



WHAT DOES AN ALTERED CHECK LOOK LIKE?

Recently a banker that found out that sometimes an altered check looks pretty much like any other check. He related the story of how a customer had applied for a loan to re-finance his automobile loan with another lender in a different state. The amount of the loan was to be approximately \$17,000. The banker performed his usual underwriting procedures and determined that this would be a good credit risk. He agreed to make the loan and obtained the pay-off amount from the other lender. The loan was granted and the pay-off proceeds were mailed to the other lender in the form of one of the bank cashier's checks. Several weeks later the customer inquired about the matter, as he had not received his paid note from the other lender. Bank personnel reviewed the loan file and found that the title to the car had not been received either. Bank personnel also did a quick check of the cashier's checks and found that the check had been paid. The other lender was contacted and bank personnel were told that there was no record of receiving the loan pay-off. A careful review of the cashier's check comparing it to the bank's file copy revealed that the original check had been altered. It appears that someone intercepted the cashier's check intended to pay-off the prior loan, skillfully altered the payee and deposited the check in a checking account in a third bank in the general vicinity of the other lender. The bank making the loan made claim against the bank accepting the altered cashier's check. The bank accepting the altered cashier's check rightfully refused to refund the full amount of the cashier's check as the issuing bank had missed the return deadline by not notifying the bank of the return and returning the check within 24 hours. However, fortunately for the issuing bank, there was a little more than \$14,000 remaining in the account in which the altered check was deposited. This was refunded to the bank. The Bank accepting the deposit had no loss and the bank that issued the cashier's check loss was less than \$3,000.

It appears that the account was set up with false identification and to our knowledge the culprits who intercepted and deposited the check have not been apprehended.

The bank's procedure for paying cashier's checks had included verification of the check number, amount of the check and a comparison of the endorsement to the payee. The original cashier's check was matched with the file copy at a later date. The payment procedure now includes a comparison of the issued check with the file copy.

In the above situation, if the bank accepting the cashier's check for deposit had given immediate deposit credit for it, allowed withdrawals to be made or checks to be paid on the amount deposited and the issuing bank had notified the bank of the return and returned the item properly, the bank accepting the deposited items would face a loss in the amount of the funds that it allowed to be withdrawn or paid. There is some protection for banks accepting items of deposit. The Uniform Commercial Code sets forth the time requirements for the availability to the customer of funds deposited into an account. Importantly, Federal Reserve Regulation CC provides additional provisions and pre-empts the Uniform Commercial Code. Regulation CC allows for, but does not require holds on the availability of funds of up to eleven days on certain items depending on the nature and circumstances of the deposit.

Banks face similar risks from counterfeit checks. The risks from counterfeit checks probably are greater today than in the past due to the easy availability computer scanners and desktop publishing. It is now possible to scan a cashier's check or other check into a computer, make changes to the check and produce a very authentic looking check. It is also possible to simply create a check on desktop publishing.

Banks should review their procedures both in accepting items for deposit and in the payment of cashier's and other checks to ensure that the risks are at acceptable levels.