

A GUIDE TO CHECKS AND CHECK FRAUD



WACHOVIA

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Introduction

With annual losses of over \$20 billion, check fraud is a significant problem affecting banks, companies and individuals across the globe. The American Bankers Association has stated that check fraud is growing 25 percent per year, with over 500 million forged checks deposited annually.

Perpetrators of check fraud are continually looking for ways to outsmart the system and are becoming increasingly more savvy and creative.

As one of the largest check processing banks in the world today, as well as one of the original founders of the cash letter, Wachovia is well aware of the ramifications of check fraud on both our own institution and our customers. As such, we believe it is our obligation to continually train and educate the users of check services around the world. Despite emerging anti-fraud technologies and a growing array of enhanced check services, an educated user is still one of the best defenses against this growing epidemic.

We have compiled this reference guide from the leading sources of check and check fraud information available today. The first section provides a general overview of a check, the various types of checks, processing standards, endorsements, return item reasons and other helpful information important in being able to identify fraud. The second section builds on the first, outlining the various forms of check fraud, helpful hints in detecting fraud, as well as some of the latest trends that will help us win the battle. Finally, in the pocket attached to the back of this book, we will provide you, from time to time, with the latest updates concerning the check industry. As of this publication, we are attaching descriptions of the latest issues in the check industry.

We would like to give special thanks to Frank W. Abagnale of Abagnale and Associates and Greg Litster of SafeChecks, the Federal Reserve Bank, as well as to our customers and Wachovia specialists who are continually on the front line helping us combat fraud losses.

As always, feel free to contact your Relationship Manager with any questions you might have concerning check solutions or any other international banking service. Be sure to visit our Web site at wachovia.com.

About Wachovia

Wachovia Bank, N.A., is among the top five banks in asset size in the United States. We are both a premier domestic and international banking organization, serving financial institutions, corporations and individuals. Internationally, we have over 200 years of experience. With our network of offices and affiliates, our superior international communications facilities, as well as thousands of correspondent banks around the globe, we are ranked as one of the top banks in global banking today.

“Wachovia has done an excellent job in assembling one of the most comprehensive guides on checks in the industry today ... an indispensable resource for anyone involved in the check business.”

Frank W. Abagnale*

President

Abagnale and Associates

“In publishing this resource guide, Wachovia has once again demonstrated its expertise in the collections and international correspondent banking business, and its unwavering commitment to the field of treasury management.”

Greg Litster

President

SafeChecks

* Mr. Abagnale is an internationally renowned check fraud expert and consultant and, in his youth, a master forger. Today, Mr. Abagnale lectures on check fraud and white-collar crime at the FBI Academy in Quantico, VA, and its field offices. He has consulted with hundreds of major banks and corporations around the world. The movie, “Catch Me If You Can,” was based on his life story.

SECTION I:
THE BASICS OF CHECKS AND CHECK PROCESSING

Types of Checks

Commercial Checks/Personal Checks

Commercial or personal checks are written by individuals or businesses for varied amounts. Unless otherwise noted on the face of the check, these items become stale dated six months after issuance.

This type of check can be cleared either through cash letter deposit or through a collection process. Upon presentment, the bank of first deposit (BOFD) in the United States must encode the dollar amount on the Magnetic Ink Character Recognition (MICR) line of the check to enable it to be processed through high-speed equipment.

JOHN Q. PUBLIC 01-98 101
Any Street
Anytown, USA 01234 Date _____ 66-19578 NC 27
Pay to the order of \$ _____
ABC Bank
For _____
@000067890: 000123456101* 101

Traveler's Checks

Traveler's Checks are negotiable instruments purchased by the user for a fixed amount. Because they are pre-paid, these items do not expire or become stale dated.

Typically lower in value, traveler's checks are best cleared through cash letter deposit. If prepared separately from commercial/personal checks and drafts, traveler's checks do not need to be encoded with the dollar value by the bank of first deposit in the United States. An algorithm built into the MICR line of the item allows high-speed equipment to determine its face value.



Exhibit 1.1: ORIGIN OF CHECKS

Some think the Romans invented checks about 352 B.C., but there is no evidence that the idea caught on. Widespread usage of the check did not occur until the early 1500s in Holland. Amsterdam was a major shipping and trading center. People who had accumulated cash began depositing it with Dutch "cashiers" for a fee, as a safer alternative than keeping their money at home. Over time, the cashiers agreed to pay their depositors' debts based on a written order, or "note" to do so. The concept soon spread to England and elsewhere, but many people in the 16th and 17th centuries still had doubts about trusting their money to strangers and little pieces of paper.

Checks in the United States

In the United States, the first checks were said to have been used in 1681, when cash-short businessmen in Boston wrote checks against land they had mortgaged to a "fund." The first printed checks are traced to 1762 and British banker Lawrence Childs. The word "check" may also have originated in England (or more appropriately — "cheque") in the 1700s, when serial numbers were placed on these pieces of paper as a way to keep track of, or "check" on, them.

Check Clearing

As checks became more widely accepted, the process to collect the money from each bank became a big problem. At first, messengers were sent to present the checks, but that was risky and required a lot of travelling. According to banking lore, a solution was found in the 1700s either at a British pub or coffee shop. A bank messenger stopped for a pint (or coffee?) and noticed another bank messenger. Through the ensuing conversation, they realized they each had checks drawn on each other's bank and decided to exchange them and save themselves the trip. The practice evolved into the system of check "clearing houses" — networks of banks that meet in a central location to exchange checks with each other.

Official Checks/Cashier's Checks

Official checks or cashier's checks are direct obligations of the bank on which they are drawn. These drafts, in which the drawer and drawee are the bank or branches of the same bank, are signed by an officer or employee of that bank.

This type of check is generally sold by banks to substitute the bank's credit for the customer's credit, thereby enhancing the collectibility of the item. Provided to customers or acquired from the bank for remittance purposes, official checks or cashier's checks should be treated as a check and cleared through cash letter deposits or through the collection process.



U.S. Treasury Checks

U.S. Treasury Checks are drawn on the U.S. government for varied amounts. This type of check is void after 12 months of the issue date.

U.S. Treasury Checks must be cleared through cash letter deposit. These items are not eligible to be sent on a collection basis.

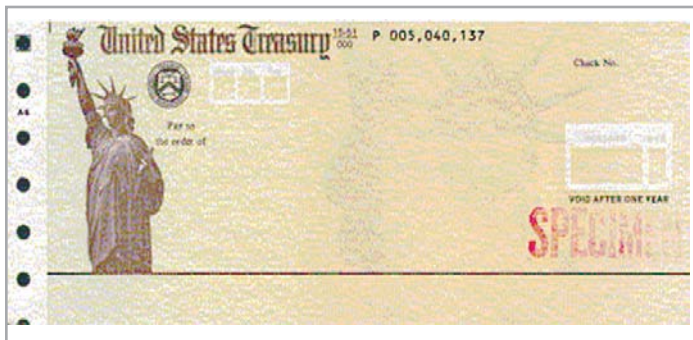
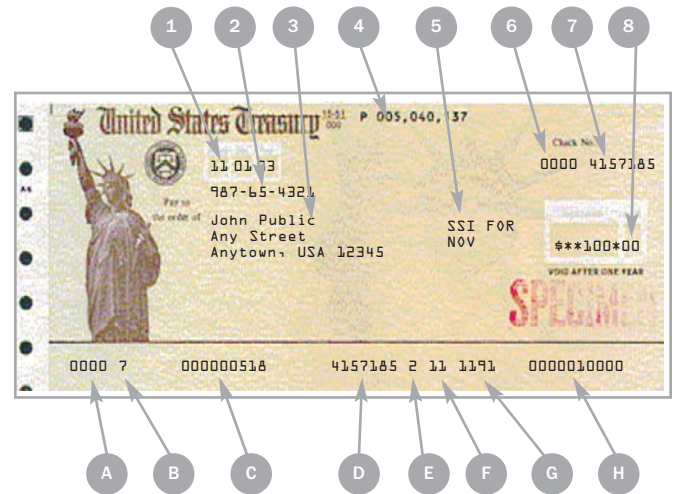


Exhibit 1.2: U.S. Treasury Check Reference Table



- 1 Issue Date
- 2 Payee Claim/Payroll Identification
- 3 Payee Name
- 4 Issuing Government Finance Center
- 5 Issue Type
- 6 Check Symbol
- 7 Check Number
- 8 Issue Amount

The letters below describe where information is located on the MICR line. The reference letters correspond to the above sample.

- A Check Symbol
- B Check Digit
- C Routing Number Unique to Treasury Checks
- D Check Serial Number
- E Check Digit
- F Federal Agency Code
- G Issue Date
- H Paid Amount

Postal Money Orders

There are two types of instruments of which you need to be aware. The first is prohibited from being sent to U.S. banks for processing. The second is permissible.

