WHO COMMITS CHECK FRAUD?

Check fraud can be perpetrated in a variety of ways. While understanding the fraud type is important, it is equally important to know *who* is committing the fraud and the role they play in the scheme. The way in which financial institutions identify and respond to fraud often differs based on those two factors. For example, if authorized party fraud is suspected, contacting the customer who initiated the payment to verify the suspicious activity will not help.

The simplest way to assess who commits the fraud is to break it up by ***authorized party*** fraud and ***unauthorized party*** fraud:

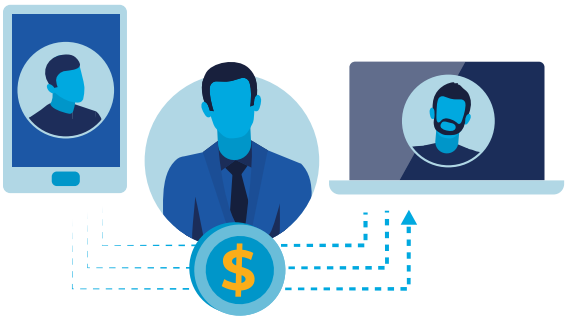
AUTHORIZED PARTY FRAUD

Authorized fraud typically involves the account holders or criminals directly committing the fraud. They use their own identity or a synthetic identity to commit fraud against a financial institution.

Money mules (people who transfer illegally acquired money on behalf of someone else) are an example of authorized fraud. These people are recruited by criminals to move illicit funds. Similar to other types of authorized party fraud, money mules may be:

Authorized Party Fraud Examples

- Knowingly drawing on uncollected funds, i.e., depositing a bad check to withdraw funds and then abandoning the account
- Knowingly depositing a check with a forged endorsement
- Knowingly altering a check to add the criminal's name as a payee and depositing it into the account



- **Unwitting/unknowing:** unaware they are part of a larger scheme
- **Witting/willfully blind:** ignore obvious red flags or act willfully blind to the implications of their money movement activity
- **Complicit:** aware of their role and actively participating in the check fraud scheme

Money Mule Examples

- Authorizing the deposit of a fake check or stolen funds on behalf of someone else
- Following instructions to open accounts and move illicit funds
- Recruited to cash a fraudulent check

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UNAUTHORIZED PARTY FRAUD

Unauthorized party fraud is when someone other than the authorized person initiates fraudulent activity. In this case, the account holder is not complicit in or aware of the activity.

Unauthorized Party Fraud Examples

- Unauthorized use of someone else's checks
- Forging the maker's signature
- Using stolen identities to cash fraudulent checks
- Impersonating authorized parties to cash checks, deposit funds or request cashier's checks
- Creating a new check using stolen account information

Identifying the role of customers who may be involved in a check fraud scheme can help institutions respond appropriately, such as by providing support for victims of unauthorized fraud, educating possibly unwitting money mules, and placing known fraud identifiers on a negative list. It also can provide the clarification needed for financial institutions to recognize a given fraud case type and identify connections to criminal networks that may be actively targeting them to commit fraud.

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.