# Check Fraud:
# Observations from the FDIC

The Clearing House

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Since this is an interactive forum and because your respective organizations are competitors in the banking sector, we want to remind participants that they must abide by the law.

Certain topics, such as pricing or the discussion of using or not using particular vendor, should be avoided altogether. Other conduct that has the effect of being anticompetitive, or could be perceived as having that effect, should be avoided too.

If anyone has any questions about antitrust law compliance, we encourage you to speak with your organization's attorneys. If you have questions about The Clearing House's antitrust compliance policy, please feel free to reach out to us directly.

# Check Fraud: Observations from the FDIC

Division of Risk Management Supervision

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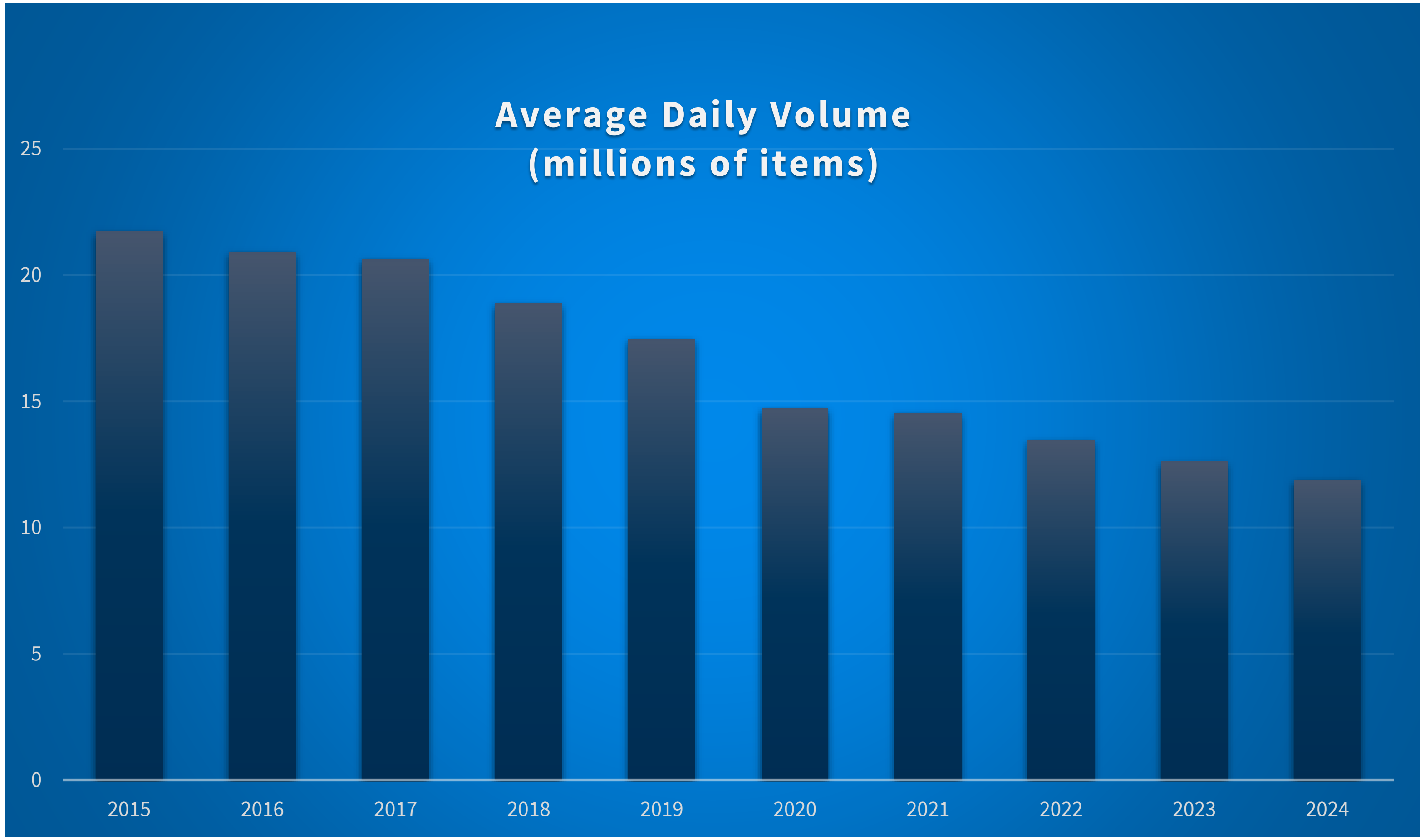
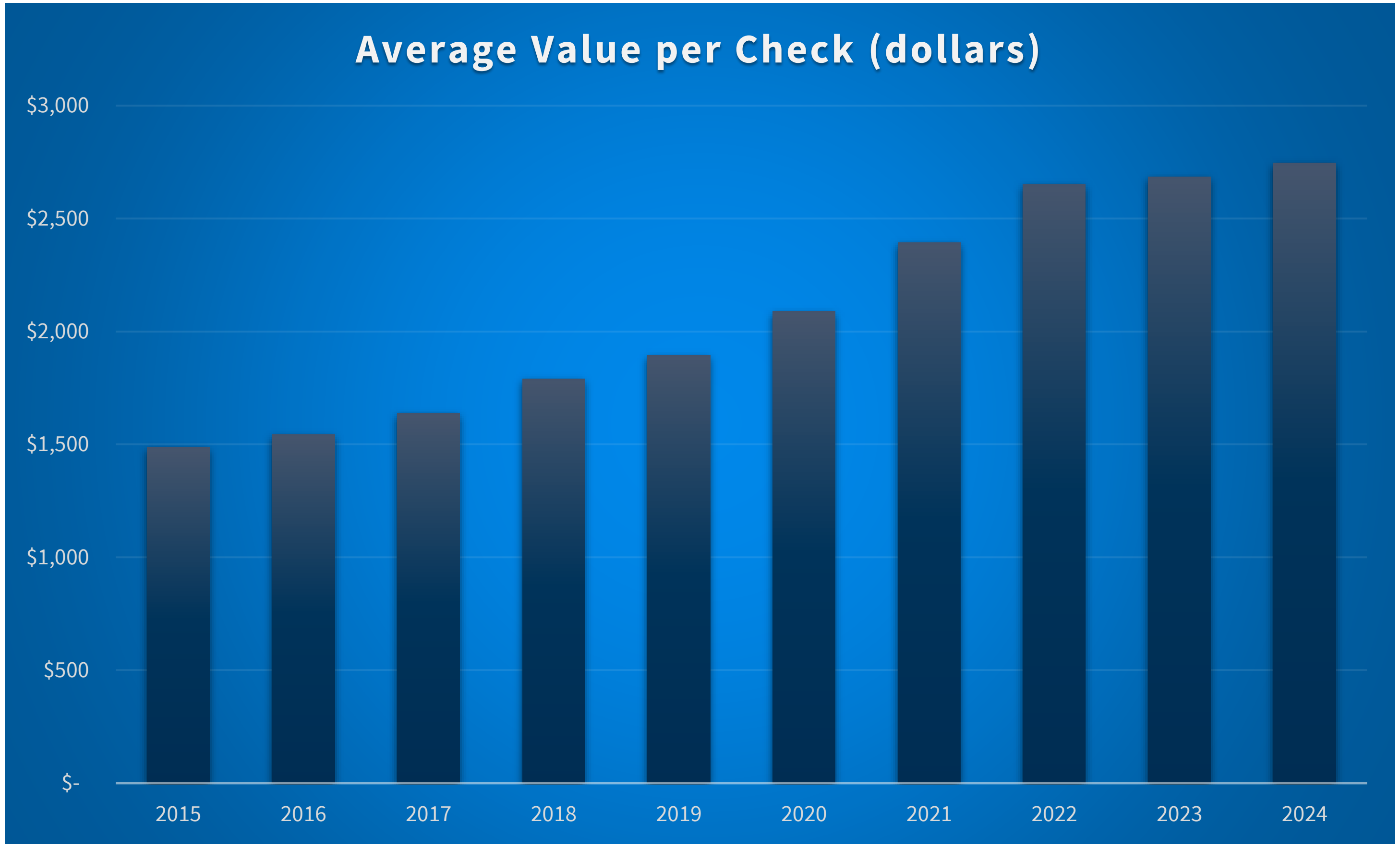
# Check Usage



