLIGATED BANK DESCRIBING THE CHECK WITH REASONABLE
37 CERTAINTY AND REQUESTING PAYMENT OF THE AMOUNT OF THE CHECK, IF (1) THE
38 CLAIMANT IS THE DRAWER OR PAYEE OF A CERTIFIED CHECK OR THE REMITTER OR
39 PAYEE OF A CASHIER'S CHECK OR TELLER'S CHECK, (2) THE COMMUNICATION
40 CONTAINS OR IS ACCOMPANIED BY A DECLARATION OF LOSS OF THE CLAIMANT WITH
41 RESPECT TO THE CHECK, (3) THE COMMUNICATION IS RECEIVED AT A TIME AND IN
42 A MANNER AFFORDING THE BANK A REASONABLE TIME TO ACT ON IT BEFORE THE
43 CHECK IS PAID, AND (4) THE CLAIMANT PROVIDES REASONABLE IDENTIFICATION
44 IF REQUESTED BY THE OBLIGATED BANK. DELIVERY OF A DECLARATION OF LOSS IS
45 A WARRANTY OF THE TRUTH OF THE STATEMENTS MADE IN THE DECLARATION. IF A
46 CLAIM IS ASSERTED IN COMPLIANCE WITH THIS SUBSECTION, THE FOLLOWING
47 RULES APPLY:

48 (1) THE CLAIM BECOMES ENFORCEABLE AT THE LATER OF (I) THE TIME THE
49 CLAIM IS ASSERTED, OR (II) THE NINETIETH DAY FOLLOWING THE DATE OF THE
50 CHECK, IN THE CASE OF A CASHIER'S CHECK OR TELLER'S CHECK, OR THE NINE-
51 TIETH DAY FOLLOWING THE DATE OF THE ACCEPTANCE, IN THE CASE OF A CERTI-
52 FIED CHECK.

53 (2) UNTIL THE CLAIM BECOMES ENFORCEABLE, IT HAS NO LEGAL EFFECT AND
54 THE OBLIGATED BANK MAY PAY THE CHECK OR, IN THE CASE OF A TELLER'S
55 CHECK, MAY PERMIT THE DRAWEE TO PAY THE CHECK. PAYMENT TO A PERSON ENTI-

1 TLED TO ENFORCE THE CHECK DISCHARGES ALL LIABILITY OF THE OBLIGATED BANK
2 WITH RESPECT TO THE CHECK.

3 (3) IF THE CLAIM BECOMES ENFORCEABLE BEFORE THE CHECK IS PRESENTED FOR
4 PAYMENT, THE OBLIGATED BANK IS NOT OBLIGED TO PAY THE CHECK.

5 (4) WHEN THE CLAIM BECOMES ENFORCEABLE, THE OBLIGATED BANK BECOMES
6 OBLIGED TO PAY THE AMOUNT OF THE CHECK TO THE CLAIMANT IF PAYMENT OF THE
7 CHECK HAS NOT BEEN MADE TO A PERSON ENTITLED TO ENFORCE THE CHECK.
8 SUBJECT TO SECTION 4-302(A)(1), PAYMENT TO THE CLAIMANT DISCHARGES ALL
9 LIABILITY OF THE OBLIGATED BANK WITH RESPECT TO THE CHECK.

10 (C) IF THE OBLIGATED BANK PAYS THE AMOUNT OF A CHECK TO A CLAIMANT
11 UNDER SUBSECTION (B)(4) AND THE CHECK IS PRESENTED FOR PAYMENT BY A
12 PERSON HAVING RIGHTS OF A HOLDER IN DUE COURSE, THE CLAIMANT IS OBLIGED
13 TO (1) REFUND THE PAYMENT TO THE OBLIGATED BANK IF THE CHECK IS PAID, OR
14 (2) PAY THE AMOUNT OF THE CHECK TO THE PERSON HAVING RIGHTS OF A HOLDER
15 IN DUE COURSE IF THE CHECK IS DISHONORED.

16 (D) IF A CLAIMANT HAS THE RIGHT TO ASSERT A CLAIM UNDER SUBSECTION (B)
17 AND IS ALSO A PERSON ENTITLED TO ENFORCE A CASHIER'S CHECK, TELLER'S
18 CHECK, OR CERTIFIED CHECK WHICH IS LOST, DESTROYED, OR STOLEN, THE
19 CLAIMANT MAY ASSERT RIGHTS WITH RESPECT TO THE CHECK EITHER UNDER THIS
20 SECTION OR SECTION 3--309.

21 PART 4

22 LIABILITY OF PARTIES

23 SECTION 3--401. SIGNATURE.

24 (A) A PERSON IS NOT LIABLE ON AN INSTRUMENT UNLESS (1) THE PERSON
25 SIGNED THE INSTRUMENT, OR (2) THE PERSON IS REPRESENTED BY AN AGENT OR
26 REPRESENTATIVE WHO SIGNED THE INSTRUMENT AND THE SIGNATURE IS BINDING ON
27 THE REPRESENTED PERSON UNDER SECTION 3--402.

28 (B) A SIGNATURE MAY BE MADE (1) MANUALLY OR BY MEANS OF A DEVICE OR
29 MACHINE, AND (2) BY THE USE OF ANY NAME, INCLUDING A TRADE OR ASSUMED
30 NAME, OR BY A WORD, MARK, OR SYMBOL EXECUTED OR ADOPTED BY A PERSON WITH
31 PRESENT INTENTION TO AUTHENTICATE A WRITING.

32 SECTION 3--402. SIGNATURE BY REPRESENTATIVE.

33 (A) IF A PERSON ACTING, OR PURPORTING TO ACT, AS A REPRESENTATIVE
34 SIGNS AN INSTRUMENT BY SIGNING EITHER THE NAME OF THE REPRESENTED PERSON
35 OR THE NAME OF THE SIGNER, THE REPRESENTED PERSON IS BOUND BY THE SIGNA-
36 TURE TO THE SAME EXTENT THE REPRESENTED PERSON WOULD BE BOUND IF THE
37 SIGNATURE WERE ON A SIMPLE CONTRACT. IF THE REPRESENTED PERSON IS BOUND,
38 THE SIGNATURE OF THE REPRESENTATIVE IS THE "AUTHORIZED SIGNATURE OF THE
39 REPRESENTED PERSON" AND THE REPRESENTED PERSON IS LIABLE ON THE INSTRU-
40 MENT, WHETHER OR NOT IDENTIFIED IN THE INSTRUMENT.

41 (B) IF A REPRESENTATIVE SIGNS THE NAME OF THE REPRESENTATIVE TO AN
42 INSTRUMENT AND THE SIGNATURE IS AN AUTHORIZED SIGNATURE OF THE REPRES-
43 ENTED PERSON, THE FOLLOWING RULES APPLY:

44 (1) IF THE FORM OF THE SIGNATURE SHOWS UNAMBIGUOUSLY THAT THE SIGNA-
45 TURE IS MADE ON BEHALF OF THE REPRESENTED PERSON WHO IS IDENTIFIED IN
46 THE INSTRUMENT, THE REPRESENTATIVE IS NOT LIABLE ON THE INSTRUMENT.

47 (2) SUBJECT TO SUBSECTION (C), IF (I) THE FORM OF THE SIGNATURE DOES
48 NOT SHOW UNAMBIGUOUSLY THAT THE SIGNATURE IS MADE IN A REPRESENTATIVE
49 CAPACITY OR (II) THE REPRESENTED PERSON IS NOT IDENTIFIED IN THE INSTRU-
50 MENT, THE REPRESENTATIVE IS LIABLE ON THE INSTRUMENT TO A HOLDER IN DUE
51 COURSE THAT TOOK THE INSTRUMENT WITHOUT NOTICE THAT THE REPRESENTATIVE
52 WAS NOT INTENDED TO BE LIABLE ON THE INSTRUMENT. WITH RESPECT TO ANY
53 OTHER PERSON, THE REPRESENTATIVE IS LIABLE ON THE INSTRUMENT UNLESS THE
54 REPRESENTATIVE PROVES THAT THE ORIGINAL PARTIES DID NOT INTEND THE
55 REPRESENTATIVE TO BE LIABLE ON THE INSTRUMENT.

(C) IF A REPRESENTATIVE SIGNS THE NAME OF THE REPRESENTATIVE AS DRAWER OF A CHECK WITHOUT INDICATION OF THE REPRESENTATIVE STATUS AND THE CHECK IS PAYABLE FROM AN ACCOUNT OF THE REPRESENTED PERSON WHO IS IDENTIFIED ON THE CHECK, THE SIGNER IS NOT LIABLE ON THE CHECK IF THE SIGNATURE IS AN AUTHORIZED SIGNATURE OF THE REPRESENTED PERSON.

SECTION 3--403. UNAUTHORIZED SIGNATURE.

(A) UNLESS OTHERWISE PROVIDED IN THIS ARTICLE OR ARTICLE 4, AN UNAUTHORIZED SIGNATURE IS INEFFECTIVE EXCEPT AS THE SIGNATURE OF THE UNAUTHORIZED SIGNER IN FAVOR OF A PERSON WHO IN GOOD FAITH PAYS THE INSTRUMENT OR TAKES IT FOR VALUE. AN UNAUTHORIZED SIGNATURE MAY BE RATIFIED FOR ALL PURPOSES OF THIS ARTICLE.

(B) IF THE SIGNATURE OF MORE THAN ONE PERSON IS REQUIRED TO CONSTITUTE THE AUTHORIZED SIGNATURE OF AN ORGANIZATION, THE SIGNATURE OF THE ORGANIZATION IS UNAUTHORIZED IF ONE OF THE REQUIRED SIGNATURES IS LACKING.

(C) THE CIVIL OR CRIMINAL LIABILITY OF A PERSON WHO MAKES AN UNAUTHORIZED SIGNATURE IS NOT AFFECTED BY ANY PROVISION OF THIS ARTICLE WHICH MAKES THE UNAUTHORIZED SIGNATURE EFFECTIVE FOR THE PURPOSES OF THIS ARTICLE.

SECTION 3--404. IMPOSTORS; FICTITIOUS PAYEES.

(A) IF AN IMPOSTOR, BY USE OF THE MAILS OR OTHERWISE, INDUCES THE ISSUER OF AN INSTRUMENT TO ISSUE THE INSTRUMENT TO THE IMPOSTOR, OR TO A PERSON ACTING IN CONCERT WITH THE IMPOSTOR, BY IMPERSONATING THE PAYEE OF THE INSTRUMENT OR A PERSON AUTHORIZED TO ACT FOR THE PAYEE, AN INDORSEMENT OF THE INSTRUMENT BY ANY PERSON IN THE NAME OF THE PAYEE IS EFFECTIVE AS THE INDORSEMENT OF THE PAYEE IN FAVOR OF A PERSON WHO, IN GOOD FAITH, PAYS THE INSTRUMENT OR TAKES IT FOR VALUE OR FOR COLLECTION.

(B) IF (1) A PERSON WHOSE INTENT DETERMINES TO WHOM AN INSTRUMENT IS PAYABLE (SECTION 3--110) DOES NOT INTEND THE PERSON IDENTIFIED AS PAYEE TO HAVE ANY INTEREST IN THE INSTRUMENT, OR (2) THE PERSON IDENTIFIED AS PAYEE OF AN INSTRUMENT IS A FICTITIOUS PERSON, THE FOLLOWING RULES APPLY UNTIL THE INSTRUMENT IS NEGOTIATED BY SPECIAL INDORSEMENT:

(I) ANY PERSON IN POSSESSION OF THE INSTRUMENT IS ITS HOLDER.

(II) AN INDORSEMENT BY ANY PERSON IN THE NAME OF THE PAYEE STATED IN THE INSTRUMENT IS EFFECTIVE AS THE INDORSEMENT OF THE PAYEE IN FAVOR OF A PERSON WHO, IN GOOD FAITH, PAYS THE INSTRUMENT OR TAKES IT FOR VALUE OR FOR COLLECTION.

(C) UNDER SUBSECTION (A) OR (B), AN INDORSEMENT IS MADE IN THE NAME OF A PAYEE IF (1) IT IS MADE IN A NAME SUBSTANTIALLY SIMILAR TO THAT OF THE PAYEE OR (2) THE INSTRUMENT, WHETHER OR NOT INDORSED, IS DEPOSITED IN A DEPOSITARY BANK TO AN ACCOUNT IN A NAME SUBSTANTIALLY SIMILAR TO THAT OF THE PAYEE.

(D) WITH RESPECT TO AN INSTRUMENT TO WHICH SUBSECTION (A) OR (B) APPLIES, IF A PERSON PAYING THE INSTRUMENT OR TAKING IT FOR VALUE OR FOR COLLECTION FAILS TO EXERCISE ORDINARY CARE IN PAYING OR TAKING THE INSTRUMENT AND THAT FAILURE SUBSTANTIALLY CONTRIBUTES TO LOSS RESULTING FROM PAYMENT OF THE INSTRUMENT, THE PERSON BEARING THE LOSS MAY RECOVER FROM THE PERSON FAILING TO EXERCISE ORDINARY CARE TO THE EXTENT THE FAILURE TO EXERCISE ORDINARY CARE CONTRIBUTED TO THE LOSS.

SECTION 3--405. EMPLOYER'S RESPONSIBILITY FOR FRAUDULENT INDORSEMENT BY EMPLOYEE.

(A) IN THIS SECTION:

(1) "EMPLOYEE" INCLUDES AN INDEPENDENT CONTRACTOR AND EMPLOYEE OF AN INDEPENDENT CONTRACTOR RETAINED BY THE EMPLOYER.

(2) "FRAUDULENT INDORSEMENT" MEANS (I) IN THE CASE OF AN INSTRUMENT PAYABLE TO THE EMPLOYER, A FORGED INDORSEMENT PURPORTING TO BE THAT OF THE EMPLOYER, OR (II) IN THE CASE OF AN INSTRUMENT WITH RESPECT TO WHICH

1 THE EMPLOYER IS THE ISSUER, A FORGED INDORSEMENT PURPORTING TO BE THAT
2 OF THE PERSON IDENTIFIED AS PAYEE.

3 (3) "RESPONSIBILITY" WITH RESPECT TO INSTRUMENTS MEANS AUTHORITY (I)
4 TO SIGN OR INDORSE INSTRUMENTS ON BEHALF OF THE EMPLOYER, (II) TO PROC-
5 ESS INSTRUMENTS RECEIVED BY THE EMPLOYER FOR BOOKKEEPING PURPOSES, FOR
6 DEPOSIT TO AN ACCOUNT, OR FOR OTHER DISPOSITION, (III) TO PREPARE OR
7 PROCESS INSTRUMENTS FOR ISSUE IN THE NAME OF THE EMPLOYER, (IV) TO
8 SUPPLY INFORMATION DETERMINING THE NAMES OR ADDRESSES OF PAYEES OF
9 INSTRUMENTS TO BE ISSUED IN THE NAME OF THE EMPLOYER, (V) TO CONTROL THE
10 DISPOSITION OF INSTRUMENTS TO BE ISSUED IN THE NAME OF THE EMPLOYER, OR
11 (VI) TO ACT OTHERWISE WITH RESPECT TO INSTRUMENTS IN A RESPONSIBLE
12 CAPACITY. "RESPONSIBILITY" DOES NOT INCLUDE AUTHORITY THAT MERELY ALLOWS
13 AN EMPLOYEE TO HAVE ACCESS TO INSTRUMENTS OR BLANK OR INCOMPLETE INSTRU-
14 MENT FORMS THAT ARE BEING STORED OR TRANSPORTED OR ARE PART OF INCOMING
15 OR OUTGOING MAIL, OR SIMILAR ACCESS.

16 (B) FOR THE PURPOSE OF DETERMINING THE RIGHTS AND LIABILITIES OF A
17 PERSON WHO, IN GOOD FAITH, PAYS AN INSTRUMENT OR TAKES IT FOR VALUE OR
18 FOR COLLECTION, IF AN EMPLOYER ENTRUSTED AN EMPLOYEE WITH RESPONSIBILITY
19 WITH RESPECT TO THE INSTRUMENT AND THE EMPLOYEE OR A PERSON ACTING IN
20 CONCERT WITH THE EMPLOYEE MAKES A FRAUDULENT INDORSEMENT OF THE INSTRU-
21 MENT, THE INDORSEMENT IS EFFECTIVE AS THE INDORSEMENT OF THE PERSON TO
22 WHOM THE INSTRUMENT IS PAYABLE IF IT IS MADE IN THE NAME OF THAT PERSON.
23 IF THE PERSON PAYING THE INSTRUMENT OR TAKING IT FOR VALUE OR FOR
24 COLLECTION FAILS TO EXERCISE ORDINARY CARE IN PAYING OR TAKING THE
25 INSTRUMENT AND THAT FAILURE SUBSTANTIALLY CONTRIBUTES TO LOSS RESULTING
26 FROM THE FRAUD, THE PERSON BEARING THE LOSS MAY RECOVER FROM THE PERSON
27 FAILING TO EXERCISE ORDINARY CARE TO THE EXTENT THE FAILURE TO EXERCISE
28 ORDINARY CARE CONTRIBUTED TO THE LOSS.

