

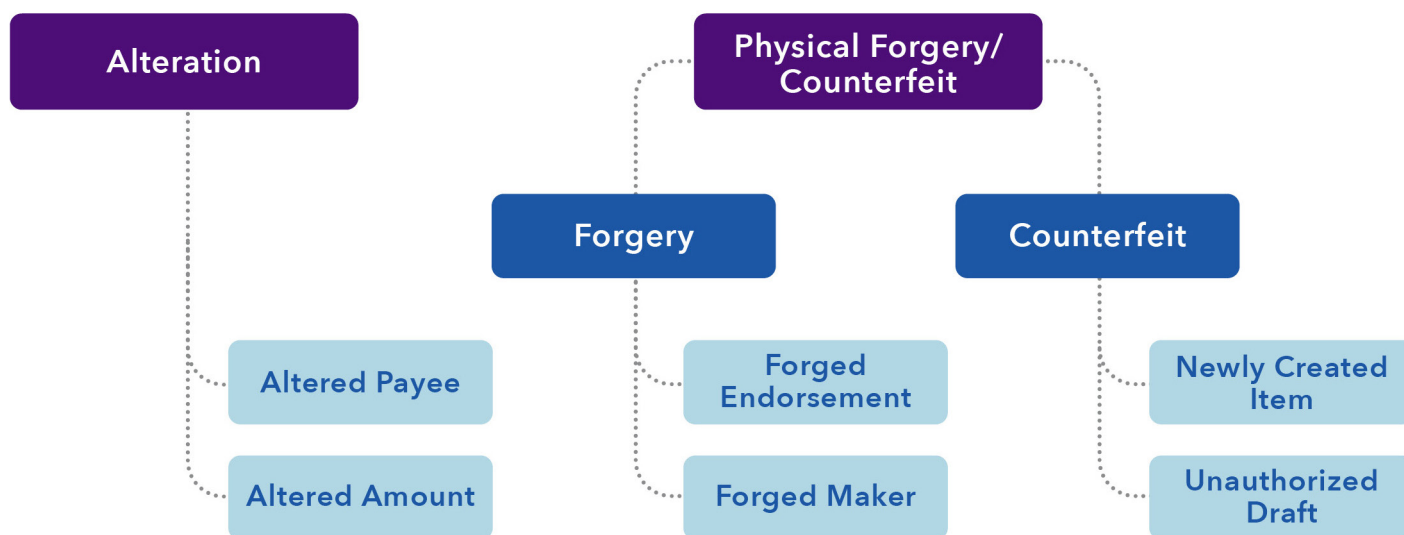
TYPES OF FRAUDULENT CHECKS

The inherent vulnerabilities of paper checks create significant risks that can facilitate creation of fraudulent checks.

WHY DOES THE TYPE OF CHECK FRAUD MATTER?

- **Prevention and detection:** each type of check fraud may have different identifiers and once identified, may require different actions to counter the fraud. Generally, the institution that is in the best position to identify a potentially fraudulent check – and prevent potential loss – differs based on the type of check fraud. (Note that liability, breach of transfer and presentment warranties are beyond the scope of this toolkit.)
- **Associate training:** educating all of an organization's associates on how to identify different types of check fraud may help prevent losses and speed up resolution for customers
- **Customer education and awareness:** organizations can develop targeted, meaningful education based on trends and fraud indicators

To understand how different check fraud schemes are carried out, as well as how to prevent and identify them, it's important to know about the different types of fraudulent checks.



TYPES OF FRAUDULENT CHECKS

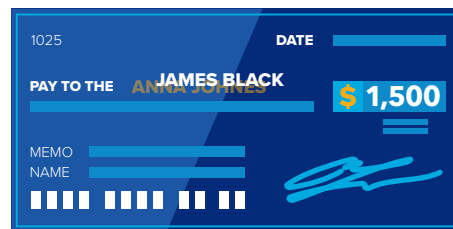
ALTERATION

An alteration is an unauthorized change in a check that modifies in any respect the *obligation* of a party, or an unauthorized addition of words or numbers, or another change to an incomplete check related to the party's obligation.

What this means: A check is a paper instrument authorizing the payee to the amount of funds indicated on the check. Paper checks are altered if unauthorized changes to a legitimate instrument modify the obligation of the party (i.e., who the funds are intended for or the amount of the funds).

