Contents

Acknowledgments Preface to the Seventh Edition		xxi xxiii	
Part O	ne		
Paymer	nt Systems	1	
	duction to Part One Typologies of Payment Systems Cash and Noncash Figure I.1—2015 U.S. Noncash Payments Paper and Electronic In-Person and Remote	3 4 4 5 5 6	
	Universal and Networked	7	
Ι	Developing Payment Systems	8	
Chapte	er 1. Paying with a Card	11	
•	nment 1: The Credit-Card System	11	
B. U C. C 1	Che Issuer-Cardholder Relationship Using the Credit-Card Account Collection by the Payee The Mechanics of Collection Figure 1.1 — Payment by Credit Card C. Finality of Payment Hyland v. First USA Bank Citibank (South Dakota), N.A. v. Mincks	11 14 15 15 18 18 20 22	
	em Set 1	31	
A. H H B. U	Error and Fraud in Credit-Card Transactions Erroneous Charges Belmont v. Associates National Bank (Delaware) Unauthorized Charges Boundtree v. Chase Bank USA, N.A. Azur v. Chase Bank, USA, N.A. Wew Century Financial Services v. Dennegar	34 34 35 45 49 54	
	em Set 2	59	
Assig	nment 3: Debit Cards	62	
1	Payment with a Debit Card Establishing the Debit-Card Relationship Transferring Funds with a Debit Card Collection by the Payee	62 63 64 64	

xii Contents

В.	 Error and Fraud in Debit-Card Transactions Erroneous Transactions Fraudulent Transactions Hospicomm, Inc. v. Fleet Bank, N.A. 	65 65 66 70
Pro	oblem Set 3	74
As	signment 4: Prepaid Cards	77
A. B.	Mechanics Legal Issues 1. EFTA 2. Other Issues oblem Set 4	77 80 80 81 83
Chap	oter 2. Electronic Consumer Payments	85
As	signment 5: Automated Clearing House Payments	85
A. B. C.	 The Basics of ACH Transfers The Basic Terminology The Mechanics Figure 5.1 — ACH Credit Entry Figure 5.2 — ACH Debit Entry Types of ACH Entries Finality, Error, and Fraud in ACH Transfers In re Ocean Petroleum, Inc. (Fleet Bank, N.A. v. Business Alliance Capital Corp.) Clinton Plumbing and Heating v. Ciacco POS Conversion Telephone-Initiated Payments 	85 86 87 87 88 89 90 92 98 101 103
	oblem Set 5	105
As	signment 6: Internet Payments	107
A. B. C. D. E.	Credit Cards on the Internet 1. Processing the Transactions 2. Problems (a) Fraud (b) Privacy (c) Micropayments Debit Cards on the Internet ACH Transfers (WEB Entries) Foreign and Cross-Border Payments A Note on Mobile Payments oblem Set 6	107 107 108 108 111 112 113 114 115 117
As	signment 7: Virtual Currencies	119
A.	The Mechanics of Bitcoin Stephen T. Middlebrook, <i>Bitcoin for Merchants: Legal</i> Considerations for Businesses Wishing to Accept Bitcoin as a Form of Payment	119 120

Contents	xiii
----------	------

	Legal Issu		121
	rida v. Espi		122
Pro	blem Set 7	,	128
Chap	oter 3.	Paying with Paper (Checks)	131
Ass	signment	8: The Basic Checking Relationship	131
A.	The Basic	c Relationship	131
В.		k's Right to Pay	132
		hen Is It Proper for the Bank to Pay?	132
	(a)	Overdrafts	133
	Mo	Guire v. Bank One, Louisiana, N.A.	133
	(b)	Stopping Payment	136
	2. Re	medies for Improper Payment	137
		Intyre v. Harris	138
C.		k's Obligation to Pay	140
		hen Are Funds Available for Payment?	140
	` /	Noncash Withdrawals	142
	` ,	Cash Withdrawals	142
	, ,	Low-Risk Items	142
		rongful Dishonor: What Happens If the Bank	
-		fuses to Pay?	144
Pro	blem Set 8	}	145
Ass	signment	9: Risk of Loss in the Checking System	147
A.	The Basic	c Framework	147
	1. No	onpayment	147
	2. Fo	rged Signatures	149
	(a)	Forged Drawers' Signatures and the Rule of	
		Price v. Neal	150
		(i) What If the Payor Bank Pays the Forged	
		Check?	150
		(ii) What If the Payor Bank Dishonors the For	
		Check?	152
	(1.)	(iii) The Special Case of Telephone Checks	153
	(b)	Forged Indorsements	154
		(i) What If the Payor Bank Dishonors the Ch	
		Because of the Forged Indorsement?	154
		(ii) What If the Payor Bank Pays the Check	154
		Despite the Forged Indorsement?	154
	2 A 14	(iii) Conversion	155 156
В.	3. Alt Special R	teration	156 157
D.	-		157
		gligence ompson v. First BancoAmericano	158
		eft by Employees	164
		ilifax Corp. v. Wachovia Bank	165
	110	inn oup. v. vi ucitoviu Dutik	105

