



CHECK FRAUD

Check fraud continues to be a problem for the banking industry. BancInsure, Inc. recently paid a claim that is another example of the problem. Persons unknown were able to counterfeit checks of a company that owned and managed real estate properties. The company had been a good customer of the bank for over ten years with no problems with the account. It is not known how the counterfeiting was accomplished, but a legitimate check was probably scanned in to a computer and altered. Close inspection of the counterfeit checks revealed that the fonts and alignments on some of the items on the checks differed from the legitimate checks. Twenty-nine counterfeit checks were paid over a three months period before they were discovered. Twenty-five of the twenty-nine checks were payable to a company that sold pre-fabricated metal building kits. The amounts of the checks ranged from approximately \$10,000 to \$17,000 with most of the checks being in the \$10,000 to \$11,000 range. Apparently the fraudsters would use the counterfeit checks to purchase building kits and erect them for third parties. It appears that the company that sold the building kits was an innocent party and accepted the checks in payment of the building kits in good faith. Personnel at the building kit company could not identify the purchasers of the kits, except that they loaded the kits into a flat bed truck. The locations of the properties where the kits were erected and the identities of the parties who may have purchased the kits are unknown. Authorities are investigating, but have little to go on.

The total counterfeit check loss was approximately \$235,000. The bank was able to enforce its account agreement requirement that its customers must give notice of problems in their accounts within sixty days. This reduced the loss to the bank by approximately \$25,000. BancInsure paid the claim in approximate amount of \$185,000 after the application of the bank's deductible.

This is an example of a how fraudsters can victimize a good customer of a bank and a bank. Banks should encourage their customers to promptly review and reconcile their accounts upon receipt of account statements.

We trust that these comments have been helpful.

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