1) U.S. Domestic Postal Money Orders —

This is imprinted on both the front and back of the check with the statement “Negotiable Only in the United States and Possessions.” **Receipt of any of these items in a cash letter from a correspondent outside of the United States or its possessions (listed below) will require us to debit that correspondent bank’s account for the value of these instruments.**

U.S. territories and possessions permitted to honor this document include:

- Baker Island
- Guam
- Howland Island
- Jarvis Island
- American Samoa
(Manua, Swain’s and Tutila Islands)
- Johnston Island
- Kingman Island
- Midway Island
- Navassa Island
- Northern Mariana Islands
(Rota, Saipan and Tinian Islands)
- Palmyra Island
- Puerto Rico
- Sand Island
- Wake Island
- U.S. Virgin Islands
(St. Croix, St. Thomas and St. John Islands)

Freely Associated States permitted to honor this document include:

- The Federated States of Micronesia
(Kosrae, Pohnpie, Chuck and Yap Islands)
- The Republic of the Marshall Islands
(Majoru and Ebeye Islands)
- The Republic of Palau, including Koror Island

2) **U. S. International Postal Money Order** — Foreign banks ARE authorized to accept these items. The international postal money order is to be used to send funds from the United States to beneficiaries in all foreign countries who have entered into an agreement with the U.S. Postal Service. This document may be honored by banks in any foreign country.



Exhibit 1.3: U.S. DOMESTIC POSTAL MONEY ORDERS

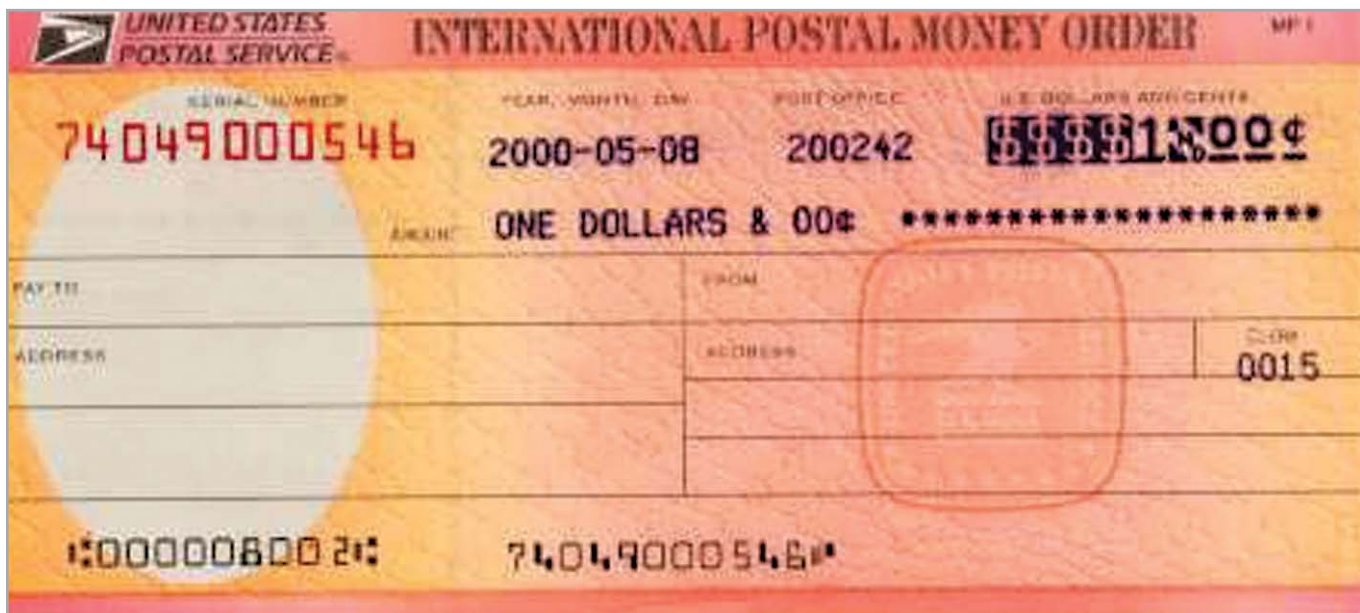
As background, in 1995, the U.S. Postal Service (USPS) issued a mandate prohibiting U.S. banks from accepting U.S. Domestic Postal Money Orders from institutions located overseas. (Please see Exhibit 1.4: Federal Register Notice 60 FR 33440.) At that time, they required that all U.S. Domestic Postal Money Orders be imprinted on both the front and back with the phrase: "Negotiable Only in the U.S. and Possessions." This statement appears in bold red lettering on the face [front] and in black lettering on the reverse [back] of all domestic postal money orders. Additionally, they indicated that they would refuse to honor any domestic money orders that were accepted from foreign correspondents. Up until the year 2000, they had not exercised their right of refusal.

However, the continued use of these instruments in international money laundering schemes, combined with numerous complaints from foreign postal administrations, prompted the U.S. Postal Service to exercise its full authority. On June 1, 2000, they began to exercise their right to refuse payment for U.S. Domestic Postal Money Orders presented by U.S. banks on behalf of their foreign correspondents. As one of the largest cash letter and check collection banks in the world

today, Wachovia has taken active precautions and has asked its correspondents for support in helping us avoid the receipt of these items. We ask that correspondents carefully review the items that are sent to us for processing. **If we are charged for the value of any U.S. Domestic Postal Money Orders that are accepted from our correspondents, we, in turn, will have to debit that correspondent bank's account for the value of these instruments.**

Rightful owners of money orders that are charged back can obtain replacement money orders by sending a request to the USPS BSA Compliance Officer, 475 L'Enfant Plaza, 8th floor, Washington, D.C. 20260, USA. Replacement money orders will be issued for the same U.S. dollar (USD) value as the original money orders. When requesting replacement money orders, rightful owners must provide:

- Original charged-back money orders.
- The charge back notice.
- Name and mailing address of sender of original money orders.
- Rightful owner's name and mailing address.



FEDERAL REGISTER NOTICE 60 FR 33440: JUNE 28, 1995

Postal Service

Cashing Domestic Postal Money Orders

Agency: Postal Service.

Action: Notice of procedure.

Summary: The Postal Service published a final rule in the Federal Register on February 2, 1995, that restricted the negotiation of domestic postal money orders to the United States and its possessions and territories and to the Freely Associated States (60 FR 7912-7913). This final rule took effect March 1, 1995, and amended section 391.11 of the International Mail Manual, incorporated by reference in the code of Federal Regulations (see 39 CFR 20.1).

In response to this rule, the Postal Service will print domestic postal money orders with the endorsement "NEGOTIABLE ONLY IN THE U.S. AND POSSESSIONS" on the face (front) and reverse (back). This restrictive endorsement will appear in bold red lettering on the lower right face and in bold black lettering on the reverse.

These printing changes to the domestic postal money order do not alter current regulations established by the final rule. In addition, current domestic postal money orders printed without this restrictive endorsement will continue to be valid and negotiable for international use.

The Postal Service intends to charge back any domestic postal money order bearing this endorsement accepted by a bank in any foreign country that is not identified as a U.S. possession or territory or as part of the Freely Associated States. This charge will be handled in accordance with standard United States commercial banking procedures.

Effective Date: [Date of publication].

For Further Information, Please Contact: Henry Gibson 202-268-4203

Supplementary Information: Because the Postal Service receives numerous complaints from foreign postal administrations regarding the acceptance of domestic postal money orders by the banking systems in those countries, and because the domestic postal money order is being used in international money laundering schemes, the Postal Service determined to restrict the negotiation of domestic postal money orders to the United States and its possessions and territories and to the Freely Associated States. This change prevents the practice of circumventing the policies and procedures for the acceptance of international postal money orders agreed to within the Universal Postal Union and minimizes the use of domestic postal money orders in international money laundering activities.

The Postal Service is committed to complying with the agreements with its foreign partners and to taking proactive measures to minimize the use of its products and services in illegal activities. A concerted effort is being made to restrict the negotiation of domestic postal money orders to the United States and its possessions and territories and to the Freely Associated States.

