

Banking & Financial Systems

Chapter 9: Payments—Glossary

ABA routing number. A nine-digit number assigned by the American Bankers Association (ABA) to identify the financial institution responsible for paying the value of a check to the payee.

automated clearinghouse (ACH). Electronic network for financial transactions that processes credit and debit transactions, processes checks, and transfers funds between banks.

automated teller machine (ATM). A computerized machine that provides a means of self-service banking; allows a customer to perform basic banking activities, such as withdrawing cash, viewing account balances, initiating cash advances, and making deposits.

automatic payment. Preauthorized electronic funds sent from a customer's account to a vendor's account at regular intervals.

bearer instrument. A negotiable instrument that is payable on demand to whoever has it.

bill of exchange. A negotiable instrument that contains an unconditional order to pay a specific amount of money to the payee on a future date; often used in international trade.

bill-payment service. Electronic transfer of funds from a customer's account to a vendor's account that is requested by the customer or the vendor each time a payment is due.

blank endorsement. The payee's signature.

cancelled check. A check that has been cleared.

cash card. A plastic card with a magnetic strip that can be read by an ATM.

check. A written order directing a bank to pay a specific amount from deposited funds.

clearing. The process of approving a check and transferring funds from one account to another.

debit card. A card that enables customers to electronically access the funds in their accounts at an ATM or to pay for goods and services in stores or online.

direct deposit. Funds that are added directly into a bank account by electronic means instead of with a negotiable instrument.

draft. A negotiable instrument that orders a payment to be made.

drawee. The party who pays the value of the negotiable instrument to the payee; often, this is the bank.

drawer. The entity who signs the negotiable instrument to validate it; also known as the *maker*.

electronic funds transfer (EFT). Any exchange of money from one account to another through computer-based systems that is started by electronic means.

endorsement. The signature used to legally transfer the value of a check.

image replacement document (IRD). Another term for a substitute check, usually an electronic copy.

maker. The entity who signs the negotiable instrument to validate it.

negotiable instrument. A transferrable, signed document that represents the promise to pay a specific amount of money in the future or on demand.

note. A negotiable instrument that promises payment, but does not order that the payment be made.

on demand. A payment made when requested.

payee. The entity receiving the money.

payment system. Method of transferring funds without using cash.

promissory note. An unconditional promise to repay a loan for a specific amount of money in the future or on demand.

restricted endorsement. An endorsement with added limitations on what can be done with the check when it is presented to a bank.

substitute check. A paper copy of the front and back of the original check.

third-party endorsement. An endorsement that transfers the payee's claim to the check's value to a third party.

wire transfer. An electronic transfer of funds from one location to another location.