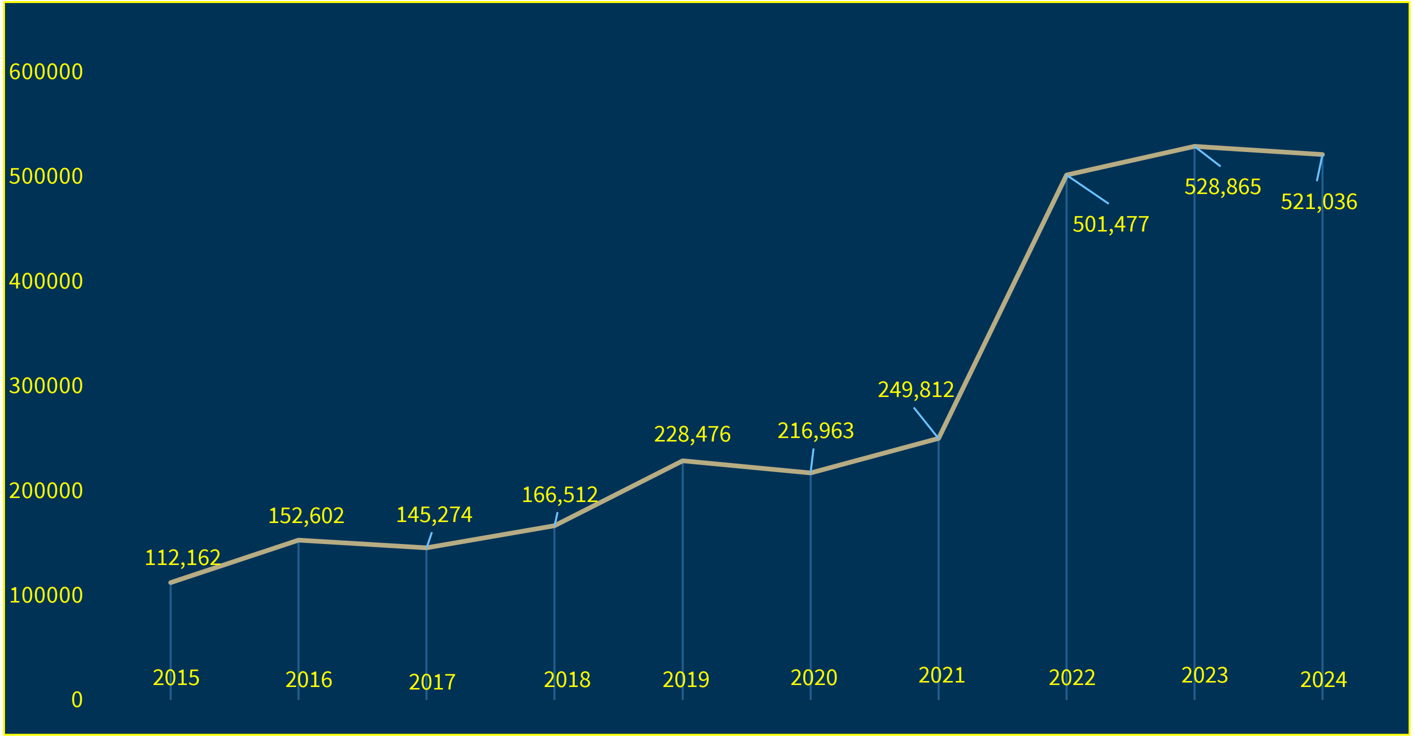

Source: Federal Reserve – Payments Systems Data

# Check Usage




Source: Federal Reserve – Payments Systems Data

# Check Fraud SAR Trends




Source: FinCEN

# Common Types of Check Fraud

| | |
|---|---|
| **Mail Theft** | **Criminals obtain real checks by stealing from U.S. postal boxes or other mail facilities.** |
| **Counterfeits** | **Fraudsters take information from real accounts and input onto a check template.** |
| **Double Presentment** | **Depositing a check into a drop account using mobile remote deposit capture and then going into a check cashing business to attempt to cash the check again.** |

# Mail Theft

- Checks left in residential buildings overnight or for long periods of time.
- USPS collection boxes after the last pickup time.
- Burglary of USPS facilities.
- Robbery of USPS employees.
- Bribery/collusion of USPS employees.