29 (C) UNDER SUBSECTION (B), AN INDORSEMENT IS MADE IN THE NAME OF THE
30 PERSON TO WHOM AN INSTRUMENT IS PAYABLE IF (1) IT IS MADE IN A NAME
31 SUBSTANTIALLY SIMILAR TO THE NAME OF THAT PERSON OR (2) THE INSTRUMENT,
32 WHETHER OR NOT INDORSED, IS DEPOSITED IN A DEPOSITARY BANK TO AN ACCOUNT
33 IN A NAME SUBSTANTIALLY SIMILAR TO THE NAME OF THAT PERSON.

34 SECTION 3--406. NEGLIGENCE CONTRIBUTING TO FORGED SIGNATURE OR ALTER-
35 ATION OF INSTRUMENT.

36 (A) A PERSON WHOSE FAILURE TO EXERCISE ORDINARY CARE SUBSTANTIALLY
37 CONTRIBUTES TO AN ALTERATION OF AN INSTRUMENT OR TO THE MAKING OF A
38 FORGED SIGNATURE ON AN INSTRUMENT IS PRECLUDED FROM ASSERTING THE ALTER-
39 ATION OR THE FORGERY AGAINST A PERSON WHO, IN GOOD FAITH, PAYS THE
40 INSTRUMENT OR TAKES IT FOR VALUE OR FOR COLLECTION.

41 (B) UNDER SUBSECTION (A), IF THE PERSON ASSERTING THE PRECLUSION FAILS
42 TO EXERCISE ORDINARY CARE IN PAYING OR TAKING THE INSTRUMENT AND THAT
43 FAILURE SUBSTANTIALLY CONTRIBUTES TO LOSS, THE LOSS IS ALLOCATED BETWEEN
44 THE PERSON PRECLUDED AND THE PERSON ASSERTING THE PRECLUSION ACCORDING
45 TO THE EXTENT TO WHICH THE FAILURE OF EACH TO EXERCISE ORDINARY CARE
46 CONTRIBUTED TO THE LOSS.

47 (C) UNDER SUBSECTION (A), THE BURDEN OF PROVING FAILURE TO EXERCISE
48 ORDINARY CARE IS ON THE PERSON ASSERTING THE PRECLUSION. UNDER
49 SUBSECTION (B), THE BURDEN OF PROVING FAILURE TO EXERCISE ORDINARY CARE
50 IS ON THE PERSON PRECLUDED.
51 SECTION 3--407. ALTERATION.

52 (A) "ALTERATION" MEANS (1) AN UNAUTHORIZED CHANGE IN AN INSTRUMENT
53 THAT PURPORTS TO MODIFY IN ANY RESPECT THE OBLIGATION OF A PARTY, OR (2)
54 AN UNAUTHORIZED ADDITION OF WORDS OR NUMBERS OR OTHER CHANGE TO AN
55 INCOMPLETE INSTRUMENT RELATING TO THE OBLIGATION OF A PARTY.

(B) EXCEPT AS PROVIDED IN SUBSECTION (C), AN ALTERATION FRAUDULENTLY MADE DISCHARGES A PARTY WHOSE OBLIGATION IS AFFECTED BY THE ALTERATION UNLESS THAT PARTY ASSENTS OR IS PRECLUDED FROM ASSERTING THE ALTERATION. NO OTHER ALTERATION DISCHARGES A PARTY, AND THE INSTRUMENT MAY BE ENFORCED ACCORDING TO ITS ORIGINAL TERMS.

(C) A PAYOR BANK OR DRAWEE PAYING A FRAUDULENTLY ALTERED INSTRUMENT OR A PERSON TAKING IT FOR VALUE, IN GOOD FAITH AND WITHOUT NOTICE OF THE ALTERATION, MAY ENFORCE RIGHTS WITH RESPECT TO THE INSTRUMENT (1) ACCORDING TO ITS ORIGINAL TERMS, OR (2) IN THE CASE OF AN INCOMPLETE INSTRUMENT ALTERED BY UNAUTHORIZED COMPLETION, ACCORDING TO ITS TERMS AS COMPLETED.

SECTION 3--408. DRAWEE NOT LIABLE ON UNACCEPTED DRAFT.

A CHECK OR OTHER DRAFT DOES NOT OF ITSELF OPERATE AS AN ASSIGNMENT OF FUNDS IN THE HANDS OF THE DRAWEE AVAILABLE FOR ITS PAYMENT, AND THE DRAWEE IS NOT LIABLE ON THE INSTRUMENT UNTIL THE DRAWEE ACCEPTS IT.

SECTION 3--409. ACCEPTANCE OF DRAFT; CERTIFIED CHECK.

(A) "ACCEPTANCE" MEANS THE DRAWEE'S SIGNED AGREEMENT TO PAY A DRAFT AS PRESENTED. IT MUST BE WRITTEN ON THE DRAFT AND MAY CONSIST OF THE DRAWEE'S SIGNATURE ALONE. ACCEPTANCE MAY BE MADE AT ANY TIME AND BECOMES EFFECTIVE WHEN NOTIFICATION PURSUANT TO INSTRUCTIONS IS GIVEN OR THE ACCEPTED DRAFT IS DELIVERED FOR THE PURPOSE OF GIVING RIGHTS ON THE ACCEPTANCE TO ANY PERSON.

(B) A DRAFT MAY BE ACCEPTED ALTHOUGH IT HAS NOT BEEN SIGNED BY THE DRAWER, IS OTHERWISE INCOMPLETE, IS OVERDUE, OR HAS BEEN DISHONORED.

(C) IF A DRAFT IS PAYABLE AT A FIXED PERIOD AFTER SIGHT AND THE ACCEPTOR FAILS TO DATE THE ACCEPTANCE, THE HOLDER MAY COMPLETE THE ACCEPTANCE BY SUPPLYING A DATE IN GOOD FAITH.

(D) "CERTIFIED CHECK" MEANS A CHECK ACCEPTED BY THE BANK ON WHICH IT IS DRAWN. ACCEPTANCE MAY BE MADE AS STATED IN SUBSECTION (A) OR BY A WRITING ON THE CHECK WHICH INDICATES THAT THE CHECK IS CERTIFIED. THE DRAWEE OF A CHECK HAS NO OBLIGATION TO CERTIFY THE CHECK, AND REFUSAL TO CERTIFY IS NOT DISHONOR OF THE CHECK.

SECTION 3--410. ACCEPTANCE VARYING DRAFT.

(A) IF THE TERMS OF A DRAWEE'S ACCEPTANCE VARY FROM THE TERMS OF THE DRAFT AS PRESENTED, THE HOLDER MAY REFUSE THE ACCEPTANCE AND TREAT THE DRAFT AS DISHONORED. IN THAT CASE, THE DRAWEE MAY CANCEL THE ACCEPTANCE.

(B) THE TERMS OF A DRAFT ARE NOT VARIED BY AN ACCEPTANCE TO PAY AT A PARTICULAR BANK OR PLACE IN THE UNITED STATES, UNLESS THE ACCEPTANCE STATES THAT THE DRAFT IS TO BE PAID ONLY AT THAT BANK OR PLACE.

(C) IF THE HOLDER ASSENTS TO AN ACCEPTANCE VARYING THE TERMS OF A DRAFT, THE OBLIGATION OF EACH DRAWER AND INDORSER THAT DOES NOT EXPRESSLY ASSENT TO THE ACCEPTANCE IS DISCHARGED.

SECTION 3--411. REFUSAL TO PAY CASHIER'S CHECKS, TELLER'S CHECKS, AND CERTIFIED CHECKS.

(A) IN THIS SECTION, "OBLIGATED BANK" MEANS THE ACCEPTOR OF A CERTIFIED CHECK OR THE ISSUER OF A CASHIER'S CHECK OR TELLER'S CHECK BOUGHT FROM THE ISSUER.

(B) IF THE OBLIGATED BANK WRONGFULLY (1) REFUSES TO PAY A CASHIER'S CHECK OR CERTIFIED CHECK, (2) STOPS PAYMENT OF A TELLER'S CHECK, OR (3) REFUSES TO PAY A DISHONORED TELLER'S CHECK, THE PERSON ASSERTING THE RIGHT TO ENFORCE THE CHECK IS ENTITLED TO COMPENSATION FOR EXPENSES AND LOSS OF INTEREST RESULTING FROM THE NONPAYMENT AND MAY RECOVER CONSEQUENTIAL DAMAGES IF THE OBLIGATED BANK REFUSES TO PAY AFTER RECEIVING NOTICE OF PARTICULAR CIRCUMSTANCES GIVING RISE TO THE DAMAGES.

(C) EXPENSES OR CONSEQUENTIAL DAMAGES UNDER SUBSECTION (B) ARE NOT RECOVERABLE IF THE REFUSAL OF THE OBLIGATED BANK TO PAY OCCURS BECAUSE

1 (1) THE BANK SUSPENDS PAYMENTS, (2) THE OBLIGATED BANK ASSERTS A CLAIM
2 OR DEFENSE OF THE BANK THAT IT HAS REASONABLE GROUNDS TO BELIEVE IS
3 AVAILABLE AGAINST THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT, (3) THE
4 OBLIGATED BANK HAS A REASONABLE DOUBT WHETHER THE PERSON DEMANDING
5 PAYMENT IS THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT, OR (4) PAYMENT
6 IS PROHIBITED BY LAW.

7 SECTION 3--412. OBLIGATION OF ISSUER OF NOTE OR CASHIER'S CHECK.

8 THE ISSUER OF A NOTE OR CASHIER'S CHECK OR OTHER DRAFT DRAWN ON THE
9 DRAWER IS OBLIGED TO PAY THE INSTRUMENT (1) ACCORDING TO ITS TERMS AT
10 THE TIME IT WAS ISSUED OR, IF NOT ISSUED, AT THE TIME IT FIRST CAME INTO
11 POSSESSION OF A HOLDER, OR (2) IF THE ISSUER SIGNED AN INCOMPLETE
12 INSTRUMENT, ACCORDING TO ITS TERMS WHEN COMPLETED, TO THE EXTENT STATED
13 IN SECTIONS 3--115 AND 3--407. THE OBLIGATION IS OWED TO A PERSON ENTI-
14 TLED TO ENFORCE THE INSTRUMENT OR TO AN INDORSER WHO PAID THE INSTRUMENT
15 UNDER SECTION 3--415.

16 SECTION 3--413. OBLIGATION OF ACCEPTOR.

17 (A) THE ACCEPTOR OF A DRAFT IS OBLIGED TO PAY THE DRAFT (1) ACCORDING
18 TO ITS TERMS AT THE TIME IT WAS ACCEPTED, EVEN THOUGH THE ACCEPTANCE
19 STATES THAT THE DRAFT IS PAYABLE "AS ORIGINALLY DRAWN" OR EQUIVALENT
20 TERMS, (2) IF THE ACCEPTANCE VARIES THE TERMS OF THE DRAFT, ACCORDING TO
21 THE TERMS OF THE DRAFT AS VARIED, OR (3) IF THE ACCEPTANCE IS OF A DRAFT
22 THAT IS AN INCOMPLETE INSTRUMENT, ACCORDING TO ITS TERMS WHEN COMPLETED,
23 TO THE EXTENT STATED IN SECTIONS 3--115 AND 3--407. THE OBLIGATION IS
24 OWED TO A PERSON ENTITLED TO ENFORCE THE DRAFT OR TO THE DRAWER OR AN
25 INDORSER WHO PAID THE DRAFT UNDER SECTION 3--414 OR 3--415.

26 (B) IF THE CERTIFICATION OF A CHECK OR OTHER ACCEPTANCE OF A DRAFT
27 STATES THE AMOUNT CERTIFIED OR ACCEPTED, THE OBLIGATION OF THE ACCEPTOR
28 IS THAT AMOUNT. IF (1) THE CERTIFICATION OR ACCEPTANCE DOES NOT STATE AN
29 AMOUNT, (2) THE AMOUNT OF THE INSTRUMENT IS SUBSEQUENTLY RAISED, AND (3)
30 THE INSTRUMENT IS THEN NEGOTIATED TO A HOLDER IN DUE COURSE, THE OBLI-
31 GATION OF THE ACCEPTOR IS THE AMOUNT OF THE INSTRUMENT AT THE TIME IT
32 WAS TAKEN BY THE HOLDER IN DUE COURSE.

33 SECTION 3--414. OBLIGATION OF DRAWER.

34 (A) THIS SECTION DOES NOT APPLY TO CASHIER'S CHECKS OR OTHER DRAFTS
35 DRAWN ON THE DRAWER.

36 (B) IF AN UNACCEPTED DRAFT IS DISHONORED, THE DRAWER IS OBLIGED TO PAY
37 THE DRAFT (1) ACCORDING TO ITS TERMS AT THE TIME IT WAS ISSUED OR, IF
38 NOT ISSUED, AT THE TIME IT FIRST CAME INTO POSSESSION OF A HOLDER, OR
39 (2) IF THE DRAWER SIGNED AN INCOMPLETE INSTRUMENT, ACCORDING TO ITS
40 TERMS WHEN COMPLETED, TO THE EXTENT STATED IN SECTIONS 3--115 AND
41 3--407. THE OBLIGATION IS OWED TO A PERSON ENTITLED TO ENFORCE THE DRAFT
42 OR TO AN INDORSER WHO PAID THE DRAFT UNDER SECTION 3--415.

43 (C) IF A DRAFT IS ACCEPTED BY A BANK, THE DRAWER IS DISCHARGED,
44 REGARDLESS OF WHEN OR BY WHOM ACCEPTANCE WAS OBTAINED.

45 (D) IF A DRAFT IS ACCEPTED AND THE ACCEPTOR IS NOT A BANK, THE OBLI-
46 GATION OF THE DRAWER TO PAY THE DRAFT IF THE DRAFT IS DISHONORED BY THE
47 ACCEPTOR IS THE SAME AS THE OBLIGATION OF AN INDORSER UNDER SECTION
48 3--415(A) AND (C).

49 (E) IF A DRAFT STATES THAT IT IS DRAWN "WITHOUT RECOURSE" OR OTHERWISE
50 DISCLAIMS LIABILITY OF THE DRAWER TO PAY THE DRAFT, THE DRAWER IS NOT
51 LIABLE UNDER SUBSECTION (B) TO PAY THE DRAFT IF THE DRAFT IS NOT A
52 CHECK. A DISCLAIMER OF THE LIABILITY STATED IN SUBSECTION (B) IS NOT
53 EFFECTIVE IF THE DRAFT IS A CHECK.

54 (F) IF (1) A CHECK IS NOT PRESENTED FOR PAYMENT OR GIVEN TO A DEPOSI-
55 TARY BANK FOR COLLECTION WITHIN THIRTY DAYS AFTER ITS DATE, (2) THE
56 DRAWEE SUSPENDS PAYMENTS AFTER EXPIRATION OF THE THIRTY-DAY PERIOD WITH-

OUT PAYING THE CHECK, AND (3) BECAUSE OF THE SUSPENSION OF PAYMENTS, THE DRAWER IS DEPRIVED OF FUNDS MAINTAINED WITH THE DRAWEE TO COVER PAYMENT OF THE CHECK, THE DRAWER TO THE EXTENT DEPRIVED OF FUNDS MAY DISCHARGE ITS OBLIGATION TO PAY THE CHECK BY ASSIGNING TO THE PERSON ENTITLED TO ENFORCE THE CHECK THE RIGHTS OF THE DRAWER AGAINST THE DRAWEE WITH RESPECT TO THE FUNDS.

SECTION 3--415. OBLIGATION OF INDORSER.

(A) SUBJECT TO SUBSECTIONS (B), (C), (D), (E) AND TO SECTION 3--419(D), IF AN INSTRUMENT IS DISHONORED, AN INDORSER IS OBLIGED TO PAY THE AMOUNT DUE ON THE INSTRUMENT (1) ACCORDING TO THE TERMS OF THE INSTRUMENT AT THE TIME IT WAS INDORSED, OR (2) IF THE INDORSER INDORSED AN INCOMPLETE INSTRUMENT, ACCORDING TO ITS TERMS WHEN COMPLETED, TO THE EXTENT STATED IN SECTIONS 3--115 AND 3--407. THE OBLIGATION OF THE INDORSER IS OWED TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT OR TO A SUBSEQUENT INDORSER WHO PAID THE INSTRUMENT UNDER THIS SECTION.

