

355.4-207 Transfer warranties.

- (1) A customer or collecting bank that transfers an item and receives a settlement or other consideration warrants to the transferee and to any subsequent collecting bank that:
 - (a) The warrantor is a person entitled to enforce the item;
 - (b) All signatures on the item are authentic and authorized;
 - (c) The item has not been altered;
 - (d) The item is not subject to a defense or claim in recoupment (KRS 355.3-305(1)) of any party that can be asserted against the warrantor;
 - (e) The warrantor has no knowledge of any insolvency proceeding commenced with respect to the maker or acceptor or, in the case of an unaccepted draft, the drawer; and
 - (f) With respect to any remotely created item, that person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.
- (2) If an item is dishonored, a customer or collecting bank transferring the item and receiving settlement or other consideration is obliged to pay the amount due on the item:
 - (a) According to the terms of the item at the time it was transferred; or
 - (b) If the transfer was of an incomplete item, according to its terms when completed as stated in KRS 355.3-115 and 355.3-407.

The obligation of a transferor is owed to the transferee and to any subsequent collecting bank that takes the item in good faith. A transferor cannot disclaim its obligation under this subsection by an indorsement stating that it is made "without recourse" or otherwise disclaiming liability.

- (3) A person to whom the warranties under subsection (1) of this section are made and who took the item in good faith may recover from the warrantor as damages for breach of warranty an amount equal to the loss suffered as a result of the breach, but not more than the amount of the item plus expenses and loss of interest incurred as a result of the breach.
- (4) The warranties stated in subsection (1) of this section cannot be disclaimed with respect to checks. Unless notice of a claim for breach of warranty is given to the warrantor within thirty (30) days after the claimant has reason to know of the breach and the identity of the warrantor, the warrantor is discharged to the extent of any loss caused by the delay in giving notice of the claim.
- (5) A claim for relief for breach of warranty under this section accrues when the claimant has reason to know of the breach.

Effective: July 12, 2006

History: Amended 2006 Ky. Acts ch. 242, sec. 47, effective July 12, 2006. -- Repealed and reenacted 1996 Ky. Acts ch. 130, sec. 89, effective January 1, 1997. -- Created 1958 Ky. Acts ch. 77, sec. 4-207, effective July 1, 1960.