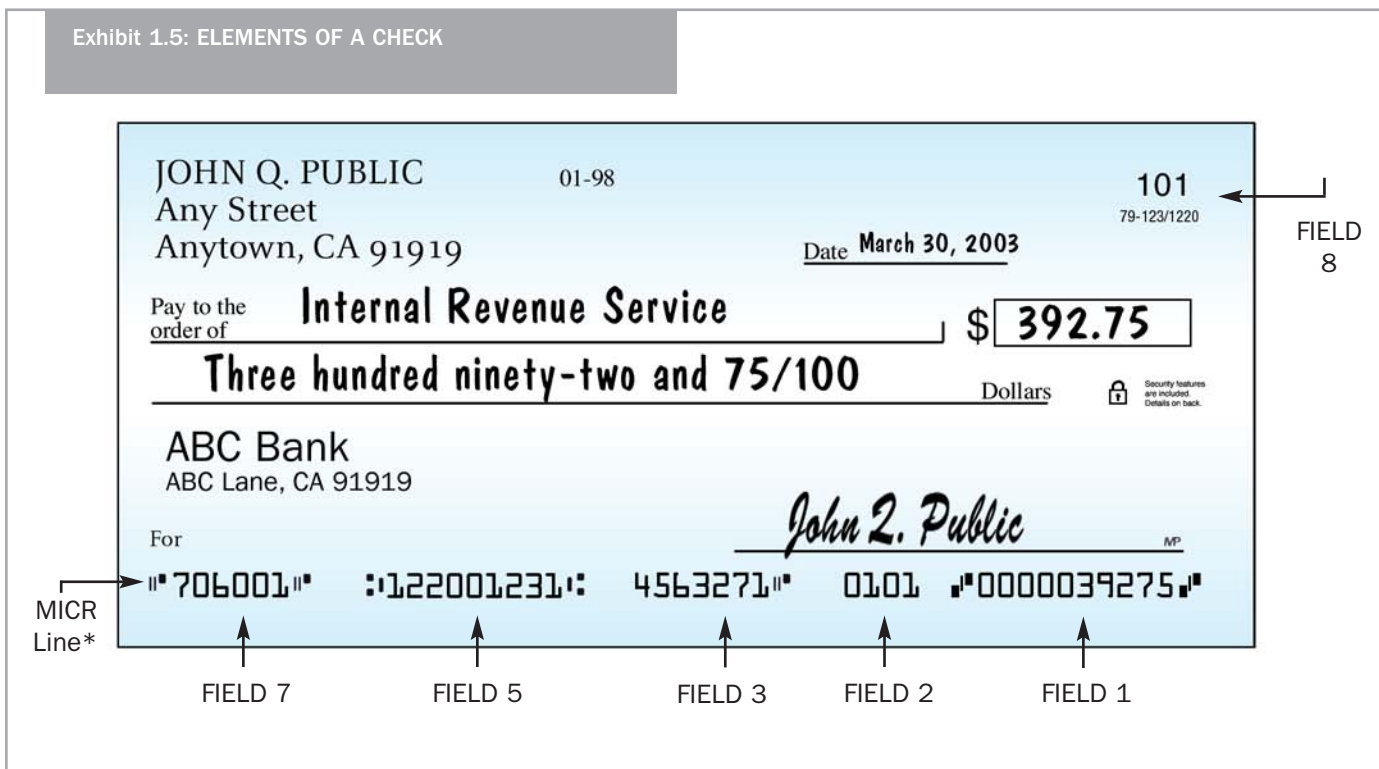
U.S. possessions and territories are American Samoa (including Manua Island, Swain's Island, Tutuila Island), Baker Island, Guam, Howland Island, Jarvis Island, Johnston Island, Kingman Reef, Midway Island, Navassa Island, Northern Mariana Island (including Rota Island, Saipan Island, Tinian Island), Palmyra Island, Puerto Rico, Sand Island, U.S. Virgin Islands (including St. Croix Island, St. John Island, St. Thomas Island) and Wake Island.

The Freely Associated States are Marshall Islands (including Ebeye Island, Majuro Island) Palau (including Koror Island) and Micronesia (including Chuuk [Truk] Island, Kosrae Island, Pohnpei Island, Yap Island).

Stanley F. Mires
Chief Counsel, Legislative

Elements of a Check

The following information will provide you with the basic elements of a check, as well as an overview of the U.S. Federal Reserve Districts.



* MICR (Magnetic Ink Character Recognition) allowing checks to be read by high-speed equipment.

Field 1 — The dollar amount of the item, which is encoded upon presentment at the bank of first deposit in the United States.

Field 2 — The sequential check number of a series of checks. This number should match the serial number at the top right corner of the check.

Field 3 — This is the maker's account number. A MICR symbol follows the account number in the MICR line.

Field 5 — The first two digits of field 5, the routing/transit number in the MICR line, indicate the Federal Reserve District. (See map on next page.) The third digit indicates the particular district office. In the example above, the 1220 indicates this is a check drawn in the 12th District, with the

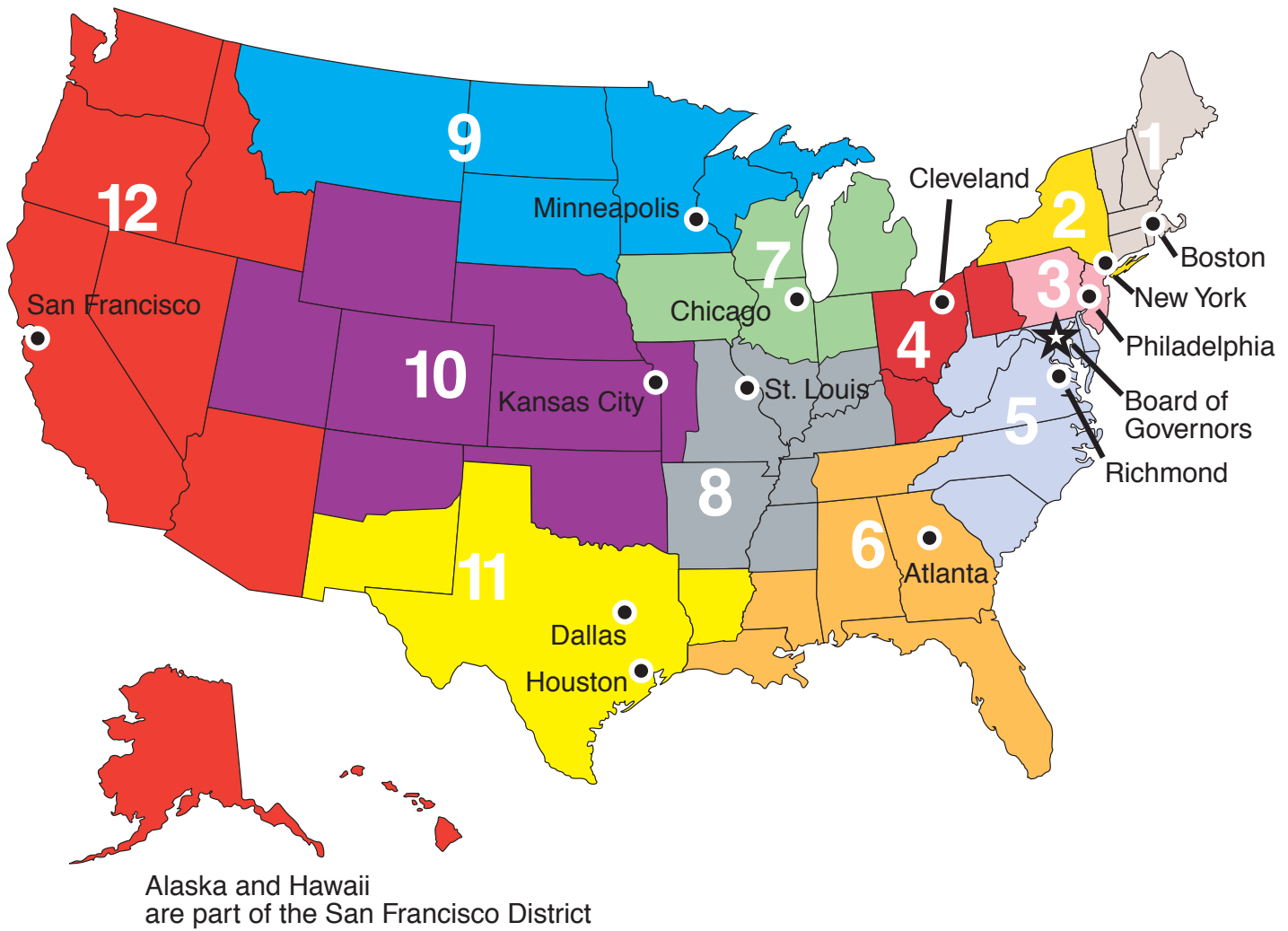
20 indicating the Los Angeles office of this bank. The address of the bank printed on the check should correspond to the appropriate Federal Reserve District. Positions 5-8 of field 5 of the MICR line identifies the issuing bank. MICR symbols surround the routing/transit number in the MICR line. This number should match the fraction at the top of the check.

Field 7 — This identifies the auxiliary number, generally on commercial checks only. This number generally matches the number in the top right corner of the check.

Field 8 — Fractional form — in upper right-hand corner of check.