(B) IF AN INDORSEMENT STATES THAT IT IS MADE "WITHOUT RECOURSE" OR OTHERWISE DISCLAIMS LIABILITY OF THE INDORSER, THE INDORSER IS NOT LIABLE UNDER SUBSECTION (A) TO PAY THE INSTRUMENT.

(C) IF NOTICE OF DISHONOR OF AN INSTRUMENT IS REQUIRED BY SECTION 3--503 AND NOTICE OF DISHONOR COMPLYING WITH THAT SECTION IS NOT GIVEN TO AN INDORSER, THE LIABILITY OF THE INDORSER UNDER SUBSECTION (A) IS DISCHARGED.

(D) IF A DRAFT IS ACCEPTED BY A BANK AFTER AN INDORSEMENT IS MADE, THE LIABILITY OF THE INDORSER UNDER SUBSECTION (A) IS DISCHARGED.

(E) IF AN INDORSER OF A CHECK IS LIABLE UNDER SUBSECTION (A) AND THE CHECK IS NOT PRESENTED FOR PAYMENT, OR GIVEN TO A DEPOSITARY BANK FOR COLLECTION, WITHIN THIRTY DAYS AFTER THE DAY THE INDORSEMENT WAS MADE, THE LIABILITY OF THE INDORSER UNDER SUBSECTION (A) IS DISCHARGED.

SECTION 3--416. TRANSFER WARRANTIES.

(A) A PERSON WHO TRANSFERS AN INSTRUMENT FOR CONSIDERATION WARRANTS TO THE TRANSFEREE AND, IF THE TRANSFER IS BY INDORSEMENT, TO ANY SUBSEQUENT TRANSFEREE THAT:

(1) THE WARRANTOR IS A PERSON ENTITLED TO ENFORCE THE INSTRUMENT;

(2) ALL SIGNATURES ON THE INSTRUMENT ARE AUTHENTIC AND AUTHORIZED;

(3) THE INSTRUMENT HAS NOT BEEN ALTERED;

(4) THE INSTRUMENT IS NOT SUBJECT TO A DEFENSE OR CLAIM IN RECOUPMENT OF ANY PARTY WHICH 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, THAT 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 PERSON TO WHOM THE WARRANTIES UNDER SUBSECTION (A) ARE MADE AND WHO TOOK THE INSTRUMENT 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 INSTRUMENT PLUS EXPENSES AND LOSS OF INTEREST INCURRED AS A RESULT OF THE BREACH.

(C) 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 DAYS AFTER THE CLAIMANT HAS REASON TO KNOW OF THE BREACH AND THE IDENTITY OF THE WARRANTOR, THE LIABILITY OF THE WARRANTOR UNDER SUBSECTION (B) IS DISCHARGED TO THE EXTENT OF ANY LOSS CAUSED BY THE DELAY IN GIVING NOTICE OF THE CLAIM.

(D) A CAUSE OF ACTION FOR BREACH OF WARRANTY UNDER THIS SECTION ACCRUES WHEN THE CLAIMANT HAS REASON TO KNOW OF THE BREACH.

1 SECTION 3--417. PRESENTMENT WARRANTIES.

2 (A) IF AN UNACCEPTED DRAFT IS PRESENTED TO THE DRAWEE FOR PAYMENT OR
3 ACCEPTANCE AND THE DRAWEE PAYS OR ACCEPTS THE DRAFT, (1) THE PERSON
4 OBTAINING PAYMENT OR ACCEPTANCE, AT THE TIME OF PRESENTMENT, AND (2) A
5 PREVIOUS TRANSFEROR OF THE DRAFT, AT THE TIME OF TRANSFER, WARRANT TO
6 THE DRAWEE MAKING PAYMENT OR ACCEPTING THE DRAFT IN GOOD FAITH THAT:

7 (I) THE WARRANTOR IS, OR WAS, AT THE TIME THE WARRANTOR TRANSFERRED
8 THE DRAFT, A PERSON ENTITLED TO ENFORCE THE DRAFT OR AUTHORIZED TO
9 OBTAIN PAYMENT OR ACCEPTANCE OF THE DRAFT ON BEHALF OF A PERSON ENTITLED
10 TO ENFORCE THE DRAFT;

11 (II) THE DRAFT HAS NOT BEEN ALTERED;

12 (III) THE WARRANTOR HAS NO KNOWLEDGE THAT THE SIGNATURE OF THE DRAWER
13 OF THE DRAFT IS UNAUTHORIZED; AND

14 (IV) WITH RESPECT TO ANY REMOTELY-CREATED CONSUMER ITEM, THAT THE
15 PERSON ON WHOSE ACCOUNT THE ITEM IS DRAWN AUTHORIZED THE ISSUANCE OF THE
16 ITEM IN THE AMOUNT FOR WHICH THE ITEM IS DRAWN.

17 (B) A DRAWEE MAKING PAYMENT MAY RECOVER FROM ANY WARRANTOR DAMAGES FOR
18 BREACH OF WARRANTY EQUAL TO THE AMOUNT PAID BY THE DRAWEE LESS THE
19 AMOUNT THE DRAWEE RECEIVED OR IS ENTITLED TO RECEIVE FROM THE DRAWER
20 BECAUSE OF THE PAYMENT. IN ADDITION, THE DRAWEE IS ENTITLED TO COMPEN-
21 SATION FOR EXPENSES AND LOSS OF INTEREST RESULTING FROM THE BREACH. THE
22 RIGHT OF THE DRAWEE TO RECOVER DAMAGES UNDER THIS SUBSECTION IS NOT
23 AFFECTED BY ANY FAILURE OF THE DRAWEE TO EXERCISE ORDINARY CARE IN
24 MAKING PAYMENT. IF THE DRAWEE ACCEPTS THE DRAFT, BREACH OF WARRANTY IS A
25 DEFENSE TO THE OBLIGATION OF THE ACCEPTOR. IF THE ACCEPTOR MAKES PAYMENT
26 WITH RESPECT TO THE DRAFT, THE ACCEPTOR IS ENTITLED TO RECOVER FROM ANY
27 WARRANTOR FOR BREACH OF WARRANTY THE AMOUNTS STATED IN THIS SUBSECTION.

28 (C) IF A DRAWEE ASSERTS A CLAIM FOR BREACH OF WARRANTY UNDER
29 SUBSECTION (A) BASED ON AN UNAUTHORIZED INDORSEMENT OF THE DRAFT OR AN
30 ALTERATION OF THE DRAFT, THE WARRANTOR MAY DEFEND BY PROVING THAT THE
31 INDORSEMENT IS EFFECTIVE UNDER SECTION 3--404 OR 3--405 OR THE DRAWER IS
32 PRECLUDED UNDER SECTION 3--406 OR 4--406 FROM ASSERTING AGAINST THE
33 DRAWEE THE UNAUTHORIZED INDORSEMENT OR ALTERATION.

34 (D) IF (1) A DISHONORED DRAFT IS PRESENTED FOR PAYMENT TO THE DRAWER
35 OR AN INDORSER OR (2) ANY OTHER INSTRUMENT IS PRESENTED FOR PAYMENT TO A
36 PARTY OBLIGED TO PAY THE INSTRUMENT, AND (3) PAYMENT IS RECEIVED, THE
37 FOLLOWING RULES APPLY:

38 (I) THE PERSON OBTAINING PAYMENT AND A PRIOR TRANSFEROR OF THE INSTRU-
39 MENT WARRANT TO THE PERSON MAKING PAYMENT IN GOOD FAITH THAT THE WARRANT-
40 TOR IS, OR WAS, AT THE TIME THE WARRANTOR TRANSFERRED THE INSTRUMENT, A
41 PERSON ENTITLED TO ENFORCE THE INSTRUMENT OR AUTHORIZED TO OBTAIN
42 PAYMENT ON BEHALF OF A PERSON ENTITLED TO ENFORCE THE INSTRUMENT.

43 (II) THE PERSON MAKING PAYMENT MAY RECOVER FROM ANY WARRANTOR FOR
44 BREACH OF WARRANTY AN AMOUNT EQUAL TO THE AMOUNT PAID PLUS EXPENSES AND
45 LOSS OF INTEREST RESULTING FROM THE BREACH.

46 (E) THE WARRANTIES STATED IN SUBSECTIONS (A) AND (D) CANNOT BE
47 DISCLAIMED WITH RESPECT TO CHECKS. UNLESS NOTICE OF A CLAIM FOR BREACH
48 OF WARRANTY IS GIVEN TO THE WARRANTOR WITHIN THIRTY DAYS AFTER THE
49 CLAIMANT HAS REASON TO KNOW OF THE BREACH AND THE IDENTITY OF THE
50 WARRANTOR, THE LIABILITY OF THE WARRANTOR UNDER SUBSECTION (B) OR (D) IS
51 DISCHARGED TO THE EXTENT OF ANY LOSS CAUSED BY THE DELAY IN GIVING
52 NOTICE OF THE CLAIM.

53 (F) A CAUSE OF ACTION FOR BREACH OF WARRANTY UNDER THIS SECTION
54 ACCRUES WHEN THE CLAIMANT HAS REASON TO KNOW OF THE BREACH.

55 SECTION 3--418. PAYMENT OR ACCEPTANCE BY MISTAKE.

1 (A) EXCEPT AS PROVIDED IN SUBSECTION (C), IF THE DRAWEE OF A DRAFT
2 PAYS OR ACCEPTS THE DRAFT AND THE DRAWEE ACTED ON THE MISTAKEN BELIEF
3 THAT (1) PAYMENT OF THE DRAFT HAD NOT BEEN STOPPED PURSUANT TO SECTION
4 4--403 OR (2) THE SIGNATURE OF THE DRAWER OF THE DRAFT WAS AUTHORIZED,
5 THE DRAWEE MAY RECOVER THE AMOUNT OF THE DRAFT FROM THE PERSON TO WHOM
6 OR FOR WHOSE BENEFIT PAYMENT WAS MADE OR, IN THE CASE OF ACCEPTANCE, MAY
7 REVOKE THE ACCEPTANCE. RIGHTS OF THE DRAWEE UNDER THIS SUBSECTION ARE
8 NOT AFFECTED BY FAILURE OF THE DRAWEE TO EXERCISE ORDINARY CARE IN
9 PAYING OR ACCEPTING THE DRAFT.

10 (B) EXCEPT AS PROVIDED IN SUBSECTION (C), IF AN INSTRUMENT HAS BEEN
11 PAID OR ACCEPTED BY MISTAKE AND THE CASE IS NOT COVERED BY SUBSECTION
12 (A), THE PERSON PAYING OR ACCEPTING MAY, TO THE EXTENT PERMITTED BY THE
13 LAW GOVERNING MISTAKE AND RESTITUTION, (1) RECOVER THE PAYMENT FROM THE
14 PERSON TO WHOM OR FOR WHOSE BENEFIT PAYMENT WAS MADE OR (2) IN THE CASE
15 OF ACCEPTANCE, MAY REVOKE THE ACCEPTANCE.

16 (C) THE REMEDIES PROVIDED BY SUBSECTION (A) OR (B) MAY NOT BE ASSERTED
17 AGAINST A PERSON WHO TOOK THE INSTRUMENT IN GOOD FAITH AND FOR VALUE OR
18 WHO IN GOOD FAITH CHANGED POSITION IN RELIANCE ON THE PAYMENT OR ACCEPT-
19 ANCE. THIS SUBSECTION DOES NOT LIMIT REMEDIES PROVIDED BY SECTION 3--417
20 OR 4--407.

21 (D) NOTWITHSTANDING SECTION 4--215, IF AN INSTRUMENT IS PAID OR
22 ACCEPTED BY MISTAKE AND THE PAYOR OR ACCEPTOR RECOVERS PAYMENT OR
23 REVOKES ACCEPTANCE UNDER SUBSECTION (A) OR (B), THE INSTRUMENT IS DEEMED
24 NOT TO HAVE BEEN PAID OR ACCEPTED AND IS TREATED AS DISHONORED, AND THE
25 PERSON FROM WHOM PAYMENT IS RECOVERED HAS RIGHTS AS A PERSON ENTITLED TO
26 ENFORCE THE DISHONORED INSTRUMENT.

27 SECTION 3--419. INSTRUMENTS SIGNED FOR ACCOMMODATION.

28 (A) IF AN INSTRUMENT IS ISSUED FOR VALUE GIVEN FOR THE BENEFIT OF A
29 PARTY TO THE INSTRUMENT ("ACCOMMODATED PARTY") AND ANOTHER PARTY TO THE
30 INSTRUMENT ("ACCOMMODATION PARTY") SIGNS THE INSTRUMENT FOR THE PURPOSE
31 OF INCURRING LIABILITY ON THE INSTRUMENT WITHOUT BEING A DIRECT BENEFI-
32 CIARY OF THE VALUE GIVEN FOR THE INSTRUMENT, THE INSTRUMENT IS SIGNED BY
33 THE ACCOMMODATION PARTY "FOR ACCOMMODATION."

34 (B) AN ACCOMMODATION PARTY MAY SIGN THE INSTRUMENT AS MAKER, DRAWER,
35 ACCEPTOR, OR INDORSER AND, SUBJECT TO SUBSECTION (D), IS OBLIGED TO PAY
36 THE INSTRUMENT IN THE CAPACITY IN WHICH THE ACCOMMODATION PARTY SIGNS.
37 THE OBLIGATION OF AN ACCOMMODATION PARTY MAY BE ENFORCED NOTWITHSTANDING
38 ANY STATUTE OF FRAUDS AND WHETHER OR NOT THE ACCOMMODATION PARTY
39 RECEIVES CONSIDERATION FOR THE ACCOMMODATION.

40 (C) A PERSON SIGNING AN INSTRUMENT IS PRESUMED TO BE AN ACCOMMODATION
41 PARTY AND THERE IS NOTICE THAT THE INSTRUMENT IS SIGNED FOR ACCOMMO-
42 DATION IF THE SIGNATURE IS AN ANOMALOUS INDORSEMENT OR IS ACCOMPANIED BY
43 WORDS INDICATING THAT THE SIGNER IS ACTING AS SURETY OR GUARANTOR WITH
44 RESPECT TO THE OBLIGATION OF ANOTHER PARTY TO THE INSTRUMENT. EXCEPT AS
45 PROVIDED IN SECTION 3--605, THE OBLIGATION OF AN ACCOMMODATION PARTY TO
46 PAY THE INSTRUMENT IS NOT AFFECTED BY THE FACT THAT THE PERSON ENFORCING
47 THE OBLIGATION HAD NOTICE WHEN THE INSTRUMENT WAS TAKEN BY THAT PERSON
48 THAT THE ACCOMMODATION PARTY SIGNED THE INSTRUMENT FOR ACCOMMODATION.

49 (D) IF THE SIGNATURE OF A PARTY TO AN INSTRUMENT IS ACCOMPANIED BY
50 WORDS INDICATING UNAMBIGUOUSLY THAT THE PARTY IS GUARANTEEING COLLECTION
51 RATHER THAN PAYMENT OF THE OBLIGATION OF ANOTHER PARTY TO THE INSTRU-
52 MENT, THE SIGNER IS OBLIGED TO PAY THE AMOUNT DUE ON THE INSTRUMENT TO A
53 PERSON ENTITLED TO ENFORCE THE INSTRUMENT ONLY IF (1) EXECUTION OF JUDG-
54 MENT AGAINST THE OTHER PARTY HAS BEEN RETURNED UNSATISFIED, (2) THE
55 OTHER PARTY IS INSOLVENT OR IN AN INSOLVENCY PROCEEDING, (3) THE OTHER

PARTY CANNOT BE SERVED WITH PROCESS, OR (4) IT IS OTHERWISE APPARENT THAT PAYMENT CANNOT BE OBTAINED FROM THE OTHER PARTY.

(E) IF THE SIGNATURE OF A PARTY TO AN INSTRUMENT IS ACCOMPANIED BY WORDS INDICATING THAT THE PARTY GUARANTEES PAYMENT OR THE SIGNER SIGNS THE INSTRUMENT AS AN ACCOMMODATION PARTY IN SOME OTHER MANNER THAT DOES NOT UNAMBIGUOUSLY INDICATE AN INTENTION TO GUARANTEE COLLECTION RATHER THAN PAYMENT, THE SIGNER IS OBLIGED TO PAY THE AMOUNT DUE ON THE INSTRUMENT TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT IN THE SAME CIRCUMSTANCES AS THE ACCOMMODATED PARTY WOULD BE OBLIGED, WITHOUT PRIOR RESORT TO THE ACCOMMODATED PARTY BY THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT.

