

Frank W. Abagnale

The Fraud Bulletin

Volume 11

**Mobile Banking Fraud • Cyber Crime
Embezzlement • Identity Theft
Check Fraud • Holder In Due Course**

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FRANKLY SPEAKING . . .

Some of the most serious financial crimes in America are check fraud and identity theft. The Nilson Report estimates check fraud losses to be about \$20 billion a year. Check fraud is by far the most dominant form of payment fraud and produces the greatest losses. Check fraud gangs are hardworking and creative. They constantly try new techniques to beat the banking system and steal money. Historically, the banks have been liable for these losses. However, changes in the Uniform Commercial Code now share the loss with the depositor.

The Federal Trade Commission reported that nearly 15 million Americans have been victims of identity theft, costing consumers \$5 billion and banks and businesses \$56 billion every year. Because this crime is so simple to commit, I believe identity theft will become one of the most profitable criminal activities in history.

There are endless opportunities for a criminal to obtain the necessary information to commit identity theft. Let me illustrate just two, beginning with your visit to a doctor. As a new patient, the receptionist asks you to complete a form that asks for your name, address, phone number, and your employer's name, address and phone, and your health history. They copy your insurance card, which may include your Social Security number. Your

co-pay is paid with a check drawn on your bank account. You have just provided enough information for someone to become you.

Another example. You walk into an upscale department store to make a purchase. You take your selection to the cashier and write a check. On that check is your name, address and home phone number, the name of your bank and its address, and your bank account number. The cashier asks for your driver's license. The cashier memorizes the birth date on your license, and then asks for your work phone number, which will give them the name and address of your employer. Once again, a thief has sufficient information to apply for credit in your name.

I am 64. As a teenager I did things that today, as a husband and father, an educator and consultant, I am not proud of. But, recounting one youthful experience may be illustrative.

In my youth, when I wanted to establish a new identity (so that I could open a bank account and pass bad checks), I would go to the Department of Vital Records (in any city I was in). I would ask to see the death records for 1948, the year I was born. Every fifth or sixth entry was an infant who had died at birth. I would write down the death information and later apply for a birth certificate in that name. I would fill out a form, pay \$10, and obtain a legitimate birth certificate. I would go to the DMV and get a license with my picture, my description, and somebody else's name. I had 50 legitimate driver's licenses.

Now, 40 years later, you can buy a CD ROM with birth and death records, and can apply for a new birth certificate by mail. There are Web sites that sell Social Security numbers for \$49.95. Their advertisements claim that

they can tell you anything about anybody. I researched these companies—all you provide is someone's name, address and DOB—and they will tell you everything you want to know, including spouse and children's names.

For the identity theft victim, the nightmare has just begun. On average, it costs a

victim \$1,173 and 175 man-hours to get their credit report straightened out. Fixing the problem is not as simple as saying "...I did not apply for that loan." You must prove you did not apply for that loan. To fix things, you must first convince the credit card or finance company. Then, you must convince all three credit bureaus. In most cases, the credit bureaus refuse to delete the dispute from your credit files. Instead, they put an asterisk and say, "Customer disputes this Visa charge, claims they were a victim of identity theft." The result is that anyone accessing your credit report, whether a potential employer or a

company considering granting you credit, may question whether you were really a victim or if you were just ripping somebody off.

I am personally concerned about identity theft. A few years ago, I subscribed to a service that notifies me each time my credit report is accessed.

Privacy Guard (www.privacyguard.com/frank) provides me with the contact information of any company that obtained my credit report, as well as the means to correct false

data. I consider their annual fee money well spent.

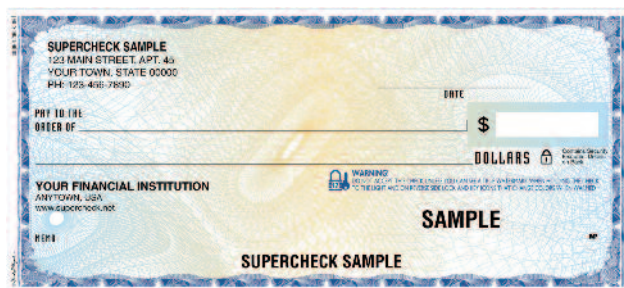
This publication was written to help individuals and companies learn how to reduce their risk of check fraud, identity theft and embezzlement. I hope you find it useful. Because there was not space to cover every scam, I have included references to various agencies and organizations with useful products or information. I have written three books, *The Art of the Steal*, *The Real U Guide to Identity Theft* and *Stealing Your Life* that cover numerous scams and solutions in detail. For individuals concerned about check fraud, I designed the **Supercheck**, a high-security personal check with 12 safety features. I also designed the **SuperBusinessCheck** and **SAFEChecks** for companies and organizations that want extremely secure checks.

See Pages 10 through 13.

Sincerely,

Frank W. Abagnale

www.abagnale.com



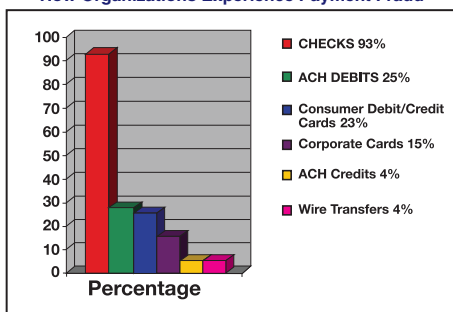
www.supercheck.net

CHECK FRAUD—OUR GREATEST THREAT

“**D**espite advances in fraud protection and prevention in recent years, the rate of payment fraud attacks remains stubbornly high.... Notwithstanding the precipitous drop in check volume over the last several years, checks continue to be widely used and abused, and fraud via check payments remains the overwhelming threat faced by companies.”¹ Financial losses from check fraud are GREATER than all other forms of payment fraud combined.

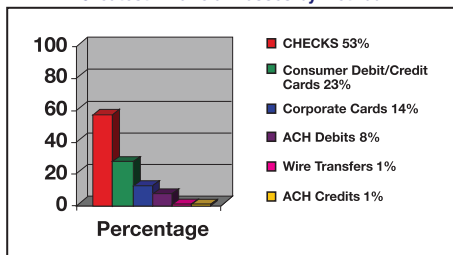
In the 2011 *Payments Fraud and Control Survey* released by the Association of Financial Professionals (AFP), 71% of the respondents affirmed that they had been a victim of payment fraud. **This is up from 55% in 2005.** The vast majority – 93% – were victims of check fraud.

How Organizations Experience Payment Fraud



The growth in check fraud has been greater than the growth in electronic payments fraud. Of companies that had higher payment fraud last year, 30% showed more check fraud, while just 18% had greater consumer card fraud and 15% had greater ACH debit fraud. The typical organization had a median of seven fraud attempts during 2010, with some having more than 20 fraud attempts.

Greatest Financial Losses by Method



Criminals use various means to commit check fraud. Almost 68% of companies had counterfeit checks, 56% had payee name alterations, and 35% had dollar amount alterations. Payroll checks are a major source of check fraud.

HOLDER IN DUE COURSE

Holder in Due Course, a powerful part of the Uniform Commercial Code, can adversely impact an organization's liability for check fraud. Losses from Holder In Due Course claims, mainly stemming from claims brought by check-cashing companies, are rising rapidly. Forty-six percent of corporations cited this as a cause of loss, up from 37 percent in the 2009 survey. Half of companies hit with an HIDC claim paid the full face value of the check or more. Under HIDC, a company can be held liable for counterfeit items that look “genuine,” or virtually identical to its checks. **See Page 19, Robert J. Triffin v. Somerset Valley Bank and Hauser Contracting Co.** If a genuine-looking counterfeit check was caught by the bank, even on Positive Pay, the issuer can still be held liable. HIDC trumps Positive Pay. **This is the reason to use a controlled check stock. (See Page 8.)**

Placing a stop payment on a check does not end the issuer's liability to pay the check. Holder in Due Course trumps stop payments and Positive Pay. **See Page 18, Robert J. Triffin v. Cigna Insurance.**

UNIFORM COMMERCIAL CODE

The legal basis for liability in check fraud losses is found in the Uniform Commercial Code (UCC), which was revised in 1990. The UCC now places responsibility for check fraud losses on both the bank and its customers. Responsibility for check issuers and paying banks falls under the term “ordinary care.” Ordinary care requires account holders to follow “reasonable commercial standards” prevailing in their area and for their industry or business. For example, in the AFP 2011 survey, 84% of larger organizations use Positive Pay or Reverse Positive Pay. A bank can argue that a commercial account holder not using Positive Pay is not exercising “ordinary care.” **See “Cincinnati” on Page 19.** Under Sections 3-403(a) and 4-401(a), a bank can charge items against a customer's account only if they are “properly payable” and the check is signed with an authorized signature. If a signature is forged, the account holder may still be liable if one of the following exceptions applies:

First, if account holders' own failures contributed to a forged or altered check, they may be restricted from seeking restitution from the bank. Section 4-406 requires customers to reconcile their bank statements within a reasonable time and report unauthorized checks immediately. Typically, this means

reconciling bank statements as soon as they are received, and always within 30 days of when the bank makes the statement available.

Second, the concept of “comparative negligence” in Sections 3-406(b) and 4-406(e) can also shift liability from the bank to the account holder. If both the bank and the account holder have failed to exercise ordinary care, a loss may be allocated based upon how each party's failure contributed to the loss. The internal controls used by a company when issuing checks will be questioned to determine negligence. Since banks are not required to physically examine every check, companies may be held liable for all or a substantial portion of a loss, even if the bank did not review the signature on the fraudulent check.

READ BANK CONTRACTS

Read your bank contracts and Disclosure Agreements to understand your liability for fraud losses under the UCC. This includes the small print on signature cards and Disclosure Statements. A bank's intentions must be stated clearly to prevail against a customer in a check fraud case. Banks are re-writing their signature card agreements and adding new provisions to their Disclosure Statements. For a summary of the revised UCC, visit www.FraudTips.net.

RISK MANAGEMENT

Financial institutions and bank customers face a shared risk from check fraud. Executives must answer “How do we assess our risk? How much financial exposure are we willing to assume? What real and hidden costs will we bear if we become victims of payment fraud? How might our image and reputation be damaged? How much are we willing to spend to reduce this exposure?”

PREVENTION IS FOR EVERYONE

All parties have a responsibility to prevent check fraud. Over 30% of organizations with a loss had not reconciled their accounts or reviewed Positive Pay on a timely basis. Half of organizations suffering a check fraud loss stated that the check used in the fraud was cashed by a check-cashing store.

Frank Abagnale concludes:

“Punishment for fraud and recovery of stolen funds are so rare, prevention is the only viable course of action.”

¹Association for Financial Professionals (AFP) 2011 Payments Fraud and Control Survey

EMBEZZLEMENT

A purchasing agent for a major corporation set up a new vendor in his wife's maiden name, and then approved more than \$1 million in company payments to her for "consulting services." A clerk in the purchasing department, suspicious of the agent's recent purchase of a new boat and car, discovered the scheme and turned him in.

Embezzlement, part of the broader category of Occupational Fraud, is no respecter of persons or organizations.

Occupational fraud covers a wide range of dishonest behavior against organizations by employees at every level, and victim organizations are found in every industry.

The 2011 Marquet Report on Embezzlement showed the average loss was just under \$1 million, with a median loss of \$350,000. The average scheme lasted more than 4½ years. It is imperative to understand how occupational fraud occurs and how to prevent it.

According to a 2010 study by the Association of Certified Fraud Examiners (ACFE), Occupational Fraud can be divided into three main categories: corruption, fraudulent financial statements, and misappropriation of assets. Corruption includes conflicts of interest, bribery, extortion, etc., and constitutes about one-third of cases, with a median loss of \$250,000.

Financial statement fraud involves the intentional misstatement or omission of important information on an organization's financial reports. Although only about 5% of cases, they cause median losses of over \$4 million, and account for 68% of the total reported losses. They also have the longest median duration.

Asset misappropriation covers almost 90% of occupational fraud cases. However, it is the least costly, with a median loss of \$135,000, and is the easiest to detect.

Asset misappropriation takes many forms, such as stealing property and cash, creating ghost employees or vendors, falsifying payroll records, altering checks, etc. This form of fraud can be divided into three major areas:

| Type of Misappropriation | Frequency* | Median Loss |
|--|------------|-------------|
| Fraudulent disbursements of cash | 73% | \$387,000 |
| Theft of cash receipts or cash-on-hand | 37% | \$183,000 |
| Theft of property or information | 16% | \$90,000 |

(*Some cases involved more than one category.)

The industries most commonly victimized are banking/financial services, manufacturing, and government/public administration.

WHO ARE THE PERPETRATORS?

More than 80% of occupational fraud cases, and 95% of their resulting losses, come from six departments: accounting, operations, executive/upper management, sales, customer service, and purchasing.

Females account for 64% of cases with losses over \$100,000, but males cause significantly higher dollar losses. Half of all cases are committed by people between the ages of 31 and 45, but the greatest losses overwhelmingly come from people over 50, and from those in upper management.

The vast majority of perpetrators – 96% – had no prior criminal history, making background checks an ineffective (but still necessary) embezzlement prevention tool.