City prefix — 79-123 — ABA Institution Number
1220 — Federal Reserve Routing Symbol

Exhibit 1.6: MAP OF THE 12 FEDERAL RESERVE DISTRICTS



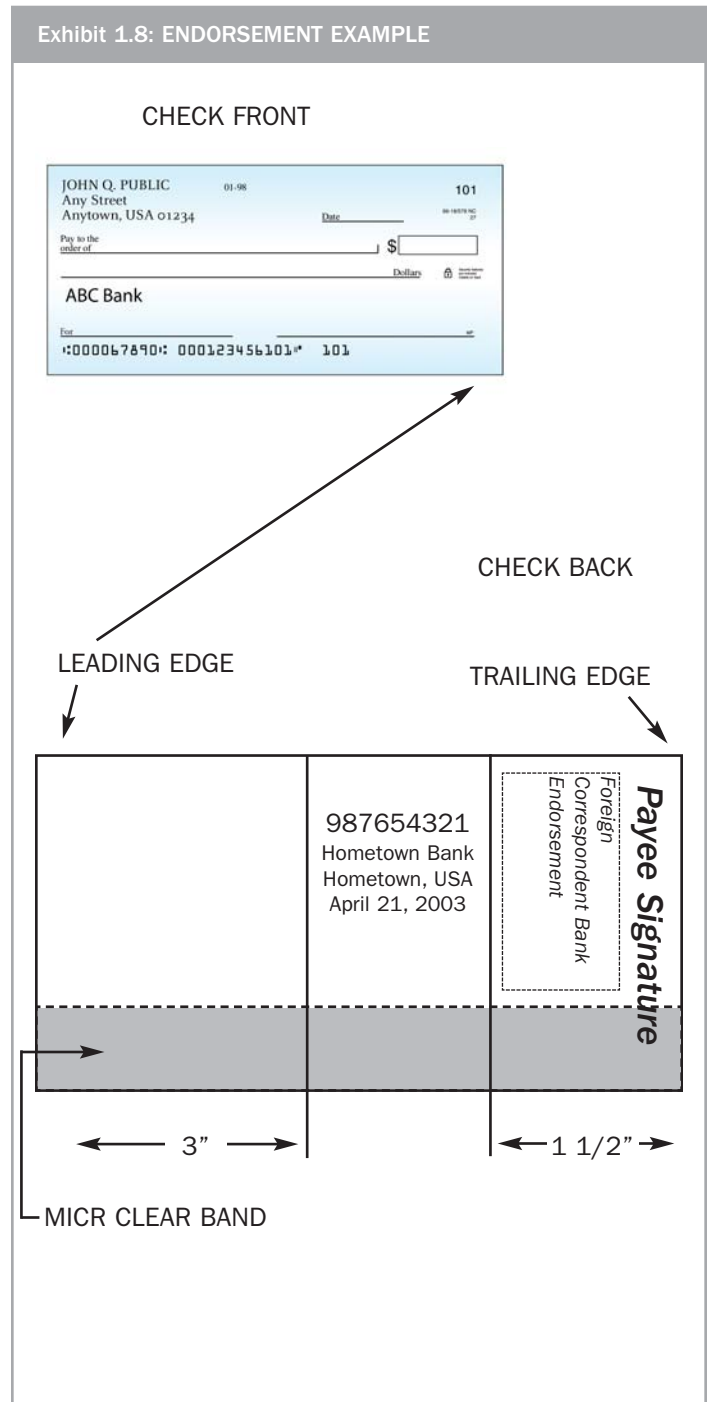
Check Endorsements

An endorsement is an individual’s signature, an authorized stamp or a company/corporation stamp representing to whom the check is made payable.

The basic endorsement elements are described below:

Exhibit 1.7	
Payee	<p>This section of the check, up to one-half inch from the trailing edge, is reserved for the payee (an individual or corporation to which the check is made payable). Required information for this section includes an authorized signature of an individual, the stamp of an organization or the stamp used by a merchant to record information about the writer of the check (e.g., driver’s license number, credit card number, etc.).</p> <p><i>Foreign correspondent banks accepting U.S. dollar (USD) checks are considered subsequent payees to the check and should be endorsed by the payee standards listed above.</i></p>
Depository Bank	<p>This section of the check, starting three inches from the leading edge to one and one-half inches from the trailing edge, is reserved for the U.S.-based Depository Bank. Required information to be included in this area is the bank’s nine-digit routing number (set off by arrows at each end pointing toward the number), the bank name, the bank location and the endorsement date. The endorsement must be in purple or black ink.</p>
Subsequent Collecting Bank	<p>This section of the check, from the leading edge to three inches from the leading edge, is reserved for the Subsequent Collecting Bank and could also be endorsed by the Returning Bank. Required information to be included in this area is the bank’s routing number and the endorsement date. Both are to be printed in a color other than purple or black.</p>
Returning Bank	<p>The Returning Bank endorsement can be placed anywhere on the check except those areas reserved for the Depository Bank and the payee (three inches from the leading edge to the trailing edge). In addition, this endorsement must be printed in other than purple ink.</p>

NOTE: If any bank fails to comply with the above standards and such non-compliance contributes to the delayed return of a returned check, such bank may be responsible for obstructing the return item process and could be liable for financial damages.



How Checks Are Cleared

Checks drawn on U.S. banks can be cleared either by cash letter or by collection.

Cash Letter

Cash letters are the primary means by which correspondent financial institutions clear checks. With a cash letter, conditional credit is made to the account of the bank, with applied availability made contingent on the return of unpaid items. Cash letters are processed in an automated fashion and are a low-cost way of clearing checks. A correspondent bank sends checks on a cash letter basis when the following conditions apply:

- The bank knows its customers well.
- The bank desires expedited availability of funds.
- The bank wants to reduce fees for both itself and its customers.
- The payee trusts the maker of the check and is not concerned about fraudulent returns.

However, there are certain risks associated with sending checks on a cash letter basis:

- The timing of possible return is uncertain.
- The payee may close his/her account with the depositing bank or withdraw funds from the account prior to any possible return, complicating recovery.
- The bank is exposed to future losses due to fraudulent alteration; cash letter provides no protection against fraudulent returns.

Collection

Checks sent on a collection basis give final credit to the customer's account following final payment by the drawee bank. Unlike cash letter, these checks are processed on a manual basis and are, therefore, more expensive to process. Checks can be sent on a collection basis either at the request of the bank or the bank's customer. The bank may request this service if:

- It does not know its customer well.
- The item is of high value.
- The customer poses a credit risk.

The bank's customer may request this service if:

- Customer does not know the maker.
- Customer does not want to ship goods before the funds have cleared.

When sending checks for collection, keep the following in mind:

- Collection items may take three to six weeks to collect, possibly impacting customer relationships.
- Fees for collection items can be expensive (ranging from \$75 to \$150) with fees deducted from the proceeds of the check.
- The collection process does not provide protection against future return due to fraudulent endorsement.
- Inquiries are time consuming, expensive and may be further hampered by distance, time differences and language.

Exhibit 1.9: CHECK PRESENTMENT METHODS

U.S. banks present checks through a combination of the following methods:

• Internally as "On Us"	30%
• Direct presentment to the drawee bank	30%
• Through the Federal Reserve	25%
• Through clearing houses	15%

Return Item Processing

Understanding Return Item Processing

When a cash letter is received by the U.S.-based bank that will be clearing the checks, the items are put into the U.S. clearing system within 24 hours of the receipt of the deposit. As defined by the U.S. clearing system, the standard for the drawee bank to receive the items is 24 to 72 hours from dispatch, depending on the physical location of the drawee bank. Once the item is received, the drawee bank has 24 hours to decide whether to process or return the item. If they choose to return the item, they will return it to the bank of first deposit (BOFD) through the U.S. clearing system using the same procedures as forward presentment (24 to 72 hours). Upon receipt of the physical item, the BOFD then has 24 hours to process the return item and debit their customer.

Return item regulations are dictated by the Uniform Commercial Code (Sections 4.111, 4.406) and Regulation CC (Section 229.30).

Reasons for Returns

The reasons for return that are subject to the timeframe listed above are Non-Sufficient Funds (NSF), account closed, refer to maker and altered signature of the maker. Items that are returned for other types of fraud are subject to different procedures and must be accompanied by an affidavit. Items returned for fraud on the face of the check (altered payee, altered amount, counterfeit check) must be returned within one year of the date of presentment; items returned for fraudulent endorsement must be returned within three years of the date of presentment.

Late Return Claims

If an item is returned beyond the standards listed above, a late return claim can be filed against the delaying bank (either the BOFD, drawee bank or an intermediary clearing bank). However, a late return claim cannot be filed against one of these banks if the cause of the delay is the Federal Reserve Bank, which is subject to different processing standards.

Under normal circumstances, a return item is received by the BOFD within five business days of the date of deposit.

However, as illustrated above, the regulations allow that up to nine business days is acceptable. Even if the item is returned beyond nine business days, it is not a late return if it is delayed by the Fed or contains fraud, as described above.

