

355.3-417 Presentment warranties.

- (1) (a) If an unaccepted draft is presented to the drawee for payment or acceptance and the drawee pays or accepts the draft,
 1. The person obtaining payment or acceptance, at the time of presentment; and
 2. A previous transferor of the draft, at the time of transfer, warrant to the drawee making payment or accepting the draft in good faith the conditions set out in paragraph (b) of this subsection.
- (b)
 1. The warrantor is, or was, at the time the warrantor transferred the draft, a person entitled to enforce the draft or authorized to obtain payment or acceptance of the draft on behalf of a person entitled to enforce the draft;
 2. The draft has not been altered;
 3. The warrantor has no knowledge that the signature of the drawer of the draft is unauthorized; and
 4. With respect to any remotely created item, that the person on whose account the item is drawn authorized the issuance of the item in the amount for which the item is drawn.
- (2) A drawee making payment may recover from any warrantor damages for breach of warranty equal to the amount paid by the drawee less the amount the drawee received or is entitled to receive from the drawer because of the payment. In addition, the drawee is entitled to compensation for expenses and loss of interest resulting from the breach. The right of the drawee to recover damages under this subsection is not affected by any failure of the drawee to exercise ordinary care in making payment. If the drawee accepts the draft, breach of warranty is a defense to the obligation of the acceptor. If the acceptor makes payment with respect to the draft, the acceptor is entitled to recover from any warrantor for breach of warranty the amounts stated in this subsection.
- (3) If a drawee asserts a claim for breach of warranty under subsection (1) of this section based on an unauthorized indorsement of the draft or an alteration of the draft, the warrantor may defend by proving that the indorsement is effective under KRS 355.3-404 or 355.3-405 or the drawer is precluded under KRS 355.3-406 or 355.4-406 from asserting against the drawee the unauthorized indorsement or alteration.
- (4) (a) If:
 1.
 - a. A dishonored draft is presented for payment to the drawer or an indorser; or
 - b. Any other instrument is presented for payment to a party obliged to pay the instrument; and
 2. Payment is received,the rules set out in paragraph (b) of this subsection apply.
- (b)
 1. The person obtaining payment and a prior transferor of the instrument warrant to the person making payment in good faith that the warrantor

is, or was, at the time the warrantor transferred the instrument, a person entitled to enforce the instrument or authorized to obtain payment on behalf of a person entitled to enforce the instrument.

2. The person making payment may recover from any warrantor for breach of warranty an amount equal to the amount paid plus expenses and loss of interest resulting from the breach.
- (5) The warranties stated in subsections (1) and (4) 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 liability of the warrantor under subsection (2) or (4) of this section is discharged to the extent of any loss caused by the delay in giving notice of the claim.
 - (6) 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. 40, effective July 12, 2006. -- Repealed and reenacted 1996 Ky. Acts ch. 130, sec. 55, effective January 1, 1997. -- Created 1958 Ky. Acts ch. 77, sec. 3-417, effective July 1, 1960.