xiv Contents

		3. Impostors	167
		State Security Check Cashing, Inc. v. American General Financial Services (DE)	167
	Pro	oblem Set 9	177
	ASS	signment 10: Collection of Checks	179
	Α.	The Payor Bank's Obligation to the Payee	179
	В.	The Traditional Process of Collection	180
		1. Obtaining Payment Directly	180
		2. Obtaining Payment Through Intermediaries	181
		(a) Payee/Customer to Depositary Bank	182
		(b) Depositary Bank to Payor Bank	182
		(c) Dishonor and Return	184
		(i) The UCC's "Midnight" Deadline	184
		(ii) The Regulation CC Expeditious Return Rule(iii) Regulation CC and the UCC's Midnight	185
		Deadline	185
		Troy Bank & Trust Co. v. The Citizens Bank	186
		NBT Bank v. First National Community Bank	189
	C.	Truncation and Check 21	198
		1. Payor-Bank Truncation	199
		2. Depositary-Bank Truncation	199
		Wachovia Bank, N.A. v. Foster Bancshares, Inc.	200
		3. Check 21	202
	ъ	Figure 10.1 — Form Substitute Check	204
	Pro	bblem Set 10	206
Cl	nap	oter 4. Wire Transfers	211
	Ass	signment 11: The Wire-Transfer System	211
	A.	Introduction	211
	В.	How Does It Work?	212
		1. Initiating the Wire Transfer: From the Originator to the	
		Originator's Bank	212
		Trustmark Insurance Co. v. Bank One	213
		Receivers of Sabena SA v. Deutsche Bank A.G.	218
		2. Executing the Transfer: From the Originator's Bank	
		to the Beneficiary's Bank	224
		(a) Bilateral Systems (Including SWIFT)	224
		(b) CHIPS	225
		(c) Fedwire	226
		3. Completing the Funds Transfer: From the	
		Beneficiary's Bank to the Beneficiary	228
	C.	Discharge of the Originator's Underlying Obligation	229
	D.	Finality of Payment	230
		Aleo International, Ltd. v. CitiBank, N.A.	231
	Pro	oblem Set 11	232

Contents xv

Ass	signment 12: Error in Wire-Transfer Transactions	236
A. B. Pro	Recovering from Parties in the System 1. Errors by the Originator Phil & Kathy's Inc. v. Safra National Bank 2. Errors in the System (a) Sending Excessive Funds (b) Sending Inadequate Funds (c) Bank-Statement Rule Regatos v. North Fork Bank 3. Circuity of Recovery Grain Traders, Inc. v. CitiBank, N.A. Recovering from the Mistaken Recipient	236 237 237 241 241 242 243 244 248 253 254
Ass	signment 13: Fraud and System Failure in Wire-Transfer Systems	257
	Fraud Patco Construction Co. v. People's United Bank System Failure blem Set 13	257 258 274 275
Shi Ext Reg	signment 14: The Nature of the Wire Transfer opping Corp. of India, Ltd. v. Jaldhi Overseas Pte Ltd. overt-Import Bank of the United States v. Asia Pulp & Paper Co. ions Bank v. The Provident Bank, Inc. oblem Set 14	277 277 282 289 295
Part 7	Two E Enhancement and Letters of Credit	299
Chap	oter 5. Credit Enhancement	301
Ass	signment 15: Credit Enhancement by Guaranty	301
A. B.	The Role of Guaranties Rights of the Creditor Against the Guarantor In re Caesars Entertainment Operating Co. (Caesars	301 304
Pro	Entertainment Operating Co. v. BOKF, N.A.) blem Set 15	305 309
Ass	signment 16: Protections for Guarantors	311
A.	Rights of the Guarantor Against the Principal 1. Performance 2. Reimbursement 3. Subrogation Figure 16.1 Rights of the Guarantor Chemical Bank v. Meltzer Stahl v. Simon (In re Adamson Apparel, Inc.)	311 311 311 312 312 313 318