When items are received beyond nine business days and do qualify as a late return, funds are not necessarily recoverable. To file a late return claim, the BOFD must be able to prove that the delaying bank was negligent in processing the item. The endorsements on the back of the check and return item notifications are the main sources for proving negligence.

Exhibit 1.10: RETURN MICR LINE

JOHN Q. PUBLIC 01-98 101
 Any Street **NSF** 3-1
 Anytown, USA 01234 Date March 30, 2003 310

Pay to the order of **Internal Revenue Service** \$ **392.75**
Three hundred ninety-two and 75/100 Dollars Security features are included. Details on back.

ABC Bank

For John Q. Public MP

⑆310001⑆ ⑆001 123456 0101 0000039275

3 ⑆054000551 ⑆ 0000039275

- 1 POSITION 44
- 2 BOFD R/T
- 3 DOLLAR ENCODING

Definitions of the Most Common Return Reasons

Exhibit 1.11: NON-FRAUD RETURN REASONS	
NSF (Non-Sufficient Funds) or Insufficient Funds	A banking term indicating that the drawer's balance does not contain sufficient funds to cover a check or checks.
Uncollected Funds	The dollar amount of deposited cash items that have been given immediate, provisional credit but are in the process of collection from drawee banks. These funds are not yet available (or collected) in the account and cannot be used for payment of checks.
Stop Check Payment	The drawer's instructions to the drawee bank, directing the bank to return a specific item.
Account Closed	The issuer has closed the account on which the item is drawn prior to the item being presented for payment.
Refer to Drawer	Used for a variety of reasons that range from a technicality, such as name of payee slightly different from account name, to possible fraud. A good example occurs when there are instructions on the account to pay only up to a maximum amount for the check and this exceeds the sum, however, there are sufficient funds to cover the item. Unlike many countries, this is a genuine reason to return the item under the laws of the United States, and the drawee bank does have to give further information.
Post Dated*	An instrument bearing a date six months or more in the future, prior to its presentation. The Uniform Commercial Code (UCC) states that banks are not required to honor such checks. <i>*In the United States, the general custom is for the drawee bank to ignore the future date and pay the item on presentment if funds are available.</i>

Stale Dated*	An instrument bearing a date six months or more in the past, prior to its presentation. The Uniform Commercial Code (UCC) states that banks are not required to honor such checks. <i>*There are exceptions to this general rule. Treasury checks are stale dated after one year and some company/dividend checks may have extended expirations which will be printed on the face of the item.</i>
Lost or Stolen Traveler's Checks*	The purchaser or the selling bank has notified the issuing bank that the item has been lost or stolen prior to the check being cashed or deposited. <i>*Liability of the depositing/cashing bank can be limited as long as it ensures that correct verification procedures are taken and documented. If the traveler's check has been cashed, visual sight of the customer counter-signing the item(s) must take place and verification by an official identity document (usually passport or identity card) must be made to ensure the customer is genuine. This evidence needs to be documented and must be able to be reproduced at a later date if necessary.</i>

Exhibit 1.12: FRAUD RETURN REASONS	
Amount Altered	The amount of the check has been changed both in figures and/or words.
Payee Name Altered	The payee or beneficiary name has been changed or amended. This can also result in endorsement fraud.
Date Changed*	Date has been altered. <i>*Care should be taken to allow for differences between U.S. and European/Asian date formats.</i>
Drawee's Signature Altered	Issuer's signature on front of item changed.
Counterfeit Check	All elements have been forged. Usually results from check being stolen or converted.
Forged Endorsement	The payee endorsement on the back of the check is not genuine.

Special Conditions for Return (Reclamation) of U.S. Treasury Checks

Check reclamation is a recovery procedure used by the Financial Management Service (FMS) of the U.S. Department of the Treasury to obtain a refund (reclamation) from a presenting financial institution for paid federal government checks.

Conditions: Reclamation action is initiated against the presenting financial institution when the:

- Payee files a non-receipt claim with the federal agency and FMS preliminarily indicates forgery.
- Federal agency, which authorized the payment, requests FMS to reclaim the funds because the payee is deceased and no longer entitled to the payment.

Payments Affected: All federal government checks, regardless of the payment type, are subject to check reclamation procedures.

Time Limitation on Reclamation Action: The table below shows how long FMS has to reclaim funds from the presenting financial institution:

Exhibit 1.13: FMS RECLAMATION		
If	And the Payee Is	Then FMS Has
There has been a timely claim filed by the payee or the federal agency.	Deceased	One year from the date the check is paid by the government to begin reclamation action.
Note: A timely claim is a claim which is filed within one year from the date the payment was issued.	Not deceased	One year plus 180 days (18 months) from the date the check is paid by the government to begin reclamation action.

Financial Institution Liability: The presenting financial institution is liable for the following, if applicable:

- Amount on the initial Request for Refund (check reclamation) which may not always be the full amount of the check.
- Accrued interest on any unpaid reclamation item.
- Other charges (e.g., administrative fees, penalties, etc.).

The presenting financial institution's liability is not contingent upon its ability to collect from prior endorsers.

Note: It is the financial institution's responsibility to pay reclamations in a timely fashion in order to avoid accruing interest, penalties and administrative fees.

SECTION II:
IDENTIFYING CHECK FRAUD

Forms of Check Fraud

Timely reconciliation will assist you in locating potentially fraudulent transactions, so that these items can be reported to your financial institution or bank. You should complete your reconciliation within 30 days from the end of that accounting period. Financial institutions around the world have come in contact with a number of types of check fraud. Listed below are some of the more common forms encountered today:

Forged Signatures

Forged signatures usually involve the use of legitimate blank checks, with an imitation of the payor signature on the signature line. Many cases of forged signatures are perpetrated by a person known to the valid payor. "Employees gone bad" are one source of forged signatures. In other cases, signatures are forged on blank checks stolen from the mail while being shipped from the check printer to the account holder. The theft of blank check stock from the mail tends to increase following natural disasters when account holders have to replace destroyed check stock.

Forged Endorsements

Forged endorsements often involve the theft of valid checks, which are then endorsed and cashed or deposited by someone other than the payee. Marital partners involved in separation or divorce proceedings are a common source of forged endorsements. Forged endorsements can also appear on checks made payable to more than one party when one party endorses the check for all parties.

Counterfeit Checks

Counterfeit checks are the fastest growing source of fraudulent checks. Check counterfeiters use today's sophisticated color copiers to copy valid checks. Exact imitations of genuine checks can be created with readily available desktop publishing capabilities. Scanning a real check into a computer and then using desktop publishing software to change some of the check information allows the counterfeiter to include many valid check components in the imitation. When this counterfeit check is printed on a high-quality laser printer, extremely authentic looking "bad" checks can be created. Some of these counterfeit checks even include MICR line characters. As computer technology continues to become more widespread, this form of check fraud has the potential for explosive growth in the near future. Almost any kind of check can be counterfeited, including cashier's, payroll, government and traveler's checks.

Altered Checks

Altered checks are defined as valid check stock with certain fields changed. When the payee name is changed, payment is made to the wrong person. The courtesy and/or written

amount can be increased, resulting in overpayment to the payee. Some checks have had the MICR line altered with bogus information (such as the routing/transit [ABA] number or the account number) to slow down the clearing/return process. Checks can be altered to include information that assists the criminal in negotiating the check. For example, bank officer approval stamps have been lifted from one check and included on another check of higher value.

Check Kiting

Check kiting requires multiple bank accounts and the movement of monies between accounts. The check kiter takes advantage of the time required by a bank to clear a check. A check drawn on one bank is deposited in a second bank without having proper funds to cover the check. When the deposit is made, the bank grants the depositor a conditional credit and will allow the customer to draw checks against uncollected funds. The customer then writes a check on the second bank and deposits it in the first bank to cover the original check. Unless detected, this process can continue indefinitely, covering one check written against insufficient funds with another check.

Third-Party Bill Paying Services

Third-party bill paying services are often misused to commit check fraud. The checks produced by these service providers do not include the payor signature. Instead, the signature line reflects something such as "signature on file." Unauthorized checks produced by third-party payment services are usually not detected until the customer reviews the monthly bank statement. By the time the customer identifies the unauthorized check, it is often too late to recover the funds since the "24-hour window" (actually until midnight of the next banking day) for the timely return of checks has long since passed. These checks usually sail right through the check sorting operation, since they include good account information and sometimes even include good serial numbers. Too often, both business and individual account holders seem unaware of how their account information, given too freely to a requesting party, can be used for fraudulent purposes.

