

Contents

<i>Acknowledgments</i>	xxi
<i>Preface to the Eighth Edition</i>	xxiii

Part One

Payment Systems	1
Introduction to Part One	3
Typologies of Payment Systems	4
Cash and Noncash	4
Figure I.1—2021 U.S. Consumer Payments	5
Paper and Electronic	5
In-Person and Remote	6
Universal and Networked	7
Developing Payment Systems	8
Chapter 1. Paying with a Card	11
Assignment 1: The Credit-Card System	11
A. The Issuer-Cardholder Relationship	11
B. Using the Credit-Card Account	14
C. Collection by the Payee	15
1. The Mechanics of Collection	15
Figure 1.1—Payment by Credit Card	18
2. Finality of Payment	18
<i>Singer v. Chase Manhattan Bank</i>	20
<i>Hasan v. Chase Bank USA</i>	21
Problem Set 1	24
Assignment 2: Error and Fraud in Credit-Card Transactions	27
A. Erroneous Charges	27
<i>Belmont v. Associates National Bank (Delaware)</i>	28
B. Unauthorized Charges	38
<i>Roundtree v. Chase Bank USA, N.A.</i>	38
<i>Azur v. Chase Bank, USA, N.A.</i>	42
Problem Set 2	50
Assignment 3: Debit Cards	52
A. Payment with a Debit Card	52
1. Establishing the Debit-Card Relationship	53

2.	Transferring Funds with a Debit Card	54
3.	Collection by the Payee	54
B.	Error and Fraud in Debit-Card Transactions	55
1.	Erroneous Transactions	55
2.	Fraudulent Transactions	56
	<i>Hospicomm, Inc. v. Fleet Bank, N.A.</i>	60
	Problem Set 3	63
	Assignment 4: Prepaid Cards	66
A.	Mechanics	66
B.	Legal Issues	69
1.	EFTA	69
2.	Other Issues	70
	Problem Set 4	72
	Chapter 2. Electronic Consumer Payments	75
	Assignment 5: Automated Clearing House Payments	75
A.	The Basics of ACH Transfers	75
1.	The Basic Terminology	76
2.	The Mechanics	77
	Figure 5.1—ACH Credit Entry	77
	Figure 5.2—ACH Debit Entry	78
3.	Types of ACH Entries	79
4.	Finality, Error, and Fraud in ACH Transfers	80
	<i>In re Ocean Petroleum, Inc. (Fleet Bank, N.A. v. Business</i>	
	<i>Alliance Capital Corp.)</i>	82
	<i>Clinton Plumbing and Heating v. Ciacco</i>	88
B.	POS Conversion	91
C.	Telephone-Initiated Payments	93
	Problem Set 5	95
	Assignment 6: Internet Payments	97
A.	Credit Cards on the Internet	97
1.	Processing the Transactions	97
2.	Problems	98
	(a) Fraud	98
	(b) Privacy	101
	(c) Micropayments	102
B.	Debit Cards on the Internet	103
C.	ACH Transfers (WEB Entries)	104
D.	Foreign and Cross-Border Payments	105
E.	A Note on Mobile Payments	106
	Problem Set 6	107
	Assignment 7: Virtual Currencies	109
A.	The Mechanics of Bitcoin	109

