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## **Public Advisory: Special Report on COUNTERFEIT CHECKS AND MONEY ORDERS**

### **Summary**

In recent years, law enforcement and regulatory authorities in Canada and the United States have seen a substantial increase in the number of counterfeit checks and money orders being sent to consumers in connection with various fraud schemes. In 2008 Public Safety Canada and the United States Department of Justice are once again jointly issuing a Public Advisory to warn the public about the growing use of counterfeit checks and money orders.

This Public Advisory looks at the magnitude of the counterfeit check problem and informs consumers about the risks of accepting and depositing counterfeit checks and money orders into their bank accounts. Further, consumers are informed about the steps that they should take when they receive communications offering to send them a check or money order. Essentially, consumers are informed about how to report possible counterfeit checks and money orders.

### **Facts**

Law enforcement and regulatory agencies in both Canada and the United States are seeing a substantial increase in the number of counterfeit checks and money orders that are being sent to consumers in connection with various fraud schemes.

Counterfeit check scams always use the same basic scenario; the fraudsters send counterfeit checks to potential victims and con them into depositing it in their bank account. The fraudsters then ask that part of the money be returned in cash or by wire transfer. By the time a victim learns from the bank that the check is bogus, it's too late.

In the United States, the number of Federal Deposit Insurance Corporation Special Alerts on counterfeit checks, bank drafts, and money orders has increased dramatically in recent years. The number has risen from 50 in 2003, to 75 in 2004, to 168 in 2005, and 318 in 2006. The number of special alerts in 2007 was comparable at 300. This represents a 500 percent increase in alerts in less than four years. The FBI has cited “the pervasiveness of check fraud and counterfeit negotiable instrument schemes” as a leading factor in the growth in external bank fraud, which has “replaced bank insider abuse as the dominant [financial institution fraud] problem confronting financial institutions.” In 2007, the U.S., Canada, and other countries jointly intercepted more than 590,000 counterfeit checks with a total face value of approximately \$2.3 billion.

Counterfeit checks and money orders are found in a growing array of fraud schemes. These include:

- Fraudulent sales schemes – in which consumers are defrauded by fraudsters purporting to sell valuable items such as cars and boats.
  - Fraudulent overpayment schemes – in which the fraudster contacts persons selling or renting items or property, then for one reason or another the fraudster overpays by check and then requests that the amount of the overpayment be wired to him.
  - Fraudulent postings on employment and social networking sites – through false postings fraudsters make contact with potential victims.
  - Internet fraud schemes – in which the Internet is used to defraud consumers by purporting to purchase valuable items such as cars and boats. Fraudsters also make use of personal information posted on employment and social networking websites by consumers.
  - Advance-fee schemes – in which consumers are contacted by people who purport to require assistance moving money out of a foreign country or to offer an inheritance or lottery winnings.
  - Telemarketing fraud schemes – in which consumers receives a counterfeit check as supposed payment of a prize or lottery winnings.
- Like this example, counterfeit checks are professionally produced and can appear to be as legitimate as any other check.



### What Risks Do Consumers Face If They Deposit Counterfeit Checks or Money Orders in Their Bank Accounts?

Consumers who accept and deposit counterfeit checks or money orders into their bank accounts soon learn that their financial institution will hold them liable for the full face value of the checks or money orders. If the deposited funds remain in the account until the financial institution learns of the fraud, the consumer will not be liable for the funds, since the funds would be immediately removed from the account by the financial institution. This would be similar to what occurs when an NSF (non-sufficient funds) check is deposited into an account. In most cases a service fee would also be incurred. However, should consumers withdraw or transfer the funds derived from the counterfeit check, they would be liable to the bank for the full amount removed. Thus, persons who wire-transfer or mail money back to the person who sent them a counterfeit check will lose that money. For example, a consumer received a check for \$15,000 and deposited into his bank account then wired \$5,000 of that amount to the check sender. Then, if later the check is proven to be counterfeit, the consumer would be liable to the financial institution for \$15,000. The financial institution would remove the remaining \$10,000 from the account and would hold the consumer liable for the \$5,000, which he wired to the fraudster. If the consumer had removed the entire \$15,000 from the account, the financial institution would demand repayment of the entire amount. In a number of cases, financial institutions that have discovered that a counterfeit check had been deposited in one of their accounts have contacted the police, believing that the consumer was attempting to engage in check fraud. The consumer will now be a suspect in a criminal offence and would be asked by the police to explain why they had deposited a counterfeit check into their account.

