

# Negotiable Instruments

## Objectives:

- ▶ Concept of Negotiability
- ▶ Kinds of Negotiable Instruments
- ▶ Negotiation of Commercial Paper
- ▶ Endorsements
- ▶ Checks Marked "Paid in Full"

# Negotiable Instruments

Defined as: A Written Document, Signed by the Maker or Drawer, and Containing an Unconditional Promise to Pay, a Sum Certain Amount of Money



# Negotiable Instruments

Can be Transferred From  
Party to Party and  
Accepted as a Substitute  
for Money



# Commercial Paper

Defined as: A Piece of Paper that  
can be Transferred Multiple Times  
From One Person to Another  
Without the Use of Actual Cash  
It Replaces Money



# Required For Negotiability

**Must Be In Writing**

**Signed By Maker**

**Promise To Pay**

**Must Be Unconditional**

**A Sum Certain  
In Money**

**Paid in Legal Tender**

**Payable on Demand**

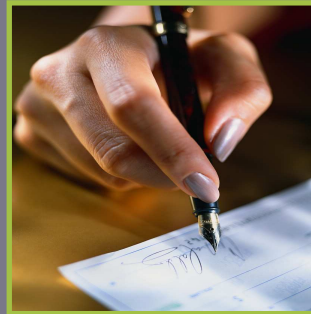
**Payable To The Order Of  
Or Bearer**

**Not Required But  
Should be Dated**

# Written Document

Must be Able to Pass  
Easily From One  
to Another

Oral Statements do  
not Cancel Written Terms  
& Can't be Admitted  
into Court  
(Hear Say)



Writing Takes Precedence  
Over Numbers

# Signed by the Maker or Drawer

Must Be Signed  
To Be  
Negotiable

Signer Must  
Have Authority  
to Sign or is  
Personally  
Liable

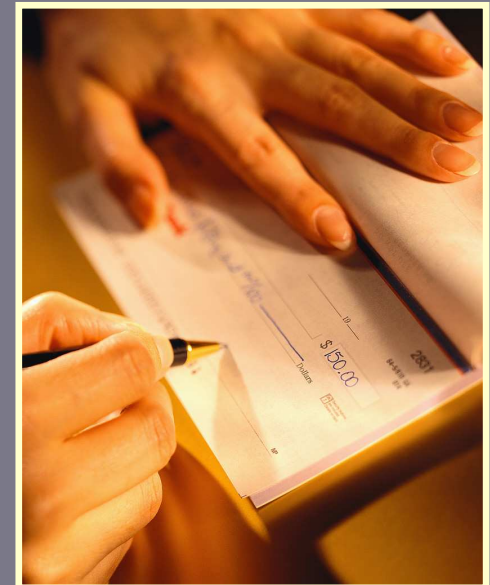
Signing as an  
Officer Gives  
You Personal  
Protection

Signature Can  
be Anywhere  
on the  
Document

Branch Name Branch Address	Bank Name	Sort Code: 00-00-00
		Date: <u>30 June 2000</u>
Pay: <u>Mr J Bloggs</u>		
<u>Two Thousand five hundred dollars</u>		<u>2,500.00</u>
		MY NAME
		<u>My Signature</u>
Cheque Number 000000	Sort Code 000000	Account Number 00000000

# Definite Order or Promise to Pay

- ▶ A Promise Must be More than a Mere Acknowledgement of a Debt
- ▶ Words such as "I/We Promise" or "Pay to the Order of" Meet this Criterion





# Unconditional Promise to Pay

Promise Cannot be Conditional on  
the Occurrence of  
or Non Occurrence of Another Event

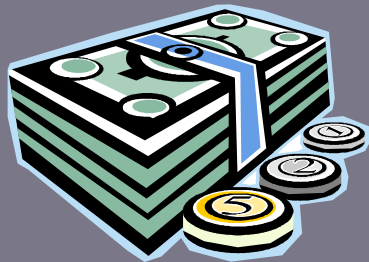
Example: I promise to pay John \$100  
if John sells his car to Jane by June 13th.  
This Example Could be a Contract but not  
Negotiable Instrument

# A Sum Certain in Money

**The Amount of the  
Promise to Pay  
Must be Clearly  
Ascertainable From  
the Face of  
the Instrument**

**The Amount Must  
be Paid in  
Legal Tender**

Example: I agree to pay you money equivalent to 50 lbs of lobster at the going market rate the first Tuesday after the full moon.