Stephen T. Middlebrook, Bitcoin for Merchants: Legal Considerations for Businesses Wishing to Accept Bitcoin as a Form of Payment	110
B. Legal Issues	111
<i>Florida v. Espinoza</i>	112
Problem Set 7	118
Chapter 3. Paying with Paper (Checks)	121
Assignment 8: The Basic Checking Relationship	121
A. The Basic Relationship	121
B. The Bank's Right to Pay	122
1. When Is It Proper for the Bank to Pay?	122
(a) Overdrafts	123
<i>McGuire v. Bank One, Louisiana, N.A.</i>	123
(b) Stopping Payment	126
2. Remedies for Improper Payment	127
<i>McIntyre v. Harris</i>	128
C. The Bank's Obligation to Pay	130
1. When Are Funds Available for Payment?	130
(a) Noncash Withdrawals	132
(b) Cash Withdrawals	132
(c) Low-Risk Items	132
2. Wrongful Dishonor: What Happens If the Bank Refuses to Pay?	134
Problem Set 8	135
Assignment 9: Risk of Loss in the Checking System	137
A. The Basic Framework	137
1. Nonpayment	137
2. Forged Signatures	139
(a) Forged Drawers' Signatures and the Rule of Price v. Neal	140
(i) What If the Payor Bank Pays the Forged Check?	140
(ii) What If the Payor Bank Dishonors the Forged Check?	142
(iii) The Special Case of Telephone Checks	143
(b) Forged Indorsements	144
(i) What If the Payor Bank Dishonors the Check Because of the Forged Indorsement?	144
(ii) What If the Payor Bank Pays the Check Despite the Forged Indorsement?	144
(iii) Conversion	145
3. Alteration	146
B. Special Rules	147
1. Negligence	147
<i>Thompson v. First BancoAmericano</i>	148

2.	Theft by Employees	153
	<i>Halifax Corp. v. Wachovia Bank</i>	154
3.	Impostors	156
	<i>State Security Check Cashing, Inc. v. American General Financial Services (DE)</i>	156
	Problem Set 9	166
	Assignment 10: Collection of Checks	168
A.	The Payor Bank's Obligation to the Payee	168
B.	The Traditional Process of Collection	169
1.	Obtaining Payment Directly	169
2.	Obtaining Payment Through Intermediaries	170
	(a) Payee/Customer to Depository Bank	171
	(b) Depository Bank to Payor Bank	171
	(c) Dishonor and Return	173
	(i) The UCC's "Midnight" Deadline	174
	(ii) The Regulation CC Expedious Return Rule	174
	(iii) Regulation CC and the UCC's Midnight Deadline	175
	<i>Troy Bank & Trust Co. v. The Citizens Bank</i>	175
C.	Truncation and Check 21	178
1.	Payor-Bank Truncation	179
2.	Depository-Bank Truncation	179
	<i>Wachovia Bank, N.A. v. Foster Bancshares, Inc.</i>	180
3.	Check 21	182
	Figure 10.1—Form Substitute Check	184
	Problem Set 10	186
	 Chapter 4. Wire Transfers	 191
	Assignment 11: The Wire-Transfer System	191
A.	Introduction	191
B.	How Does It Work?	192
1.	Initiating the Wire Transfer: From the Originator to the Originator's Bank	192
	<i>Trustmark Insurance Co. v. Bank One</i>	193
	<i>Receivers of Sabena SA v. Deutsche Bank A.G.</i>	198
2.	Executing the Transfer: From the Originator's Bank to the Beneficiary's Bank	204
	(a) Bilateral Systems (Including SWIFT)	204
	(b) CHIPS	205
	(c) Fedwire	206
3.	Completing the Funds Transfer: From the Beneficiary's Bank to the Beneficiary	208
C.	Discharge of the Originator's Underlying Obligation	210
D.	Finality of Payment	211
	<i>Aleo International, Ltd. v. CitiBank, N.A.</i>	211
	Problem Set 11	212

Assignment 12: Error in Wire-Transfer Transactions	216
A. Recovering from Parties in the System	216
1. Errors by the Originator	217
<i>Phil & Kathy's Inc. v. Safra National Bank</i>	217
2. Errors in the System	221
(a) Sending Excessive Funds	221
(b) Sending Inadequate Funds	222
(c) Bank-Statement Rule	223
<i>Regatos v. North Fork Bank</i>	224
3. Circuity of Recovery	228
<i>Grain Traders, Inc. v. CitiBank, N.A.</i>	228
B. Recovering from the Mistaken Recipient	233
<i>Citibank, N.A. v. Brigade Capital Management, LP</i>	233
Problem Set 12	254
Assignment 13: Fraud and System Failure in Wire-Transfer Systems	256
A. Fraud	256
<i>Patco Construction Co. v. People's United Bank</i>	257
B. System Failure	272
Problem Set 13	273
Assignment 14: The Nature of the Wire Transfer	275
<i>Shipping Corp. of India, Ltd. v. Jaldhi Overseas Pte Ltd.</i>	275
<i>Export-Import Bank of the United States v. Asia Pulp & Paper Co.</i>	279
<i>Regions Bank v. The Provident Bank, Inc.</i>	287
Problem Set 14	293