WHY OCCUPATIONAL FRAUD OCCURS

Workplace conditions are a major predictor of fraud. Occupational fraud occurs when the "fraud triangle" is present – motive, opportunity, and rationalization – and effective fraud prevention controls are not in place – hotlines, separation of duties, management reviews, etc.

Another important factor is the "tone" set by upper management, especially in the fraud cases over \$1 million. Management tone that contributes to fraud includes unethical behavior and attitudes, the practice of overriding established safeguards, and pressuring employees to meet unrealistic goals.

Also, employees and executives feeling unfairly treated sometimes believe they can get "justice" through occupational fraud.

HOW OCCUPATIONAL FRAUD IS DETECTED

Tips are by far the most effective method of detecting fraud, catching nearly three times more cases than any other form of detection. Although employees are the most frequent source of fraud tips, customers, vendors, competitors, and acquaintances also provide good information.

Management review and internal audits are the next most common forms of detection. There are also many "behavioral red flags" that fraudsters exhibit, which management ignores at its peril. These include an outsized sense of entitlement, living beyond ones' means, having financial difficulties, unwillingness to share

duties or take vacations, addiction problems, and irritability or defensiveness.

Government agencies have the highest rate of detection by tips and by frauds caught by external audits. Publicly held companies detect more frauds by management review and internal audits. Privately owned companies have the fewest frauds detected by tips, the most frauds caught by accident, and the highest percentage of losses.

DETECTING FRAUD IN SMALL BUSINESSES

Small businesses suffer unusually high occupational fraud losses, with the median loss being \$155,000, because they tend to have far fewer anti-fraud controls, such as a separation of duties, than larger organizations. Even the less expensive fraud controls are often missing, such as management review of accounts, formal codes of conduct and anti-fraud policies.

Check tampering schemes are much more common at small organizations, as are skimming and payroll frauds (see Check Fraud Prevention, Page 4). The check writing, cash collection, and payroll functions are more likely to be performed by a single individual with little management oversight.

Managers and owners of small businesses should focus their control investments on the most cost-effective mechanisms, such as separation of duties, hotlines and setting an ethical tone for their employees.

HOW TO PREVENT OCCUPATIONAL FRAUD

Prevention is the best defense against embezzlement, with employee education as the foundation. Employees are the best detection source. They must be trained in what constitutes theft, how it hurts everyone in the company, and how to report any questionable activities.

Anonymous tips are the Number One means by which fraud is detected; most are given via hotlines. The median dollar loss for frauds at companies with hotlines was 59% lower than those without a hotline. Tip hotlines should be designed to receive tips from both internal and external sources. Tip hotlines should allow anonymity, confidentiality, and include a reward. Tip hotline reporting programs should be publicized to employees, as well as to external entities, e.g. vendors and customers. Employees should be trained to recognize the common behavioral signs that fraud is occurring and be encouraged to report them.

Employee support programs to help employees struggling with addictions, mental or emotional health, family or financial problems are also associated with median loss reductions of more than 50%.

Unannounced audits are an effective tool in the fight against fraud, yet less than 30% of victim organizations in the study conducted surprise audits. Surprise audits' most important benefit is psychological: they cause potential perpetrators to believe that they will be caught, and thus have a strong deterrent effect on potential fraudsters.

Internal controls will not fully detect and prevent occupational fraud. It is important for organizations to have strategic and effective anti-fraud controls in place. Constant vigilance is essential.

External audits are the control mechanism most widely used by organizations, but they are relatively ineffective in detecting fraud and limiting losses. Audits are clearly important and can have a strong preventative effect on fraudulent behavior, but they should not be relied upon exclusively for fraud prevention.

Also, although a company should do background checks on potential employees, these checks do little to prevent occupational fraud, since the vast majority of perpetrators – 96% – have never been charged with or convicted of a prior offense.

Interestingly, regular financial statement audits — the most commonly implemented control — had one of the smallest results in reducing fraud.

There are certain schemes that are more prevalent in one industry than in another. Organizations need to consider the specific fraud risks they face when deciding which controls to implement for fraud prevention and detection.

See RESOURCES at the top.

Effectiveness of Controls

| Type of Control | % ▼ Losses | % ▼ Duration |
|---------------------------------------|---------------|-----------------|
| Hotline | 59% | 35% |
| Employee Support Programs | 59% | 17% |
| Surprise Audits | 52% | 37% |
| Fraud Training for Managers/ Execs | 50% | 28% |
| Fraud Training for Employees | 50% | 28% |
| Job Rotation/Mandatory Vacation | 47% | 33% |
| Code of Conduct | 47% | 38% |
| Anti-Fraud Policy | 40% | 28% |
| Management Review | 40% | 50% |
| External Audit | 35% | 38% |
| Internal Audit/FE Department | 31% | 42% |
| Independent Audit Committee | 30% | 25% |
| Management Certification of F/S | 25% | 35% |
| External Audit of F/S | 25% | 33% |
| Rewards for Whistleblowers | 23% | 33% |

The Internal Revenue Service requires that embezzlers report embezzled funds as income in their annual tax filing. After returning the funds or paying restitution, the embezzler becomes eligible for a tax deduction. Failure to report embezzled funds as gross income can result in tax evasion charges. The threat of dealing with the IRS should be a well publicized factor to deter would-be perpetrators from defrauding their organizations.

RESOURCES

2010, 2011 Marquet Report on Embezzlement

2010 Association of Certified Fraud Examiners
"Report to the Nations"

"Effective Solutions for Combating Employee Theft –
Implementing and Managing a Fraud Hotline" by
Donald L. Mullinax, ACFE 2004

"Enemies Within" by Joseph Wells, ACFE 2001

<http://topics.law.cornell.edu/wex/embezzlement>

www.lawyershop.com

www.onlinelawyersource.com

www.diversifiedriskmanagement.com

Early Warning Signs of Cash Misappropriation

- Decreasing ratio of cash to credit card sales.
- Increasing accounts receivable compared with cash.
- Delayed posting of accounts receivable payments.
- Credits against individual accounts receivable
- Unexplained cash discrepancies.
- Altered or forged deposit slips.
- Customer billing and payment complaints.
- Increasing "soft" expenses, such as consulting.
- Employee home address matches a vendor's address.
- Vendor address is a post office box or mail drop.
- Excessive voided, missing, or destroyed checks

When "Yes" is a Red Flag

These are some of the characteristics that may influence employees to commit Financial Statement frauds and misappropriate assets.

Financial Statement Frauds

- Is management compensation tied closely to company value?
- Is management dominated by a single person or a small group?
- Does management display a significant disregard for regulations or controls?
- Has management restricted the auditor's access to documents or personnel?
- Has management set unrealistic financial goals?
- Does management have any past history of illegal conduct?

Asset Misappropriations

- Is an employee obviously dissatisfied?
- Does that employee have a past history of dishonesty or illegal conduct?
- Does that employee have known financial pressures?
- Has that employee's lifestyle or behavior changed significantly?

Occupational Fraud Prevention Checklist

The most cost-effective way to limit fraud losses is to prevent fraud from occurring. This checklist will help organizations test the effectiveness of their fraud prevention program.

1. Is ongoing anti-fraud training provided to all employees of the organization?
2. Is an effective fraud reporting mechanism in place?
3. Is the management climate/tone at the top one of honesty and integrity?
4. Are fraud risk assessments performed to identify and mitigate the company's vulnerabilities to internal and external fraud?
5. Are strong anti-fraud controls in place and operating effectively?
6. Does the internal audit department have adequate resources and authority to operate effectively and without undue influence from senior management?
7. Does the hiring policy include thorough fraud prevention controls?
8. Are employee support programs in place to assist employees struggling with addictions, mental/emotional health, family or financial problems?
9. Are employees allowed to speak freely about pressures, providing management the opportunity to alleviate such pressures before they become acute?

(See 2010 ACFE "Report To The Nations" for complete lists.)

CHECK FRAUD PREVENTION—BEST PRACTICES

No product, program or policy can provide 100% protection against check fraud. However, specific practices can significantly reduce check fraud risk by discouraging a criminal from alteration or replication attempts, and by thwarting his counterfeiting efforts. The following are important recommendations for reducing risk.

HIGH SECURITY CHECKS

Check fraud prevention begins with high security checks. Checks are the first line of defense against forgers, and help prevent altered payee names or dollar amounts. There is substantial evidence that high security checks significantly reduce check fraud attempts: Every loss begins with an attempt—eliminating the attempt eliminates the loss.

High security checks should contain at least ten (10) safety features. More is better.

Pages 10 through 13 show high security checks designed by Frank Abagnale.

Many check manufacturers claim their checks are secure because they include a printed padlock icon. The padlock icon does not make a check secure, since only three safety features are required to use the icon.

Some legal experts suggest that the failure of a business to use adequate security features to protect its checks constitutes negligence. By using high security checks, a company can legally demonstrate that care has been taken to protect its checks.

POSITIVE PAY

One of the most effective check fraud prevention tool is Positive Pay, an automated check-matching service that is unparalleled in detecting most bogus checks. It is offered through the Cash Management Department of many banks. To use this service, the check issuer transmits to the bank an electronic file containing information about the checks it has issued. Positive Pay compares the account number, the check number, dollar amount and sometimes payee name on checks presented for payment against the previously submitted list of checks issued and authorized by the company. All the components of the check must match exactly or it becomes an "exception item." The bank provides the customer with an image of the check to determine each exception item's authenticity. If

the check is fraudulent or has been altered, the bank will return the check unpaid, and the fraud is foiled. For Positive Pay to be effective, the customer must send the data to the bank before the checks are released.

Because revisions in the UCC impose liability for check fraud losses on both the bank and its

customer, it is important for everyone to help prevent losses.

When a company uses high security checks with Positive Pay, the risk and liability for check

fraud are substantially reduced. Many banks charge a modest fee for Positive Pay, which should be regarded as an "insurance premium" to help prevent check fraud losses.

REVERSE POSITIVE PAY

For organizations or individuals with relatively small check volume, Reverse Positive Pay should be considered. This service allows an account holder to review in-clearing checks daily to identify unauthorized items. The account holder downloads the list of checks from the bank and compares them to the issued check file. Suspect checks must be researched and the bank notified of items to be returned. While Reverse Positive Pay provides timely information on a small scale, for larger operations it is not a worthy substitute for Positive Pay.

PAYEE POSITIVE PAY IS NOT FOOLPROOF

Positive Pay and Reverse Positive Pay monitor the check number and dollar amount. Several banks have developed Payee Positive Pay (PPP) that also compares the payee name. PPP identifies the payee line by the X,Y coordinates on the check face, and uses optical character recognition software to interpret and match the characters. Matching the payee name, check number and dollar amount will stop most check fraud attempts. However, Payee Positive Pay is not 100% effective because criminals can add a fraudulent Payee Name two lines above the original Payee Name. The bogus added Payee Name will not be detected by Payee Positive Pay, resulting in the altered check being paid.

PREVENTING ADDED PAYEES

Adding a new Payee Name is a major scam used by sophisticated forgery rings. They understand Payee Positive Pay's limitations and simply add a new payee name above or beside the original name. They then cash the check using bogus documents in the

name of the added payee. To help prevent added payee names, use a Secure Name Font (see **Pages 7 and 16**) or insert a row of asterisks above the payee name. To help

prevent altered payees, use high security checks like the **SuperBusinessCheck** or **SAFEChecks**, and good quality toner to keep the **Secure Name Font** or asterisks from being removed without leaving evidence. Cheap toner will peel off with Scotch Tape.

ACH FILTER OR BLOCK

Forgers have learned that Positive Pay doesn't monitor electronic "checks," also known as Automated Clearing House (ACH) debits. Files containing ACH debits are created by an organization or company and submitted to its bank. The bank processes the file through the Federal Reserve System and posts the ACH debit against the designated accounts. Because paperless transactions pose substantial financial risk, most banks are careful to thoroughly screen any company that wants to send ACH debits. However, some dishonest individuals still get through the screening process and victimize others. Banks have liability for allowing these lapses.

To prevent electronic check fraud, ask your bank to place an ACH block or filter on your accounts. An ACH block rejects all ACH debits. For many organizations, a block is not feasible because legitimate ACH debits would be rejected. In this case, use an ACH filter.

In the electronic debit world, each ACH originator has a unique identifying number. An ACH filter allows debits only from preauthorized originators or in preauthorized dollar amounts. If your bank does not offer a filter, open up a new account exclusively for authorized ACH debits, and restrict who has knowledge of that account number. ACH block all other accounts.

CHECK WASHING

Washing a check in chemicals is a common method used by criminals to alter a check. The check is soaked in solvents to dissolve the ink or toner. The original data is replaced with false information. When a check reacts to many chemicals, the “washing” can be detected when the check dries. To defend against washing, use checks that are reactive to many chemicals. Chemically reactive checks become spotted or stained when soaked in chemicals. A Chemical Wash Detection Box on the back of the check warns recipients to look for evidence of chemical washing. **See Page 13.**

ALTERATIONS

Forgers and dishonest employees can easily erase words printed in small type and cover their erasures with a larger type font. Prevent erasure alterations by printing checks using a 12 or 14 point font for the payee name, dollar amount, city, state and zip code. **See Page 7 on Laser Printing.**

PROMPT RECONCILIATION

The revised UCC requires an organization to exercise “reasonable promptness” in examining its monthly statements, and specifically cites 30 days from the date of mailing from the bank. Carefully read your bank’s disclosure agreement that details the length of time you have to report discrepancies on the bank statement. Some banks have shortened the reporting timeframe to less than 30 days. Failure to reconcile promptly is an invitation for employees to embezzle because they know their actions will not be discovered for a long time. If you are unable to reconcile on time, hire your accountant or an outside reconciliation service provider and have the bank statements sent directly to them.