**FinCEN, "FinCEN Alert on Nationwide Surge in Mail Theft-Related Check Fraud Schemes Targeting the U.S. Mail", February 27, 2023**

# Check Fraud Types

- Forged Endorsements
- Paperhanging
- Check Kiting
- Check Floating
- Identity Check Theft
- Account Takeover
- Fake Paycheck Scam
- Fraudulent Lottery Scam
- Marketplace Fraud

# Check Washing

***Check washing*** **is a process where information is chemically or electronically erased from a legitimate check and items such as the amount and payee are replaced.**


# Check Cooking

(U) Open Source: YouTube

Figure 1

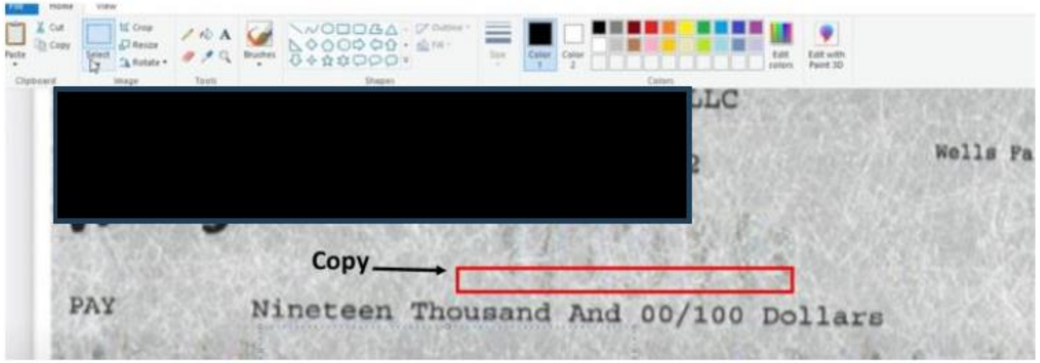



Figure 2


Figure 3

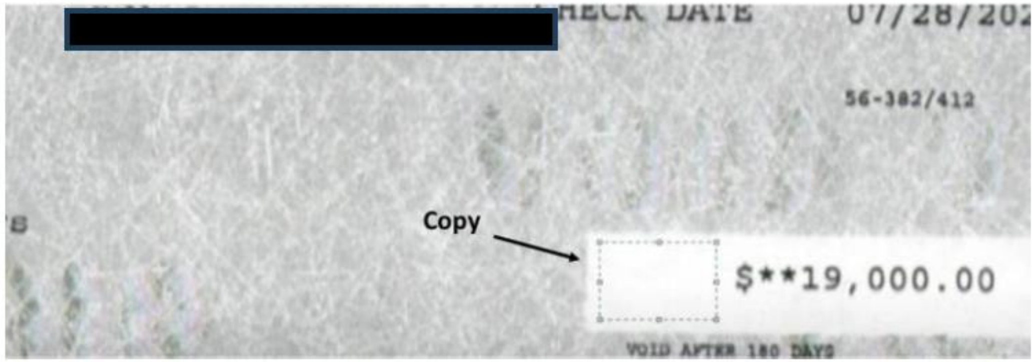
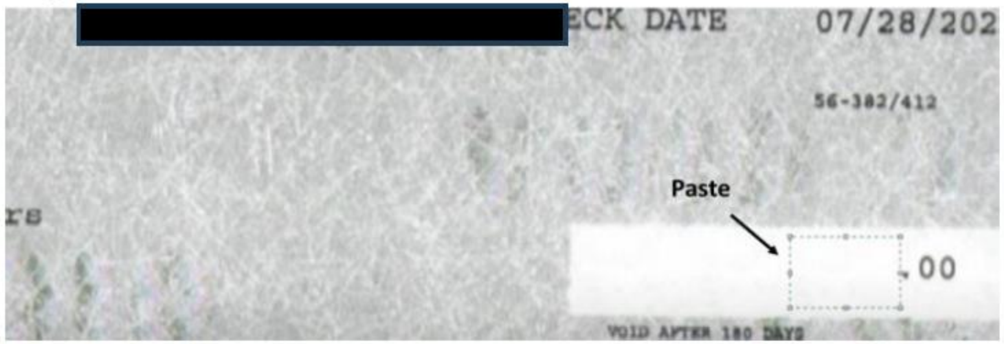
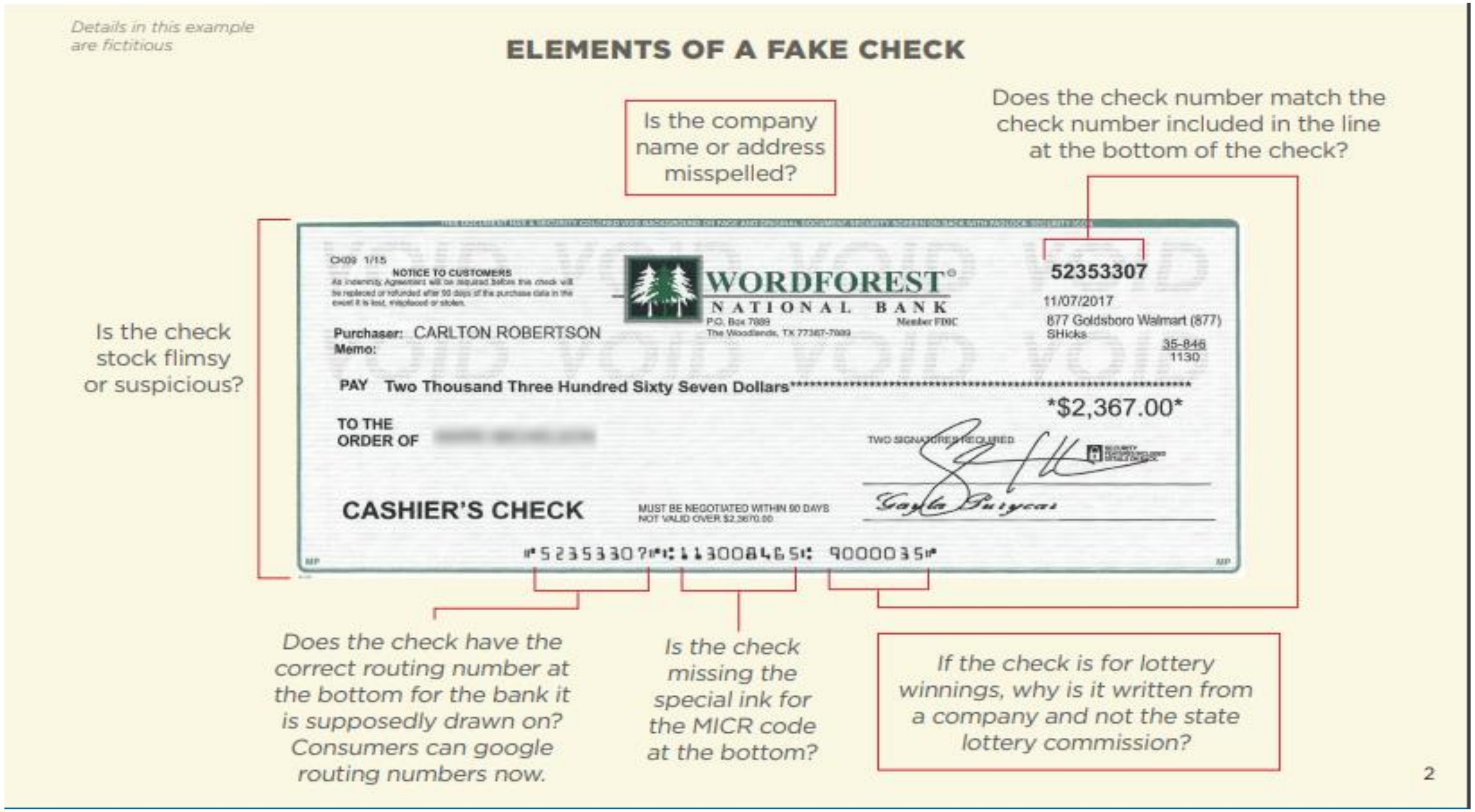