Part Two

Credit Enhancement and Letters of Credit 295

Chapter 5. Credit Enhancement	297
Assignment 15: Credit Enhancement by Guaranty	297
A. The Role of Guaranties	297
B. Rights of the Creditor Against the Guarantor	300
<i>In re Caesars Entertainment Operating Co. (Caesars Entertainment Operating Co. v. BOKF, N.A.)</i>	301
Problem Set 15	305
Assignment 16: Protections for Guarantors	307
A. Rights of the Guarantor Against the Principal	307
1. Performance	307
2. Reimbursement	307

3.	Subrogation	308
	Figure 16.1 Rights of the Guarantor	308
	<i>Chemical Bank v. Meltzer</i>	309
	<i>Stahl v. Simon (In re Adamson Apparel, Inc.)</i>	314
B.	Rights of the Guarantor Against the Creditor	321
1.	Suretyship Defenses	321
2.	Waiver of Suretyship Defenses	323
	<i>Data Sales Co. v. Diamond Z Manufacturing</i>	323
C.	Bankruptcy of the Guarantor	329
	<i>Trimec, Inc. v. Zale Corporation</i>	329
	Problem Set 16	331
	Guaranty Agreement	333
 Chapter 6. Letters of Credit		 343
	Assignment 17: Letters of Credit—The Basics	343
A.	The Underlying Transaction	344
B.	Advising and Confirming Banks	345
C.	The Terms of the Credit	346
D.	Drawing on the Credit	348
	<i>Gilday v. Suffolk County National Bank</i>	349
	<i>Carter Petroleum Products, Inc. v. Brotherhood Bank & Trust Co.</i>	352
	<i>LaBarge Pipe & Steel Co. v. First Bank</i>	356
E.	Reimbursement	367
	<i>Banco Nacional De Mexico v. Societe Generale</i>	368
	Problem Set 17	372
	Figure 17.1—Commercial Letter of Credit Form	374
	Assignment 18: Letters of Credit—Advanced Topics	376
A.	Error and Fraud in Letter-of-Credit Transactions	376
1.	Wrongful Honor	376
2.	Wrongful Dishonor	378
3.	Fraud	380
	(a) Forged Drafts	380
	(b) Fraudulent Submissions by the Beneficiary	381
B.	Assigning Letters of Credit	382
C.	Choice-of-Law Rules	384
	Problem Set 18	385
	Assignment 19: Third-Party Credit Enhancement—Standby Letters of Credit	387
A.	The Standby Letter-of-Credit Transaction	387
	<i>Nobel Insurance Co. v. First National Bank</i>	389
	Figure 19.1—Form Standby Letter of Credit (ISP98 Form 1)	392
	<i>Wood v. State Bank</i>	394
	<i>3M Co. v. HSBC Bank USA, N.A.</i>	396

B. Problems in Standby Letter-of-Credit Transactions	405
1. Bankruptcy of the Applicant	406
<i>In re Ocana</i>	407
2. The Issuer's Right of Subrogation	408
<i>CRM Collateral II, Inc. v. Tri-County Metropolitan Transportation District</i>	409
Problem Set 19	415