(F) AN ACCOMMODATION PARTY WHO PAYS THE INSTRUMENT IS ENTITLED TO REIMBURSEMENT FROM THE ACCOMMODATED PARTY AND IS ENTITLED TO ENFORCE THE INSTRUMENT AGAINST THE ACCOMMODATED PARTY. IN PROPER CIRCUMSTANCES, AN ACCOMMODATION PARTY MAY OBTAIN RELIEF THAT REQUIRES THE ACCOMMODATED PARTY TO PERFORM ITS OBLIGATIONS ON THE INSTRUMENT. AN ACCOMMODATED PARTY THAT PAYS THE INSTRUMENT HAS NO RIGHT OF RECOURSE AGAINST, AND IS NOT ENTITLED TO CONTRIBUTION FROM, AN ACCOMMODATION PARTY.

SECTION 3--420. CONVERSION OF INSTRUMENT.

(A) THE LAW APPLICABLE TO CONVERSION OF PERSONAL PROPERTY APPLIES TO INSTRUMENTS. AN INSTRUMENT IS ALSO CONVERTED IF IT IS TAKEN BY TRANSFER, OTHER THAN A NEGOTIATION, FROM A PERSON NOT ENTITLED TO ENFORCE THE INSTRUMENT OR A BANK MAKES OR OBTAINS PAYMENT WITH RESPECT TO THE INSTRUMENT FOR A PERSON NOT ENTITLED TO ENFORCE THE INSTRUMENT OR RECEIVE PAYMENT. AN ACTION FOR CONVERSION OF AN INSTRUMENT MAY NOT BE BROUGHT BY (1) THE ISSUER OR ACCEPTOR OF THE INSTRUMENT OR (2) A PAYEE OR INDORSEE WHO DID NOT RECEIVE DELIVERY OF THE INSTRUMENT EITHER DIRECTLY OR THROUGH DELIVERY TO AN AGENT OR A CO-PAYEE.

(B) IN AN ACTION UNDER SUBSECTION (A), THE MEASURE OF LIABILITY IS PRESUMED TO BE THE AMOUNT PAYABLE ON THE INSTRUMENT, BUT RECOVERY MAY NOT EXCEED THE AMOUNT OF THE PLAINTIFF'S INTEREST IN THE INSTRUMENT.

(C) A REPRESENTATIVE, OTHER THAN A DEPOSITARY BANK, WHO HAS IN GOOD FAITH DEALT WITH AN INSTRUMENT OR ITS PROCEEDS ON BEHALF OF ONE WHO WAS NOT THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT IS NOT LIABLE IN CONVERSION TO THAT PERSON BEYOND THE AMOUNT OF ANY PROCEEDS THAT IT HAS NOT PAID OUT.

PART 5 DISHONOR

SECTION 3--501. PRESENTMENT.

(A) "PRESENTMENT" MEANS A DEMAND MADE BY OR ON BEHALF OF A PERSON ENTITLED TO ENFORCE AN INSTRUMENT (1) TO PAY THE INSTRUMENT MADE TO THE DRAWEE OR A PARTY OBLIGED TO PAY THE INSTRUMENT OR, IN THE CASE OF A NOTE OR ACCEPTED DRAFT PAYABLE AT A BANK, TO THE BANK, OR (2) TO ACCEPT A DRAFT MADE TO THE DRAWEE.

(B) THE FOLLOWING RULES ARE SUBJECT TO ARTICLE 4, AGREEMENT OF THE PARTIES, AND CLEARING HOUSE RULES AND THE LIKE:

(1) PRESENTMENT MAY BE MADE AT THE PLACE OF PAYMENT OF THE INSTRUMENT AND MUST BE MADE AT THE PLACE OF PAYMENT IF THE INSTRUMENT IS PAYABLE AT A BANK IN THE UNITED STATES; MAY BE MADE BY ANY COMMERCIALY REASONABLE MEANS, INCLUDING AN ORAL, WRITTEN, OR ELECTRONIC COMMUNICATION; IS EFFECTIVE WHEN THE DEMAND FOR PAYMENT OR ACCEPTANCE IS RECEIVED BY THE PERSON TO WHOM PRESENTMENT IS MADE; AND IS EFFECTIVE IF MADE TO ANY ONE OF TWO OR MORE MAKERS, ACCEPTORS, DRAWEES, OR OTHER PAYORS.

(2) UPON DEMAND OF THE PERSON TO WHOM PRESENTMENT IS MADE, THE PERSON MAKING PRESENTMENT MUST (I) EXHIBIT THE INSTRUMENT, (II) GIVE REASONABLE IDENTIFICATION AND, IF PRESENTMENT IS MADE ON BEHALF OF ANOTHER PERSON,

1 REASONABLE EVIDENCE OF AUTHORITY TO DO SO, AND (III) SIGN A RECEIPT ON
2 THE INSTRUMENT FOR ANY PAYMENT MADE OR SURRENDER THE INSTRUMENT IF FULL
3 PAYMENT IS MADE.

4 (3) WITHOUT DISHONORING THE INSTRUMENT, THE PARTY TO WHOM PRESENTMENT
5 IS MADE MAY (I) RETURN THE INSTRUMENT FOR LACK OF A NECESSARY INDORSE-
6 MENT, OR (II) REFUSE PAYMENT OR ACCEPTANCE FOR FAILURE OF THE PRESENT-
7 MENT TO COMPLY WITH THE TERMS OF THE INSTRUMENT, AN AGREEMENT OF THE
8 PARTIES, OR OTHER APPLICABLE LAW OR RULE.

9 (4) THE PARTY TO WHOM PRESENTMENT IS MADE MAY TREAT PRESENTMENT AS
10 OCCURRING ON THE NEXT BUSINESS DAY AFTER THE DAY OF PRESENTMENT IF THE
11 PARTY TO WHOM PRESENTMENT IS MADE HAS ESTABLISHED A CUT-OFF HOUR NOT
12 EARLIER THAN 2 P.M. FOR THE RECEIPT AND PROCESSING OF INSTRUMENTS
13 PRESENTED FOR PAYMENT OR ACCEPTANCE AND PRESENTMENT IS MADE AFTER THE
14 CUT-OFF HOUR.

15 SECTION 3--502. DISHONOR.

16 (A) DISHONOR OF A NOTE IS GOVERNED BY THE FOLLOWING RULES:

17 (1) IF THE NOTE IS PAYABLE ON DEMAND, THE NOTE IS DISHONORED IF
18 PRESENTMENT IS DULY MADE TO THE MAKER AND THE NOTE IS NOT PAID ON THE
19 DAY OF PRESENTMENT.

20 (2) IF THE NOTE IS NOT PAYABLE ON DEMAND AND IS PAYABLE AT OR THROUGH
21 A BANK OR THE TERMS OF THE NOTE REQUIRE PRESENTMENT, THE NOTE IS DISHON-
22 ORED IF PRESENTMENT IS DULY MADE AND THE NOTE IS NOT PAID ON THE DAY IT
23 BECOMES PAYABLE OR THE DAY OF PRESENTMENT, WHICHEVER IS LATER.

24 (3) IF THE NOTE IS NOT PAYABLE ON DEMAND AND PARAGRAPH (2) DOES NOT
25 APPLY, THE NOTE IS DISHONORED IF IT IS NOT PAID ON THE DAY IT BECOMES
26 PAYABLE.

27 (B) DISHONOR OF AN UNACCEPTED DRAFT OTHER THAN A DOCUMENTARY DRAFT IS
28 GOVERNED BY THE FOLLOWING RULES:

29 (1) IF A CHECK IS DULY PRESENTED FOR PAYMENT TO THE PAYOR BANK OTHER-
30 WISE THAN FOR IMMEDIATE PAYMENT OVER THE COUNTER, THE CHECK IS DISHON-
31 ORED IF THE PAYOR BANK MAKES TIMELY RETURN OF THE CHECK OR SENDS TIMELY
32 NOTICE OF DISHONOR OR NONPAYMENT UNDER SECTION 4--301 OR 4--302, OR
33 BECOMES ACCOUNTABLE FOR THE AMOUNT OF THE CHECK UNDER SECTION 4--302.

34 (2) IF A DRAFT IS PAYABLE ON DEMAND AND PARAGRAPH (1) DOES NOT APPLY,
35 THE DRAFT IS DISHONORED IF PRESENTMENT FOR PAYMENT IS DULY MADE TO THE
36 DRAWEE AND THE DRAFT IS NOT PAID ON THE DAY OF PRESENTMENT.

37 (3) IF A DRAFT IS PAYABLE ON A DATE STATED IN THE DRAFT, THE DRAFT IS
38 DISHONORED IF (I) PRESENTMENT FOR PAYMENT IS DULY MADE TO THE DRAWEE AND
39 PAYMENT IS NOT MADE ON THE DAY THE DRAFT BECOMES PAYABLE OR THE DAY OF
40 PRESENTMENT, WHICHEVER IS LATER, OR (II) PRESENTMENT FOR ACCEPTANCE IS
41 DULY MADE BEFORE THE DAY THE DRAFT BECOMES PAYABLE AND THE DRAFT IS NOT
42 ACCEPTED ON THE DAY OF PRESENTMENT.

43 (4) IF A DRAFT IS PAYABLE ON ELAPSE OF A PERIOD OF TIME AFTER SIGHT OR
44 ACCEPTANCE, THE DRAFT IS DISHONORED IF PRESENTMENT FOR ACCEPTANCE IS
45 DULY MADE AND THE DRAFT IS NOT ACCEPTED ON THE DAY OF PRESENTMENT.

46 (C) DISHONOR OF AN UNACCEPTED DOCUMENTARY DRAFT OCCURS ACCORDING TO
47 THE RULES STATED IN SUBSECTIONS (B)(2), (3), AND (4), EXCEPT THAT
48 PAYMENT OR ACCEPTANCE MAY BE DELAYED WITHOUT DISHONOR UNTIL NO LATER
49 THAN THE CLOSE OF THE THIRD BUSINESS DAY OF THE DRAWEE FOLLOWING THE DAY
50 ON WHICH PAYMENT OR ACCEPTANCE IS REQUIRED BY THOSE PARAGRAPHS.

51 (D) DISHONOR OF AN ACCEPTED DRAFT IS GOVERNED BY THE FOLLOWING RULES:

52 (1) IF THE DRAFT IS PAYABLE ON DEMAND, THE DRAFT IS DISHONORED IF
53 PRESENTMENT FOR PAYMENT IS DULY MADE TO THE ACCEPTOR AND THE DRAFT IS
54 NOT PAID ON THE DAY OF PRESENTMENT.

55 (2) IF THE DRAFT IS NOT PAYABLE ON DEMAND, THE DRAFT IS DISHONORED IF
56 PRESENTMENT FOR PAYMENT IS DULY MADE TO THE ACCEPTOR AND PAYMENT IS NOT

1 MADE ON THE DAY IT BECOMES PAYABLE OR THE DAY OF PRESENTMENT, WHICHEVER
2 IS LATER.

3 (E) IN ANY CASE IN WHICH PRESENTMENT IS OTHERWISE REQUIRED FOR DISHON-
4 OR UNDER THIS SECTION AND PRESENTMENT IS EXCUSED UNDER SECTION 3--504,
5 DISHONOR OCCURS WITHOUT PRESENTMENT IF THE INSTRUMENT IS NOT DULY
6 ACCEPTED OR PAID.

7 (F) IF A DRAFT IS DISHONORED BECAUSE TIMELY ACCEPTANCE OF THE DRAFT
8 WAS NOT MADE AND THE PERSON ENTITLED TO DEMAND ACCEPTANCE CONSENTS TO A
9 LATE ACCEPTANCE, FROM THE TIME OF ACCEPTANCE THE DRAFT IS TREATED AS
10 NEVER HAVING BEEN DISHONORED.

11 SECTION 3--503. NOTICE OF DISHONOR.

12 (A) THE OBLIGATION OF AN INDORSER STATED IN SECTION 3--415(A) AND THE
13 OBLIGATION OF A DRAWER STATED IN SECTION 3--414(D) MAY NOT BE ENFORCED
14 UNLESS (1) THE INDORSER OR DRAWER IS GIVEN NOTICE OF DISHONOR OF THE
15 INSTRUMENT COMPLYING WITH THIS SECTION OR (2) NOTICE OF DISHONOR IS
16 EXCUSED UNDER SECTION 3--504(B).

17 (B) NOTICE OF DISHONOR MAY BE GIVEN BY ANY PERSON; MAY BE GIVEN BY ANY
18 COMMERCIALY REASONABLE MEANS, INCLUDING AN ORAL, WRITTEN, OR ELECTRONIC
19 COMMUNICATION; AND IS SUFFICIENT IF IT REASONABLY IDENTIFIES THE INSTRU-
20 MENT AND INDICATES THAT THE INSTRUMENT HAS BEEN DISHONORED OR HAS NOT
21 BEEN PAID OR ACCEPTED. RETURN OF AN INSTRUMENT GIVEN TO A BANK FOR
22 COLLECTION IS SUFFICIENT NOTICE OF DISHONOR.

23 (C) SUBJECT TO SECTION 3--504(C), WITH RESPECT TO AN INSTRUMENT TAKEN
24 FOR COLLECTION BY A COLLECTING BANK, NOTICE OF DISHONOR MUST BE GIVEN
25 (1) BY THE BANK BEFORE MIDNIGHT OF THE NEXT BANKING DAY FOLLOWING THE
26 BANKING DAY ON WHICH THE BANK RECEIVES NOTICE OF DISHONOR OF THE INSTRU-
27 MENT, OR (2) BY ANY OTHER PERSON WITHIN THIRTY DAYS FOLLOWING THE DAY ON
28 WHICH THE PERSON RECEIVES NOTICE OF DISHONOR. WITH RESPECT TO ANY OTHER
29 INSTRUMENT, NOTICE OF DISHONOR MUST BE GIVEN WITHIN THIRTY DAYS FOLLOW-
30 ING THE DAY ON WHICH DISHONOR OCCURS.

31 SECTION 3--504. EXCUSED PRESENTMENT AND NOTICE OF DISHONOR.

32 (A) PRESENTMENT FOR PAYMENT OR ACCEPTANCE OF AN INSTRUMENT IS EXCUSED
33 IF (1) THE PERSON ENTITLED TO PRESENT THE INSTRUMENT CANNOT WITH REASON-
34 ABLE DILIGENCE MAKE PRESENTMENT, (2) THE MAKER OR ACCEPTOR HAS REPUDI-
35 ATED AN OBLIGATION TO PAY THE INSTRUMENT OR IS DEAD OR IN INSOLVENCY
36 PROCEEDINGS, (3) BY THE TERMS OF THE INSTRUMENT PRESENTMENT IS NOT
37 NECESSARY TO ENFORCE THE OBLIGATION OF INDORSERS OR THE DRAWER, (4) THE
38 DRAWER OR INDORSER WHOSE OBLIGATION IS BEING ENFORCED HAS WAIVED
39 PRESENTMENT OR OTHERWISE HAS NO REASON TO EXPECT OR RIGHT TO REQUIRE
40 THAT THE INSTRUMENT BE PAID OR ACCEPTED, OR (5) THE DRAWER INSTRUCTED
41 THE DRAWEE NOT TO PAY OR ACCEPT THE DRAFT OR THE DRAWEE WAS NOT OBLI-
42 GATED TO THE DRAWER TO PAY THE DRAFT.

43 (B) NOTICE OF DISHONOR IS EXCUSED IF (1) BY THE TERMS OF THE INSTRU-
44 MENT NOTICE OF DISHONOR IS NOT NECESSARY TO ENFORCE THE OBLIGATION OF A
45 PARTY TO PAY THE INSTRUMENT, OR (2) THE PARTY WHOSE OBLIGATION IS BEING
46 ENFORCED WAIVED NOTICE OF DISHONOR. A WAIVER OF PRESENTMENT IS ALSO A
47 WAIVER OF NOTICE OF DISHONOR.

48 (C) DELAY IN GIVING NOTICE OF DISHONOR IS EXCUSED IF THE DELAY WAS
49 CAUSED BY CIRCUMSTANCES BEYOND THE CONTROL OF THE PERSON GIVING THE
50 NOTICE AND THE PERSON GIVING THE NOTICE EXERCISED REASONABLE DILIGENCE
51 AFTER THE CAUSE OF THE DELAY CEASED TO OPERATE.