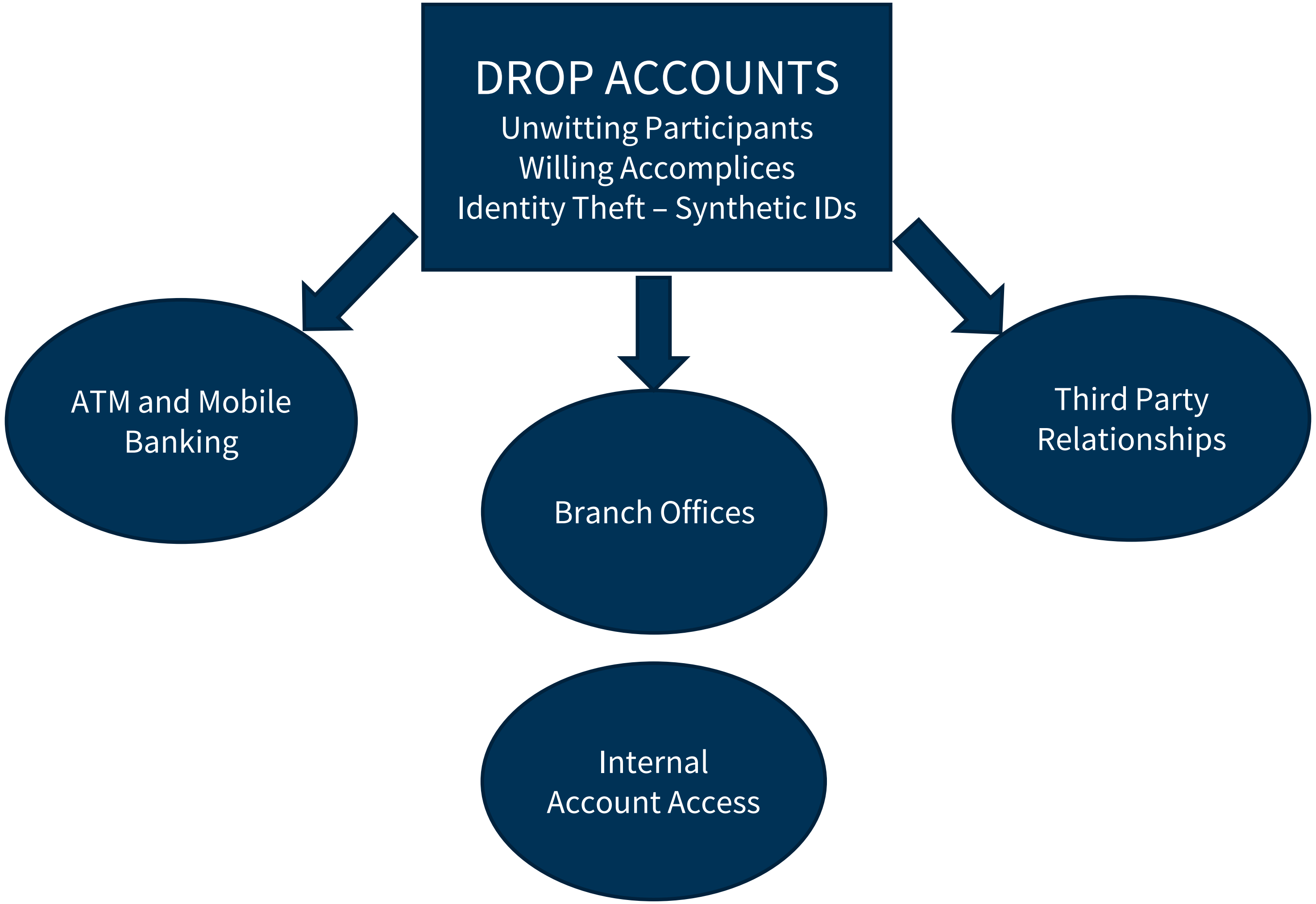

Figure 4



# Counterfeit Check



# Bank Access


DROP ACCOUNTS
Unwitting Participants
Willing Accomplices
Identity Theft – Synthetic IDs
ATM and Mobile Banking
Branch Offices
Third Party Relationships
Internal Account Access

# Check Fraud

## Unsophisticated

- Fraudulent endorsement
- Un-washed altered checks
- Third-party payments with no modifications

## Moderately Sophisticated

- Check washing
- Online sale of stolen check
- Counterfeit creation
- New check theft

## Sophisticated

- New account fraud
- Theft and scam rings
- Insider involvement

# Mitigation Solutions

FDIC

# Check Fraud Mitigation Strategies

## Corporate Governance

- Tone at the Top
- Monitoring and Reporting
- Front-End Prevention versus Back-End Detection
- Data Governance
- Money Mule Account Program

# Check Fraud Mitigation Strategies

## Customer Identification Program

- Fraudulent Drop Accounts
- Synthetic IDs
- Opening Accounts with Mobile Devices
- Fraudulent Business Documents and LLCs
- Third Party Relationships

# Check Fraud Mitigation Strategies

## Training and Resources

- Frequent training and case study reviews.
- Adequate staffing levels based on current and expected fraud levels.
- Establishing communication and partnerships with local law enforcement.