Demand Drafts

Demand drafts can be misused to commit check fraud. This practice involves the misuse of account information to obtain funds from a person's bank account without that person's signature on a negotiable instrument. Other terms for demand drafts are "preauthorized drafts" and "telephone drafts." While there are many legitimate business uses of demand drafts, such as quick-turnaround telephone transactions initiated by airlines and car rental companies,

demand drafts have been used by deceptive telemarketers who obtain bank account information and withdraw unauthorized funds from consumers' bank accounts, without their realizing that such withdrawals are occurring. The Federal Trade Commission has published a "Telemarketing Sales Rule," effective December 31, 1995, which is designed to offer some protection to consumers and banks against deceptive telemarketing practices. Among other things, the rule requires "verifiable authorization," such as written consent or express oral authorization which is tape-recorded. While rules and laws help, consumers (and businesses) still need to use demand drafts cautiously and provide account information only to known reputable payees.

Other Forms of Check Fraud

Check fraud has also been committed by individuals opening fraudulent bank accounts or making fraudulent deposits through the automatic teller machine (ATM) network. Others have ordered checks directly from check printers using bogus names, addresses, routing numbers and account numbers. Still others have counterfeit money orders cashed by check cashing operations.

Another scheme involves the deposit of fraudulent checks, followed by quick funds withdrawal before actual check clearing. This form of fraud is actually made easier by the fact that most banks, for competitive reasons, make funds available sooner than required by Regulation CC.

Counterfeiters and New Technologies

Counterfeiting corporate checks has always existed. Today's counterfeiters have the availability of sophisticated technology that allows virtually anyone to alter, forge or replicate authentic checks. Desktop publishing software is the largest threat to today's check payment system. Counterfeiters alter or replicate payroll, accounts payable, refund and cashier's checks, even money orders and gift certificates. Several techniques are commonly used to alter legitimate checks or create counterfeit checks.

PCs and Scanners

To make counterfeits appear even more genuine, criminals use scanners to reproduce high-quality check images. Once an original check is scanned into the PC, the counterfeiter can manipulate the entire document. Changing payee information or dollar amounts requires only the push of a few buttons.

Color Copiers

Today's high-end color copiers reproduce color documents that cannot be discerned from the original by an untrained eye, even in side-by-side comparisons. These copiers also make authentic-looking U.S. paper currency.

Desktop Publishing

A PC with desktop publishing capabilities can easily produce high-quality checks. A counterfeit check need not exactly match the genuine check in appearance; counterfeiters need only create a check that appears legitimate to the first and last recipients. They often contain accurate routing and MICR account information. Because many computer systems have MICR ink and fonts, criminals can produce fraudulent checks that will clear the banking system without detection.

Offset Printing

Years ago, counterfeiters used standard offset printing equipment to generate high-quality checks. However, the cost of equipment and the technical expertise needed to run the presses have made desktop publishing fraud much more popular.

Cut and Paste and Chemical Alterations

Original documents may be altered by cut and paste methods or by chemicals that dissolve ink. One chemical will completely dissolve the check paper over a period of days, thus destroying all evidence of the fraud. Authentic checks printed by laser printers can be altered by removing inadequately fused toner from the check with tape. New names or dollar amounts are then inserted.

A Primer on Laser Printing

Mail Order

Criminals use catalogs or order forms from magazines or newspapers to acquire original check stock by mail. Bogus checks may be ordered with a company's correct name and account number and shipped to a P.O. box under a forger's control. While these checks might not look exactly like the company's real checks, the quality is good and they will most likely be accepted as legitimate checks by third parties.

Laser Printers

Once criminals have a high-quality image to print, they often use high resolution laser printers or color copiers connected to a personal computer to create authentic-looking checks. Some laser printers use magnetic ink as toner to create a "live" check that easily clears the bank. Off-the-shelf computer systems can be purchased for as little as \$20.

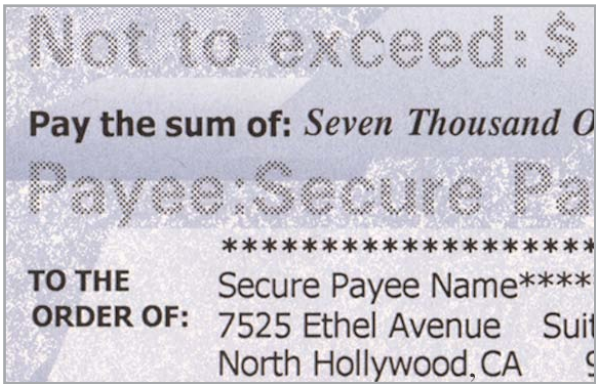
Many companies and municipalities are considering implementing, or have already implemented, laser printers with MICR capabilities in their payment process. When proper controls are in place, this rapidly advancing technology creates an efficient platform for printing and distributing checks. Without proper controls, laser printing technology invites financial disaster. Risks in laser printing environments can be reduced by arming the system with passwords, securing the imaged facsimile signatures and controlling the check stock.

Password Protection is critical for the protection of any computer system. While a skilled and determined hacker may well be able to break through any firewall, a company has significant exposure from dishonest employees. At least two levels of authority (passwords) should be required to print checks, add new vendors and add or change employees and pay rates. Employee passwords should be changed from time to time and audit procedures must ensure that passwords are never shared.

Generic Check Stock that is readily available and entirely blank should be avoided. If a printer or computer company will sell you entirely blank generic checks, they are selling the identical blank checks to others, who, in effect, have your check stock. Ensure that your check design is not available entirely blank to others in laser format. Request a blank check stock that is uniquely designed for your company. Recent court cases have ruled that issuers using plain checks may have contributed to the alteration or duplication of a check. Issuers of such checks may be held liable for fraud losses resulting from duplication or alterations.

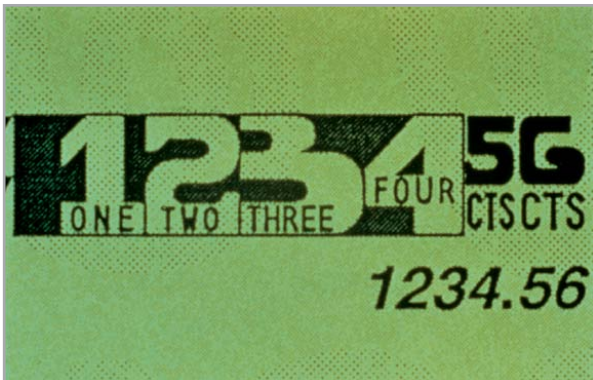
Inventory Control Numbers are printed in sequence on the back of all non-pre-numbered laser checks. The control number is completely independent of the check number printed on the face of the check. They are essential on laser check stock that is not pre-numbered because they assist in tracking each sheet and in maintaining compliance with auditors. Insist that your check manufacturer print a sequenced control number on the back of each unnumbered check.

Secure Name Fonts help prevent altering the payee name. Payee name alteration is the latest scam among sophisticated forgery rings because it allows them to circumvent Positive Pay. Use a Secure Name Font that uses a unique image or screened dot pattern to print the payee name. The uniqueness of the image is important because forgers have access to all the standard true type and Adobe fonts. Size matters. Large fonts are more difficult to remove without leaving telltale signs. Use a 12-point font or higher and, unless you are using a PMPP service, bold the payee name. Bolding PMPP names may blur them and make them difficult to read.



SECURE NAME FONTS

Secure Number Fonts prevent the dollar amount on the check from being removed or altered without detection. For instance, the dollar amount image can be reversed, that is, printed white on black with the name of the number spelled inside the number symbol. Often the cent amounts are black and white with the letters "CTS" running under each number.



SECURE NUMBER FONTS

Toner Anchorage is a chemical coating applied to the face of the check paper. When the check passes through a hot laser printer, the toner is permanently bonded into the paper. Without it, laser checks can be altered by removing the toner with tape or by scraping. Toner anchorage, also referred to as Laser Lock™ or Toner Grip™, must be specifically requested when ordering laser checks. While it does cost extra, the additional cost is far less than the price of an altered check.



TONER ANCHORAGE

String of Asterisks should fill blank payee name areas. Forgers often alter checks by simply adding a new payee name above or after the original payee name. To prevent these alterations, insert a string of asterisks above and after the original payee name.

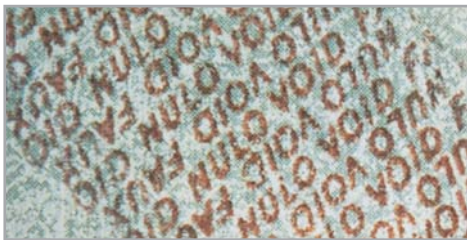
Facsimile Signatures are often applied to a check by the laser printer. When not printing checks, the cartridge containing the signature should be removed and locked in an area separate from the check stock. It must not be left in the printer overnight. Because a bank's Sight Review or Signature Verification department cannot distinguish an original facsimile signature from one that has been scanned and replicated by a forger, internal check issuing procedures should require that large dollar checks also include an original manual signature.