52 SECTION 3--505. EVIDENCE OF DISHONOR.

53 (A) THE FOLLOWING ARE ADMISSIBLE AS EVIDENCE AND CREATE A PRESUMPTION
54 OF DISHONOR AND OF ANY NOTICE OF DISHONOR STATED:

55 (1) A DOCUMENT REGULAR IN FORM AS PROVIDED IN SUBSECTION (B) WHICH
56 PURPORTS TO BE A PROTEST;

(2) A PURPORTED STAMP OR WRITING OF THE DRAWEE, PAYOR BANK, OR PRESENTING BANK ON OR ACCOMPANYING THE INSTRUMENT STATING THAT ACCEPTANCE OR PAYMENT HAS BEEN REFUSED UNLESS REASONS FOR THE REFUSAL ARE STATED AND THE REASONS ARE NOT CONSISTENT WITH DISHONOR;

(3) A BOOK OR RECORD OF THE DRAWEE, PAYOR BANK, OR COLLECTING BANK, KEPT IN THE USUAL COURSE OF BUSINESS WHICH SHOWS DISHONOR, EVEN IF THERE IS NO EVIDENCE OF WHO MADE THE ENTRY.

(B) A PROTEST IS A CERTIFICATE OF DISHONOR MADE BY A UNITED STATES CONSUL OR VICE CONSUL, OR A NOTARY PUBLIC OR OTHER PERSON AUTHORIZED TO ADMINISTER OATHS BY THE LAW OF THE PLACE WHERE DISHONOR OCCURS. IT MAY BE MADE UPON INFORMATION SATISFACTORY TO THAT PERSON. THE PROTEST MUST IDENTIFY THE INSTRUMENT AND CERTIFY EITHER THAT PRESENTMENT HAS BEEN MADE OR, IF NOT MADE, THE REASON WHY IT WAS NOT MADE, AND THAT THE INSTRUMENT HAS BEEN DISHONORED BY NONACCEPTANCE OR NONPAYMENT. THE PROTEST MAY ALSO CERTIFY THAT NOTICE OF DISHONOR HAS BEEN GIVEN TO SOME OR ALL PARTIES.

PART 6

DISCHARGE AND PAYMENT

SECTION 3--601. DISCHARGE AND EFFECT OF DISCHARGE.

(A) THE OBLIGATION OF A PARTY TO PAY THE INSTRUMENT IS DISCHARGED AS STATED IN THIS ARTICLE OR BY AN ACT OR AGREEMENT WITH THE PARTY WHICH WOULD DISCHARGE AN OBLIGATION TO PAY MONEY UNDER A SIMPLE CONTRACT.

(B) DISCHARGE OF THE OBLIGATION OF A PARTY IS NOT EFFECTIVE AGAINST A PERSON ACQUIRING RIGHTS OF A HOLDER IN DUE COURSE OF THE INSTRUMENT WITHOUT NOTICE OF THE DISCHARGE.

SECTION 3--602. PAYMENT.

(A) SUBJECT TO SUBSECTION (E), AN INSTRUMENT IS PAID TO THE EXTENT PAYMENT IS MADE BY OR ON BEHALF OF A PARTY OBLIGED TO PAY THE INSTRUMENT, AND TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT.

(B) SUBJECT TO SUBSECTION (E), A NOTE IS PAID TO THE EXTENT PAYMENT IS MADE BY OR ON BEHALF OF A PARTY OBLIGED TO PAY THE NOTE TO A PERSON THAT FORMERLY WAS ENTITLED TO ENFORCE THE NOTE ONLY IF AT THE TIME OF THE PAYMENT THE PARTY OBLIGED TO PAY HAS NOT RECEIVED ADEQUATE NOTIFICATION THAT THE NOTE HAS BEEN TRANSFERRED AND THAT PAYMENT IS TO BE MADE TO THE TRANSFEREE. A NOTIFICATION IS ADEQUATE ONLY IF IT IS SIGNED BY THE TRANSFEROR OR THE TRANSFEREE; REASONABLY IDENTIFIES THE TRANSFERRED NOTE; AND PROVIDES AN ADDRESS AT WHICH PAYMENTS SUBSEQUENTLY ARE TO BE MADE. UPON REQUEST, A TRANSFEREE SHALL FURNISH REASONABLE PROOF THAT THE NOTE HAS BEEN TRANSFERRED. UNLESS THE TRANSFEREE COMPLIES WITH THE REQUEST, A PAYMENT TO THE PERSON THAT FORMERLY WAS ENTITLED TO ENFORCE THE NOTE IS EFFECTIVE FOR PURPOSES OF SUBSECTION (C) EVEN IF THE PARTY OBLIGED TO PAY THE NOTE HAS RECEIVED A NOTIFICATION UNDER THIS PARAGRAPH.

(C) SUBJECT TO SUBSECTION (E), TO THE EXTENT OF A PAYMENT UNDER SUBSECTIONS (A) AND (B), THE OBLIGATION OF THE PARTY OBLIGED TO PAY THE INSTRUMENT IS DISCHARGED EVEN THOUGH PAYMENT IS MADE WITH KNOWLEDGE OF A CLAIM TO THE INSTRUMENT UNDER SECTION 3--306 BY ANOTHER PERSON.

(D) SUBJECT TO SUBSECTION (E), A TRANSFEREE, OR ANY PARTY THAT HAS ACQUIRED RIGHTS IN THE INSTRUMENT DIRECTLY OR INDIRECTLY FROM A TRANSFEREE, INCLUDING ANY SUCH PARTY THAT HAS RIGHTS AS A HOLDER IN DUE COURSE, IS DEEMED TO HAVE NOTICE OF ANY PAYMENT THAT IS MADE UNDER SUBSECTION (B) AFTER THE DATE THAT THE NOTE IS TRANSFERRED TO THE TRANSFEREE BUT BEFORE THE PARTY OBLIGED TO PAY THE NOTE RECEIVES ADEQUATE NOTIFICATION OF THE TRANSFER.

(E) THE OBLIGATION OF A PARTY TO PAY THE INSTRUMENT IS NOT DISCHARGED UNDER SUBSECTIONS (A) THROUGH (D) IF:

(1) A CLAIM TO THE INSTRUMENT UNDER SECTION 3--306 IS ENFORCEABLE AGAINST THE PARTY RECEIVING PAYMENT AND (I) PAYMENT IS MADE WITH KNOWLEDGE BY THE PAYOR THAT PAYMENT IS PROHIBITED BY INJUNCTION OR SIMILAR PROCESS OF A COURT OF COMPETENT JURISDICTION, OR (II) IN THE CASE OF AN INSTRUMENT OTHER THAN A CASHIER'S CHECK, TELLER'S CHECK, OR CERTIFIED CHECK, THE PARTY MAKING PAYMENT ACCEPTED, FROM THE PERSON HAVING A CLAIM TO THE INSTRUMENT, INDEMNITY AGAINST LOSS RESULTING FROM REFUSAL TO PAY THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT; OR

(2) THE PERSON MAKING PAYMENT KNOWS THAT THE INSTRUMENT IS A STOLEN INSTRUMENT AND PAYS A PERSON IT KNOWS IS IN WRONGFUL POSSESSION OF THE INSTRUMENT.

(F) AS USED IN THIS SECTION, "SIGNED," WITH RESPECT TO A RECORD THAT IS NOT A WRITING, INCLUDES THE ATTACHMENT TO OR LOGICAL ASSOCIATION WITH THE RECORD OF AN ELECTRONIC SYMBOL, SOUND, OR PROCESS WITH THE PRESENT INTENT TO ADOPT OR ACCEPT THE RECORD.

SECTION 3--603. TENDER OF PAYMENT.

(A) IF TENDER OF PAYMENT OF AN OBLIGATION TO PAY AN INSTRUMENT IS MADE TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT, THE EFFECT OF TENDER IS GOVERNED BY PRINCIPLES OF LAW APPLICABLE TO TENDER OF PAYMENT UNDER A SIMPLE CONTRACT.

(B) IF TENDER OF PAYMENT OF AN OBLIGATION TO PAY AN INSTRUMENT IS MADE TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT AND THE TENDER IS REFUSED, THERE IS DISCHARGE, TO THE EXTENT OF THE AMOUNT OF THE TENDER, OF THE OBLIGATION OF AN INDORSER OR ACCOMMODATION PARTY HAVING A RIGHT OF RECOURSE WITH RESPECT TO THE OBLIGATION TO WHICH THE TENDER RELATES.

(C) IF TENDER OF PAYMENT OF AN AMOUNT DUE ON AN INSTRUMENT IS MADE TO A PERSON ENTITLED TO ENFORCE THE INSTRUMENT, THE OBLIGATION OF THE OBLIGOR TO PAY INTEREST AFTER THE DUE DATE ON THE AMOUNT TENDERED IS DISCHARGED. IF PRESENTMENT IS REQUIRED WITH RESPECT TO AN INSTRUMENT AND THE OBLIGOR IS ABLE AND READY TO PAY ON THE DUE DATE AT EVERY PLACE OF PAYMENT STATED IN THE INSTRUMENT, THE OBLIGOR IS DEEMED TO HAVE MADE TENDER OF PAYMENT ON THE DUE DATE TO THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT.

SECTION 3--604. DISCHARGE BY CANCELLATION OR RENUNCIATION.

(A) A PERSON ENTITLED TO ENFORCE AN INSTRUMENT, WITH OR WITHOUT CONSIDERATION, MAY DISCHARGE THE OBLIGATION OF A PARTY TO PAY THE INSTRUMENT (1) BY AN INTENTIONAL VOLUNTARY ACT, SUCH AS SURRENDER OF THE INSTRUMENT TO THE PARTY, DESTRUCTION, MUTILATION, OR CANCELLATION OF THE INSTRUMENT, CANCELLATION OR STRIKING OUT OF THE PARTY'S SIGNATURE, OR THE ADDITION OF WORDS TO THE INSTRUMENT INDICATING DISCHARGE, OR (2) BY AGREEING NOT TO SUE OR OTHERWISE RENOUNCING RIGHTS AGAINST THE PARTY BY A SIGNED RECORD.

(B) CANCELLATION OR STRIKING OUT OF AN INDORSEMENT PURSUANT TO SUBSECTION (A) DOES NOT AFFECT THE STATUS AND RIGHTS OF A PARTY DERIVED FROM THE INDORSEMENT.

(C) IN THIS SECTION, "SIGNED," WITH RESPECT TO A RECORD THAT IS NOT A WRITING, INCLUDES THE ATTACHMENT TO OR LOGICAL ASSOCIATION WITH THE RECORD OF AN ELECTRONIC SYMBOL, SOUND, OR PROCESS WITH THE PRESENT INTENT TO ADOPT OR ACCEPT THE RECORD.

SECTION 3--605. DISCHARGE OF SECONDARY OBLIGORS.

(A) IF A PERSON ENTITLED TO ENFORCE AN INSTRUMENT RELEASES THE OBLIGATION OF A PRINCIPAL OBLIGOR IN WHOLE OR IN PART, AND ANOTHER PARTY TO THE INSTRUMENT IS A SECONDARY OBLIGOR WITH RESPECT TO THE OBLIGATION OF THAT PRINCIPAL OBLIGOR, THE FOLLOWING RULES APPLY:

(1) ANY OBLIGATIONS OF THE PRINCIPAL OBLIGOR TO THE SECONDARY OBLIGOR WITH RESPECT TO ANY PREVIOUS PAYMENT BY THE SECONDARY OBLIGOR ARE NOT

1 AFFECTED. UNLESS THE TERMS OF THE RELEASE PRESERVE THE SECONDARY
2 OBLIGOR'S RECOURSE, THE PRINCIPAL OBLIGOR IS DISCHARGED, TO THE EXTENT
3 OF THE RELEASE, FROM ANY OTHER DUTIES TO THE SECONDARY OBLIGOR UNDER
4 THIS ARTICLE.

5 (2) UNLESS THE TERMS OF THE RELEASE PROVIDE THAT THE PERSON ENTITLED
6 TO ENFORCE THE INSTRUMENT RETAINS THE RIGHT TO ENFORCE THE INSTRUMENT
7 AGAINST THE SECONDARY OBLIGOR, THE SECONDARY OBLIGOR IS DISCHARGED TO
8 THE SAME EXTENT AS THE PRINCIPAL OBLIGOR FROM ANY UNPERFORMED PORTION OF
9 ITS OBLIGATION ON THE INSTRUMENT. IF THE INSTRUMENT IS A CHECK AND THE
10 OBLIGATION OF THE SECONDARY OBLIGOR IS BASED ON AN INDORSEMENT OF THE
11 CHECK, THE SECONDARY OBLIGOR IS DISCHARGED WITHOUT REGARD TO THE
12 LANGUAGE OR CIRCUMSTANCES OF THE DISCHARGE OR OTHER RELEASE.

13 (3) IF THE SECONDARY OBLIGOR IS NOT DISCHARGED UNDER PARAGRAPH (2),
14 THE SECONDARY OBLIGOR IS DISCHARGED TO THE EXTENT OF THE VALUE OF THE
15 CONSIDERATION FOR THE RELEASE, AND TO THE EXTENT THAT THE RELEASE WOULD
16 OTHERWISE CAUSE THE SECONDARY OBLIGOR A LOSS.

17 (B) IF A PERSON ENTITLED TO ENFORCE AN INSTRUMENT GRANTS A PRINCIPAL
18 OBLIGOR AN EXTENSION OF THE TIME AT WHICH ONE OR MORE PAYMENTS ARE DUE
19 ON THE INSTRUMENT AND ANOTHER PARTY TO THE INSTRUMENT IS A SECONDARY
20 OBLIGOR WITH RESPECT TO THE OBLIGATION OF THAT PRINCIPAL OBLIGOR, THE
21 FOLLOWING RULES APPLY:

22 (1) ANY OBLIGATIONS OF THE PRINCIPAL OBLIGOR TO THE SECONDARY OBLIGOR
23 WITH RESPECT TO ANY PREVIOUS PAYMENT BY THE SECONDARY OBLIGOR ARE NOT
24 AFFECTED. UNLESS THE TERMS OF THE EXTENSION PRESERVE THE SECONDARY
25 OBLIGOR'S RECOURSE, THE EXTENSION CORRESPONDINGLY EXTENDS THE TIME FOR
26 PERFORMANCE OF ANY OTHER DUTIES OWED TO THE SECONDARY OBLIGOR BY THE
27 PRINCIPAL OBLIGOR UNDER THIS ARTICLE.

28 (2) THE SECONDARY OBLIGOR IS DISCHARGED TO THE EXTENT THAT THE EXTEN-
29 SION WOULD OTHERWISE CAUSE THE SECONDARY OBLIGOR A LOSS.

30 (3) TO THE EXTENT THAT THE SECONDARY OBLIGOR IS NOT DISCHARGED UNDER
31 PARAGRAPH (2), THE SECONDARY OBLIGOR MAY PERFORM ITS OBLIGATIONS TO A
32 PERSON ENTITLED TO ENFORCE THE INSTRUMENT AS IF THE TIME FOR PAYMENT HAD
33 NOT BEEN EXTENDED OR, UNLESS THE TERMS OF THE EXTENSION PROVIDE THAT THE
34 PERSON ENTITLED TO ENFORCE THE INSTRUMENT RETAINS THE RIGHT TO ENFORCE
35 THE INSTRUMENT AGAINST THE SECONDARY OBLIGOR AS IF THE TIME FOR PAYMENT
36 HAD NOT BEEN EXTENDED, TREAT THE TIME FOR PERFORMANCE OF ITS OBLIGATIONS
37 AS HAVING BEEN EXTENDED CORRESPONDINGLY.

38 (C) IF A PERSON ENTITLED TO ENFORCE AN INSTRUMENT AGREES, WITH OR
39 WITHOUT CONSIDERATION, TO A MODIFICATION OF THE OBLIGATION OF A PRINCI-
40 PAL OBLIGOR OTHER THAN A COMPLETE OR PARTIAL RELEASE OR AN EXTENSION OF
41 THE DUE DATE AND ANOTHER PARTY TO THE INSTRUMENT IS A SECONDARY OBLIGOR
42 WITH RESPECT TO THE OBLIGATION OF THAT PRINCIPAL OBLIGOR, THE FOLLOWING
43 RULES APPLY:

44 (1) ANY OBLIGATIONS OF THE PRINCIPAL OBLIGOR TO THE SECONDARY OBLIGOR
45 WITH RESPECT TO ANY PREVIOUS PAYMENT BY THE SECONDARY OBLIGOR ARE NOT
46 AFFECTED. THE MODIFICATION CORRESPONDINGLY MODIFIES ANY OTHER DUTIES
47 OWED TO THE SECONDARY OBLIGOR BY THE PRINCIPAL OBLIGOR UNDER THIS ARTI-
48 CLE.