# Check Fraud Mitigation Strategies

## Regulation CC Exceptions

- “Reasonable cause to doubt collectability.”
- Identify and document examples of actual check fraud from alerts and reviews.
- Provide regular training on identifying check fraud and properly utilizing Regulation CC exceptions.

# Check Fraud Mitigation Strategies

## ATM/Mobile Deposit Limits

- Appropriate for offered products and services.
- Limits based on an analysis of typical transaction amounts.
- Effective monitoring programs.

# Check Fraud Mitigation Strategies

## Consumer Education

- Utilize social media, mailings, pamphlets, website, or mobile applications to promote consumer education related to check fraud.
- Partner with community or local non-profit groups to provide financial literacy and awareness training.
- FDIC Consumer News:
- "FDIC Consumer News: Beware of Fake Checks", August 2019
- "Older Adults Helping Relatives Through Financial Support", December 2023

# POLL QUESTION

## Which policy or program has been most effective in mitigating check fraud?

- Corporate Governance
- Customer Identification Programs
- Training and Resources
- Reg CC Exceptions
- ATM / Mobile Deposit Limits
- Consumer Education

# Check Fraud Mitigation Strategies

## Authentication Technology

- Inventory of bank products requiring two-factor or multi-factor authentication.
- User Verification Technology:
  - Device
  - Network
  - Location
  - User Behavior
  - Progress to second level authentication

# Check Fraud Mitigation Strategies

## Positive Pay

- Evaluate the cost/benefit based on volume and type of check fraud.
- Solicit and track the success of getting commercial customers signed up for positive pay solutions.
- Incentivize staff and customers to utilize solutions.
- Identify and engage check intensive customers.

# Check Fraud Mitigation Strategies

## Behavior-Based Detection

- Analyzes check-based activity on an account and determines the potential for fraud.
- Assists the institution in identifying cases that require further review and action.

# Check Fraud Mitigation Strategies

## Automated Check Validation

- Check Stock Validation – Analyzes check block content components.
- Automated Signature Verification – Compares the check signatures with archive signatures.
- Alteration Detection – Analyzes the Courtesy Amount and Legal Amount fields to identify potential discrepancies.
- Writer Verification – Analyzes and identifies difference in writing styles.

# Check Fraud Mitigation Strategies

## Dark Web Monitoring

- Provides immediate information regarding the potential exposure of check images, account holder information, and personal information being sold online.
  - Rampant posting on Telegram
  - Swiftly sharing stolen checks
  - Geographic patterns

# POLL QUESTION

## Which policy or program has been most effective in mitigating check fraud?

- Corporate Governance
- Customer Identification Programs
- Training and Resources
- Reg CC Exceptions
- ATM / Mobile Deposit Limits
- Consumer Education

# Check Fraud Mitigation Strategies

## Public-Private Information Sharing

- Nacha – ACH Contact Registry.
- American Bankers Association – Fraud Contact Directory.
- Independent Community Bankers of America – Check Fraud Working Group.

# Check Fraud Mitigation Strategies

## Public-Private Information Sharing

- Consortium Data.
- Treasury Check Verification System (TCVS).
- FedPayments Reporter Service for Check Services.
- Shared Mailboxes – Federal Banking Agencies.

# Check Fraud Mitigation Strategies

## Suspicious Activity Reports

- Line Item #27 – External Account Numbers.
- Report fraud beneficiaries.
- Report all fraudulent checks presented.
- Purposeful data collection.

# Check Fraud Mitigation Strategies

## Suspicious Activity Reports

- Include information about dark web sources such as Telegram channels.
- Include cookie analysis or device identification.
- Include camera footage or stills.
- Create standardized language for consistent narrative and content.

# Takeaways

Understand that the current state of check fraud is characterized by organized criminal efforts.

Develop a multi-layered prevention and detection scheme utilizing multiple resources.

Establish ongoing communication with customers, staff, peer financial institutions, and local law enforcement.

# Questions

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# Thanks For Your Participation Today!

National Check Payments Certification

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