**Not A Sum Certain  
Amount of Money &  
Not Legal Tender**



# **Payable on Demand or Definite Time**

**"On Demand" Means When Presented or at Sight**

**Payable 40 Days From June 13th**

**Payable by June 13<sup>th</sup> 2011**

**In Case of Default Payment in Full Plus  
Interest at 12% are Due Immediately**

# Payable to Order or Bearer

**Must be Payable  
to the Order of  
Payee (s)**

**Can be Payable  
to "Bearer"**

**If Made Payable to  
a Fictitious Name,  
Treat as a Bearer**



# Kinds of Negotiable Instruments

- 1- Certificates of Deposit**
- 2- Drafts**
- 3- Checks**
- 4- Notes**

# Certificate of Deposit

**CD**

**An Acknowledgment by a Bank as a Receipt of Money and a Promise to Pay the Money Back on the Due Date, Usually with Interest**

**Penalty to Depositor if Withdrawn Early**

**Usually More Interest than a Savings Account**

# Drafts

**Also Know as a "Bill of Exchange"**

**Instrument that Orders Someone Else to Pay**

**Checks are the Most Common Type of Draft**

**Bank Draft**

**Cashier's Checks**

**Traveler's Checks**

**Money Orders**

**Certified Checks**

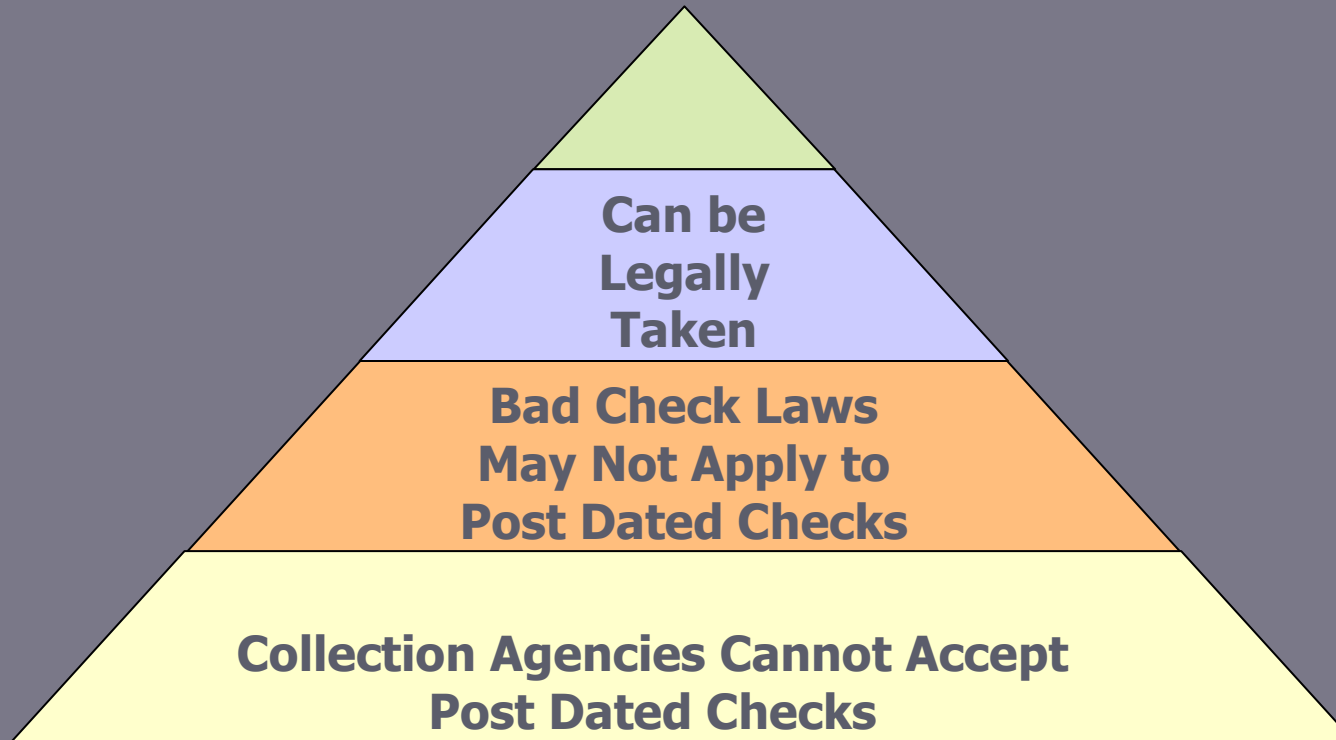
# Sight & Time Drafts

- ▶ Used Frequently with International Trade and Shipping
- ▶ A Third Party is Used to Control Shipment While Sight Draft is Being Drawn
- ▶ Can Also be Used with Letters of Credit



