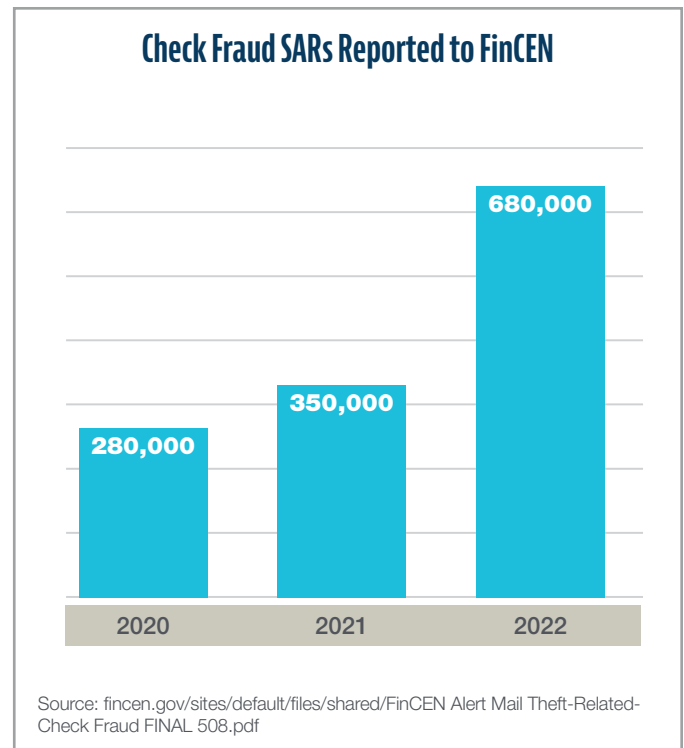
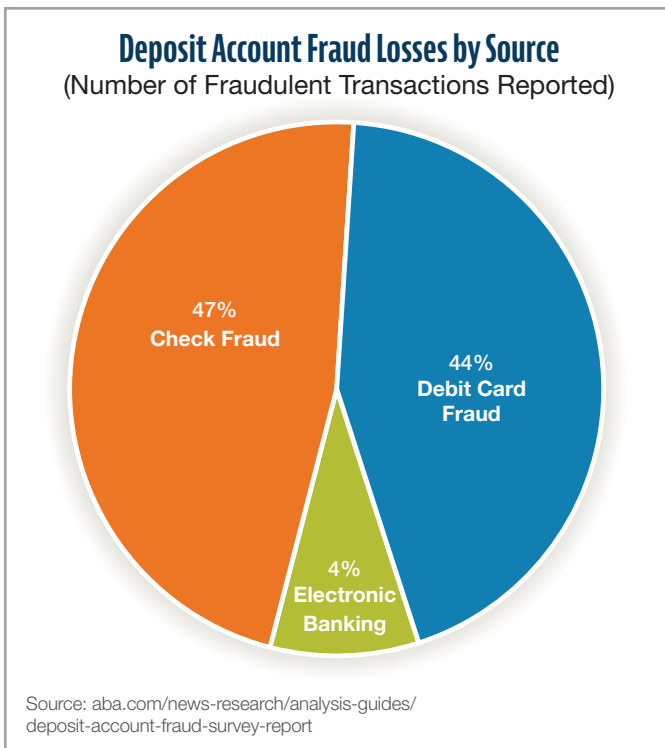


Check Writing Decreased, yet Check Fraud Increased

While check use has dropped a whopping 82% over the past 30 years, check fraud remains the most common type of depository fraud and very popular form of criminal activity because it is low-tech and presents a huge pool of victims, with over 11 billion checks still written each year. **It is estimated to cost financial institutions over \$1 billion in losses annually.**



The good news: banks stop most check fraud attempts through sound control practices like these:

Altered Check / Forged Signatures

- Review checks for handwriting consistency and other signs of alteration.
- Compare signature on the check to that on identification.
- Delay cashing a check for a reasonable period of time to verify all signatures are genuine. The criminal may leave rather than wait and risk arrest.

Counterfeit Check

- Inspect checks for quality. Counterfeit checks are often printed on low quality paper and have ink that smears.
- Double-verify checks made for large amounts on a low sequence number check.
- Ensure the check was issued by a legitimate bank.

Drawn on Closed Account

- Place holds on checks drawn on accounts that have been inactive for an extended length of time
- Send letters to customers of inactive accounts
- Advise customers to destroy checks from closed accounts

Without solid controls, industry losses would hit \$10 billion a year instead of just \$1 billion.

SafeTalk: Check Writing Decreased, yet Check Fraud Increased *continued*

When controls don't prevent check fraud...

In the event your bank becomes the victim of check fraud, your state's UCC rules apply. Under the UCC, the liability for an altered, counterfeit or forged check can reside with the customer drawing the check, the bank of first deposit (BOFD), or the drawee bank depending on the nature of the fraud.

- **Altered Check.** If the check amount of the check is altered from the original maker's intent, the BOFD is liable and the drawee bank can file a Breach of Warranty claim against the BOFD to recoup the loss.
- **Counterfeit Check.** If the check itself is counterfeit, the drawee bank holds liability, although the drawee bank could attempt to hold the customer accountable if he or she failed to report the counterfeit check within the allotted timeframe according to the account holder agreement.
- **Forged Endorsement.** If the signature on the back of the check is missing, incomplete or forged, the bank of first deposit is liable as it warrants the validity of the endorsement to the drawee bank, and the drawee bank can file a Breach of Warranty claim against the BOFD to recoup the loss.
- **Forged Signature.** If the signature on the back of the check is forged, the drawee bank is liable, though again, the bank could attempt to hold the customer accountable if he or she failed to meet the notification requirements in the account holder agreement.

In all cases, however, please refer to your state's specific UCC rules for guidance.

The ABA Check Fraud Claim Directory helps banks resolve check fraud claims

To help drawee bank recoup lost funds through the Breach of Warranty check claim process, the ABA (American Bankers Association) created the Check Fraud Claim Directory to help banks quickly resolve check fraud claims. The directory provides contact information for those bank employees responsible for clearing check warranty breach claim submitted by another financial institution. The directory is searchable by bank name, city, state or FDIC number so banks can easily find a person or email address at the bank to help resolve a warranty breach claim.

For more information on how your bank can participate, check out:

www.aba.com/banking-topics/risk-management/fraud/check-fraud

Did you know...?

Through its check fraud working group, the ABA has several initiatives underway to improve the overall check warranty breach claims process including:

- Drafting a Universal Warranty Breach Claim Form** to help standardize the required information for a claim
- Reducing burdensome documentation on hurdles** by encouraging banks to drop notarization requirements.
- Making it easier to file a claim** if a customer's stolen check was going to pay a recurring bill to a large company (e.g., an electric utility) by not requiring the normally standard affidavit.
- Developing industry baselines for notifying the paying bank** when a claim was received and assigning it a claim number.
- Attempting to standardize the time after a claim** has been adjudicated and paid out.

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