

## 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.