The people issuing checks should not be the same people who reconcile the accounts.

REPEATER RULE

The repeater rule limits a bank’s liability. If a bank customer does not report a forged signature, and the same thief forges a signature on additional checks paid more than 30 days after the first statement containing the forged check was made available to the customer, the bank has no liability on the subsequent forged checks so long as it acted in good faith and was not negligent.

The one-year rule is another important guide. Bank customers are obligated to discover and report a forged signature on a check within one year, or less if the bank has

shortened the one-year rule. If the customer fails to make the discovery and report it to the bank within one year, they are barred from making any claim for recovery against the bank. This applies even if the bank was negligent.

MULTIPLE CHECK COLORS

Some companies with multiple divisions or branches use a single bank account against which all checks pay. To differentiate locations, they use different check colors for each branch. This is not a good practice. When many colors of checks pay against an account, spotting counterfeit checks by color becomes an impossible task. A bank’s Sight



Review department cannot be expected to identify a fraudulent or chemically washed item when many colors are used. Use a maximum of two colors in the same account, and find other ways to differentiate locations.

MANUALLY ISSUED CHECKS

Every organization occasionally issues manual checks. Some are typed on a self-correcting typewriter. These typewriters use ribbons that are black and shiny. These black shiny ribbons are made of polymer, a form of plastic. Plastic is typed onto a check.

Forgers can alter manually typed checks with ordinary translucent tape. They lay tape over the letters to be removed, rub the tape firmly and lift off the tape. The typed letters are now on the tape. Then they type in a new payee name and dollar amount and cash the signed, original check!

When typing manual checks, use a “single strike” fabric ribbon, which uses ink, not polymer. They can be found online in the catalog of major office supply stores.

CHECK STOCK CONTROLS

Check stock must be kept in a secure, locked area. Change locks or combinations periodically to ensure they have not been compromised. Keep check boxes sealed until

they are needed. Inspect the checks when received to confirm accuracy, and then re-tape the boxes. Write or sign across the tape and the box to provide evidence of tampering. Conduct physical inventory audits to account for every check. Audits should be conducted by two people not directly responsible for the actual check printing. When checks are printed, every check should be accounted for, including voided, jammed and cancelled checks. After the check run, remove the unused check stock from the printer tray and return it to the secure storage location.

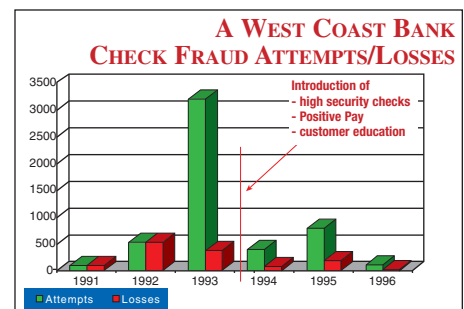
ANNUAL REPORTS AND CORRESPONDENCE

Annual reports should not contain the actual signatures of the executive officers. Forgers scan and reproduce those signatures on checks, purchase orders, letters of credit.

Do not include account numbers in correspondence. Credit applications should include the name and phone number of the company’s banker, but not the bank account number. Nor should an authorized signer on the account sign the correspondence. You have no control over who handles this information once it is sent, and it could be used to commit fraud.

WIRE TRANSFERS

Forgers obtain bank account information by posing as customers requesting wiring instructions. Wire instructions contain all the information necessary to draft against a bank account. To avoid giving out primary account numbers, open a separate account that is used exclusively for incoming credits, such as ACH credits and wire transfers. Place the new account on “no check activity” status and make it a “zero balance account” (ZBA). These two parameters will automatically route incoming funds into the appropriate operating account at the end of the business day, and prevent unauthorized checks from paying.



Check fraud attempts and losses fell by 95% over three years after a West Coast bank introduced high security checks and Positive Pay, and educated its customers on check fraud prevention.

CHECK 21 & CHECK FRAUD



Check Clearing for the 21st Century Act, aka "Check 21" was passed into law October 28, 2004.

Check 21 allows banks to 1) convert original paper checks into electronic images; 2) truncate the original check; 3) process the images electronically; and 4) create "substitute checks" for delivery to banks that do not accept checks electronically. The legislation does not require a bank to create or accept an electronic check image, nor does it give an electronic image the legal equivalence of an original paper check.

Check 21 does give legal equivalence to a "properly prepared substitute check." A substitute check, also known as an image replacement document (IRD), is a new negotiable instrument that is a paper reproduction of an electronic image of an original paper check. A substitute check 1) contains an image of the front and back of the original check; 2) bears a MICR line containing all the information of the original MICR line; 3) conforms to industry standards for substitute checks; and 4) is suitable for automated processing just like the original check. To be properly prepared, the substitute check must accurately represent all the information on the front and back of the original check, and bears a legend that states "This is a legal copy of your check. You can use it the same way you would use the original check." While Check 21 does not mandate that any check be imaged and truncated, all checks are eligible for conversion to a substitute check.

WARRANTIES AND INDEMNITY

Check 21 does not require a bank to convert and truncate paper checks. It is voluntary. A bank that chooses to convert a paper check into an electronic image and substitute check provides two warranties and an indemnity that travel with the substitute check. The two warranties are 1) that the substitute check is properly prepared, and 2) that no bank will be asked to make payment on a check that has already paid (no double debit).

The Indemnity is very powerful, and gives banks and companies a clear defensive strategy against losses caused by substitute checks. It may also deter banks and companies eager to convert high-dollar checks. The warranties and indemnity continue for one year from the date the injured party first learns of the loss¹.

The Final Rule issued by the Federal Reserve Board states, a bank "that transfers,

presents, or returns a substitute check...shall indemnify the recipient and any subsequent recipient...for any loss incurred by any recipient of a substitute check if that loss occurred due to the receipt of a substitute check instead of the original check."² It goes on to say that if a loss "...results in whole or in part from the indemnified party's negligence or failure to act in good faith, then the indemnity amount...shall be reduced in proportion to the amount of negligence or bad faith attributable to the indemnified party." The indemnity would not cover a loss that was not ultimately directly traceable to the receipt of a substitute check instead of the original check.

The Fed gives this example. "A paying bank makes payment based on a substitute check that was derived from a fraudulent original cashier's check. The amount and other characteristics of the original cashier's check are such that, had the original check been presented instead, the paying bank would have inspected the original check for security features and likely would have detected the fraud and returned the original check before its midnight deadline. The security features the bank would have inspected were security features that did not survive the imaging process. Under these circumstances, the paying bank could assert an indemnity claim against the bank that presented the substitute check."

"By contrast with the previous example, the indemnity would not apply if the characteristics of the presented substitute check were such that the bank's security policies and procedures would not have detected the fraud even if the original had been presented. For example, if the check was under the threshold amount the bank has established for examining security features, the bank likely would not have caught the error and accordingly would have suffered a loss even if it had received the original check."³

REMOTE DEPOSIT CAPTURE

Remote Deposit Capture is a service that allows a business to scan, image and transmit to its bank the checks it normally would deposit. While the technology is exciting, you must understand your risk. Under the law, an organization that images and converts a check issues the warranties and indemnity, and may be held liable for any Check 21 loss. The Statute of Limitations to file a claim for these types of losses is one year AFTER the injured party discovers the financial loss.

CHECK SAFETY FEATURES

The purpose of safety features is to thwart criminals trying to alter or replicate checks. The minimum number of safety features a check should have is 10, and more is better. The best safety features are Fourdrinier (true) watermarks in the paper, thermochromatic ink, and paper or ink that is reactive to at least 15 chemicals. These safety features cannot be imaged and replicated, and are the best!

When an individual or organization uses high security checks that include these safety features, they are positioned for a built-in indemnity claim against the converting bank or company, as allowed under Check 21's Indemnity Provision. This assumes that their bank has a Sight Review threshold such that the original check would have been examined.

CHECK 21 FRAUD STRATEGIES

In a Check 21 world, the strategies are straightforward. 1) Every bank should offer Positive Pay at an affordable price, and every company and organization should use the service. Most banks charge for Positive Pay; consider the fee an insurance premium. For useful information about Positive Pay, visit PositivePay.net and SafePay123.com. 2) Make large dollar payments electronically. 3) Every company, organization and individual should use high security checks with 10 or more safety features. The checks should include a true watermark, thermochromatic ink and 16+ chemical sensitivity. The **Supercheck**, the **SuperBusinessCheck**, and **SAFEChecks** (See Pages 10-13) were designed by Frank Abagnale with these and many additional safety features so prudent individuals, companies and organizations could enjoy maximum document security in a controlled check. Visit SafeChecks.com and Supercheck.net to request a sample. 4) Avoid using laser checks that can be purchased by multiple people entirely blank because the stock is not controlled. 5) Banks should lower their Sight Review thresholds and re-train inspectors, and encourage their customers to use high security checks and Positive Pay.

¹Visit www.FraudTips.net for a copy of the Act, and the Federal Reserve Board's Final Rule governing Check 21 issued July 26, 2004. Read Page 67(c) Jurisdiction.

²The Fed's Final Rule, page 58, Substitute Check Indemnity.

³ibid., pages 99-100, Substitute Check Indemnity.

Frank Abagnale has co-authored a white paper on Check 21 and image survivable safety features. Download it at www.FraudTips.net under Check 21.

A PRIMER ON LASER PRINTING

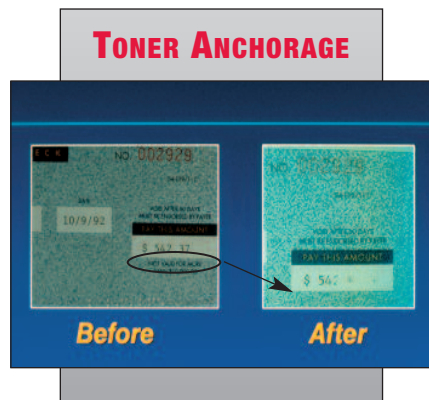
Most organizations and companies print checks on a laser printer. This technology is highly efficient, but proper controls must be in place or laser printing can invite disaster.

TONER ANCHORAGE, TONER, PRINTERS

To prevent laser checks from being easily altered, the toner must bond properly to the paper. This requires check stock with toner anchorage, good quality toner, and a hot laser printer.

Toner anchorage is an invisible chemical coating applied to the face of check paper. When the check passes through a hot laser printer, the toner melds with the toner anchorage and binds onto the paper. Without toner anchorage, the toner can easily be scraped off, or lifted off the check with tape.

High quality toner should be used because poor quality toner does not meld properly with the toner anchorage. Also, if the printer is not hot enough, the toner and anchorage will not meld sufficiently. The fuser heat setting can be adjusted on most laser printers through the front panel; hotter is better.



BLANK CHECK STOCK

that is not customized for each customer should be avoided. Check stock that is sold completely blank to many companies is “uncontrolled check stock.” If a printer or computer company will sell you entirely blank checks, they likely sell the identical checks to others, who, in effect, have your check stock! Ensure that your check stock is not available entirely blank to others. It should be uniquely customized in some way for each user.

See Pages 10 - 11.

SECURE NAME FONTS

help prevent added or altered payee names. In many cases, altering the Payee name allows the forger to circumvent Positive Pay. A Secure Name Font uses a unique image or screened dot pattern in a large font size to print the payee name. This makes it extremely difficult to remove or change the Payee name without leaving evidence. It also eliminates the line spacing for an added payee.



UNCONTROLLED CHECK STOCK

Recent court cases have shown that using blank, uncontrolled check stock can contribute to check fraud losses. Companies can be held liable for the resulting losses if the bogus checks look “genuine.” **See Page 18, Robert J. Triffin v. Somerset Valley Bank and Hauser Contracting Company.** **SAFEChecks sells only controlled check stock.**

SEQUENCED INVENTORY CONTROL NUMBERS

should be printed on the back of non-pre-numbered laser checks. The control number is completely independent of the check number printed on the face of the check. Numbering and tracking each sheet discourages internal fraud and maintains compliance with auditors.

STRING OF ASTERISKS

placed above the payee name can prevent added payee names. Forgers add a new payee name two lines above the original payee name. To prevent additions, insert a string of asterisks above and after the original payee name. Asterisks can be pre-printed on the checks by the check vendor. Do not use asterisks when using Payee Positive Pay. They cause false positives.

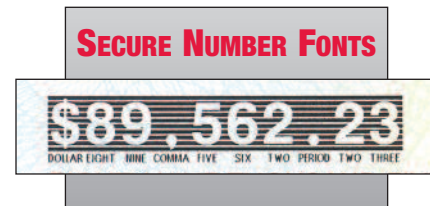
IMAGE SURVIVABLE BARCODE “SECURE SEAL” TECHNOLOGY

is a state-of-the-art encrypted barcode that is laser printed on the face of a check. The barcode contains all the critical information on a check – payee name, dollar amount, check number, routing and account numbers, issue date, etc. The barcode can be “read” using Optical Character Recognition (OCR) technology and compared with the printed information on the check. If the printed data does not match the barcode, the check can be rejected. This technology is image survivable. Some software providers also include Secure Name and Number Fonts.