Indicators of an altered paper check:

- Erasure, washing, dried liquid marks
- Uneven or faded printing or color
- Font type, color, type size is different than other fields, especially if payee or amount differs from the date or memo line
- Handwriting is inconsistent with other writing on the check or other items known to be valid



COUNTERFEIT

A fictitious check can be created to imitate a legitimate negotiable item, which may or may not contain legitimate maker (payer) and account information. (Note that case law has used the terms “forgery” and “counterfeit” interchangeably.)

What this means: A paper check can be created using stolen or fake account information.

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Indicators of a counterfeit paper check:



- Font style, size or capitalization does not match known legitimate items
- Check stock or alignment on the check differs from known legitimate stock
- Smooth edges, as checks typically are torn from a book or a check stub
- Back of the check is blank or does not match other known valid items
- Printed ink on the check runs or becomes distorted if it gets wet
- Magnetic ink character recognition (MICR) – the numbers and characters that appear at the bottom of a check to show the bank routing number, account number and check number – is raised or glossy
- Serial number is low or out of range for current check usage
- Issuing bank information (name, address and/or routing number) listed on the check is fictitious, does not match or cannot be found
- Poor quality or missing security features

FORGED MAKER

Check fraud also may involve an unauthorized signature of the maker (payer) on the check.

What this means: The signature is not from an authorized payer. Forged checks generally are created using legitimate check stock, but the maker's signature has been forged, copied or is otherwise unauthorized.

Indicators of a forged check:

- Signature on the maker line does not match known valid signatures
- Light or inconsistent pressure in signature compared to other writing on the check, which may be noted during visual inspection or when holding the check up to the light
- Erasure marks, retraces or irregularities on the signature line
- Exact match (i.e., a copy of previous items), even though the maker usually signs freehand





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IMPROPER OR FORGED ENDORSEMENT

In this case, the payee's signature and/or the endorsement on the back of the check is forged, missing or otherwise improper.

What this means: The intended payee did not sign or authorize the endorsement on a check. This also could include blank endorsements, where the check was deposited into an account the payee did not have access to.



Indicators of an endorsement concern:

- Signature on the endorsement line is similar to the handwriting on the front of the check
- Endorser signature does not match known valid signatures
- Endorsement font or wording matches other known bad items

UNAUTHORIZED ITEMS

Unauthorized Electronically Created Item (UECI): when any of the following were not authorized by the account holder – the electronically created item itself, the amount stated on the item or the payee stated on the item.

Unauthorized Remotely Created Check (URCC): a remotely created check that was not authorized in the amount stated on the check to the payee indicated on the check and does not bear a signature applied by the account holder. (This is not intended to include buyer's remorse or other instances where the maker authorizes the payment but then retracts it.)

What this means: The paper draft was not authorized by the account holder whose account was debited and, the check does not bear a signature and instead, indicates the signature is "on file" or "pre-approved." This type of fraud also may be called Demand Draft Fraud or Unauthorized Remotely Created Check.



TYPES OF FRAUDULENT CHECKS

Indicators of an unauthorized item:

- Inconsistent and/or new activity compared to the account history
- A non-typical maker for remotely created items
- Customers report they did not authorize debits from their accounts and the draft checks do not contain a signature
- Missing or incorrect information – for example, the name and account do not match
- Velocity of items presented across multiple accounts is inconsistent with prior activity

The indicators included here are not all-inclusive and may not always be evident. Criminals use technology and other resources to create very legitimate-looking fraudulent checks.

The check fraud mitigation toolkit was developed by the Federal Reserve to help educate the industry about check fraud and outline potential ways to help detect and mitigate this fraud type. Insights for this toolkit were provided through interviews with industry experts, publicly available research, and team member expertise. This toolkit is not intended to result in any regulatory or reporting requirements, imply any liabilities for fraud loss, or confer any legal status, legal definitions, or legal rights or responsibilities. While use of this toolkit throughout the industry is encouraged, utilization of the toolkit is voluntary at the discretion of each individual entity. Absent written consent, this toolkit may not be used in a manner that suggests the Federal Reserve endorses a third-party product or service.