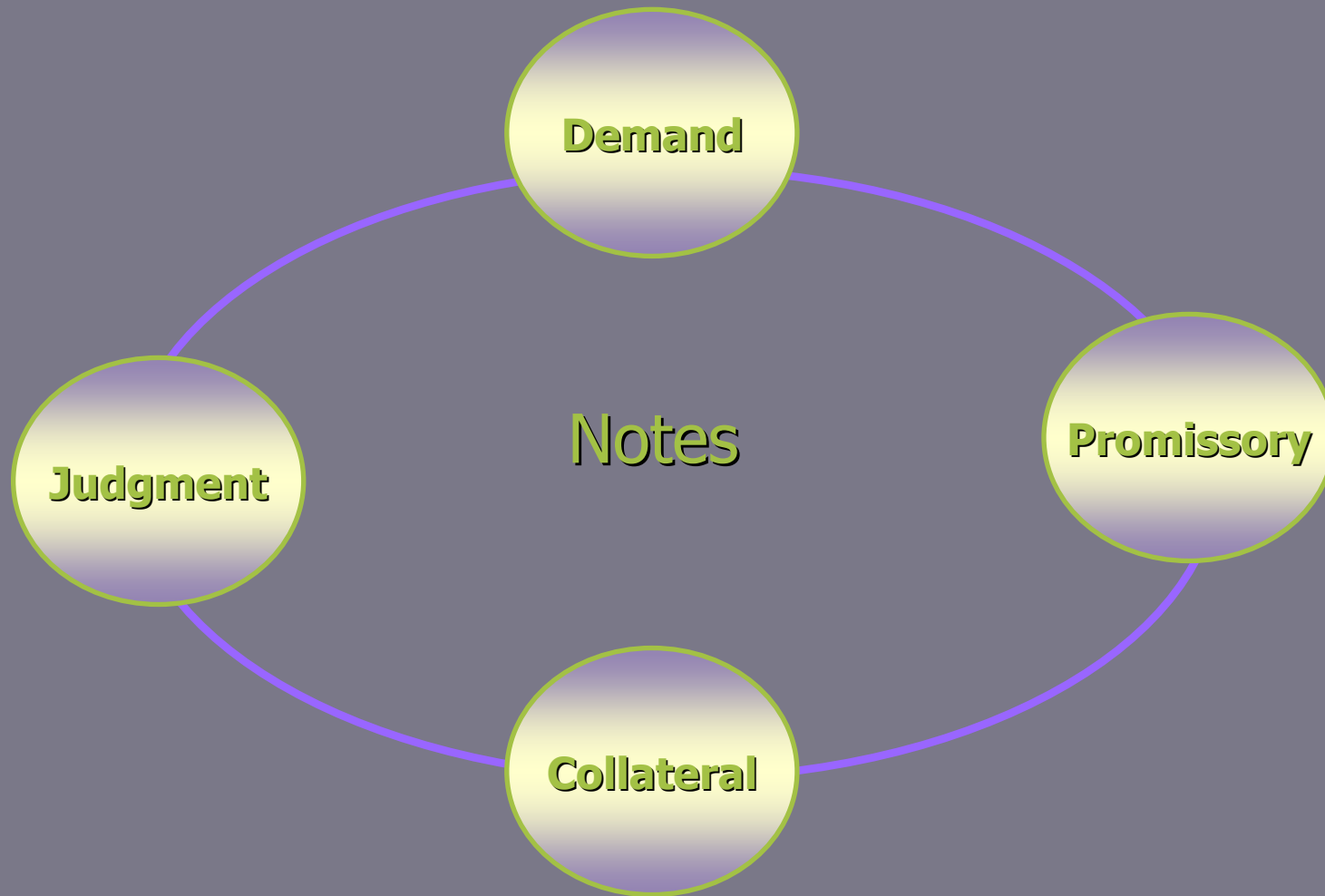


# Post Dated Checks



**Note:** If in the Construction Industry, and are taking a post dated check, make sure lien rights are still valid through the date of the post dated check

# Types of Notes



# Promissory Notes

<b>Single Name</b>	<b>One Person Indebted</b>
<b>Double Name</b>	<b>Multi Persons Indebted</b>
<b>Straight Note</b>	<b>Most Common Note</b>
<b>Serial Note</b>	<b>Payment is Covered by a Series of Notes with Equal Amounts and different Due Dates</b>
<b>Judgment Note</b>	<b>Can Get You a Judgment Without Going to Court. Used with Confession of Judgment. Prepared by Attorney</b>
<b>Collateral Note</b>	<b>Gives Security in Some Type of Asset</b>

# Endorsements

<b>Blank</b>	<b>"John Doe"</b>
<b>Special</b>	<b>Third Party Pay to Order of Jane Doe on Back of Check</b>
<b>Restrictive</b>	<b>For Deposit Only</b>
<b>Conditional</b>	<b>Payable on John's 18<sup>th</sup> birthday</b>
<b>Qualified</b>	<b>Without Recourse</b>

## Special Endorsement

Amy Sue                      May 13, 20xx  
123 Anywhere USA  
Pay to Order of John Doe 100.00  
One hundred dollars only \*\*\*\*\*  
Amy Sue

John Doe  
Pay to Order of  
Jane Doe

# Qualified Endorser

Authorized to Obtain or Accept Payment for Himself or Others

Signature is Authorized or Genuine

Has No Knowledge of Insolvency with Respect to the Maker

Has No Knowledge of Any Defense Against Him

The Instrument has not been Materially Altered

# Checks Marked "Paid In Full"

You May Accept and Go After the Rest of the Balance  
If There has not been a Bona Fide Dispute

Dispute Should be in Writing but a Phone Call Could  
Depict a Valid Attempt to Dispute the Amount Due

Endorsement: This Check is Accepted Without Prejudice  
and with Full Preservation of All Rights Pursuant  
to Section 1-207 of UCC



**This check is accepted without prejudice and with full preservation of all rights pursuant to Section 1-207 of the UCC.**