Avoid Costly Scams Involving Fake Checks and Money Orders

There has been explosive growth in counterfeit personal and business checks, cashier's checks and money orders in the last few years, due in part to new technologies and the growth of the Internet for transactions among strangers. But what's especially troubling is that individual consumers and businesses are losing significant sums in these scams — often thousands of dollars — because they deposited a check from a stranger, withdrew the funds and then sent money or merchandise before their bank discovered that the check was fraudulent.

In these cases, *the depositor most likely will be held responsible for the entire amount of the fraudulent check.* Why? Because by depositing the check and withdrawing money, the consumer is taking responsibility for the funds that have been spent or sent before the check is found to be worthless. And often the withdrawal cannot be cancelled or reversed, especially with wire transfers, in which funds are transferred out of the account immediately. Also, the person who receives the check usually is in the best position to realize that it may not be good.

Money isn't the only thing that can be lost to a fake check scam. In one example reported to the FDIC several years ago, a person "sold" a classic car then worth $41,000 to a scam artist who used a counterfeit cashier's check.

The FDIC and other Federal Agencies have been warning about check fraud for years, but given the increase in fake checks and the costs to victims, we offer these key reminders.

1. If you deposit a check from a stranger, discuss the situation with your branch manager before spending that money or handing over anything of value.
It's safer not to accept checks from strangers, but if you do, tell the manager about the circumstances surrounding the check and ask when the check is likely to be considered "good" (paid).

While federal regulations require institutions to make funds from a deposit available quickly — generally within one to five business days — it can take a couple of weeks or longer before the bank discovers that the deposited check is worthless.

"The check could be counterfeit or bounce because of insufficient funds, and your bank will most likely hold you responsible for that money," said Michael Benardo, manager of the FDIC's financial crimes section. "If the other party badgers you at any time about waiting, especially if you are directed to send funds, tear up their check and stop all communications."

So, protect yourself by not touching the deposited funds until you explain to your branch manager the details of the transaction and the source of the check, and you wait for the manager's go-ahead to use the funds.

2. Walk away from any deal if you get a check for more than the amount due and you're instructed to return the difference. Let's say you sell a $5,000 item over the Internet and the buyer sends a check or money order for $10,000. The buyer, who has an explanation why the check is for more

than what you expected, instructs you to deposit the check and wire the excess amount to his account or to the account of an associate. It may take a couple of weeks, but eventually the check will be returned as counterfeit.

Using our example, you may need to reimburse your bank for $10,000, even if that's far more money than you have in your account. You may also have lost the item you were selling.

3. Recognize other warning signs of a check scam. "It's very difficult for the average consumer or business owner or even bank teller to recognize a counterfeit check, so you're usually better off looking for the basic signs of a scam instead of focusing on the check itself," said David Nelson, a fraud specialist at the FDIC.

In addition to the warning signs we've already described, here are other red flags of a check fraud (and additional commentary from Nelson):

• The reasons for receiving a check are suspicious. ("How could you win a lottery you never entered?" Nelson said. "And if you really won something and owed money, why wouldn't they just deduct that amount from your winnings?")

• You're asked to send money outside of the United States. ("That's because it is difficult to track people down in another country.")

• You're pressed to send money right away. ("They're rushing you to act before you discover that the check is bad.")

• You're warned to keep things quiet — to not discuss the deal with a bank employee or anyone else. ("It's to prevent your banker or others from warning you about a counterfeit check.")

4. Take additional precautions to make sure a check is good. Consider insisting on being paid with a money order or a cashier's check (not a personal check) drawn on a local bank or a bank that has a local branch. That way you can take the check to that bank's branch to ensure it's valid.

Also consider asking for a money order from the U.S. Postal Service. These come in values of up to $1,000 for domestic money orders and up to $700 for inter-national money orders.

To confirm that a Postal Service money order is valid or to cash it, you can take it to a local post office. You can also verify a Postal Service money order by using an automated service at toll-free 1-866-459-7822 .

Private financial services companies also issue money orders, but it's up to you to take appropriate precautions.

For example, "Don't depend on a phone number that's printed on a check or money order," Nelson stressed. "If this is a fraud, one of the criminals may answer and tell you that the check or money order is legitimate, or you may get a voice mailbox that the swindlers set up to sound real and reassuring."

In general, it's always best to use a phone number listed in your phone book or another directory, not the number printed on a check or money order or told to you by the other party.

Another way to be more comfortable that you're dealing with an honest person — especially someone you're dealing with over the Internet — is to try to confirm his or her name, address, home number and work number through some independent means, such as an online database or directory assistance.

5. Immediately report if you think you're a victim of a check fraud or if you notice something suspicious. Contact your bank as well as the local office of the FBI (listed in your phone book and on the FBI website at www.fbi.gov/majcases/fraud/fraudschemes.htm).

For more information, visit the "Looks Too Good to be True" website (www.lookstoogoodtobetrue.com), a joint effort of federal law enforcement agencies and corporate partners that is intended to educate consumers on how to avoid Internet frauds, including those that involve counterfeit cashier's checks and money orders. It includes a test you can take to see if you are at risk for check fraud.

Remember, if you think someone is trying to scam you with a fake check,

DON'T CASH IT! REPORT IT!

Contact the National Consumers League National Fraud Information Center at

www.fraud.org

or

(800)876-7060.