SECURE NUMBER FONTS

prevent the dollar amount on the check from being altered without detection. Some fonts have the dollar amount image reversed out, with the name of the number spelled inside the number symbol. Although Positive Pay makes this feature redundant, it is a strong visual deterrent to criminals.



PASSWORD PROTECTION

Passwords should be 8+ characters and should include a capital letter and a character (e.g. !@#%&). An email address makes an excellent password. Because a company has more exposure from dishonest employees than from a hacker, two people should be required to print checks, add new vendors, and add or change employees and pay rates.

CHECK SECURITY FEATURES

In response to the alarming growth of check fraud, the check printing industry has developed many new security features. The best features are illustrated here. While nothing is 100% fraudproof, combining ten (10) or more security features into a check will deter or expose most check fraud attempts.

CONTROLLED PAPER

is manufactured with many built-in security features, such as a true watermark, visible and invisible (UV light-sensitive) fibers, and multi-chemical sensitivity. To keep the paper out of the hands of forgers, the paper manufacturers have written agreements that restrict the paper's use and distribution. Ask for and read the written agreement. If there is none, the paper may not be controlled.

CONTROLLED CHECK STOCK

are high security checks that are printed on controlled paper. The check manufacturer does not allow the checks to be sold entirely blank without them first being customized. Ask your check printer for their written policy about blank check stock. If there is none, the check stock most likely is not controlled. **See Page 10.**

FOURDRINIER WATERMARKS

are faint designs pressed into the paper while it is being manufactured, and are also known as "true" watermarks. When held to the light, these watermarks are easily visible from either side of the paper for instant authentication. Copiers and scanners are not capable of replicating dual-tone Fourdrinier (true) watermarks.

FOURDRINIER WATERMARKS

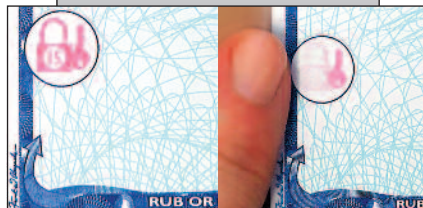


THERMOCHROMATIC INKS

react to changes in temperature. Some thermo inks begin to fade away at 80°F and disappear completely at 90°F. The ink then reappears when the temperature cools to

78°F. Thermo ink's reaction to temperature changes cannot be replicated on a color copier or laser printer. Checks with thermo ink should have properly worded warning bands.

THERMOCHROMATIC INK



EXPLICIT WARNING BANDS

are printed messages that call specific attention to the security features found on the check. These bands should instruct the recipient to inspect a document before accepting it (not merely list features) and may discourage criminals from attempting the fraud. A properly worded warning band may protect a company from some Holder In Due Course claims. **See Page 19, Pomerantz Staffing Services.**

EXPLICIT WARNING BANDS

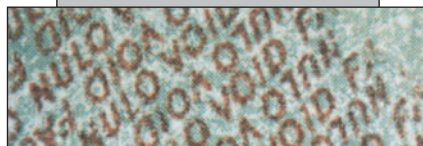
DO NOT ACCEPT THIS CHECK

RUB OR BREATHE ON THE PINK

MULTI-CHEMICAL REACTIVE PAPERS

produce a stain or speckles or the word "VOID" when activated with ink eradicatort-class chemicals, making it extremely difficult to chemically alter a check without detection.

MULTICHEMICAL REACTIVE PAPERS

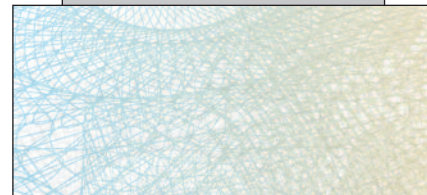


Checks should be reactive to at least 15 chemicals.

PRISMATIC PRINTING

is a multicolored printed background with gradations that are difficult to accurately reproduce on many color copiers.

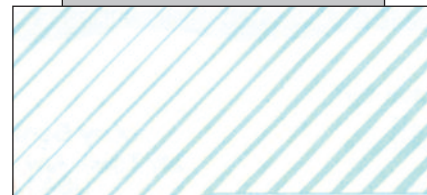
PRISMATIC PRINTING



LAI D LINES

are parallel lines on the back of checks. They should be of varying widths and unevenly spaced. Laid lines make it difficult to physically "cut and paste" dollar amounts and payee names without detection.

LAI D LINES



COPY VOID PANTOGRAPHS

are patented designs developed to protect a document from being duplicated. When copied or scanned, words such as "COPY" or "VOID" become visible on the photocopy, making it non-negotiable. This feature can be circumvented by high-end color copiers.

COPY VOID PANTOGRAPHS

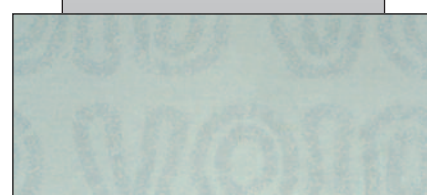


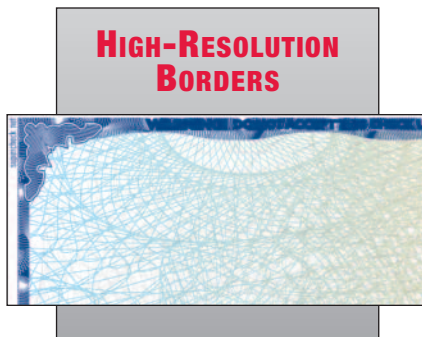
IMAGE SURVIVABLE SECURE SEAL BARCODE

is an encrypted barcode that is laser printed on the face of the check. The barcode contains all the critical information found on the check. **See Pages 7 and 16.**



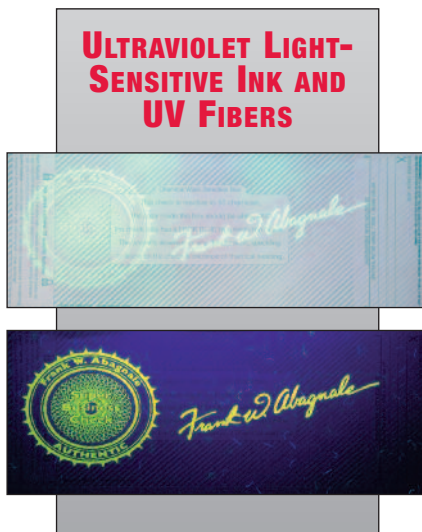
HIGH-RESOLUTION BORDERS

are intricately designed borders that are difficult to duplicate. They are ideal for covert security as the design distorts when copied.



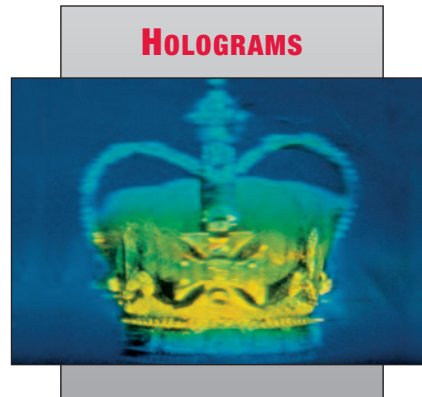
ULTRAVIOLET LIGHT-SENSITIVE INK AND FIBERS

Ultraviolet light-sensitive ink and fibers can be seen under ultraviolet light (black light) and serve as a useful authentication tool.



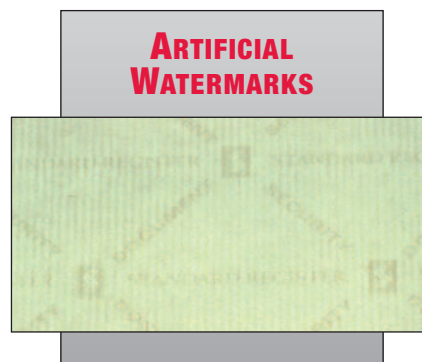
HOLOGRAMS

are multicolored three-dimensional images that appear in a reflective material when viewed at an angle. They are an excellent but expensive defense against counterfeiting in a controlled environment. Holograms are usually not cost-effective on checks, but are valuable in settings such as retail stores where a salesperson or attendant visually reviews each item before acceptance. Holograms enhance admission passes, gift certificates and identification cards.



ARTIFICIAL WATERMARKS

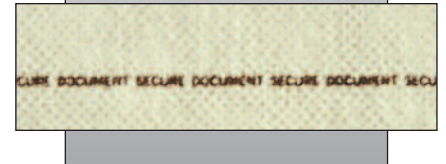
are subdued representations of a logo or word printed on the paper. These marks can be viewed while holding the document at a 45° angle. Customized artificial watermarks are superior to generics. Copiers and scanners capture images at 90° angles and cannot see these marks. However, to the untrained eye, their appearance can be replicated by using a 3% print screen.



MICROPRINTING

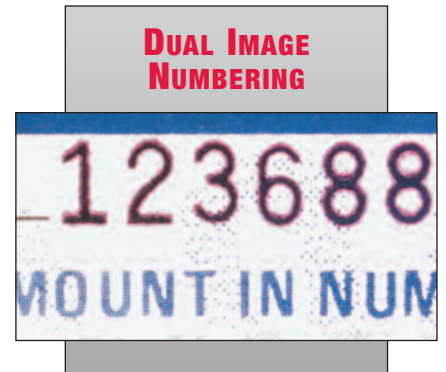
is printing so small that it appears as a solid line or pattern to the naked eye. Under magnification, a word or phrase appears. This level of detail cannot be replicated by most copiers or desktop scanners.

MICROPRINTING



DUAL IMAGE NUMBERING

creates a red halo around the serial number or in the MICR line of a check. The special red ink also bleeds through to the back of the document so it can be verified for authenticity. Color copiers cannot accurately replicate these images back-to-back.



HIGH SECURITY CHECKS

help deter many check fraud attempts by making it more difficult for a criminal to alter or replicate an original check. They help thwart some Holder in Due Course claims (**See Page 19**), and establish the basis for an indemnity claim under Check 21's Indemnity Provision. (**See Page 6**). High-security checks should have at least ten (10) safety features, the most important being that the check is a "controlled" stock. This means the check is never sold or made available entirely blank. Forgers can make authentic-looking checks using original blank checks, a scanner and Adobe Illustrator. An organization may be held liable for these fraudulent checks.

Other "best" features are a dual-tone true watermark, UV ink, thermochromatic ink (accompanied by a properly worded warning band), and toner anchorage. Frank Abagnale designed the **SuperBusinessCheck**, **SAFEChecks** and the **Supercheck** to help individuals and organizations have access to high security checks at reasonable prices. **See Pages 10-13.**

SAFEChecks

SAFEChecks were designed by Frank Abagnale with 12 security features, and are virtually impossible to replicate accurately using desktop publishing tools or a color copier. SAFEChecks are printed on controlled, true-watermarked security paper. To prevent unauthorized use, SAFEChecks are never sold completely blank without first being customized for each specific customer.



12 SAFETY FEATURES

Covert Security Features

Controlled Paper Stock

Toner Anchorage on Laser Checks

Copy Void Pantograph

Chemical Reactivity – to 85 chemicals.

Fluorescent Fibers – Become visible under ultraviolet light.

Overt Security Features

Thermochromatic Ink – The pink lock and key icons fade away when warmed above 90° and reappear at 78°. This reaction cannot be replicated on images created by a color copier.

Fourdrinier (True) Watermark – The true watermark is visible from either side when the check is held toward a light source. It cannot be color copied or scanned.

Explicit Warning Bands

Chemical Wash Detection Box – See Figure 2 on page 13.

Sequenced Inventory Control Numbers

Microprinting

Laid Lines

AVAILABLE STYLES

LASER - TOP



LASER - MIDDLE



LASER - BOTTOM



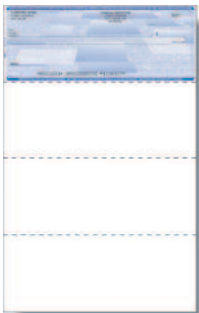
CONTINUOUS - 1 PART



CONTINUOUS - 2 PART



LEGAL LASER - TOP



LEGAL LASER -
SECOND PANEL



LEGAL LASER -
PANELS 2 & 4



CONTINUOUS - 3 PART



**PRESSURE SEAL
CHECKS
ALSO
AVAILABLE**

SAFEChecks also offers secure laser check writing software, MICR toner cartridges, and envelopes. Call (800) 755-2265 x 3302.

NOT USING POSITIVE PAY?

You should! Talk to your banker ASAP.