49 (2) THE SECONDARY OBLIGOR IS DISCHARGED FROM ANY UNPERFORMED PORTION
50 OF ITS OBLIGATION TO THE EXTENT THAT THE MODIFICATION WOULD OTHERWISE
51 CAUSE THE SECONDARY OBLIGOR A LOSS.

52 (3) TO THE EXTENT THAT THE SECONDARY OBLIGOR IS NOT DISCHARGED UNDER
53 PARAGRAPH (2), THE SECONDARY OBLIGOR MAY SATISFY ITS OBLIGATION ON THE
54 INSTRUMENT AS IF THE MODIFICATION HAD NOT OCCURRED, OR TREAT ITS OBLI-
55 GATION ON THE INSTRUMENT AS HAVING BEEN MODIFIED CORRESPONDINGLY.

1 (D) IF THE OBLIGATION OF A PRINCIPAL OBLIGOR IS SECURED BY AN INTEREST
2 IN COLLATERAL, ANOTHER PARTY TO THE INSTRUMENT IS A SECONDARY OBLIGOR
3 WITH RESPECT TO THAT OBLIGATION, AND A PERSON ENTITLED TO ENFORCE THE
4 INSTRUMENT IMPAIRS THE VALUE OF THE INTEREST IN COLLATERAL, THE OBLI-
5 GATION OF THE SECONDARY OBLIGOR IS DISCHARGED TO THE EXTENT OF THE
6 IMPAIRMENT. THE VALUE OF AN INTEREST IN COLLATERAL IS IMPAIRED TO THE
7 EXTENT THE VALUE OF THE INTEREST IS REDUCED TO AN AMOUNT LESS THAN THE
8 AMOUNT OF THE RECOURSE OF THE SECONDARY OBLIGOR, OR THE REDUCTION IN
9 VALUE OF THE INTEREST CAUSES AN INCREASE IN THE AMOUNT BY WHICH THE
10 AMOUNT OF THE RECOURSE EXCEEDS THE VALUE OF THE INTEREST. FOR PURPOSES
11 OF THIS SUBSECTION, IMPAIRING THE VALUE OF AN INTEREST IN COLLATERAL
12 INCLUDES FAILURE TO OBTAIN OR MAINTAIN PERFECTION OR RECORDATION OF THE
13 INTEREST IN COLLATERAL, RELEASE OF COLLATERAL WITHOUT SUBSTITUTION OF
14 COLLATERAL OF EQUAL VALUE OR EQUIVALENT REDUCTION OF THE UNDERLYING
15 OBLIGATION, FAILURE TO PERFORM A DUTY TO PRESERVE THE VALUE OF COLLAT-
16 ERAL OWED, UNDER ARTICLE 9 OR OTHER LAW, TO A DEBTOR OR OTHER PERSON
17 SECONDARILY LIABLE, AND FAILURE TO COMPLY WITH APPLICABLE LAW IN DISPOS-
18 ING OF OR OTHERWISE ENFORCING THE INTEREST IN COLLATERAL.

19 (E) A SECONDARY OBLIGOR IS NOT DISCHARGED UNDER SUBSECTIONS (A)(3),
20 (B), (C), OR (D) UNLESS THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT
21 KNOWS THAT THE PERSON IS A SECONDARY OBLIGOR OR HAS NOTICE UNDER SECTION
22 3--419(C) THAT THE INSTRUMENT WAS SIGNED FOR ACCOMMODATION.

23 (F) A SECONDARY OBLIGOR IS NOT DISCHARGED UNDER THIS SECTION IF THE
24 SECONDARY OBLIGOR CONSENTS TO THE EVENT OR CONDUCT THAT IS THE BASIS OF
25 THE DISCHARGE, OR THE INSTRUMENT OR A SEPARATE AGREEMENT OF THE PARTY
26 PROVIDES FOR WAIVER OF DISCHARGE UNDER THIS SECTION SPECIFICALLY OR BY
27 GENERAL LANGUAGE INDICATING THAT PARTIES WAIVE DEFENSES BASED ON SURETY-
28 SHIP OR IMPAIRMENT OF COLLATERAL. UNLESS THE CIRCUMSTANCES INDICATE
29 OTHERWISE, CONSENT BY THE PRINCIPAL OBLIGOR TO AN ACT THAT WOULD LEAD TO
30 A DISCHARGE UNDER THIS SECTION CONSTITUTES CONSENT TO THAT ACT BY THE
31 SECONDARY OBLIGOR IF THE SECONDARY OBLIGOR CONTROLS THE PRINCIPAL OBLI-
32 GOR OR DEALS WITH THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT ON
33 BEHALF OF THE PRINCIPAL OBLIGOR.

34 (G) A RELEASE OR EXTENSION PRESERVES A SECONDARY OBLIGOR'S RECOURSE IF
35 THE TERMS OF THE RELEASE OR EXTENSION PROVIDE THAT:

36 (1) THE PERSON ENTITLED TO ENFORCE THE INSTRUMENT RETAINS THE RIGHT TO
37 ENFORCE THE INSTRUMENT AGAINST THE SECONDARY OBLIGOR; AND

38 (2) THE RECOURSE OF THE SECONDARY OBLIGOR CONTINUES AS IF THE RELEASE
39 OR EXTENSION HAD NOT BEEN GRANTED.

40 (H) EXCEPT AS OTHERWISE PROVIDED IN SUBSECTION (I), A SECONDARY OBLI-
41 GOR ASSERTING DISCHARGE UNDER THIS SECTION HAS THE BURDEN OF PERSUASION
42 BOTH WITH RESPECT TO THE OCCURRENCE OF THE ACTS ALLEGED TO HARM THE
43 SECONDARY OBLIGOR AND LOSS OR PREJUDICE CAUSED BY THOSE ACTS.

44 (I) IF THE SECONDARY OBLIGOR DEMONSTRATES PREJUDICE CAUSED BY AN
45 IMPAIRMENT OF ITS RECOURSE, AND THE CIRCUMSTANCES OF THE CASE INDICATE
46 THAT THE AMOUNT OF LOSS IS NOT REASONABLY SUSCEPTIBLE OF CALCULATION OR
47 REQUIRES PROOF OF FACTS THAT ARE NOT ASCERTAINABLE, IT IS PRESUMED THAT
48 THE ACT IMPAIRING RECOURSE CAUSED A LOSS OR IMPAIRMENT EQUAL TO THE
49 LIABILITY OF THE SECONDARY OBLIGOR ON THE INSTRUMENT. IN THAT EVENT, THE
50 BURDEN OF PERSUASION AS TO ANY LESSER AMOUNT OF THE LOSS IS ON THE
51 PERSON ENTITLED TO ENFORCE THE INSTRUMENT.

52 S 2. Article 4 of the uniform commercial code is REPEALED and a new
53 article 4 is added to read as follows:

54 ARTICLE 4

55 BANK DEPOSITS--COLLECTIONS

GENERAL PROVISIONS AND DEFINITIONS
PART 1

SECTION 4--101. SHORT TITLE.

THIS ARTICLE MAY BE CITED AS UNIFORM COMMERCIAL CODE--BANK DEPOSITS AND COLLECTIONS.

SECTION 4--102. APPLICABILITY.

(A) TO THE EXTENT THAT ITEMS WITHIN THIS ARTICLE ARE ALSO WITHIN ARTICLES 3 AND 8, THEY ARE SUBJECT TO THOSE ARTICLES. IF THERE IS CONFLICT, THIS ARTICLE GOVERNS ARTICLE 3, BUT ARTICLE 8 GOVERNS THIS ARTICLE.

(B) THE LIABILITY OF A BANK FOR ACTION OR NON-ACTION 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 NON-ACTION 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.

SECTION 4--103. VARIATION BY AGREEMENT; MEASURE OF DAMAGES; ACTION CONSTITUTING ORDINARY CARE.

(A) THE EFFECT OF THE PROVISIONS OF THIS ARTICLE 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 NON-ACTION APPROVED BY THIS ARTICLE OR PURSUANT TO FEDERAL RESERVE REGULATIONS OR OPERATING CIRCULARS IS THE EXERCISE OF ORDINARY CARE AND, IN THE ABSENCE OF SPECIAL INSTRUCTIONS, ACTION OR NON-ACTION CONSISTENT WITH CLEARING-HOUSE RULES AND THE LIKE OR WITH A GENERAL BANKING USAGE NOT DISAPPROVED BY THIS ARTICLE, IS PRIMA FACIE THE EXERCISE OF ORDINARY CARE.

(D) THE SPECIFICATION OR APPROVAL OF CERTAIN PROCEDURES BY THIS ARTICLE 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.

SECTION 4--104. DEFINITIONS AND INDEX OF DEFINITIONS.

(A) IN THIS ARTICLE, 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;

(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 (SECTION 8--102) OR INSTRUCTIONS FOR UNCERTIFICATED SECURITIES (SECTION 8--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 SECTION 3--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) "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 ARTICLE 4-A OR A CREDIT OR DEBIT CARD SLIP;

(10) "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;

(11) "SETTLE" MEANS TO PAY IN CASH, BY CLEARING-HOUSE SETTLEMENT, IN A CHARGE OR CREDIT OR BY REMITTANCE, OR OTHERWISE AS AGREED. A SETTLEMENT MAY BE EITHER PROVISIONAL OR FINAL;

(12) "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 THIS ARTICLE AND THE SECTIONS IN WHICH THEY APPEAR ARE:

"AGREEMENT FOR ELECTRONIC PRESENTMENT" SECTION 4--110.

"COLLECTING BANK" SECTION 4--105.

"DEPOSITARY BANK" SECTION 4--105.

"INTERMEDIARY BANK" SECTION 4--105.

"PAYOR BANK" SECTION 4--105.

"PRESENTING BANK" SECTION 4--105.

"PRESENTMENT NOTICE" SECTION 4--110.

(C) THE FOLLOWING DEFINITIONS IN OTHER ARTICLES APPLY TO THIS ARTICLE:

"ACCEPTANCE" SECTION 3--409.

"ALTERATION" SECTION 3--407.

"CASHIER'S CHECK" SECTION 3--104.

"CERTIFICATE OF DEPOSIT" SECTION 3--104.

"CERTIFIED CHECK" SECTION 3--409.

"CHECK" SECTION 3--104.

"CONTROL" SECTION 7--106.

"GOOD FAITH" SECTION 3--103.

"HOLDER IN DUE COURSE" SECTION 3--302.

"INSTRUMENT" SECTION 3--104.

"NOTICE OF DISHONOR" SECTION 3--503.

"ORDER" SECTION 3--103.

"ORDINARY CARE" SECTION 3--103.

"PERSON ENTITLED TO ENFORCE" SECTION 3--301.

"PRESENTMENT" SECTION 3--501.

"PROMISE" SECTION 3--103.

"PROVE" SECTION 3--103.

"RECORD" RESERVED.

"REMOTELY-CREATED CONSUMER ITEM" SECTION 3--103.

"TELLER'S CHECK" SECTION 3--104.

"UNAUTHORIZED SIGNATURE" SECTION 3--403.

(D) IN ADDITION, ARTICLE 1 CONTAINS GENERAL DEFINITIONS AND PRINCIPLES OF CONSTRUCTION AND INTERPRETATION APPLICABLE THROUGHOUT THIS ARTICLE. SECTION 4--105. DEFINITIONS OF TYPES OF BANKS.

IN THIS ARTICLE:

(A) [RESERVED]

(B) "DEPOSITARY 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;

(C) "PAYOR BANK" MEANS A BANK THAT IS THE DRAWEE OF A DRAFT;

(D) "INTERMEDIARY BANK" MEANS A BANK TO WHICH AN ITEM IS TRANSFERRED IN COURSE OF COLLECTION EXCEPT THE DEPOSITARY OR PAYOR BANK;

(E) "COLLECTING BANK" MEANS A BANK HANDLING AN ITEM FOR COLLECTION EXCEPT THE PAYOR BANK;

(F) "PRESENTING BANK" MEANS A BANK PRESENTING AN ITEM EXCEPT A PAYOR BANK.

SECTION 4--106. PAYABLE THROUGH OR PAYABLE AT BANK: COLLECTING BANK.

(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, THE ITEM IS EQUIVALENT TO A DRAFT DRAWN ON 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.

SECTION 4--107. SEPARATE OFFICE OF BANK.

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 SHALL BE GIVEN UNDER THIS ARTICLE AND UNDER ARTICLE 3.

SECTION 4--108. TIME OF RECEIPT OF ITEMS.

(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 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.

SECTION 4--109. DELAYS.

(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 THIS ACT FOR A PERIOD NOT EXCEEDING TWO ADDITIONAL BANKING DAYS WITHOUT DISCHARGE OF DRAWERS OR INDORSERS 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 THIS ACT 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.

SECTION 4--110. ELECTRONIC PRESENTMENT.

(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

1 PROVIDE FOR PROCEDURES GOVERNING RETENTION, PRESENTMENT, PAYMENT,
2 DISHONOR, AND OTHER MATTERS CONCERNING ITEMS SUBJECT TO THE AGREEMENT.

3 (B) PRESENTMENT OF AN ITEM PURSUANT TO AN AGREEMENT FOR PRESENTMENT IS
4 MADE WHEN THE PRESENTMENT NOTICE IS RECEIVED.

5 (C) IF PRESENTMENT IS MADE BY PRESENTMENT NOTICE, A REFERENCE TO
6 "ITEM" OR "CHECK" IN THIS ARTICLE MEANS THE PRESENTMENT NOTICE UNLESS
7 THE CONTEXT OTHERWISE INDICATES.

8 SECTION 4--111. STATUTE OF LIMITATIONS.

9 AN ACTION TO ENFORCE AN OBLIGATION, DUTY, OR RIGHT ARISING UNDER THIS
10 ARTICLE MUST BE COMMENCED WITHIN THREE YEARS AFTER THE CAUSE OF ACTION
11 ACCRUES.

12 PART 2

13 COLLECTION OF ITEMS: DEPOSITARY AND COLLECTING BANKS

14 SECTION 4--201. STATUS OF COLLECTING BANK AS AGENT AND PROVISIONAL
15 STATUS OF CREDITS; APPLICABILITY OF ARTICLE; ITEM
16 INDORSED "PAY ANY BANK".

17 (A) UNLESS A CONTRARY INTENT CLEARLY APPEARS AND BEFORE THE TIME THAT
18 A SETTLEMENT GIVEN BY A COLLECTING BANK FOR AN ITEM IS OR BECOMES FINAL,
19 THE BANK, WITH RESPECT TO AN ITEM, IS AN AGENT OR SUB-AGENT OF THE OWNER
20 OF THE ITEM AND ANY SETTLEMENT GIVEN FOR THE ITEM IS PROVISIONAL. THIS
21 PROVISION APPLIES REGARDLESS OF THE FORM OF INDORSEMENT OR LACK OF
22 INDORSEMENT AND EVEN THOUGH CREDIT GIVEN FOR THE ITEM IS SUBJECT TO
23 IMMEDIATE WITHDRAWAL AS OF RIGHT OR IS IN FACT WITHDRAWN; BUT THE
24 CONTINUANCE OF OWNERSHIP OF AN ITEM BY ITS OWNER AND ANY RIGHTS OF THE
25 OWNER TO PROCEEDS OF THE ITEM ARE SUBJECT TO RIGHTS OF A COLLECTING
26 BANK, SUCH AS THOSE RESULTING FROM OUTSTANDING ADVANCES ON THE ITEM AND
27 RIGHTS OF RECOUPMENT OR SETOFF. IF AN ITEM IS HANDLED BY BANKS FOR
28 PURPOSES OF PRESENTMENT, PAYMENT, COLLECTION, OR RETURN, THE RELEVANT
29 PROVISIONS OF THIS ARTICLE APPLY EVEN THOUGH ACTION OF THE PARTIES
30 CLEARLY ESTABLISHES THAT A PARTICULAR BANK HAS PURCHASED THE ITEM AND IS
31 THE OWNER OF IT.

32 (B) AFTER AN ITEM HAS BEEN INDORSED WITH THE WORDS "PAY ANY BANK" OR
33 THE LIKE, ONLY A BANK MAY ACQUIRE THE RIGHTS OF A HOLDER UNTIL THE ITEM
34 HAS BEEN:

35 (1) RETURNED TO THE CUSTOMER INITIATING COLLECTION; OR

36 (2) SPECIALLY INDORSED BY A BANK TO A PERSON WHO IS NOT A BANK.