xvi Contents

В.	Rights of the Guarantor Against the Creditor	325
	 Suretyship Defenses 	325
	2. Waiver of Suretyship Defenses	327
	Data Sales Co. v. Diamond Z Manufacturing	327
C.	Bankruptcy of the Guarantor	333
	Trimec, Inc. v. Zale Corporation	333
Pro	oblem Set 16	335
	Guaranty Agreement	337
Cha _l	oter 6. Letters of Credit	347
As	signment 17: Letters of Credit—The Basics	347
A.	The Underlying Transaction	348
В.		349
C.	The Terms of the Credit	350
D.	Drawing on the Credit	352
	Gilday v. Suffolk County National Bank	353
	Carter Petroleum Products, Inc. v. Brotherhood Bank & Trust Co.	356
	LaBarge Pipe & Steel Co. v. First Bank	360
E.	Reimbursement	371
	Banco Nacional De Mexico v. Societe Generale	372
Pro	oblem Set 17	375
	Figure 17.1 — Commercial Letter of Credit Form	378
As	signment 18: Letters of Credit—Advanced Topics	380
A.	Error and Fraud in Letter-of-Credit Transactions	380
	1. Wrongful Honor	380
	2. Wrongful Dishonor	382
	3. Fraud	384
	(a) Forged Drafts	384
	(b) Fraudulent Submissions by the Beneficiary	384
В.	Assigning Letters of Credit	386
C.	Choice-of-Law Rules	388
Pr	oblem Set 18	389
As	signment 19: Third-Party Credit Enhancement — Standby	
	Letters of Credit	391
A.	The Standby Letter-of-Credit Transaction	391
	Nobel Insurance Co. v. First National Bank	393
	Figure 19.1 — Form Standby Letter of Credit (ISP98 Form 1)	396
	Wood v. State Bank	398
	3M Co. v. HSBC Bank USA, N.A.	400
В.	Problems in Standby Letter-of-Credit Transactions	409
	1. Bankruptcy of the Applicant	410
	In re Ocana	411
	2. The Issuer's Right of Subrogation	412
	CCF, Inc. v. First National Bank (In re Slamans)	413

Pro	CRM Collateral II, Inc. v. Tri-County Metropolitan Transportation District oblem Set 19	415 421
	Three dity Systems	423
Chap	oter 7. Negotiability	425
As	signment 20: Negotiable Instruments	425
B. C.	Figure 20.1 — Sample Negotiable Draft The Negotiability Requirements 1. The Promise or Order Requirement Figure 20.2 — The Negotiability Requirements 2. The Unconditional Requirement 3. The Money Requirement 4. The Fixed-Amount Requirement 5. The Payable-to-Bearer-or-Order Requirement 6. The Demand or Definite-Time Requirement 7. The No-Extraneous-Undertakings Requirement In re Walker Oblem Set 20 Promissory Note	425 427 428 429 430 430 432 432 433 434 435 438 441
As	signment 21: Transfer and Enforcement of Negotiable Instruments	449
Α.	 Transferring a Negotiable Instrument Negotiation and Status as a Holder Special and Blank Indorsements Restrictive and Anomalous Indorsements 	449 449 450 452
В.	 Enforcement and Collection of Instruments The Right to Enforce an Instrument In re Kang Jin Hwang Presentment and Dishonor Defenses to Enforcement Turman v. Ward's Home Improvement, Inc. 	452 452 453 459 459 460
C.	· · · · · · · · · · · · · · · · · · ·	461 462
D. Pro		465 466
As	signment 22: Holders in Due Course	469
A.	Holder-in-Due-Course Status 1. The Requirements for Holder-in-Due-Course Status	469 469

xviii Contents

	2. Rights of Holders in Due Course	471
	State Street Bank & Trust Co. v. Strawser	473
	Langley v. FDIC	475
	3. Payment and Discharge	480
	4. Transferees Without Holder-in-Due-Course Status	482
В.	The Fading Role of Negotiability	482
	1. The Declining Use of Negotiable Instruments	483
	2. The Decreasing Relevance of Negotiability to	
	Negotiable Instruments	484
Pro	blem Set 22	486
Ass	signment 23: Documents of Title	489
A.	The Mechanics of Documents of Title	489
	1. Delivering Goods to a Carrier	489
	Figure 23.1 — Form Bill of Lading	491
	2. Recovering Goods from a Carrier	492
	(a) Nonnegotiable Documents	492
	(b) Negotiable Documents	493
В.	Transactions with Documentary Drafts	494
	1. The Role of Documentary Draft Transactions	494
	2. Steps in the Transaction	495
	(a) Preliminaries — Sale Contract, Shipment, and	
	Issuance of the Draft	495
	(b) Processing by the Remitting Bank	495
	Figure 23.2—Sight Draft for Documentary Collection	496
	(c) Processing by the Presenting Bank	497
	Korea Export Insurance Corp. v. Audiobahn, Inc.	498
C.	Credit Transactions and Banker's Acceptances	500
Pro	blem Set 23	502
Chan	oter 8. Securities	505
•		505
	signment 24: Securities	
A.	Securitization and Liquidity	505
В.	The Rise of Securitization	506
C.	Investment Securities and Article 8	507
	Davis v. Stern, Agee & Leach, Inc.	508
	1. The Subject Matter: What Is a Security?	513
	2. The Obligation of the Issuer	515
	3. The Two Holding Systems	516
	(a) The Direct Holding System	517
	(i) Making the Transfer Effective Against	
	the Issuer	517
	(ii) The Effect of a Transfer on Third Parties	518
	Meadow Homes Development Corp. v. Bowens	519
	(b) The Indirect Holding System	523
	(i) The Basic Framework	523