Visit

PositivePay.net
SafePay123.com

MORE FRAUD PREVENTION TIPS

Visit

SAFEChecks.com
FraudTips.net
Supercheck.net

ABAGNALE SUPERBUSINESSCHECK

The SuperBusinessCheck is the most secure business check in the world. Designed by Frank Abagnale with 16 security features, the check is virtually impossible to replicate or alter without leaving evidence. The SuperBusinessCheck is printed on very tightly controlled, true-watermarked security paper. For your

protection, the SuperBusinessCheck is never sold completely blank without first being customized for a specific customer. Available styles are shown below. **Pricing can be found on the Web at SAFEChecks.com or Supercheck.net.**

16 SAFETY FEATURES

COVERT SECURITY FEATURES

Controlled Paper Stock
Toner Anchorage
Chemical Sensitivity
Copy Void Pantograph
Chemical Reactive Ink
Fluorescent Ink
Fluorescent Fibers
Microprinting

OVERT SECURITY FEATURES

Thermochromatic Ink
Fourdrinier (True) Watermark
High-Resolution Border
Prismatic Printing
Explicit Warning Bands
Chemical Wash Detection Box
Sequenced Inventory Control Numbers
Laid Lines



"After years of designing checks for Fortune 500 companies and major banks, I designed the Supercheck, the SuperBusinessCheck and SAFEChecks to help consumers, medium and small businesses, and organizations protect their checking accounts."

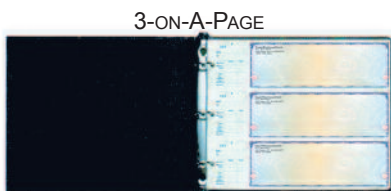
Frank W. Abagnale



AVAILABLE STYLES



PRESSURE SEAL CHECKS ALSO AVAILABLE



SECURE ORDERING PROCEDURES

To prevent unauthorized persons from ordering checks on your account, SAFEChecks verifies all new check orders with your bank. We confirm that the name, address and account number on the order form match the data on file with the bank. Check orders are shipped to the address on file with the bank. Reorders with a change of address are re-confirmed with the bank. Our Secure Ordering Procedures are in place for your protection, and are unparalleled in the check printing industry.

PLEASE PHOTOCOPY THIS FORM TO ORDER CHECKS



SAFE Checks®

Download a price list at SAFEChecks.com

8934 Eton Avenue (800) 755-2265
Canoga Park, CA 91304 Fax (800) 615-2265

How did you hear about us? ☐ Seminar by Frank Abagnale ☐ Seminar by _____ ☐ Other _____

CUSTOMER NAME, ADDRESS AND PHONE NUMBER

☐ To be printed on checks ☐ For file information (not printed on checks)

Phone () _____

Please MAIL a VOIDED ORIGINAL CHECK with this completed order form. We will call you to confirm receipt.

BANK NAME AND ADDRESS

☐ To be printed on checks ☐ For file information (not printed on checks)

Please MAIL to:

Attention:

Account Number

Routing / Transit:

Bank Fraction:

Bank Representative

Bank Representative's Phone #

Check Starting Number

Quantity

Text to be printed above signature lines

☐ Check this box for two signature lines

☐ **Custom Logo** - Camera-ready art or electronic file (diskette or e-mail) is required. Send to: graphics@safechecks.com
JPG, EPS, PSD, TIFF & BMP are acceptable formats

☐ Standard Turnaround (most orders ship in 5-7 business days)
☐ RUSH (RUSH FEE APPLIES) Date you must receive checks _____

Shipping Instructions: ☐ Overnight UPS ☐ Two-day UPS ☐ Ground UPS
☐ Other: _____

LASER CHECKS

☐ **8 1/2 X 11 Frank Abagnale's SuperBusinessCheck** (one color design only)

☐ Top Check
☐ Middle Check
☐ Bottom Check
☐ 3 Laser Checks per Sheet

☐ **8 1/2 X 14 Frank Abagnale's SuperBusinessCheck** (one color design only)

☐ Top Check
☐ Check in 2nd Panel

☐ **8 1/2 X 11 SAFE Checks**

☐ Top Check ☐ Blue ☐ Green ☐ Red ☐ Plum
☐ Middle Check ☐ Blue ☐ Green
☐ Bottom Check ☐ Blue ☐ Green

☐ **8 1/2 X 14 SAFE Checks**

☐ Top Check ☐ Blue ☐ Green ☐ Red
☐ Check in 2nd Panel ☐ Blue ☐ Green
☐ Check in 2nd & 4th Panels ☐ Blue ☐ Green

How are your laser checks placed in the printer? ☐ Face Up ☐ Face Down

Software Name

Version #

CONTINUOUS CHECKS

☐ **Single** ☐ Blue ☐ Green Check: ☐ Top ☐ Bottom
☐ **Duplicate** ☐ Blue ☐ Green
☐ **Triplicate** ☐ Blue ☐ Green ☐ Red

Software Name

Version #

PRESSURE SEAL

Pressure seal checks are custom designed. Call (800) 755-2265 ext. 3306.

Make and Model # of Folder/Sealer: _____

Make and Model # of Printer: _____

SAFE Checks SECURE ORDERING PROCEDURES

To prevent unauthorized persons from ordering checks on your account, all new check orders are verified with your bank. We confirm that the name, address and account number on the order form match the information on file with the bank. Check orders are shipped to the address on file with the bank. Reorders with a change of address are re-confirmed with the bank.

THREE-ON-A-PAGE HANDWRITTEN CHECKS

☐ **Single Stub (General Check) Frank Abagnale's SuperBusinessCheck**

☐ **Three-on-a-Page Binder**

Prepared by: _____

Phone Number: _____

Fax Number: _____

Email: _____

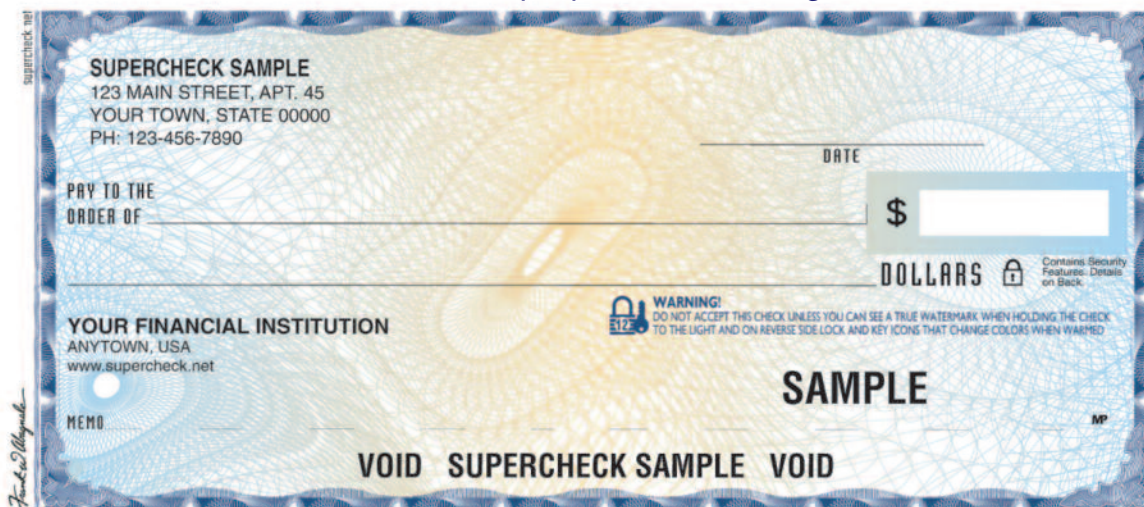
Date: _____

Download a price list at SAFEChecks.com

The by
acco

reactive to 85 chemicals, is Check 21 compatible, and is nearly impossible to replicate or to alter without leaving evidence. It is “the check for people with something to lose.”

“The check for people with something to lose”



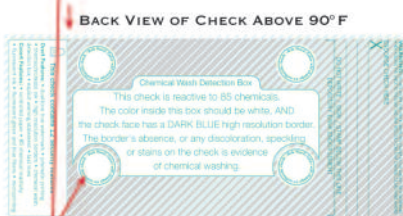
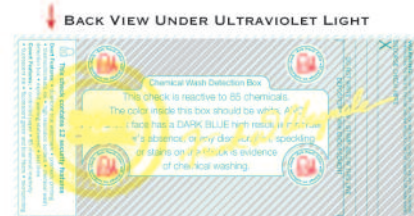
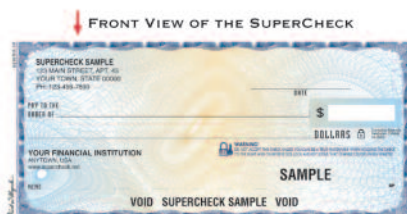
Supercheck Wallet Single



Supercheck Wallet Duplicate



Controlled Paper Stock
Fourdrinier (True) Watermark
Thermochromatic Ink
Chemical Sensitivity
Explicit Warning Bands
Prismatic Printing
Chemical Wash Detection Box
High-Resolution Border
Laid Lines
Fluorescent Fibers
Fluorescent Ink
Microprinting



THERMOCHROMATIC INK LOCK AND KEY ICONS
FADE AWAY AT 90° F AND REAPPEAR AT 78° F

PLEASE PHOTOCOPY THIS FORM TO ORDER CHECKS

***Our Secure Ordering Procedures** are unmatched in the check printing industry. For your protection, we verify that the name, account number, and mailing address match the information on file with your financial institution. Checks are shipped to the address on file or directly to your financial institution. Reorders with a change of address are re-verified with your financial institution.*

We need all three (3) items below to complete your order:

1. Completed ORDER FORM
2. VOIDED CHECK (indicate any changes on the face)
3. VOIDED DEPOSIT SLIP

Please mail to:

SAFEChecks
P.O. Box 8372
Van Nuys, CA 91409-8372

Delivery Times:

Allow 3 weeks for delivery.
Expedited service is available.
Call (800) 755-2265 ext 3304

ORDER SUMMARY

| ORDER SUMMARY | Check Start # | # of Boxes | Total (price + s/h) |
|------------------------------------|---------------------------------------|---------------|------------------------|
| Wallet Supercheck Single | | | |
| Wallet Supercheck Duplicate | | | |
| Single - \$29.95 per box of 150 | SubTotal | | |
| Duplicate - \$32.95 per box of 150 | California residents add sales tax | | |
| Shipping/Handling - \$4.00 per box | TOTAL | | |

PAYMENT OPTIONS:

____ Debit this checking account ____ Check or Money Order enclosed
(made payable to SAFEChecks)

Bill my credit card: MasterCard Visa

Credit Card Account Number / Expiration Date

Security Code

Cardholder Name

Authorized Signature

Billing address of credit card if different from address on checks

Name _____ Primary Telephone (We do not give or sell your information to anyone.) _____

| | |
|---------------|--|
| Email Address | Alternate phone where you can be reached |
|---------------|--|

Please mail checks to the:

Address on checks (this address must be on file with the financial institution)

Financial institution

| | | | |
|----------------|------|-------|-----|
| Branch Address | City | State | Zip |
|----------------|------|-------|-----|

Other _____
Address must be on file with bank

★★★ FOR BANKERS AND MERCHANTS / RETAILERS ★★★

Cashiers and tellers are the “front line” in the fight against check fraud. Below are several simple procedures to follow to help catch fraudulent and altered checks.

- Don't let a customer's appearance lull you into a false sense of security. Frank Abagnale once cashed a \$50 check written on a cocktail napkin, before a hidden camera for television, because the bank teller was more impressed by his appearance than by the “check.” When you are in a hurry, or want to make an exception, consider how you will defend your decision if the check is returned. Then, only the check itself will matter, not the circumstances in which you took it.
- When viewing a license for identification, always ask yourself: Is the person in the photo and in front of you the same person? Do the addresses on the check and the license match? Has the license expired? If so, do not accept the check.

- Be cautious of new checking accounts. Most “hot” checks come from accounts less than a year old. The consecutive number in the right hand corner often begin with 101; be careful when taking low numbered checks. Some banks now print a date code on the check of when the account opened.
- On drafts issued by savings banks, the routing number may start with 2 or 3. Credit union drafts are honored by the bank on which they are drawn. U.S. Government checks have the routing number 000000518. Traveler's Checks have routing numbers starting with 8000.