37 SECTION 4--202. RESPONSIBILITY FOR COLLECTION OR RETURN; WHEN ACTION
38 TIMELY.

39 (A) A COLLECTING BANK MUST EXERCISE ORDINARY CARE IN:

40 (1) PRESENTING AN ITEM OR SENDING IT FOR PRESENTMENT;

41 (2) SENDING NOTICE OF DISHONOR OR NONPAYMENT OR RETURNING AN ITEM
42 OTHER THAN A DOCUMENTARY DRAFT TO THE BANK'S TRANSFEROR AFTER LEARNING
43 THAT THE ITEM HAS NOT BEEN PAID OR ACCEPTED, AS THE CASE MAY BE;

44 (3) SETTLING FOR AN ITEM WHEN THE BANK RECEIVES FINAL SETTLEMENT; AND

45 (4) NOTIFYING ITS TRANSFEROR OF ANY LOSS OR DELAY IN TRANSIT WITHIN A
46 REASONABLE TIME AFTER DISCOVERY THEREOF.

47 (B) A COLLECTING BANK EXERCISES ORDINARY CARE UNDER SUBSECTION (A) BY
48 TAKING PROPER ACTION BEFORE ITS MIDNIGHT DEADLINE FOLLOWING RECEIPT OF
49 AN ITEM, NOTICE, OR SETTLEMENT. TAKING PROPER ACTION WITHIN A REASON-
50 ABLY LONGER TIME MAY CONSTITUTE THE EXERCISE OF ORDINARY CARE, BUT THE
51 BANK HAS THE BURDEN OF ESTABLISHING TIMELINESS.

52 (C) SUBJECT TO SUBSECTION (A)(1), A BANK IS NOT LIABLE FOR THE INSOL-
53 VENCY, NEGLIGENCE, MISCONDUCT, MISTAKE, OR DEFAULT OF ANOTHER BANK OR
54 PERSON OR FOR LOSS OR DESTRUCTION OF AN ITEM IN THE POSSESSION OF OTHERS
55 OR IN TRANSIT.

56 SECTION 4--203. EFFECT OF INSTRUCTIONS.

1 SUBJECT TO ARTICLE 3 CONCERNING CONVERSION OF INSTRUMENTS (SECTION
2 3-420) AND RESTRICTIVE INDORSEMENTS (SECTION 3-206), ONLY A COLLECTING
3 BANK'S TRANSFEROR CAN GIVE INSTRUCTIONS THAT AFFECT THE BANK OR CONSTI-
4 TUTE NOTICE TO IT, AND A COLLECTING BANK IS NOT LIABLE TO PRIOR PARTIES
5 FOR ANY ACTION TAKEN PURSUANT TO THE INSTRUCTIONS OR IN ACCORDANCE WITH
6 ANY AGREEMENT WITH ITS TRANSFEROR.

7 SECTION 4--204. METHODS OF SENDING AND PRESENTING; SENDING DIRECTLY TO
8 PAYOR BANK.

9 (A) A COLLECTING BANK SHALL SEND ITEMS BY A REASONABLY PROMPT METHOD,
10 TAKING INTO CONSIDERATION RELEVANT INSTRUCTIONS, THE NATURE OF THE ITEM,
11 THE NUMBER OF THOSE ITEMS ON HAND, THE COST OF COLLECTION INVOLVED, AND
12 THE METHOD GENERALLY USED BY IT OR OTHERS TO PRESENT THOSE ITEMS.

13 (B) A COLLECTING BANK MAY SEND:

14 (1) AN ITEM DIRECTLY TO THE PAYOR BANK;

15 (2) AN ITEM TO A NONBANK PAYOR IF AUTHORIZED BY ITS TRANSFEROR; AND

16 (3) AN ITEM OTHER THAN DOCUMENTARY DRAFTS TO A NONBANK PAYOR, IF
17 AUTHORIZED BY FEDERAL RESERVE REGULATION OR OPERATING CIRCULAR, CLEAR-
18 ING-HOUSE RULE, OR THE LIKE.

19 (C) PRESENTMENT MAY BE MADE BY A PRESENTING BANK AT A PLACE WHERE THE
20 PAYOR BANK OR OTHER PAYOR HAS REQUESTED THAT PRESENTMENT BE MADE.

21 SECTION 4--205. DEPOSITARY BANK HOLDER OF UNINDORSED ITEM.

22 IF A CUSTOMER DELIVERS AN ITEM TO A DEPOSITARY BANK FOR COLLECTION:

23 (A) THE DEPOSITARY BANK BECOMES A HOLDER OF THE ITEM AT THE TIME IT
24 RECEIVES THE ITEM FOR COLLECTION IF THE CUSTOMER AT THE TIME OF DELIVERY
25 WAS A HOLDER OF THE ITEM, WHETHER OR NOT THE CUSTOMER INDORSES THE ITEM,
26 AND, IF THE BANK SATISFIES THE OTHER REQUIREMENTS OF SECTION 3--302, IT
27 IS A HOLDER IN DUE COURSE; AND

28 (B) THE DEPOSITARY BANK WARRANTS TO COLLECTING BANKS, THE PAYOR BANK
29 OR OTHER PAYOR, AND THE DRAWER THAT THE AMOUNT OF THE ITEM WAS PAID TO
30 THE CUSTOMER OR DEPOSITED TO THE CUSTOMER'S ACCOUNT.

31 SECTION 4--206. TRANSFER BETWEEN BANKS.

32 ANY AGREED METHOD THAT IDENTIFIES THE TRANSFEROR BANK IS SUFFICIENT
33 FOR THE ITEM'S FURTHER TRANSFER TO ANOTHER BANK.

34 SECTION 4--207. TRANSFER WARRANTIES.

35 (A) A CUSTOMER OR COLLECTING BANK THAT TRANSFERS AN ITEM AND RECEIVES
36 A SETTLEMENT OR OTHER CONSIDERATION WARRANTS TO THE TRANSFEREE AND TO
37 ANY SUBSEQUENT COLLECTING BANK THAT:

38 (1) THE WARRANTOR IS A PERSON ENTITLED TO ENFORCE THE ITEM;

39 (2) ALL SIGNATURES ON THE ITEM ARE AUTHENTIC AND AUTHORIZED;

40 (3) THE ITEM HAS NOT BEEN ALTERED;

41 (4) THE ITEM IS NOT SUBJECT TO A DEFENSE OR CLAIM IN RECOUPMENT
42 (SECTION 3--305(A)) OF ANY PARTY THAT CAN BE ASSERTED AGAINST THE
43 WARRANTOR;

44 (5) THE WARRANTOR HAS NO KNOWLEDGE OF ANY INSOLVENCY PROCEEDING
45 COMMENCED WITH RESPECT TO THE MAKER OR ACCEPTOR OR, IN THE CASE OF AN
46 UNACCEPTED DRAFT, THE DRAWER; AND

47 (6) WITH RESPECT TO ANY REMOTELY-CREATED CONSUMER ITEM, THAT THE
48 PERSON ON WHOSE ACCOUNT THE ITEM IS DRAWN AUTHORIZED THE ISSUANCE OF THE
49 ITEM IN THE AMOUNT FOR WHICH THE ITEM IS DRAWN.

50 (B) IF AN ITEM IS DISHONORED, A CUSTOMER OR COLLECTING BANK TRANS-
51 FERRING THE ITEM AND RECEIVING SETTLEMENT OR OTHER CONSIDERATION IS
52 OBLIGED TO PAY THE AMOUNT DUE ON THE ITEM (I) ACCORDING TO THE TERMS OF
53 THE ITEM AT THE TIME IT WAS TRANSFERRED, OR (II) IF THE TRANSFER WAS OF
54 AN INCOMPLETE ITEM, ACCORDING TO ITS TERMS WHEN COMPLETED AS STATED IN
55 SECTIONS 3--115 AND 3--407. THE OBLIGATION OF A TRANSFEROR IS OWED TO
56 THE TRANSFEREE AND TO ANY SUBSEQUENT COLLECTING BANK THAT TAKES THE ITEM

1 IN GOOD FAITH. A TRANSFEROR CANNOT DISCLAIM ITS OBLIGATION UNDER THIS
2 SUBSECTION BY AN INDORSEMENT STATING THAT IT IS MADE "WITHOUT RECOURSE"
3 OR OTHERWISE DISCLAIMING LIABILITY.

4 (C) A PERSON TO WHOM THE WARRANTIES UNDER SUBSECTION (A) ARE MADE AND
5 WHO TOOK THE ITEM IN GOOD FAITH MAY RECOVER FROM THE WARRANTOR AS
6 DAMAGES FOR BREACH OF WARRANTY AN AMOUNT EQUAL TO THE LOSS SUFFERED AS A
7 RESULT OF THE BREACH, BUT NOT MORE THAN THE AMOUNT OF THE ITEM PLUS
8 EXPENSES AND LOSS OF INTEREST INCURRED AS A RESULT OF THE BREACH.

9 (D) THE WARRANTIES STATED IN SUBSECTION (A) CANNOT BE DISCLAIMED WITH
10 RESPECT TO CHECKS. UNLESS NOTICE OF A CLAIM FOR BREACH OF WARRANTY IS
11 GIVEN TO THE WARRANTOR WITHIN THIRTY DAYS AFTER THE CLAIMANT HAS REASON
12 TO KNOW OF THE BREACH AND THE IDENTITY OF THE WARRANTOR, THE WARRANTOR
13 IS DISCHARGED TO THE EXTENT OF ANY LOSS CAUSED BY THE DELAY IN GIVING
14 NOTICE OF THE CLAIM.

15 (E) A CAUSE OF ACTION FOR BREACH OF WARRANTY UNDER THIS SECTION
16 ACCRUES WHEN THE CLAIMANT HAS REASON TO KNOW OF THE BREACH.
17 SECTION 4--208. PRESENTMENT WARRANTIES.

18 (A) IF AN UNACCEPTED DRAFT IS PRESENTED TO THE DRAWEE FOR PAYMENT OR
19 ACCEPTANCE AND THE DRAWEE PAYS OR ACCEPTS THE DRAFT, (I) THE PERSON
20 OBTAINING PAYMENT OR ACCEPTANCE, AT THE TIME OF PRESENTMENT, AND (II) A
21 PREVIOUS TRANSFEROR OF THE DRAFT, AT THE TIME OF TRANSFER, WARRANT TO
22 THE DRAWEE THAT PAYS OR ACCEPTS THE DRAFT IN GOOD FAITH THAT:

23 (1) THE WARRANTOR IS, OR WAS, AT THE TIME THE WARRANTOR TRANSFERRED
24 THE DRAFT, A PERSON ENTITLED TO ENFORCE THE DRAFT OR AUTHORIZED TO
25 OBTAIN PAYMENT OR ACCEPTANCE OF THE DRAFT ON BEHALF OF A PERSON ENTITLED
26 TO ENFORCE THE DRAFT;

27 (2) THE DRAFT HAS NOT BEEN ALTERED; AND

28 (3) THE WARRANTOR HAS NO KNOWLEDGE THAT THE SIGNATURE OF THE PURPORTED
29 DRAWER OF THE DRAFT IS UNAUTHORIZED; AND

30 (4) WITH RESPECT TO ANY REMOTELY-CREATED CONSUMER ITEM, THAT THE
31 PERSON ON WHOSE ACCOUNT THE ITEM IS DRAWN AUTHORIZED THE ISSUANCE OF THE
32 ITEM IN THE AMOUNT FOR WHICH THE ITEM IS DRAWN.

33 (B) A DRAWEE MAKING PAYMENT MAY RECOVER FROM A WARRANTOR DAMAGES FOR
34 BREACH OF WARRANTY EQUAL TO THE AMOUNT PAID BY THE DRAWEE LESS THE
35 AMOUNT THE DRAWEE RECEIVED OR IS ENTITLED TO RECEIVE FROM THE DRAWER
36 BECAUSE OF THE PAYMENT. IN ADDITION, THE DRAWEE IS ENTITLED TO COMPEN-
37 SATION FOR EXPENSES AND LOSS OF INTEREST RESULTING FROM THE BREACH. THE
38 RIGHT OF THE DRAWEE TO RECOVER DAMAGES UNDER THIS SUBSECTION IS NOT
39 AFFECTED BY ANY FAILURE OF THE DRAWEE TO EXERCISE ORDINARY CARE IN
40 MAKING PAYMENT. IF THE DRAWEE ACCEPTS THE DRAFT (I) BREACH OF WARRANTY
41 IS A DEFENSE TO THE OBLIGATION OF THE ACCEPTOR, AND (II) IF THE ACCEPTOR
42 MAKES PAYMENT WITH RESPECT TO THE DRAFT, THE ACCEPTOR IS ENTITLED TO
43 RECOVER FROM A WARRANTOR FOR BREACH OF WARRANTY THE AMOUNTS STATED IN
44 THIS SUBSECTION.

45 (C) IF A DRAWEE ASSERTS A CLAIM FOR BREACH OF WARRANTY UNDER
46 SUBSECTION (A) BASED ON AN UNAUTHORIZED INDORSEMENT OF THE DRAFT OR AN
47 ALTERATION OF THE DRAFT, THE WARRANTOR MAY DEFEND BY PROVING THAT THE
48 INDORSEMENT IS EFFECTIVE UNDER SECTION 3--404 OR 3--405 OR THE DRAWER IS
49 PRECLUDED UNDER SECTION 3--406 OR 4--406 FROM ASSERTING AGAINST THE
50 DRAWEE THE UNAUTHORIZED INDORSEMENT OR ALTERATION.

51 (D) IF (I) A DISHONORED DRAFT IS PRESENTED FOR PAYMENT TO THE DRAWER
52 OR AN INDORSER OR (II) ANY OTHER ITEM IS PRESENTED FOR PAYMENT TO A
53 PARTY OBLIGED TO PAY THE ITEM, AND THE ITEM IS PAID, THE PERSON OBTAIN-
54 ING PAYMENT AND A PRIOR TRANSFEROR OF THE ITEM WARRANT TO THE PERSON
55 MAKING PAYMENT IN GOOD FAITH THAT THE WARRANTOR IS, OR WAS, AT THE TIME
56 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 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. SECTION 4--209. ENCODING AND RETENTION WARRANTIES.

(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 DEPOSITARY 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 DEPOSITARY 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.

SECTION 4--210. SECURITY INTEREST OF COLLECTING BANK IN ITEMS, ACCOMPANYING DOCUMENTS AND PROCEEDS.

(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 TIME OR PURSUANT TO 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 ARTICLE 9, BUT:

(1) NO SECURITY AGREEMENT IS NECESSARY TO MAKE THE SECURITY INTEREST ENFORCEABLE (SECTION 9--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.

SECTION 4--211. WHEN BANK GIVES VALUE FOR PURPOSES OF HOLDER IN DUE COURSE.

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 SECTION 3--302 ON WHAT CONSTITUTES A HOLDER IN DUE COURSE.

SECTION 4--212. PRESENTMENT BY NOTICE OF ITEM NOT PAYABLE BY, THROUGH, OR AT BANK; LIABILITY OF DRAWER OR INDORSER.

(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 SECTION 3--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 SECTION 3--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 INDORSER BY SENDING IT NOTICE OF THE FACTS.

SECTION 4--213. MEDIUM AND TIME OF SETTLEMENT BY BANK.

