

Fraud Protection Awareness Series

Fraud Tip #2 – Check Fraud

One of the oldest and yet more prevalent scams today is check fraud. According to the American Bankers Association, 1.2 million fraudulent checks enter the banking system every day. Even though check use is declining as more payments become electronic, losses to check fraud are growing at a rate of 2.5 percent a year. Also, 77 percent of business respondents to a survey by the Association for Financial Professionals reported they had experienced check fraud. Check fraud unfortunately is alive and well, and remains one of the easiest, and therefore most common, financial fraud methods in use today.



Check Fraud Scams

There are several variations of check fraud:

- *Alteration* – changing the payee name, the check amount or both. A fraudster intercepts a check – in many cases, by stealing it from an outgoing or incoming mailbox – and uses a “washing” technique to remove information such as the payee or amount. The fraudster inserts new information and cashes the check under the falsified name. The check flows through the banking system as normal using the original account and bank routing numbers, which were not changed.
- *Counterfeit* – a fictitious or fake check created by a scammer using a company’s actual account and bank routing numbers - obtained from an intercepted bank statement, mailed check or stolen blank check stock. Using commonly available printing technology, the fraudster creates a check – with or without the company’s logo – and inserts a payee name and amount. Counterfeit checks are often used in “cash and wire” fraud scams. One especially pervasive version of this type of scam involves the fraudster sending a counterfeit check to a targeted consumer fraud victim under the pretense of purchasing an item for sale on Craig’s List. The fraudster writes a counterfeit check for an amount much greater than the actual purchase price. The fraudster then claims this was a “bank error” and instructs the seller to cash or deposit the check and wire back the difference using a service like Western Union. The check flows through the banking system as normal. By the time the counterfeit check is returned to the victim’s bank as fraudulent, the scammer has already picked up the wired funds and has disappeared. Scammers can send out hundreds of counterfeit checks to many different consumers – or businesses – in a short amount of time.

- *Forged Payee Endorsement* – a fraudster intercepts a check, forges the payee’s endorsement and deposits or cashes it. The check could even be deposited electronically without any endorsement at all. The theft could remain undetected for weeks or months, until the intended payee follows up on the missing payment.
- *Forged Payer Signature* – forging an authorization signature on the face of stolen check stock. A fraudster obtains a company’s blank check stock, often by stealing new checks from a mailbox. The fraudster issues checks to various payees and forges an authorized company signature on the face of the checks. The forged checks flow through the banking system as normal.

Why Check Fraud is Effective

Each type of check fraud has its nuances, but there are some common factors that make these age-old scams successful:

- Check fraud is relatively easy to commit. Legitimate-looking counterfeits can be created with a basic printer and readily-available bookkeeping or other software. A business’ logo and mailing address can be copied from its website.
- Issued checks, new blank check stock, and bank statements are easily stolen from an unsecured postal mailbox.
- Electronic check deposit technology using an ATM or a smartphone bypasses the physical examination of a check by a bank teller, allowing an altered/counterfeit check or a check with a forged/missing endorsement to enter the banking system undetected.

How to Detect and Prevent Check Fraud

- *One of the most important factors in avoiding a loss from check fraud is to review and reconcile account activity **DAILY**.* The passage of time might adversely affect the potential recovery of a fraud loss or the outcome of a customer claim.
- *A Positive Pay service is designed to help protect against the payment of altered and counterfeit checks.* There are different variations of Positive Pay. In the “standard” version, a customer uploads an electronic file with issued check information to their financial institution each day. As checks clear, the bank matches them to issued check records by date, check number and amount. There is also an option to match check payee names. Any mismatches are identified as exceptions for the customer to review and decision online before the daily deadline. “Reverse” Positive Pay is an alternative for customers not able to upload check issue files. This service provides the customer with online images of all checks clearing each day. The customer reviews the images and indicates the decision to “pay” or “return” each item.

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- *Carefully guard account and other financial information!* Always confirm by phone before responding to any email request for bank account information.
- *Store blank check stock and cancelled checks in a secure location.* Keep outgoing checks in a safe place prior to mailing, and use a locking mailbox or PO Box for incoming mail.
- *Consider using alternative payment methods such as wire transfer or ACH instead of checks.* These types of electronic transactions are cost-effective, efficient, and much more secure than traditional checks.

Although there is no certainty that a particular course of action will prevent a loss, the considerations outlined above might be beneficial to you. Please keep in mind that your company might be responsible for a loss even if it is related to a fraud perpetrated on the company. In the scenario described above, for example, the company might be responsible for the loss if it failed to implement a service designed to detect altered or counterfeit checks (such as Positive Pay), or if the company failed to adequately protect its check stock from theft.

As you consider the fraud awareness information described above, please also bear in mind your important role in the fraud detection and reporting process. Your vigilance in reviewing your accounts and transactions is vital to fraud prevention and detection. Fraud schemes – as well as loss recovery efforts and outcomes – can be complicated. Early detection and prompt reporting of a fraud is critical because the passage of time might adversely affect the potential recovery of a fraud loss or the outcome of a customer claim. Your attentiveness often is the first line of defense to a fraud and, if a fraud occurs, your diligence might aid in a potential loss recovery.