

Texas Department of Banking

Press Release

Check Processing Fraud Targets Money Service Businesses

Date: October 13, 2004

AUSTIN, TEXAS--Texas Department of Banking Commissioner Randall S. James warned money service businesses (MSBs) and banks to beware of check processing scams involving stolen checks that have been fraudulently endorsed. In most of the cases, the fraudulent activity is being initiated by individuals residing outside of the United States, but claiming to have business relationships with U.S. based companies. The Commissioner stated, "We have seen an increasing number of cases in this area and several millions of dollars have been lost to promoters attempting to capitalize on the difficulties of clearing U.S. checks through foreign banks."

Most of the activity to date has involved the solicitation of MSBs with business ties to Mexico. According to Commissioner James, it is not uncommon for businesses or individuals to seek an account holder in the United States through which to clear checks that are payable in U.S. dollars. In many cases, funds may not be available for up to forty days if the check is payable in U.S. dollars and deposited into a bank account in Mexico.

For an attractive fee or commission, holders of U.S. bank accounts (such as MSBs and others) are requested to deposit or process checks through their accounts on behalf of individuals operating in foreign countries. Typically, the payees on the checks have been Mexican companies or individuals which appear to have legitimately endorsed the checks. In fact, however, the checks are stolen and the endorsements forged. Upon discovery, the forged endorsed checks are returned to the endorsing bank and charged against the funds of the U.S. account holder. A claim for a forged endorsement can be made up to three years per Section 3.118(g) of the Texas Business & Commerce Code.

Commissioner James warned MSBs to be highly suspect of any request to process checks for a fee. Such activity should only be undertaken after close scrutiny of all parties involved and verification of the legitimacy of business dealings with U.S. firms. Depositor financial institutions are advised to closely monitor the activity of MSBs and be cautious of an increase in deposit activity involving co-endorsements.

Financial institutions, including MSBs, that suspect such activity or are solicited to conduct check processing, should contact the Texas Department of Banking toll free at 877-276-5554 or through their website. If the activity involves funds crossing the U.S. border, the Department of Homeland Security should also be contacted at (800) 973-2867.