## Can People Recognize Checks or Money Orders As Counterfeit?

Sometimes, when criminals have been careless about altering or making copies of a legitimate check or money order, people may see that the images on the face or reverse of the check or money order are light, indistinct, or uneven. People who know that particular checks or money orders have certain special security features may also be able to recognize checks or money orders as possibly fraudulent if they see that one or more of these security features are missing.

The fact remains, however, that many counterfeit checks and money orders are of higher quality, and are likely to deceive even trained bank personnel at first. Criminals can use desktop-publishing software to print out counterfeit checks, often of high quality. Moreover, there is no one type of check or money order that criminals seek to counterfeit. Law enforcement and financial institution regulators know that the full range of counterfeit financial instruments now in use includes bank drafts, cashier's checks, government agency checks, official bank checks, personal checks, personal money orders, teller's checks, and treasurer's checks, as well as personal money orders and postal money orders.

## What Can People Do to Avoid Becoming Victims of a Counterfeit Check/Money Order Scheme?

Public Safety Canada and the United States Department of Justice recommend that consumers and businesses take the following steps when someone whom they do not know personally sends them a check or money order to pay for goods or services:

1. If the check or money order is made out in an amount larger than the purchase price for the goods or services, or if you see any signs that the check or money order has been altered in any way (for example, the face amount or signature appears to have been erased or written over), do not deposit the check in your account under any circumstances. A legitimate buyer can provide you with a check or money order in the exact amount of the purchase price. Depositing or cashing a counterfeit check, however, can result in a substantial loss to you.
2. Do not wire-transfer any funds from that check or money order back to a buyer if you do not know the buyer personally. If your financial institution or a law enforcement officer tells you that the check or money order you received is counterfeit, do not attempt to redeposit it in any way, as that may subject you to prosecution for check fraud.
3. If the sender of the check refuses to give you a check or money order for the exact amount of the purchase, and insists on sending you a check or money order for a higher amount, do not continue with the transaction. The only reason that someone would insist on sending you a check and requiring that

- you transfer a portion of the funds back to him is to commit fraud.
4. If you run a business that uses a substantial volume of checks, certain financial institutions offer a service that allows cleared checks to be matched against a data file of issued checks, to ensure that only matched entries are processed and that unmatched checks can be returned to the business rather than negotiated.

If you have received a check or money order that you have reason to believe may be counterfeit, you should retain the actual check or money order, and (if possible) the envelope in which it was mailed to you, in the event that a law enforcement agency may need the documents.

### How Can People Report Possible Counterfeit Checks and Money Orders?

#### In the United States:

- For possible online crimes involving counterfeit checks and money orders, file an online complaint with the Internet Crime Complaint Center (a joint project of the FBI and National White Collar Crime Center) at <http://www.ic3.gov>.
- For other possible crimes involving counterfeit checks and money orders, contact the local office of the FBI [<http://www.fbi.gov/contact/fo/fo.htm>], the Postal Inspection Service [<http://www.usps.com/postalinspectors/fraud/ContactUs.htm>], or the U.S. Secret Service [[http://www.secretservice.gov/field\\_offices.shtml](http://www.secretservice.gov/field_offices.shtml)].

#### In Canada:

- The RCMP advises that Canadian consumers contact:
  - Their local police service
  - The Canadian Anti-Fraud Call Centre (toll-free 1-888-495-8501), or
  - Report Economic Crime Online (RECOL) at the [RECOL website](#)

## **Additional Information**

For further information on counterfeit checks and money orders, please consult the following sources:

FBI Financial Institution Fraud and Failure Report for Fiscal Year 2005, at <http://www.fbi.gov/publications/financial/2005fif/fif05.htm>

The Canadian Anti-Fraud Call Centre, PhoneBusters, - Cheque Overpayment Fraud, at [http://www.phonebusters.com/english/recognizeit\\_advfeefraudover.html](http://www.phonebusters.com/english/recognizeit_advfeefraudover.html)

Postal Inspection Service, Postal Money Order Security, at <http://www.usps.com/postalinspectors/moalert.htm>

Royal Canadian Mounted Police, Items for Sale and Overpayment of Goods, at [http://www.rcmp.ca/scams/overpayment\\_e.htm](http://www.rcmp.ca/scams/overpayment_e.htm)

United States Secret Service, Financial Crimes Division, at [http://www.secretservice.gov/financial\\_crimes.shtml](http://www.secretservice.gov/financial_crimes.shtml)