Part Three

Liquidity Systems 417

Chapter 7. Negotiability 419

Assignment 20: Negotiable Instruments 419

A. Negotiability and Liquidity	419
B. A Typical Transaction	421
Figure 20.1—Sample Negotiable Draft	422
C. The Negotiability Requirements	422
1. The Promise or Order Requirement	423
Figure 20.2—The Negotiability Requirements	424
2. The Unconditional Requirement	425
3. The Money Requirement	426
4. The Fixed-Amount Requirement	426
5. The Payable-to-Bearer-or-Order Requirement	427
6. The Demand or Definite-Time Requirement	428
7. The No-Extraneous-Undertakings Requirement	429
<i>In re Walker</i>	430
Problem Set 20	433
Promissory Note	435

Assignment 21: Transfer and Enforcement of Negotiable Instruments 443

A. Transferring a Negotiable Instrument	443
1. Negotiation and Status as a Holder	443
2. Special and Blank Indorsements	444
3. Restrictive and Anomalous Indorsements	446
B. Enforcement and Collection of Instruments	446
1. The Right to Enforce an Instrument	446
<i>In re Kang Jin Hwang</i>	447
2. Presentment and Dishonor	452
3. Defenses to Enforcement	453
<i>Turman v. Ward's Home Improvement, Inc.</i>	453
C. Liability on an Instrument	454
<i>State Bank v. Smith</i>	455
D. The Effect of the Instrument on the Underlying Obligation	458
Problem Set 21	460

Assignment 22:	Holders in Due Course	463
A.	Holder-in-Due-Course Status	463
1.	The Requirements for Holder-in-Due-Course Status	463
2.	Rights of Holders in Due Course	465
	<i>State Street Bank & Trust Co. v. Strawser</i>	467
	<i>Langley v. FDIC</i>	469
3.	Payment and Discharge	474
4.	Transferees Without Holder-in-Due-Course Status	476
B.	The Fading Role of Negotiability	476
1.	The Declining Use of Negotiable Instruments	477
2.	The Decreasing Relevance of Negotiability to Negotiable Instruments	478
C.	New Horizons: Article 12 and Controllable Electronic Records	480
1.	Controllable Electronic Records	480
2.	Purchasers of Collectable Electronic Records	481
3.	Rights Tethered to an Electronic Record	482
	Problem Set 22	483
Assignment 23:	Documents of Title	487
A.	The Mechanics of Documents of Title	487
1.	Delivering Goods to a Carrier	487
	Figure 23.1—Form Bill of Lading	489
2.	Recovering Goods from a Carrier	490
	(a) Nonnegotiable Documents	490
	(b) Negotiable Documents	491
B.	Transactions with Documentary Drafts	492
1.	The Role of Documentary Draft Transactions	492
2.	Steps in the Transaction	493
	(a) Preliminaries—Sale Contract, Shipment, and Issuance of the Draft	493
	(b) Processing by the Remitting Bank	494
	Figure 23.2—Sight Draft for Documentary Collection	494
	(c) Processing by the Presenting Bank	495
	<i>Korea Export Insurance Corp. v. Audiobahn, Inc.</i>	496
C.	Credit Transactions and Banker's Acceptances	498
	Problem Set 23	500
Chapter 8.	Securities	503
Assignment 24: Securities		503
A.	Securitization and Liquidity	503
B.	The Rise of Securitization	504
C.	Investment Securities and Article 8	505
	<i>Davis v. Stern, Agee & Leach, Inc.</i>	506
1.	The Subject Matter: What Is a Security?	511
2.	The Obligation of the Issuer	512
3.	The Two Holding Systems	514

(a) The Direct Holding System	515
(i) Making the Transfer Effective Against the Issuer	515
(ii) The Effect of a Transfer on Third Parties <i>Meadow Homes Development Corp. v. Bowens</i>	516
(b) The Indirect Holding System	521
(i) The Basic Framework	521
(ii) Rights Against the Intermediary <i>Rider v. Estate of Rider (In re Estate of Rider)</i>	523
(iii) Rights Against Third Parties	530
Problem Set 24	532
<i>Table of Cases</i>	535
<i>Table of Statutes and Regulations</i>	539
<i>Table of Uniform Commercial Code</i>	545
<i>Index</i>	553