Check Security Features

In response to growing concerns about counterfeit checks, the check printing industry has developed a wealth of new security features. In this section, several of the best features are described. While individual security features cannot make checks completely counterfeit-proof, combining several of them, eight or more, into a highly secure check will help deter most criminals. This list is not all-inclusive, as new safety features and security check papers are steadily being introduced.

Controlled Paper is security paper that is securely distributed and monitored by the paper manufacturer. Insist on a controlled paper stock, as its use will help control fraud. Well-organized counterfeiting rings often acquire and use original check paper when making fraudulent checks. The check paper you choose must be very tightly controlled, with limited distribution. Because paper manufacturers try to amortize their fixed costs over a large customer base, there are very few controlled papers.

Multichemical Reactive Papers produce a stain or the word "VOID" in multiple languages when activated with ink-eradicator class chemicals, making it extremely difficult to chemically alter a check without detection. Checks should be reactive to at least 18 chemicals.



MULTICHEMICAL REACTIVE PAPERS

Thermochromatic Inks react to changes in temperature. Some inks begin to fade away at 78° F and disappear at 85° F. The ink reappears when the temperature cools to 78°. Proper thermochromatic ink cannot be accurately color copied because the copier machine temperature is above 85 degrees, making the ink disappear.



THERMOCHROMATIC INK

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



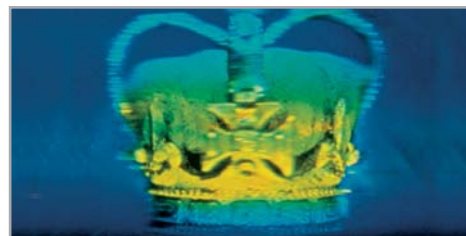
COPY VOID PANTOGRAPHS

Fourdrinier Watermarks are faint designs pressed into the paper while it is being manufactured. When held to the light, these true watermarks are easily visible from either side of the paper for instant authentication. Copiers and scanners are incapable of duplicating Fourdrinier watermarks.



FOURDRINIER WATERMARK

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. Admission passes, gift certificates and identification cards are enhanced by holograms.



HOLOGRAMS

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-degree angle. Copiers and scanners capture images at 90-degree angles and cannot see these marks.



ARTIFICIAL WATERMARKS

Laid Lines are unevenly spaced parallel lines on the back of the check. They make it difficult to physically cut and paste dollar amounts and payee names without detection.



LAI D LINES

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

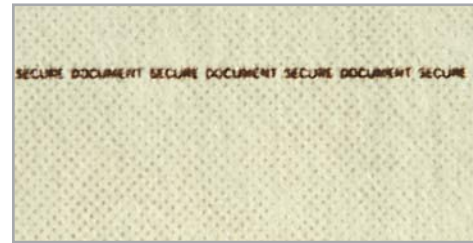


PRISMATIC PRINTING

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



HI RES BORDERS



MICROPRINTING

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.



WARNING BANDS

Warning Bands are printed messages that call attention to the security features that have been added to protect the document. These bands should advise the recipient to inspect a document before accepting it and may deter criminals from experimenting.



DUAL IMAGE NUMBERING

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.

Safety Papers were designed to combat erasures. For years, paper manufacturers sold safety papers with multiple layers of colored fibers. When forgers try to erase the paper, it bleeds. However, generic safety papers are easily obtained from office supply stores and mail order catalogs, severely diminishing their usefulness. Controlled specialty papers are vastly superior because they are much more difficult to obtain and contain additional safeguards.

Exhibit 1.14: TIPS FOR PROTECTING YOUR BUSINESS AND ACCOUNT INFORMATION

1. Segregate financial responsibilities — assign check writing and bank account reconciliation responsibilities to different individuals.
2. Regularly review your account activity and canceled checks — especially if someone else reconciles your bank statement. Most banks allow 30 days to return unauthorized checks.
3. Maintain current signature requirements — require dual signatures, even if they are not verified by the bank.
4. Secure storage — all reserve supplies of checks, deposit slips, signing equipment and other banking documents should be stored in a locked compartment.
 - Limit access to only a few authorized employees.
 - Change the locks (if necessary) when an employee leaves your company.
 - If appropriate, consider having your employees bonded.
5. Conduct random audits and enforce vacation policies — especially for those employees with access to financial records and documents.
6. Use an electronic payment system for check disbursements — versus manually issuing checks.
7. Familiarize yourself with documentation and regulations — with the bank's depositor's contract and your liability for fraud under the Uniform Commercial Code.
8. Use a shredder — destroy all canceled checks and financial data that is no longer needed.
9. Ensure the quality and integrity of check stock and account documents — purchase checks and deposits slips from one of Wachovia's approved check vendors.
10. Protect login IDs and passwords — control access to information via your online services with third-party providers.

Exhibit 1.15: TIPS FOR ACCEPTING CHECKS

There are some precautions you can take when accepting checks that will help combat check fraud:

1. Establish a check acceptance policy detailing acceptable forms of ID, required information and dollar limits, and make no exceptions to the policy. Fraud artists are skilled at creating hassles or confusion that can leave businesses stuck with a bad check.
2. When accepting a check, make sure a name, address and phone number are printed on the check and that the written and numeric dollar amounts correspond.
3. Pay attention to the "feel" of the check; most check paper has the same weight and texture.
4. Watch the payee endorse the check, if possible. If the signature is illegible, have the customer print the name below.
5. Compare the signatures, photo and physical description of the ID with that of the payee attempting to deposit the check.
6. Check the payee's identification card, which should be smooth all over with no ridges that may indicate an alteration or modification. Verify that the ID is still valid.
7. Verify the check number. Ninety percent of returned checks have low check numbers (100 to 500). While low check numbers indicate a recently opened account and potentially more risky check, particularly for a business check, that is not always the case. More useful information to verify on the check is the account's opening date (month and year), usually indicated by four numbers beside the account holder's name and address.
8. Do not accept second-party or third-party checks (checks not made out directly to your depositor).
9. Most checks, except government checks, should have a perforation along one side of the check edge.
10. Don't let a customer's appearance lull you into ignoring any of these steps.

SECTION III:
REGULATORY AND COMPLIANCE

Money Laundering

Money laundering is the act of transforming illegally obtained currency (i.e. drug trafficking, tax evasion, embezzlement, racketeering, terrorism, etc.) into that which appears legitimate. Although money laundering often involves a complex series of transactions, it generally includes four basic steps:

Acquisition is when an individual/entity obtains currency from the criminal who generated funds from some illegal activity.

Placement is the physical disposal of illegally obtained cash. Placement can be accomplished by depositing cash in banks or, increasingly, in other types of non-bank financial institutions. Cash might be shipped across borders for deposit in foreign financial institutions or used to purchase high-value goods, such as artwork, jewelry, etc., that can later be resold for payment by check or wire transfer.

Layering is the carrying out of complex layers of financial transactions in order to separate illicit proceeds from their source and to disguise or confuse the audit trail. This phase can involve splitting large sums into smaller wire transfers, conversion of deposited cash into monetary instruments (traveler's checks, money orders, drafts, etc.), re-sale of high value goods and investment in real estate and/or legitimate businesses, etc.

Shell companies (companies with no legitimate business purpose), typically registered in offshore havens, are a common tool used during this phase. These companies, whose directors are often local attorneys, obscure ownership of funds through financial privacy and abusive assertion of the attorney/client privilege.

Integration is the movement of layered funds back into the banking system. This occurs through a variety of techniques, such as inflating the price of goods sold across borders and using front companies to lend proceeds back to the owner.

Although financial institutions can become involved in money laundering during any or all of these stages and counter-measures at all stages are important, money laundering is most easily detected at the placement stage where the criminal is closest to the funds. Therefore, it is particularly important that financial institutions carefully evaluate customers before establishing relationships.

As financial institutions have increased their scrutiny of cash transactions, money launderers have become more sophisticated in using all services and tools available to

launder cash. Money launderers often use negotiable instruments (i.e. commercial checks, bank drafts, money orders and traveler's checks) in order to clean and move illicit funds.

Traveler's Checks

Traveler's checks are readily available at many banks and money services businesses. The advantages of using traveler's checks to launder funds include the following:

- Large quantities of traveler's checks can be easily purchased with cash and carried overseas without reporting or declaring their movement.
- Traveler's checks are available in high denominations (\$500 and \$1,000) and can be used to reduce the bulk of illicit cash proceeds for movement overseas.
- Traveler's checks can provide anonymity to the purchaser and/or the ultimate payee.
- The use of traveler's checks may offer the opportunity to commingle illicit funds with legitimate funds.
- The name and/or address on the purchase agreements are often left blank or unverifiable and illegible.