(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 BY 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:

(I) 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;

(II) WITH RESPECT TO TENDER OF SETTLEMENT BY CREDIT IN AN ACCOUNT IN A FEDERAL RESERVE BANK, WHEN THE CREDIT IS MADE;

(III) 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

(IV) WITH RESPECT TO TENDER OF SETTLEMENT BY A FUNDS TRANSFER, WHEN PAYMENT IS MADE PURSUANT TO SECTION 4-A--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

1 SETTLEMENT, IF THERE ARE FUNDS AVAILABLE IN THE ACCOUNT FOR THE AMOUNT
2 OF THE ITEM.

3 SECTION 4--214. RIGHT OF CHARGE-BACK OR REFUND; LIABILITY OF COLLECTING
4 BANK; RETURN OF ITEM.

5 (A) IF A COLLECTING BANK HAS MADE PROVISIONAL SETTLEMENT WITH ITS
6 CUSTOMER FOR AN ITEM AND FAILS BY REASON OF DISHONOR, SUSPENSION OF
7 PAYMENTS BY A BANK, OR OTHERWISE, TO RECEIVE SETTLEMENT FOR THE ITEM
8 WHICH IS OR BECOMES FINAL, THE BANK MAY REVOKE THE SETTLEMENT GIVEN BY
9 IT, CHARGE BACK THE AMOUNT OF ANY CREDIT GIVEN FOR THE ITEM TO ITS
10 CUSTOMER'S ACCOUNT, OR OBTAIN REFUND FROM ITS CUSTOMER, WHETHER OR NOT
11 IT IS ABLE TO RETURN THE ITEM, IF BY ITS MIDNIGHT DEADLINE, OR WITHIN A
12 LONGER REASONABLE TIME AFTER IT LEARNS THE FACTS, IT RETURNS THE ITEM OR
13 SENDS NOTIFICATION OF THE FACTS. IF THE RETURN OR NOTICE IS DELAYED
14 BEYOND THE BANK'S MIDNIGHT DEADLINE, OR A LONGER REASONABLE TIME AFTER
15 IT LEARNS THE FACTS, THE BANK MAY REVOKE THE SETTLEMENT, CHARGE BACK THE
16 CREDIT, OR OBTAIN REFUND FROM ITS CUSTOMER, BUT IT IS LIABLE FOR ANY
17 LOSS RESULTING FROM THE DELAY. THESE RIGHTS TO REVOKE, CHARGE BACK, AND
18 OBTAIN REFUND TERMINATE IF AND WHEN A SETTLEMENT FOR THE ITEM RECEIVED
19 BY THE BANK IS OR BECOMES FINAL.

20 (B) A COLLECTING BANK RETURNS AN ITEM WHEN IT IS SENT OR DELIVERED TO
21 THE BANK'S CUSTOMER OR TRANSFEROR, OR PURSUANT TO ITS INSTRUCTIONS.

22 (C) A DEPOSITARY BANK THAT IS ALSO THE PAYOR MAY CHARGE BACK THE
23 AMOUNT OF AN ITEM TO ITS CUSTOMER'S ACCOUNT OR OBTAIN A REFUND IN
24 ACCORDANCE WITH THE SECTION GOVERNING RETURN OF AN ITEM RECEIVED BY A
25 PAYOR BANK FOR CREDIT ON ITS BOOKS (SECTION 4--301).

26 (D) THE RIGHT TO CHARGE BACK IS NOT AFFECTED BY:

27 (1) PREVIOUS USE OF A CREDIT GIVEN FOR THE ITEM; OR

28 (2) FAILURE BY ANY BANK TO EXERCISE ORDINARY CARE WITH RESPECT TO THE
29 ITEM, BUT A BANK SO FAILING REMAINS LIABLE.

30 (E) A FAILURE TO CHARGE BACK OR CLAIM REFUND DOES NOT AFFECT OTHER
31 RIGHTS OF THE BANK AGAINST THE CUSTOMER OR ANY OTHER PARTY.

32 (F) IF CREDIT IS GIVEN IN DOLLARS AS THE EQUIVALENT OF THE VALUE OF AN
33 ITEM PAYABLE IN FOREIGN MONEY, THE DOLLAR AMOUNT OF ANY CHARGE-BACK OR
34 REFUND MUST BE CALCULATED ON THE BASIS OF THE BANK-OFFERED SPOT RATE FOR
35 THE FOREIGN MONEY PREVAILING ON THE DAY WHEN THE PERSON ENTITLED TO THE
36 CHARGE-BACK OR REFUND LEARNS THAT IT WILL NOT RECEIVE PAYMENT IN THE
37 ORDINARY COURSE.

38 SECTION 4--215. FINAL PAYMENT OF ITEM BY PAYOR BANK; WHEN PROVISIONAL
39 DEBITS AND CREDITS BECOME FINAL; WHEN CERTAIN CREDITS
40 BECOME AVAILABLE FOR WITHDRAWAL.

41 (A) AN ITEM IS FINALLY PAID BY A PAYOR BANK WHEN THE BANK HAS FIRST
42 DONE ANY OF THE FOLLOWING:

43 (1) PAID FOR THE ITEM IN CASH;

44 (2) SETTLED FOR THE ITEM WITHOUT HAVING A RIGHT TO REVOKE THE SETTLE-
45 MENT UNDER STATUTE, CLEARING-HOUSE RULE, OR AGREEMENT; OR

46 (3) MADE A PROVISIONAL SETTLEMENT FOR THE ITEM AND FAILED TO REVOKE
47 THE SETTLEMENT IN THE TIME AND MANNER PERMITTED BY STATUTE,
48 CLEARING-HOUSE RULE, OR AGREEMENT.

49 (B) IF PROVISIONAL SETTLEMENT FOR AN ITEM DOES NOT BECOME FINAL, THE
50 ITEM IS NOT FINALLY PAID.

51 (C) IF PROVISIONAL SETTLEMENT FOR AN ITEM BETWEEN THE PRESENTING AND
52 PAYOR BANKS IS MADE THROUGH A CLEARING HOUSE OR BY DEBITS OR CREDITS IN
53 AN ACCOUNT BETWEEN THEM, THEN TO THE EXTENT THAT PROVISIONAL DEBITS OR
54 CREDITS FOR THE ITEM ARE ENTERED IN ACCOUNTS BETWEEN THE PRESENTING AND
55 PAYOR BANKS, OR BETWEEN THE PRESENTING AND SUCCESSIVE PRIOR COLLECTING

BANKS SERIATIM, THEY BECOME FINAL UPON FINAL PAYMENT OF THE ITEM 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;

(2) IF THE BANK IS BOTH THE DEPOSITARY 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.

SECTION 4--216. INSOLVENCY AND PREFERENCE.

(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.

PART 3

COLLECTION OF ITEMS: PAYOR BANKS

SECTION 4--301. POSTING; RECOVERY OF PAYMENT BY RETURN OF ITEMS; TIME OF DISHONOR; RETURN OF ITEMS BY PAYOR BANK.

(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 PRESENTED 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 CLEARING HOUSE RULES; OR

(2) IN ALL OTHER CASES, WHEN IT IS SENT OR DELIVERED TO THE BANK'S CUSTOMER OR TRANSFEROR OR PURSUANT TO INSTRUCTIONS.

SECTION 4--302. PAYER'S BANK RESPONSIBILITY FOR LATE RETURN OF ITEM.

(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 PURSUANT TO SUBSECTION (A) IS SUBJECT TO DEFENSES BASED ON BREACH OF A PRESENTMENT WARRANTY (SECTION 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.

SECTION 4--303. WHEN ITEMS SUBJECT TO NOTICE, STOP-PAYMENT ORDER, LEGAL PROCESS, OR SETOFF; ORDER IN WHICH ITEMS MAY BE CHANGED OR CERTIFIED.

(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 SECTION 4--302 DEALING WITH THE PAYOR BANK'S RESPONSIBILITY FOR LATE RETURN OF ITEMS; OR

(5) WITH RESPECT TO CHECKS, A CUTOFF HOUR NO EARLIER THAN ONE HOUR AFTER THE OPENING OF THE NEXT BANKING DAY AFTER THE BANKING DAY ON WHICH THE BANK RECEIVED THE CHECK AND NO 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.

PART 4

RELATIONSHIP BETWEEN PAYOR BANK AND ITS CUSTOMER
SECTION 4--401. WHEN BANK MAY CHARGE CUSTOMER'S ACCOUNT.

(A) A BANK MAY CHARGE AGAINST THE ACCOUNT OF A CUSTOMER AN ITEM THAT IS PROPERLY PAYABLE FROM THE 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 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 SECTION 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 SECTION 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 SECTION 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.

SECTION 4--402. BANK'S LIABILITY TO CUSTOMER FOR WRONGFUL DISHONOR, TIME OF DETERMINING INSUFFICIENT BALANCE OF ACCOUNT.

(A) EXCEPT AS OTHERWISE PROVIDED IN THIS ARTICLE, 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 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.

SECTION 4--403. CUSTOMER'S RIGHT TO STOP PAYMENT; BURDEN OF PROOF OF LOSS.

1 (A) A CUSTOMER OR ANY PERSON AUTHORIZED TO DRAW ON THE ACCOUNT IF
2 THERE IS MORE THAN ONE PERSON MAY STOP PAYMENT OF ANY ITEM DRAWN ON THE
3 CUSTOMER'S ACCOUNT OR CLOSE THE ACCOUNT BY AN ORDER TO THE BANK DESCRIB-
4 ING THE ITEM OR ACCOUNT WITH REASONABLE CERTAINTY RECEIVED AT A TIME AND
5 IN A MANNER THAT AFFORDS THE BANK A REASONABLE OPPORTUNITY TO ACT ON IT
6 BEFORE ANY ACTION BY THE BANK WITH RESPECT TO THE ITEM DESCRIBED IN
7 SECTION 4--303. IF THE SIGNATURE OF MORE THAN ONE PERSON IS REQUIRED TO
8 DRAW ON AN ACCOUNT, ANY OF THESE PERSONS MAY STOP PAYMENT OR CLOSE THE
9 ACCOUNT.

10 (B) A STOP-PAYMENT ORDER IS EFFECTIVE FOR SIX MONTHS, BUT IT LAPSES
11 AFTER FOURTEEN CALENDAR DAYS IF THE ORIGINAL ORDER WAS ORAL AND WAS NOT
12 CONFIRMED IN A RECORD WITHIN THAT PERIOD. A STOP-PAYMENT ORDER MAY BE
13 RENEWED FOR ADDITIONAL SIX-MONTH PERIODS BY A RECORD GIVEN TO THE BANK
14 WITHIN A PERIOD DURING WHICH THE STOP-PAYMENT ORDER IS EFFECTIVE.

15 (C) THE BURDEN OF ESTABLISHING THE FACT AND AMOUNT OF LOSS RESULTING
16 FROM THE PAYMENT OF AN ITEM CONTRARY TO A STOP-PAYMENT ORDER OR ORDER TO
17 CLOSE AN ACCOUNT IS ON THE CUSTOMER. THE LOSS FROM PAYMENT OF AN ITEM
18 CONTRARY TO A STOP-PAYMENT ORDER MAY INCLUDE DAMAGES FOR DISHONOR OF
19 SUBSEQUENT ITEMS UNDER SECTION 4--402.

20 SECTION 4--404. BANK NOT OBLIGED TO PAY CHECK MORE THAN SIX MONTHS OLD.

21 A BANK IS UNDER NO OBLIGATION TO A CUSTOMER HAVING A CHECKING ACCOUNT
22 TO PAY A CHECK, OTHER THAN A CERTIFIED CHECK, WHICH IS PRESENTED MORE
23 THAN SIX MONTHS AFTER ITS DATE, BUT IT MAY CHARGE ITS CUSTOMER'S ACCOUNT
24 FOR A PAYMENT MADE THEREAFTER IN GOOD FAITH.

25 SECTION 4--405. DEATH OR INCOMPETENCE OF CUSTOMER.

26 (A) A PAYOR OR COLLECTING BANK'S AUTHORITY TO ACCEPT, PAY, OR COLLECT
27 AN ITEM OR TO ACCOUNT FOR PROCEEDS OF ITS COLLECTION, IF OTHERWISE
28 EFFECTIVE, IS NOT RENDERED INEFFECTIVE BY INCOMPETENCE OF A CUSTOMER OF
29 EITHER BANK EXISTING AT THE TIME THE ITEM IS ISSUED OR ITS COLLECTION IS
30 UNDERTAKEN IF THE BANK DOES NOT KNOW OF AN ADJUDICATION OF INCOMPETENCE.
31 NEITHER DEATH NOR INCOMPETENCE OF A CUSTOMER REVOKES THE AUTHORITY TO
32 ACCEPT, PAY, COLLECT, OR ACCOUNT UNTIL THE BANK KNOWS OF THE FACT OF
33 DEATH OR OF AN ADJUDICATION OF INCOMPETENCE AND HAS REASONABLE OPPORTU-
34 NITY TO ACT ON IT.

35 (B) EVEN WITH KNOWLEDGE, A BANK MAY FOR TEN DAYS AFTER THE DATE OF
36 DEATH PAY OR CERTIFY CHECKS DRAWN ON OR BEFORE THAT DATE UNLESS ORDERED
37 TO STOP PAYMENT BY A PERSON CLAIMING AN INTEREST IN THE ACCOUNT.

38 SECTION 4--406. CUSTOMER'S DUTY TO DISCOVER AND REPORT UNAUTHORIZED
39 SIGNATURE OR ALTERATION.

40 (A) A BANK THAT SENDS OR MAKES AVAILABLE TO A CUSTOMER A STATEMENT OF
41 ACCOUNT SHOWING PAYMENT OF ITEMS FOR THE ACCOUNT SHALL EITHER RETURN OR
42 MAKE AVAILABLE TO THE CUSTOMER THE ITEMS PAID OR PROVIDE INFORMATION IN
43 THE STATEMENT OF ACCOUNT SUFFICIENT TO ALLOW THE CUSTOMER REASONABLY TO
44 IDENTIFY THE ITEMS PAID. THE STATEMENT OF ACCOUNT PROVIDES SUFFICIENT
45 INFORMATION IF THE ITEM IS DESCRIBED BY ITEM NUMBER, AMOUNT, AND DATE OF
46 PAYMENT.

47 (B) IF THE ITEMS ARE NOT RETURNED TO THE CUSTOMER, THE PERSON RETAIN-
48 ING THE ITEMS SHALL EITHER RETAIN THE ITEMS OR, IF THE ITEMS ARE
49 DESTROYED, MAINTAIN THE CAPACITY TO FURNISH LEGIBLE COPIES OF THE ITEMS
50 UNTIL THE EXPIRATION OF SEVEN YEARS AFTER RECEIPT OF THE ITEMS. A
51 CUSTOMER MAY REQUEST AN ITEM FROM THE BANK THAT PAID THE ITEM, AND THAT
52 BANK MUST PROVIDE IN A REASONABLE TIME EITHER THE ITEM OR, IF THE ITEM
53 HAS BEEN DESTROYED OR IS NOT OTHERWISE OBTAINABLE, A LEGIBLE COPY OF THE
54 ITEM.

55 (C) IF A BANK SENDS OR MAKES AVAILABLE A STATEMENT OF ACCOUNT OR ITEMS
56 PURSUANT TO 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 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 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 SECTION 4--208 WITH RESPECT TO THE UNAUTHORIZED SIGNATURE OR ALTERATION TO WHICH THE PRECLUSION APPLIES.

SECTION 4--407. PAYOR BANK'S RIGHT TO SUBROGATION ON IMPROPER PAYMENT.

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.

PART 5

COLLECTION OF DOCUMENTARY DRAFTS

SECTION 4--501. HANDLING OF DOCUMENTARY DRAFTS; DUTY TO SEND FOR PRESENTMENT AND TO NOTIFY CUSTOMER OF DISHONOR.

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 REASONABLY 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.

SECTION 4--502. PRESENTMENT OF "ON ARRIVAL" DRAFTS.

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.

SECTION 4--503. RESPONSIBILITY OF PRESENTING BANK FOR DOCUMENTS AND GOODS; REPORT OF REASONS FOR DISHONOR; REFEREE IN CASE OF NEED.

UNLESS OTHERWISE INSTRUCTED AND EXCEPT AS PROVIDED IN ARTICLE 5, 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 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 REASONABLY RECEIVED; IT HAS A RIGHT TO REIMBURSEMENT FOR ANY EXPENSE INCURRED IN FOLLOWING INSTRUCTIONS AND TO PREPAYMENT OF OR INDEMNITY FOR THOSE EXPENSES.

SECTION 4--504. PRIVILEGE OF PRESENTING BANK TO DEAL WITH GOODS; SECURITY INTEREST FOR EXPENSES.

(A) A PRESENTING BANK THAT, FOLLOWING THE DISHONOR OF A DOCUMENTARY DRAFT, HAS REASONABLY 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.

S 3. This act shall take effect July 1, 2015; provided, however, the applicability of Articles 3 and 4 of the Uniform Commercial Code, as added by sections one and two of this act, is determined by the following rules:

(a) Such Articles 3 and 4 of the Uniform Commercial Code apply to a negotiable instrument, item, or document of title that is issued, or a bailment that arises, on or after the effective date of this act. Such Articles 3 and 4 of the Uniform Commercial Code, as added by this act, do not apply to a negotiable instrument, item, or document of title that is issued or a bailment that arises before the effective date of this act even if the negotiable instrument, item, or document of title or bailment would be subject to such articles if the negotiable instrument, item, or document of title had been issued or bailment had arisen on or after the effective date of this act.

1 (b) Such Articles 3 and 4 of the Uniform Commercial Code do not apply
2 to a right of action that has accrued before the effective date of this
3 act.