FEDERAL RESERVE BANK CODES:

- 01—Massachusetts, Maine, New Hampshire, Connecticut, Vermont, Rhode Island
- 02—New York, New Jersey, Connecticut
- 03—Pennsylvania, Delaware, New Jersey
- 04—Ohio, Pennsylvania, Kentucky, West Virginia
- 05—Virginia, Maryland, North Carolina, Washington D.C., South Carolina, West Virginia
- 06—Georgia, Alabama, Florida, Tennessee, Louisiana, Mississippi
- 07—Illinois, Michigan, Indiana, Iowa, Wisconsin
- 08—Missouri, Arkansas, Kentucky, Tennessee, Indiana, Illinois, Mississippi
- 09—Minnesota, Montana, North Dakota, South Dakota, Wisconsin, Michigan

- 10—Missouri, Colorado, Oklahoma, Nebraska, Wyoming, Kansas, New Mexico
- 11—Texas, New Mexico, Louisiana
- 12—California, Oregon, Washington, Utah, Hawaii, Alaska, Idaho, Nevada, Arizona



Things to look for in an authentic check:

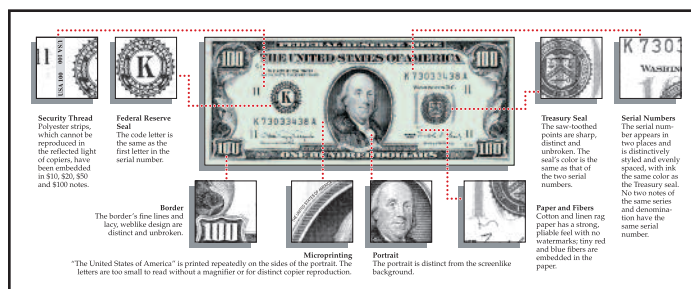
1. **Perforations.** There will be at least one perforated edge on all legitimate checks (except for government checks, card stock checks, and counter or temporary checks that do not have pre-printed names.)
2. **Routing Code.** There are nine numbers between two colons on the bottom of the check. The first two numbers indicate in which of the 12 Federal Reserve Districts the bank is located. (See graphic, above right.) Criminals often change the routing number, causing the check to be sent to the wrong Federal Reserve District for processing, thus giving them more time to continue their crime.
3. **Magnetic Ink.** This special ink for printing a check's MICR line is flat and dull. If it looks bright and shiny, it's counterfeit. Also, the MICR numbers on a counterfeit check may smear with moisture from your fingers.
4. **Warning band on face of the check.** Read it and follow it. If security features are listed, look for those features. Do not accept the check if they are missing or if the check appears to be altered.
5. **Watermarks.** True watermarks can be seen by holding the check to the light. Artificial watermarks can be seen when viewed at an angle.
6. **Thermochromatic ink.** Test the heat sensitive ink by gently breathing on or by rubbing it. If the ink does not fade, do not accept the check.
7. **Dollar amounts or payee names** that do not line up, or that have a type font that is inconsistent, are most likely fraudulent.
8. **Discoloration or speckles on the face or back of the check.** Any discoloration or speckles indicates chemical “washing.”
9. **Added Payee names.** If a name has been added above or beside the original name and the check is being cashed by that second person, it may have been added fraudulently. Examine the alignment carefully.
10. **Photocopy.** A check that looks like it is a photocopy probably is one. It may be shiny or have the word “void” showing lightly in the background of the check. Amazingly, photocopied checks have been cashed by tellers and cashiers!
11. **Laid lines** (thin, parallel lines on the back of the check) that do not line up with each other. If they don't align, then a “cut and paste” alteration may have occurred.
12. **Microprinting** (words printed so small they look like a solid line to the naked eye) may look blurred under a magnifying glass on checks that have been photocopied.

HOW TO AUTHENTICATE GOVERNMENT CHECKS

HOW TO AUTHENTICATE TRAVELERS CHECKS

HOW TO RECOGNIZE COUNTERFEIT CURRENCY

HOW TO RECOGNIZE CREDIT CARD SECURITY FEATURES



FOR DETAILED IMAGES AND SPECIFIC INFORMATION, VISIT www.FraudTips.net/AbagnaleTips

MOBILE BANKING CHECK FRAUD

Mobile banking is the newest frontier in the “Wild, Wild West” of cyber banking, and Mobile Remote Deposit Capture (MRDC) is its hottest product. As with any newly emerging technology, time will reveal what vulnerabilities exist, how they will be exploited by criminals, and what new defenses will be developed.

In 2009, many banks scoffed at the idea of consumers depositing checks via their smart phones. Now 80% of banks are offering or plan to

offer Mobile RDC. With new banking technology comes new fraud opportunities. Banks are tuned into the risks of mobile banking, but they have no control over their customers’ mobile devices and the viruses that may infect them and steal their login credentials. People must be very vigilant for fraudulent exploits. There are several new apps available to protect mobile devices, MyLookout.com. For more reviews, go to: <http://mobile-security-software-review.toptenreviews.com>

MOBILE BANKING DEPOSIT FRAUD

The following scenario is real: John Doe picks up a check made payable to “John Doe” from a title insurance company (or any company). John walks outside, and using his smart phone with his bank’s mobile app, takes a picture of the front and back of the check and uploads them for deposit. Five minutes later he returns to the title company, gives back the check and asks that it be replaced with a new check made payable to himself AND another party, such as his wife, Jane Doe. The title company issues a new check payable to John or Jane Doe. They don’t place a Stop Payment on the check because it is in their posses-

sion. John Doe cashes the replacement check, and waits a day for the first check to clear before withdrawing the money. John Doe’s bank is a Holder In Due Course, and after 24 hours, is under no obligation to return the funds to the company that issued the check.

Recommendation: If a check leaves the office even for one minute, and is returned for a replacement, place a Stop Payment on that check. In the above scenario, the Payee should be required to sign an affidavit that he has not remotely deposited his check and that he is liable for all expenses and fees recovering the stolen funds.

CHECK FRAUD SCAM ALERT

Thousands of people have been burned in simple check fraud scams. The scams involve checks that look real, but are counterfeit. There are many variations to the scam, but one scenario works like this: You receive an email or letter announcing that you have won a large prize or award. You are advised that taxes must be prepaid on the award, but a check for a portion of the award or prize will be mailed to you. Soon, a real-looking check in excess of the taxes owed arrives, with instructions to deposit the check and remit the taxes by wire transfer. Upon receipt of the taxes, the balance of the award will be sent to you.

After depositing the check and wire transferring the “taxes,” the check is returned unpaid, and you owe the bank the value of the check.

A second scenario is when someone buys something from you, and pays with a bogus check that appears genuine. The check exceeds the

purchase price, and you are instructed to deposit the check, keep what you are owed, plus \$100 “for your trouble,” and to wire the purchaser the rest of the money. Of course, the check is bad.

A third scheme is when the fraudster pays you for an item with a check made payable to him – e.g. an insurance company check. The check exceeds the amount he owes you. The fraudster endorses the check to you, and you deposit the check and give him the balance. Days or even months later, the check that the thief gave you is returned.

Fourth, someone buys a car or boat from you and pays with a bogus Cashier’s Check after the bank is closed and verification is impossible.

Of course, in every scenario, the check is fraudulent and is returned unpaid. You are liable to the bank for the dollar amount of the check.

Search “check fraud scams” on the Internet.

SMALL BUSINESS AND SECURITY COMPLIANCE

Merchants and retailers are becoming more dependent on information-processing systems, and thieves are becoming more sophisticated in their ability to penetrate those systems. In today’s economy, it is critical for a company’s systems to be secure.

Organizations are now required to develop methods to protect the privacy and financial information of their customers. Payment Card Industry (PCI) Standards have been created that impose security requirements on all merchants who store, transmit, or process credit card information. There is increasing pressure on companies to become “PCI Compliant.”

In addition, consumers are now more conscious about security issues. Serious, multi-faceted consequences make it imperative for companies to protect themselves and their customers from cyber crime. Of those organizations that were victims of cyber crime, and should have been “PCI compliant,” 89% were not.

Compliance to the PCI standards may have thwarted many of the cyber crime attacks, and would have protected the information being sought by cyber criminals.

Large companies have long been aware of compliance with PCI Standards. Smaller organizations are now under pressure to become

compliant, but many lack the in-house knowledge or the financial resources to do so.

Many new enterprises are offering compliance solutions for small organizations. Panoptic Securities allows merchants to assess their security needs online for free. It then provides low-cost solutions for them to bring their standards into line. Other companies offering security services include Qualys, Comodo HackerGuardian, VeriShield System by VeriFone, Magnesafe by MagTek, MAXX Business Solutions, mailMax by Trustwave, and SonicWALL. Hacker Safe Search Feed automatically integrates the Hacker Safe seal into comparison-shopping listings; companies using this service have seen a substantial increase in revenues.

Companies that take advantage of these solutions will be able to better avoid compromising situations and retain the trust of their clients, in addition to avoiding fines and penalties for non-compliance.

Excerpted from “Small Business Security, Entrepreneurial Solutions” by W. Gibb Dyer, Jr., PhD. Brigham Young University Marriott School of Management Alumni Magazine, Fall 2008. To read the complete article, visit www.FraudTips.Net/BYUMagFall2008

SECURE SOFTWARE

SECURE CHECK WRITING SOFTWARE



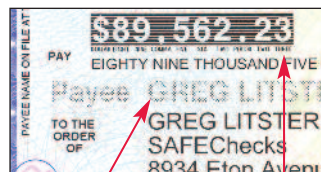
SAFEChecks partners with a software company that specializes in highly secure laser check writing systems. They have developed an encrypted, image-survivable "secure seal" barcode which can be printed on the front of laser checks. The barcode is the newest technological weapon in the fight against check fraud. It contains all the information found on a check, including the maker, payee name, check number, dollar amount, issue date, and the X,Y coordinates of each piece of data. It is on-board Positive Pay without the need to transmit the check issue file to the bank (the bank must have the decryption tool).

The barcode can be created with a printer driver, which can also create a Positive Pay file to transmit to the bank. The barcode also creates an audit trail, as the laser printer and who printed the check, and the date and time are captured. Every barcode is unique. The check face is "read" using Optical Character Recognition (OCR), and the barcode data is compared to the printed data on the check. If the two don't match, the check is a suspect item. High-level encryption prevents it from being altered for fraudulent purposes.

As shown below, the barcode, Secure Name Font and Secure Number Font are great visual deterrents to would-be criminals, discouraging them from attempting alterations.



**CHEQUEGUARD
SECURE SEAL BARCODE**



**SECURE NAME FONT
SECURE NUMBER FONT**

As shown above, the ChequeGuard printer driver includes a Secure Name Font to prevent added payee names, and a Secure Number Font to prevent altered dollar amounts.

The check writing software can print checks for multiple divisions, multiple accounts, and multiple banks in a single run using essentially blank check stock without the need to switch check stock between check runs. Its signature control feature allows up to five levels of signature combinations. The ACH module can make payments electronically, with remittance detail printed or emailed.

**For software information, contact SAFEChecks
(800) 755-2265 x 3301 or
greg@safechecks.com**

POSITIVE PAY

Positive Pay is one of the most important tools available to prevent check fraud. Developed by bankers years ago, Positive Pay is an automated check matching service offered by many banks to businesses and organizations. It helps stop most (not all) counterfeit and altered checks. When Positive Pay is used with high security checks, such as the **Abagnale SuperBusinessCheck** or **SAFEChecks** fraud losses can be cut dramatically. **See Pages 10 - 11.**

Positive Pay requires a check issue file (information about checks that have been issued) to be sent to the bank before the checks are disbursed. The most common obstacle to using Positive Pay is a company's inability to format the check issue file and securely transmit the information to its bank. SAFEChecks created **SafePay** to help companies and organizations use their banks' Positive Pay service. **SafePay** is PC-based and is compatible with virtually all accounting systems and check writing software.

The **SafePay** package (SafePay123.com) sells for \$399 and includes a free order of the **Supercheck**. **See Pages 10 - 13.**



Caution: Some companies have the mistaken notion that if they use Positive Pay they do not need to use high security checks.

This is a serious misconception. Positive Pay and Payee Positive Pay are not foolproof! Consider this analogy: Using Positive Pay is like catching a thief standing in your living room, holding your jewels. Although it is good that the thief was caught, it would be better to have the thief look at your house and go elsewhere. This is where high security checks are important. They DETER, or discourage, many criminals from attempting fraud against your account.

High security checks and Positive Pay are critical companions in effective check fraud prevention strategy.

Supercheck.net SafePay123.net PositivePay.net

SHREDDING DOCUMENTS

Never throw away important documents, including papers with personal information, or anything with your name and address on it without shredding it first. It is best to use a crosscut shredder or a microcut shredder rather than a "regular" straight shredder. A crosscut shredder will cut the paper into tiny squares. A microcut shredder will turn the papers into confetti. Paper that has been shredded with a regular straight shredder can be pieced back together, and criminals will have your personal information.

Crosscut and microcut shredders can be found at most major office supply stores.

Frank Abagnale and SAFEChecks recommend the
uni-ball® 207™ Gel Pen



The uni-ball® 207™ pen uses specially formulated gel inks with color pigments that are nearly impossible to chemically "wash." It retails for under \$2, is retractable and refillable, and images perfectly. It can be found at most office supply stores.

CYBER CRIME PROTECTION

Although successful cyber crime incidents and losses have fallen precipitously, there were still over 4 million records compromised last year, with an average loss of \$100,000 per victim organization.

Cyber crime is a mature, underground international “business” and criminals are continually more inventive and malicious. Well-organized syndicates now sell customized malware and out-of-the-box hacking tools to novice computer users, allowing them to join the cybercrime business instantaneously.

Individuals and organizations must be continually vigilant, using various resources and strategies to thwart attacks and minimize damage.

The top methods used by cyber criminals are malware and hacking. The most common malware source is code that is installed or injected by a remote Attacker, such as the simple and effective SQL injection.

There are two types of Web-based malware – auto-executed code (a “drive-by download”) and code that needs additional interaction; by users, for example, who have been convinced to “click here to clean your infected system.”

Attackers customize malware to make it more effective, and “malware-as-a-service” is a hot commodity in cyberville. Almost 60% of attacks used customized malware.

With hacking, the two most frequent methods were exploiting a backdoor or control channel, and exploiting default or easily guessable credentials.

