



FRAUDULENT CHECKS ALERT

Most of you are familiar with what is referred to as “Nigerian Check Scams.” If you are not, it works like this. An individual with a forged check, altered legitimate check or counterfeit check persuades an innocent, or perhaps not so innocent, third party to deposit the fraudulent check in his or her account and quickly wire transfer funds out of the United States. For their help, the assisting party is to receive a percentage of the funds. When the forged, altered or counterfeit check is returned to the depository bank, there are often insufficient funds to cover the chargeback. The depository bank or its accountholder has suffered a loss. The loss almost always stays with the bank.

We have recently seen a new “wrinkle” to the scam. Fraudsters have figured out that it takes a few extra days for a check drawn on a Canadian bank to clear. We have been notified of several instances recently where fraudulent checks drawn on Canadian banks were returned, and at least a portion of the funds had already been wire transferred out of the country. In one instance, the check was drawn on a non-existent Canadian bank. Perpetrators take advantage that items drawn on Canadian banks are not very unusual, Canada is a neighboring country to the USA, and the items are often in U.S. (and not Canadian) funds.

There are ways a bank can protect itself from such losses if the checks are drawn on Canadian banks, or if the bank is suspicious of U.S. checks. One way is not to send the check through the Federal Reserve System but handle as a direct collection or special collection item. Send the check directly to the bank on which it was drawn, and do not provide funds to the customer until the funds are received from the drawee bank. Also, bankers may contact the bank on which the check is drawn to verify that there is an account, and that there are sufficient funds available that day to cover the check. The drawee bank contacted cannot verify the check has not been forged or altered from a phone call. Accordingly, consideration should be given to contacting the maker of the check, in those instances where circumstances give cause to be suspicious, to verify the check payee and amount of the check. If the maker’s telephone number is not on the check, it can usually be found through computer web sites or directory assistance.

Federal Reserve Regulation CC only governs the presentment of items drawn on domestic banks. The funds availability regulation has absolutely no application to foreign checks.

Coverage under the Financial Institution Bond for losses described above is dependent on several factors including but not limited to whether the item in question was “finally paid.” Generally losses due to the return of items not “finally paid” are not covered. Certain limited exceptions exist primarily for U.S. Government checks. “Finally paid” means at a minimum final payment under the Uniform Commercial Code. An item is considered finally paid by a payor bank when the bank has paid the item in cash or settled for the item without having a right to revoke the settlement in the time and manner allowed by statute, clearinghouse rule or agreement, or made a provisional settlement for the item and failed to revoke the settlement in the permitted time and manner. For example, an item returned within the allowable time frame (“midnight deadline”) prior to posting to and debiting from the customer’s account at the payor bank is not “finally paid.”

BancInsure encourages bankers to be alert to unusual items of deposit and train their employees to handle them properly. **KNOW YOUR CUSTOMER.**

BancInsure has become a leading writer of Financial Institution Bonds in the United States by providing a sound, stable market, excellent service and fair claims service. If you would like to learn more about BancInsure coverages, please contact your BancInsure marketing representative.