



## **Business Check Fraud is on the rise.**

**Check fraud isn't new and is a common scheme affecting businesses.** Paper check usage has declined, but remains a common payment method for many businesses, making them a target for fraudsters. Check fraud has re-emerged as an appealing way for fraudsters to target businesses, as business accounts generally hold more funds than personal accounts. If you've discovered that your business has been impacted by check fraud, it's important to act quickly and carefully. Please review the following on how to report check fraud and steps to protect against it.

### **How Does Check Fraud Occur?**

There are many types of check fraud which can happen in a variety of ways. Mail theft is one common way for criminals to obtain checks for fraudulent purposes. Fraudsters may work alone or in a group to steal outgoing checks from United States Postal Service facilities, blue collection boxes or private mailboxes located in buildings or homes or incoming checks from the offices where they are delivered.

Once stolen, the checks may be **altered** or used to create **counterfeit** checks, which are either cashed by a bad actor or deposited, typically into a bogus account, after which the funds are immediately withdrawn before the fraud is ever detected.

- **Altered Checks:** Fraudsters may take a check and change the recipient's name and/or the amount on a check, often using a process sometimes called "check washing," which uses chemicals to remove the original information from the check.
- **Counterfeit Checks:** Fraudsters may use a stolen check to create fraudulent checks. Using the information on the stolen check, including the authorized signature, account number, and routing number, they can create counterfeit checks that look like they were issued by the same company that issued the original check. Today's technology has made it easier than ever to create realistic-looking fraudulent checks, even with a home printer.

### **Fraud by Employees**

In some instances, the check fraud may be committed by an employee. Even a well-trusted, long-time employee who has access to the company's accounts may turn to check fraud after a tragedy or financial crisis occurs in their personal life.

### **Investigating Check Fraud**

If your company has been affected by check fraud, it's important to act within the first 24 hours, carefully and with discretion. The recovery process is very challenging. It can take the Bank of First Deposit months to respond to check recovery requests/fraud affidavits. First, review your account activity to make sure other instances of fraud haven't occurred. If you find other discrepancies, be sure to keep a record of all transactions. As soon as possible, report the fraud to your banker.

You may also wish to contact local police or applicable law enforcement agencies. To help with the investigation, you'll need to identify the recipient's name and the detail on the original check. You may want to obtain an image of the fraudulent check from your bank to provide to law enforcement.

Do not confront, question or alert any suspected wrongdoers as doing so may ultimately impede the success of the investigation.

## How to Prevent Check Fraud

We advise businesses to implement the following actions to help protect against check fraud.

- **Order checks from HFB or a known vendor** - Checks with security features are more difficult to duplicate.
- **Review Transactions** - Use online banking to **review daily transaction activity** and review check images. Doing so can help your company identify fraud quickly and potentially recover funds if fraud has occurred. If a fraudulent check is caught within 24 hours of clearing your account, it can be returned to the "Bank of First Deposit" through normal banking processes.
- **Electronic Payments** - Utilize electronic payments instead of paper checks when possible.
- **Avoid Using Mailboxes** - Mailing checks inside the post office (rather than leaving them in mailboxes) offers greater protection against the risk of stolen checks. If feasible, deliver check payments in person.
- **Add Internal Procedures** - Be sure that your employees who are authorized to sign checks are not the same people who reconcile your accounts.
- **Secure Storage** - Be sure to store check and deposit slip stock and bank statements securely and consider implementing destruction practices.

Even if check fraud has already affected your business, taking time to improve your processes and help combat check fraud can help protect your company from a future loss.

For more tips on how to protect your business against fraud, visit <https://www.ftc.gov/business-guidance/small-businesses>.

## Takeaways

- Understand that check fraud schemes are on the rise.
- Importance of reviewing account transactions, at least once per day.
- If your business is mailing checks, drop them off inside the post office.
- Instead of issuing checks, use other methods to make payments such as set up auto-debit with vendors, use online bill pay to issue payments or wire funds.
- Use technology to detect and help prevent check fraud. For example, talk to your Relationship Manager about adding *Positive Pay* for checks issued from your business checking or add *ACH Positive Pay* to protect your business against fraudulent ACH debits or other electronic payments.