The old game of phishing now has new twists: smishing – a text message requesting personal information; vishing – using the telephone to get personal information, such as a recording saying that a bank account has been compromised; and spearphishing – using real names known to the intended victims, thus improving the success of the scam.

There has also been a significant increase in the use of physical attacks – criminals efficiently installing “skimmers” on hundreds of local gas pumps, ATMs, POS systems, and other credit card input devices, collecting data for their fraudulent purposes.

In addition, smart phones, iPads, tablets, and “anything an IP address” are now becoming targets for cyber criminals.

Here are the sad facts of cyber crime:

- 83% of victims were targets of opportunity
- 86% of breaches were found by a third party.

- 92% of attacks were not highly difficult
- 96% of breaches were avoidable through simple or intermediate controls.

The good news is that there is much we can do, ranging from the simple to the intermediate, to thwart most cyber criminals. Here are some of the ways individuals, families, and organizations can protect themselves. For more information, see “Resources” below.

FOR INDIVIDUALS/FAMILIES

- Use anti-virus and anti-spyware software on your computer.
- Use a properly-configured firewall, which helps make you invisible on the Internet and blocks incoming communications from unauthorized sources.
- Consider adding security software to your smartphone, iPad, tablet, etc. See <http://mobile-security-software-review.toptenreviews.com>.



- Do not follow links found in email messages from untrusted sources, as these may be links to spoofed Web sites. Manually type the URL into your browser bar.
- Completely close down your Internet browser after doing online banking or shopping.
- Never reply to an email, text, or pop-up message that asks for personal or financial information.
- Download software only from trusted sites.
- Restrict which applications you install on social networks, cell phones, etc., and never install a codec from a random Web site.
- Don't send sensitive files over a Wi-Fi network unless it is secure. Most public “hot spots” are not secure.
- When you are not using Wi-Fi, turn off the wireless connection to your laptop.
- Don't respond to a message asking you to call a phone number to update your account or give your personal information. If you need to reach an organization, look the number up yourself.
- You can track your child's keystrokes,

emails, IM, MySpace, Facebook and websites visited with **Spector Pro** (spectorsoft.com). You can also have their emails forwarded to you by including **eBlaster**. Never divulge the source of your “parent's intuition.”

- Never open an email attachment unless you are expecting it or know what it contains.

FOR COMPANIES AND ORGANIZATIONS

- The recommendations for individuals (above) also apply to companies and organizations.
- Perform appropriate background checks on new employees.
- Implement security policies to restrict unauthorized access to sensitive data.
- Require that all sensitive data be encrypted or password protected before transmission. Adobe Acrobat 7 and higher does this easily. Other programs may, as well.
- Regularly review updated patches for your operating system software, and install those that tighten your security.
- Review network log data to identify any unusual or unauthorized events. Such events may be a sign that the network has been compromised.
- Install software to limit the sites users may access; be cautious about visiting unknown or untrusted Web sites.
- Use a network-based Intrusion Prevention System (IPS).
- Maintain a whitelist of trusted Web sites, and disable individual plug-ins and scripting capabilities for other sites.
- Educate in-house developers about secure development practices, such as the Security Development Lifecycle.
- When employees leave the company, **immediately disconnect all** their access to the company's network and building, shut down remote connections, and collect their cell phones, iPAs, smartphones, etc. Change any passwords they used.
- Consider using a Virtual Private Network (VPN), an advanced networking feature for Wi-Fi transmissions.

RESOURCES

2010, 2011 Verizon Data Breach Investigations Report
2009-2011 CSI Computer Crime and Security Survey
Symantec Internet Security Threat Reports (2006-2011)
Cybercrime: The Growing Global Threat. J.P. Morgan Treasury Services, 2011
fbi.gov/cyberinvest/protect_online.htm (several articles on website)
PC Magazine (pcmag.com)
CNET Networks (cnet.com)

COURT CASES

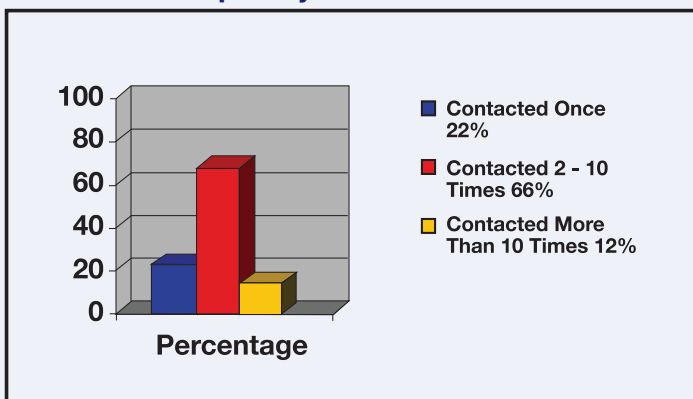
HOLDER IN DUE COURSE

Holder in Due Course, a powerful part of the Uniform Commercial Code, can adversely impact an organization's liability for check fraud, including those checks on which a "stop payment" has been placed. The 2009 Association for Financial Professionals *Payments Fraud and Control Survey* reported that 22% of organizations responding to the survey have been contacted by a third party claiming to be a Holder in Due Course (HIDC).

Of those contacted by an alleged HIDC, 66% had been contacted between 2 and 10 times. Another 12% had been contacted over 10 times. This was the first year Holder in Due Course had been included in the survey, indicating a growing and serious concern.

In the 2011 AFP Payments Fraud Survey, "losses resulting from Holder In Due Course situations, primarily related to duplicate checks negotiated at check-cashers are escalating rapidly. Forty-six percent of corporates cited this as the cause of loss, up from 37 percent in the 2009 survey."

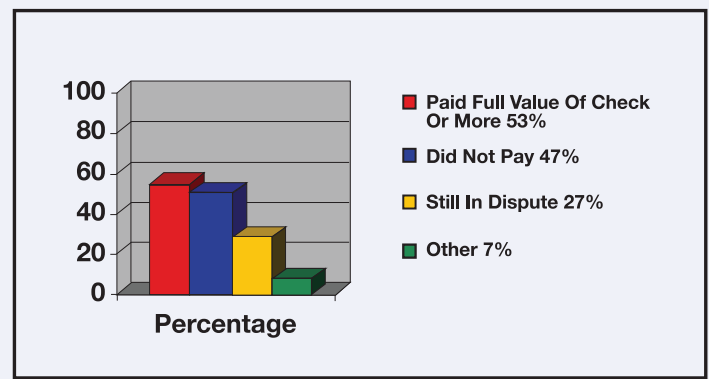
Frequency of HIDC Claims



Who or what is a Holder in Due Course? A Holder in Due Course is anyone who accepts a check for payment, and on the face of the check there is no evidence of alteration or forgery, nor does the recipient have knowledge of any fraud related to the check.

Under these conditions, the recipient is an HIDC and is entitled to be paid for the check. The statute of limitations under the UCC for an HIDC to sue the check's maker for its full face value is 10 years from the issue date, or three years from the date the check was deposited and returned unpaid, whichever comes first.

Actions Taken in Response to Holder in Due Course Claims



Holder in Due Course trumps stop payments and Positive Pay exceptions. Further, an HIDC can assign, sell, give, or otherwise transfer its rights to another party, who assumes the same legal rights as the original Holder.

Prudent companies use controlled high security checks to protect themselves from some HIDC claims.

The following three Federal Appellate Court cases illustrate the far-reaching power of Holder in Due Course laws.

ROBERT J. TRIFFIN v. CIGNA INSURANCE

Issue: Placing A Stop Payment Does Not Eliminate Your Obligation To Pay A Check

In July 1993, Cigna Insurance issued James Mills a Worker's Compensation check for \$484. Mills falsely claimed he did not receive it due to an address change, and requested a replacement. Cigna placed a stop payment on the initial check and issued a new check. Mills nevertheless cashed the first check at Sun's Market (Sun). Sun then presented the check for payment through its bank.

Cigna's bank dishonored the check, stamped it "Stop Payment," and returned the check to Sun's bank. Had Sun filed an HIDC claim against Cigna as the issuer of the check, Sun would have been entitled to be paid because of its status as a Holder in Due Course. Apparently Sun either did not know about HIDC or chose not to pursue it, because they merely pinned the check on a bulletin board in the store, for two years.

Robert Triffin bought the check from Sun, assumed its HIDC rights,

and filed this lawsuit in August 1995, over two years after the check was returned unpaid (statute of limitations is three years). The Court ruled in favor of Robert Triffin, and ordered Cigna to pay him \$484, plus interest.

Recommendation: Cause a check to "expire" before replacing it, or you may be held liable for both checks. Print an expiration statement on the check face such as, "THIS CHECK EXPIRES AND IS VOID 20 DAYS FROM ISSUE DATE." If a check is lost, wait 20 + 2 days from the initial issue date before reissuing. Many companies print "VOID AFTER 90 DAYS" but cannot reasonably wait that long before re-issuing a check.

A party that accepts an expired check has no legal standing to sue as a Holder in Due Course if the check is returned unpaid.

Superior Court of New Jersey, Appellate Division, A-163-00T5
lawlibrary.rutgers.edu/courts/appellate/a4000-95.opn.html

**An analysis of court cases can be downloaded from www.safechecks.com.
Click on Fraud Prevention Tips, then Holder in Due Course.**

ROBERT J. TRIFFIN v. SOMERSET VALLEY BANK AND HAUSER CONTRACTING CO.

Issue: You Can Be Held Liable For Checks You Did Not Issue or Authorize

Hauser Contracting Co. used ADP for payroll services. A thief obtained check stock that looked identical to ADP's checks and created 80 counterfeit payroll checks totaling nearly \$25,000 that were identical to the ADP checks used by Hauser Contracting Co.

A retailer who knew Mr. Hauser became suspicious and called him. Somerset Valley Bank also called. Mr. Hauser reviewed the in-clearing checks, which looked just like his, and confirmed the checks were unauthorized and the payees were not his employees. The bank returned the checks marked as "Stolen Check - Do Not Present Again."

Mr. Triffin bought 18 of these checks totalling \$8800 from four check cashing agencies, claimed HIDC status, and sued both Mr. Hauser and his bank for negligence for not safeguarding the payroll checks and

facsimile stamp. Because the counterfeit and authentic checks looked identical, the lower court ruled for Triffin. Hauser appealed, but the Federal Appellate Court upheld the lower court. The Court said the counterfeit check met the definition of a negotiable instrument, and because the check and signature were identical to an authentic check, the check cashing agency could not have known it was not authentic.

Recommendation: Use a **controlled check stock**, which means using checks that are uniquely designed or customized for your organization and are not available blank to others. **SAFEchecks** and the **SuperBusinessCheck** are controlled check stocks.

Superior Court of New Jersey, Appellate Division, A-163-00T5
lawlibrary.rutgers.edu/courts/appellate/a0163-00.opn.html

ROBERT J. TRIFFIN v. POMERANTZ STAFFING SERVICES, LLC

Issue: High Security Checks May Protect You From Some Holder in Due Course Claims

Pomerantz Staffing Services used high security checks that included heat sensitive (thermochromatic) ink on the back and a warning banner on the face that said, "THE BACK OF THIS CHECK HAS HEAT SENSITIVE INK TO CONFIRM AUTHENTICITY." Someone made copies of Pomerantz's checks, but without the thermo ink on the back. They cashed 18 checks totaling \$7000 at Friendly Check Cashing Company. Friendly's cashiers failed to heed the warning on the check face, and did not look for the thermo ink on the back. All 18 checks were returned unpaid, likely caught by Positive Pay.

Mr. Triffin bought the checks, claimed Holder in Due Course status, and sued Pomerantz. Pomerantz counter-sued and won! The judge correctly asserted that if Friendly had looked for the thermo ink as instructed, they could have determined the checks were counterfeit. Because they were provided a means to verify authenticity and failed to

do so, they were not an HIDC and had no rights to transfer to Mr. Triffin.

This case illustrates the value of check security features, a properly worded warning band, and a controlled check stock. Pomerantz was protected by his checks.

Recommendation: Use **high security checks** with overt and covert security features, including explicitly worded warning bands. Such security features will also help prevent other kinds of check fraud. The **SuperBusinessCheck** is a properly designed high security check with 16 security features.

<http://lawlibrary.rutgers.edu/courts/appellate/a2002-02.opn.html>

Visit www.fraudtips.net for an in-depth article, Holder in Due Course and Check Fraud, written by Frank Abagnale and Greg Litster. Click on Holder in Due Course.

CINCINNATI INSURANCE COMPANY v. WACHOVIA BANK

Wachovia Bank Wins Lawsuit Over Customer That Refused Positive Pay

Schultz Foods Company issued a check for \$153,856 to Amerada Hess Corporation. Thieves stole the check out of the mail, changed the name of the payee and convinced the new payee (an unwitting accomplice) to endorse the check and deposit it into his bank.

His bank presented the check for payment to Schultz Foods' bank, Wachovia Bank, and Wachovia charged \$153,856 against Schultz Foods' account. Before Schultz Foods discovered the fraud, the funds had been wired out, and the money disappeared.

When the fraud was discovered, Schultz Foods reported the altered check to Wachovia and demanded its account be re-credited. Wachovia refused, citing that Schultz Foods had been offered the chance to implement "Positive Pay" after three previous check fraud incidents, but had declined. Instead, Schultz Foods had purchased a check fraud insurance policy from Cincinnati Insurance Co. Positive Pay, however, would have prevented this loss.