Bank Drafts/Money Orders

Bank drafts and money orders are often preferred methods of payment by businesses because they are guaranteed funds. Although in most cases the funds are guaranteed, the issuing banks do not necessarily know the true payee, and the depositing banks do not necessarily know the original purchaser of the instrument or the source of the funds. Cash is often exchanged for money orders then shipped out of the country for deposit.

A bank draft or money order can be issued in any name and can be issued in many countries in which identification requirements would not be invoked unless the transaction involved cash and/or an amount over a specific threshold. Bulk deposits of bank drafts or money orders purchased in the United States that appear to have been structured to avoid U.S. regulatory reporting requirements under the Bank Secrecy Act usually have the following in common:

- The instruments were purchased on the same day or consecutive days from different locations.
- They are numbered consecutively in amounts just under \$3,000 or \$10,000.
- The payee lines are left blank or payable to the same person.
- They contain little or no purchase information.
- They bear the same stamp symbol or initials.
- They are purchased in even denominations or repetitive amounts.

Commercial Checks

While less commonly used, commercial checks are also susceptible. Because an account relationship is required for this product, it is important to have appropriate customer due diligence programs in place to ensure a customer is reputable. Once an account is established, you should consider reviewing activity on a periodic basis. Commercial checks issued to individuals — or entities that are unknown or unrelated to the business activity of the account — may be an indication of money laundering.

Warning Signs

Following are examples of potentially suspicious activities or “red flags” in which checks may be used for both money laundering and terrorist financing. The list is not all-inclusive, but may help bankers recognize possible schemes.

- Many small deposits made using checks and money orders and almost immediately all or most of the money is wired to another jurisdiction in a manner inconsistent with the customer’s business or history.
- Checks deposited into an account drawn on individuals or businesses that have no apparent link to legitimate contracts, goods or services with the customer’s business.
- A large volume of sequentially numbered checks, money orders and/or traveler’s checks deposited into an account when the nature of the account holder’s business would not justify such activity.
- Sequentially numbered money orders and commercial checks payable to the same party and issued on the same day.
- Sequentially numbered traveler’s checks left blank (without signatures), — the signatures do not match or the same name appears to have been signed by various individuals.
- A customer is reluctant to provide identification when purchasing negotiable instruments.
- A customer who purchases a number of cashier’s checks, money orders or traveler’s checks for large amounts under a specified threshold.
- A customer uses the ATM to make several deposits of various checks.
- Conversion of bulk cash to money orders.

Regulatory Agencies and Laws

Uniform Commercial Code (UCC):

- Governs rules for checks presented on a cash letter basis.
- Controls the general return of unpaid checks.

Uniform Rules for Collections (URC 522):

- Regulates checks presented on a collection basis (for final payment).

Expedited Funds Availability Act (EFAA):

- Regulates some aspects of the return of unpaid items.

Regulation CC

- Regulates the U.S. clearings.

USA PATRIOT ACT

Your institution should also be aware of the USA PATRIOT ACT which Congress passed in response to the terrorists attacks of September 11, 2001. The Act gives federal officials greater authority to track and intercept communications, both for law enforcement and foreign intelligence gathering purposes. It vests the Secretary of the Treasury with regulatory powers to combat corruption of U.S. financial institutions for foreign money laundering purposes.

Further, under the Act, U.S. financial institutions are required to:

- Maintain anti-money laundering programs which must include at least a compliance officer, an employee training program, development of internal policies procedures and contracts and an internal audit function.
- Mandate additional due diligence to combat money laundering.
- Establish minimum customer identification verification, notification and record keeping requirements.

SECTION IV:
GLOSSARY OF TERMS

Affidavit

A written statement made under oath before an official.

Algorithm

A mathematical rule or procedure for solving an equation.

Availability

The condition in which deposited funds are available for use by the depositor. The time lag between the date of a deposit and the date it is credited to the collected balance.

Bank of First Deposit (BOFD)

The bank that serves as the initial point of entry for checks into the U.S. check collection system.

Cash Letter

Items (primarily checks) along with a letter that specifies amounts and directions. Cash letters are sent to a bank for further transmittal to other banks, for the purpose of clearing checks drawn on other banks.

Check Clearing

To effect final settlement, a check must be presented to, and accepted by, the institution on which it is drawn. This process is called check clearing.

Check Reclamation

A procedure used by the Financial Management Service to obtain a refund from a presenting financial institution for paid U.S. Federal Government checks when forgery is established or the payee's entitlement stopped with his/her death.

Collection

Process by which any item received by a bank for a customer's account is not given immediate provisional credit, but rather sent for final payment directly to the drawee bank. These items do not create float.

Conditional Credit

When the payee receives ledger credit at the time of the check deposit, the credit is provisional, subject to the final clearing of the check.

Depository Bank

A bank used as the point of deposit for cash receipts

Direct Presentment

A check clearing process in which the bank of first deposit in the United States sends checks directly to the drawee bank or Federal Reserve/Regional Check Processing Center in order to accelerate the clearing of the checks.

Draft

A written order drawn by one party, called a drawer, that directs a second party (almost always a bank), called a drawee, to pay a sum of money to a third party, called the payee. For example, a check. Drafts are often used with letters of credit. Drafts may be sight drafts, payable upon receipt, or time drafts, payable on some specified future date.

Encoding

The process of inscribing or printing MICR characters on checks, deposits and other bank documents.

Final Credit

The condition in which funds made available are deemed to be irrevocable after a stated period of time as defined either by agreement between banks or by U.S. regulations.

Financial Management Service (FMS)

Financial Management Service of the U.S. Department of Treasury provides centralized payment, collection and reporting services for the federal government.

Float

The use of funds generated as a result of timing differences in the check-clearing system. For banks, float occurs because debits given by the Federal Reserve to a bank's reserve account for checks being cleared, can be received prior to the time that the bank allows the customer who presented the check to use the funds. For depositors, float occurs because credits may be given for checks deposited or tendered for payment before the maker's accounts are debited.

Forward Presentment

The process by which a bank sends a check on a cash basis to the paying bank for payment; also referred to as forward collection.

Fraud on Back of Check

A deception deliberately practiced in order to secure unfair or unlawful gain by alteration of the endorsement of a check; also referred to as endorsement fraud.

Fraud on Face of Check

A deception deliberately practiced in order to secure unfair or unlawful gain by alteration of any element on the face of the check including, but not limited to, maker signature, date, amount or payee.

Late Return Claim

Document completed by the depository bank to dispute the timing of a return item notice which was received outside the guidelines defined in Regulation CC.

Leading Edge

The right edge of the front of a check. When viewing a check from the reverse (endorsement) side, the leading edge is the bottom edge of the check.

MICR Line

Magnetic (M) Ink (I) Character (C) Recognition (R). A description comprising numbers and symbols printed in magnetic ink on documents for automated processing. For checks, this MICR line appears at the bottom of the check.

Negotiable Item

A document with the condition of a written order or promise to pay a certain sum of money, easily transferable from one party to another.

Non-Sufficient Funds (NSF)

A term indicating that the maker's account does not contain sufficient funds to cover the check amount; also known as insufficient funds.

On-Ups

Checks or drafts drawn on the same bank that is used by the payee/drawee to cash the check or deposit the proceeds. Checks or drafts payable at the drawer's bank itself, as opposed to checks drawn on other institutions.

Payee

The person/company to whom the check is made payable; the person/company named as the recipient of the sum shown.

Post-Dated

A check that is future dated beyond today's current date.

Postal Money Orders

A pre-paid negotiable instrument that can be purchased from the U.S. Postal Service with no expiration date. Restrictions apply to the issuance and acceptance of Postal Money Orders outside the United States.

Refer to Drawer/Refer to Maker

Common return item reason that requires the payee to further contact the maker/drawer to determine the complete reason for return.

Return Item

A check, draft or note where payment was declined by the drawee bank or maker, and the item has been returned to the presenting party.

Returning Bank

A bank, other than the paying or depository bank, handling a returned check or notice in lieu of return.

(Transit) Routing Number

A nine-digit number contained in the MICR line of each check. The routing number identifies the paying bank.

Stale-Dated

Any check that is dated older than six months from the current date.

Stop Payment

An account holder's instructions to the drawer bank, directing that a specific item drawn on the account holder's account should not be honored for payment.

Subsequent Collecting Bank

An institution, other than the collecting bank, that handles a check in the collection process before the Paying Bank; also known as Subsequent Endorsing Bank.

Trailing Edge

The left edge of the front of a check. When viewing a check from the reverse (endorsement) side, the trailing edge is the top edge of the check.

Treasury Check

A check drawn on the U.S. Federal Government by the U.S. Department of Treasury.

Uncollected Funds

Funds consisting of the checks deposited and credited by a bank to its customer's account, but not yet collected. The bank may impose withdrawal restrictions until the deposited checks have cleared.

VOID

Useless; ineffective for proper usage.

Notes

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