Schultz Foods made a \$153,856 claim under its policy with Cincinnati, who paid the claim and filed suit against Wachovia to recover its loss.

Cincinnati contended that the altered check was not "properly payable" and Wachovia was liable for the loss. However, the Wachovia deposit agreement signed by Schultz Foods contained a list of precautions that a customer should take to protect their account. The Agreement included a conditional release of Wachovia's liability:

"You agree that if you fail to implement ... products or services [that are designed to deter check fraud], ... you will be precluded from asserting any claims against Wachovia for paying any unauthorized, altered, counterfeit or other fraudulent item"

Wachovia had not required Schultz Foods to absorb any losses because of the incidents, even though Schultz Foods never implemented Positive Pay. Cincinnati argued that Schultz Foods "had an expectation that Wachovia would reimburse Schultz Foods' account" for unauthorized charges if Schultz Foods took precautions such as closing its account. However, that expectation was contrary to Wachovia's deposit agreement, which contained an anti-waiver provision, allowing it to waive enforcement of the terms of the Agreement.

Even though Wachovia voluntarily shielded Schultz Foods from past check fraud losses, its deposit agreement protected it from liability created by a precedent.

The Court agreed with Wachovia's argument that the deposit agreement between Wachovia and Schultz Foods required Schultz Foods either to implement Positive Pay or to assume responsibility for any fraud losses caused by its failure to implement Positive Pay.

For the complete court case and commentary, visit www.safechecks.com/fraudprevention.

IDENTITY THEFT IS ON THE RISE

Identity theft has grown exponentially over the past few years, spurred by the financial rewards, the relative ease of committing the crime, and the low probability of being caught. According to the Federal Trade Commission, nearly 9 million Americans are victimized each year, costing consumers \$5 billion, and banks and corporations \$56 billion every year. To clean up one's credit report and associated complications requires an average of \$1173 and 175 hours.

Stealing wallets or purses is still the primary method to obtain another person's personal information. Today, "dumpster diving," combined with Internet Web sites and search engines, help criminals identify and exploit their victims.

Criminals gain access to individuals' credit reports by posing as potential landlords, employers or loan officers. They "shoulder surf" at checkout lines and videotape transactions at ATM machines to capture PIN numbers. They steal mail from mailboxes for bank or credit card statements and newly issued credit cards, and "dumpster dive" in trash bins for credit card and loan applications that have not been shredded. After combining key pieces of individuals' identities, they are able to impersonate their victims, obtain loans and steal the money.

Identity thieves are very brazen. In one incident, the identity thief took out a life insurance policy on his victim. In another incident, an identity thief was arrested after two victims living in the same apartment complex struck up a conversation about their travails. This coincidental conversation ultimately led the police to arrest a person that worked in the business office of the complex and had access to the rental applications and credit reports of present and past tenants.

Contrary to popular belief, even people with bad credit can be victims of identity theft.

Generally, victims of banking and credit card fraud will be liable for no more than the first \$50 of the loss. However, the victim must notify financial institutions within two days of learning of the loss to avoid being responsible for the fraudulent activity.

Even though victims are usually not responsible for paying their imposters' bills, their credit report is always left in shambles.

It takes months or even years to regain their financial health. In the meantime, they have difficulty writing checks, obtaining loans and housing, and even getting a job. Victims of identity theft seldom find help from the legal authorities as they untangle the web of deception created by their imposter.



RECOMMENDATIONS

Consider these recommendations to reduce your potential risk of identity theft:

SOCIAL SECURITY NUMBER

1. Guard your Social Security number vigilantly. It is the key to your credit report and is the criminals' prime target.
2. Do not print your SSN on your checks.
3. Order your Social Security Earnings and Benefits Statement once a year and look for employers you didn't work for. Someone may be using your identity for a job.
4. Monitor your credit report. It contains your SSN, present and past employers, a listing of all account numbers, including those that have been closed, and your credit score. After applying for a loan, credit card, rental, or anything else that requires a credit report, request that your SSN on the application be truncated or completely obliterated, and your original credit report be shredded once a decision has been made. (A lender or rental manager needs to retain only your name and credit score to justify his/her decision.)

INTERNET / COMPUTERS

5. Make sure your computer is protected with Internet security software that is updated regularly. **See Cyber Crime, Page 17.**
6. Do not download anything from the Internet that you did not solicit. Activate the pop-up blocker on your computer.

7. Shop only on secure websites. The web address should begin with <https://>. It must have the "s" or it is not a secure site. You can also look for a padlock or key in the bottom right corner of your screen.

8. Avoid using a debit card when shopping online. Credit cards have a maximum liability of \$50 for fraudulent charges; debit cards can go up to \$500 or more.

9. Use a strong password. While it is easier for you to have one that is simple, it is also easier for crooks.

10. When possible, choose to have a second-level password on an account. Choose a password that is more difficult.

11. Never leave your laptop anywhere you wouldn't leave your baby...in the car, in a gym bag, at a restaurant. According to Amitron.org, stolen laptops and computers account for nearly 40% of security breaches.

12. Before donating your computer to a recycling center, completely wipe out all confidential information. This requires special software, and more than just reformatting.

CREDIT CARDS

13. Shred old bank and credit card statements, "junk mail" credit card offers and old tax returns. Use a crosscut or microcut shredder. These shredders cost more than regular shredders but are superior. When Iranian students in Tehran stormed the US embassy in 1979, the embassy staff had shredded their most important documents; however, they used a regular shredder. The enterprising students hired carpet weavers and they reconstructed the shredded documents.

14. Never give your credit card number or personal information over the phone unless you initiated the call and trust that company.

15. When you are shopping or dining, be aware of how salespeople or waiters handle your card. Make sure they do not have a chance to copy your card.

16. Examine the charges on your credit card when your statement arrives. Also, keep track of the billing cycles of your cards. If a statement doesn't arrive when it should, it could mean that a thief has changed the mailing address on your account.

17. Minimize the number of credit cards you own to reduce the opportunity for a criminal to steal a card.

18. Carry extra credit cards or other identity documents only when needed.
19. Shred the card on unused credit card accounts. If you close the account, it may lower your credit score because of reduced credit availability.
20. Put a fraud alert tag on your credit report, which will limit a thief's ability to open accounts in your name.

BANK ACCOUNTS/CHECKS/PINS

21. Use high security checks like those shown on **Pages 10 – 13**. Criminals "wash" ordinary checks in chemicals, dissolving what you wrote without affecting the check. When the check is dry, forgers insert new data. High security checks react to chemicals, showing that they have been washed.
22. Do not mail checks from home. They can be stolen from your mailbox, chemically washed and re-used. Go to the post office.
23. When writing manual checks, use the uni-ball® 207 gel pen. Its ink will not dissolve in chemicals.
24. Protect your PIN. Forgers steal wallets and cell phones, then sort through the contacts for the spouse. They then send a text message to the spouse asking to be reminded of the PIN.

MISCELLANEOUS

25. Be highly suspicious of unsolicited emails or letters that say you won money.
26. Remove your name from the marketing lists of the three credit reporting bureaus to reduce pre-approved credit offers.
27. Add your name to the Name Deletion List of the Direct Marketing Association (www.dmaconsumers.org/offmailinglist.html).
28. Subscribe to Privacy Guard or another

similar service to alert you if your credit history is being requested. Verify that the service will track all three credit agencies and will alert you in "real time."

29. Avoid ATMs that are not connected to a bank or a reputable business. Shield the keypad when entering your PIN.
30. Protect your incoming mail by picking it up ASAP. If you will be away for a period of time, have your mail held at the post office.
31. Keep your purse or wallet in a locked drawer at work. Find out how the company protects your personal information, and who has access to your direct deposit information.



32. Photocopy the contents of your wallet and retain the copies. Copy both sides of each license and credit card so you have the account numbers, expiration dates and phone numbers if your wallet or purse is stolen.
33. Keep Social Security cards, birth certificates and passports in a locked box.
34. Read the privacy policies of the companies with whom you do business. Where possible, opt out of having your information shared with other companies.
35. Protect a dead relative. Contact the credit bureaus and put a "deceased" alert on the person's reports. Send copies of the death certificate to institutions where the person had an account.

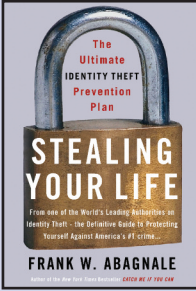
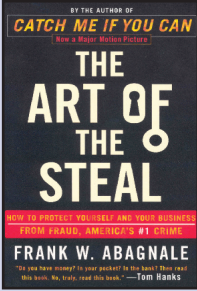
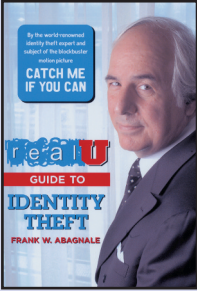
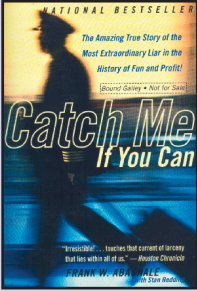
ALL THE RESOURCES YOU NEED. ALL IN ONE PLACE.

Even though you may take every possible precaution, identity theft can still happen to you. Consider these suggestions:

- Report the crime to the police immediately and get a copy of the police report.
- Keep a record of all conversations with authorities, lending and financial institutions, including names, dates, and time of day.
- Call your credit card issuers immediately, and follow up with a letter and the police report.
- Notify your bank immediately.
- Call the fraud units of credit reporting agencies to place a fraud alert on your name and SSN.

RESOURCES

- Equifax:
1-800-525-6285
www.equifax.com
- Experian:
1-888-397-3742
www.experian.com
- TransUnion:
1-800-680-7289
www.transunion.com
- Federal Trade Commission:
1-877-IDTHEFT (877-438-4338)
www.ftc.gov
- Privacy Guard:
1-800-374-8273
www.privacyguard.com/frank
- Trace My ID:
1-877-309-6584
www.tracemyid.com
- Privacy Rights Clearinghouse:
1-619-298-3396
www.privacyrights.org
- Fight Identity Theft:
info@fightidentitytheft.com
www.fightidentitytheft.com
- Identity Theft Resource Center:
1-888-400-5530
www.idtheftcenter.org
- National White Collar Crime Center:
1-800-221-4424
www.nw3c.org
- Social Security Administration
1-800-269-0271
www.socialsecurity.gov
- U.S. Postal Service:
1-800-275-8777
<https://postalinspectors.uspis.gov>

Books authored by Frank W. Abagnale
Available online at eRead.com or from local booksellers
Catch Me If You Can is also available on DVD



Frank W. Abagnale

Frank W. Abagnale is one of the world's most respected authorities on the subjects of forgery, embezzlement and secure documents. For over 30 years he has lectured to and consulted with hundreds of financial institutions, corporations and government agencies around the world.

Mr. Abagnale has been associated with the Federal Bureau of Investigation for over 30 years. He lectures extensively at the FBI Academy and for the field offices of the FBI. More than 14,000 financial institutions, corporations and law enforcement agencies use his fraud prevention materials. In 1998, he was selected as a distinguished member of "Pinnacle 400" by CNN Financial News. He is also the author and subject of *Catch Me If You Can*, a Steven Spielberg movie that starred Tom Hanks and Leonardo DiCaprio.

Mr. Abagnale believes that the punishment for fraud and the recovery of stolen funds are so rare, prevention is the only viable course of action.

SAFEChecks®

America's Premier Check Fraud Specialists



Checks offered by **SAFEChecks®** were designed by Frank Abagnale. As a former master forger, Mr. Abagnale's experience designing checks is unsurpassed. The story of Frank Abagnale and the origin of **SAFEChecks** follows.

SAFEChecks began in 1994 as a division of a California business bank. In the early 1990s, the bank experienced an enormous number of fraudulent checks paying against its customers' accounts. Over a three-year period, the bank saw altered and counterfeit checks increase from \$90,000 to over \$3,000,000. Many of these checks were perfect replications of authentic checks.

Greg Litster, then Senior Vice President and head of the bank's Financial Services Division, summoned the bank's primary check vendors and made a simple request: "Provide our business customers with checks that forgers cannot replicate or alter." These vendors included some of the largest check printers in the nation, yet none of them offered a high-security check.

With fraud losses mounting, Mr. Litster hired Frank Abagnale to assist the bank in its fight against forgers. Mr. Abagnale helped the bank strengthen its internal controls, and in 1994, at the bank's request, designed a new, high security business check. That check became **SAFEChecks**. Over the next three years the bank caused its corporate customers to use **SAFEChecks**, and fraud attempts and losses began to drop immediately. By the end of 1996, check fraud attempts fell to \$120,000, a 95 percent decrease from 1993 levels. Mr. Litster acquired the **SAFEChecks** operation from the bank in 1997, and is its president.

SAFEChecks offers high-security checks, including the Supercheck, the SuperBusinessCheck, and **SAFEChecks** business checks. **SAFEChecks** also offers Positive Pay file transmission software (see SafePay123.com), and MICR laser check printing systems with a Secure Name and Number font to help prevent altered payee names and dollar amounts.

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