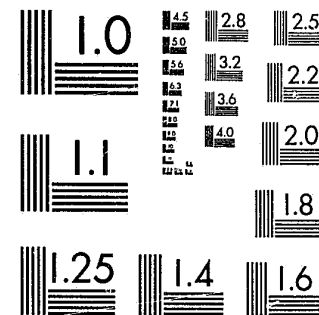


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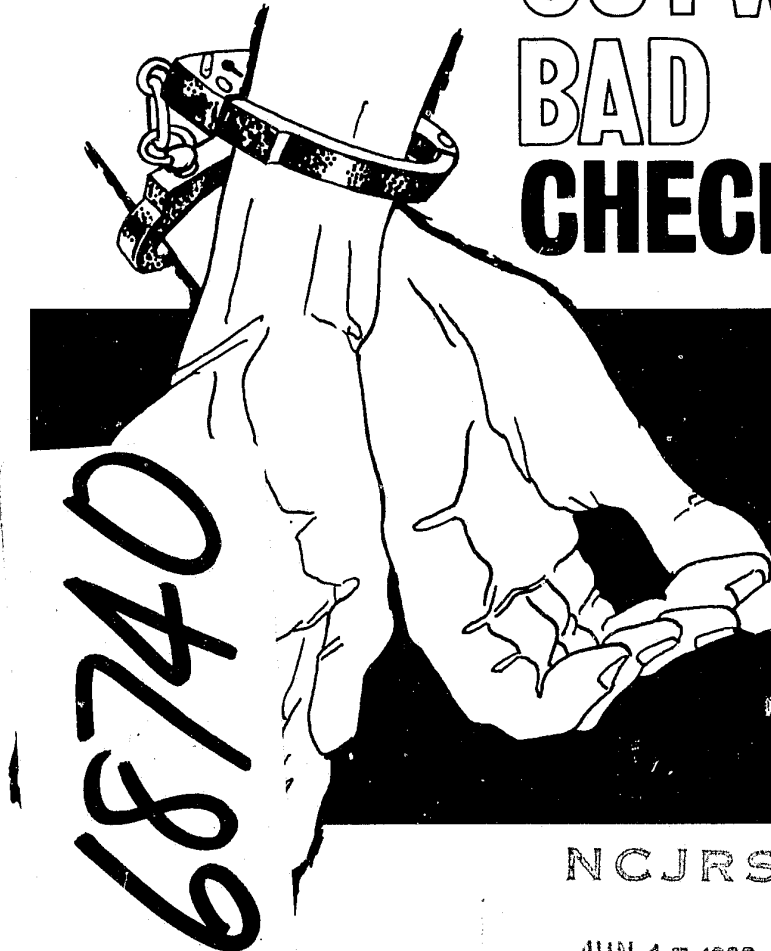
SMALL BUSINESS ADMINISTRATION

SMALL MARKETERS AIDS No. 137

REVISED JUNE 1976

OUTWITTING BAD CHECK-PASSERS

By Leonard Kolodny



NCJRS

JUN 13 1980

ACQUISITIONS

SUMMARY

Time was when a man's word was as good as his bond. But nowadays, even the signatures of many persons are worthless—especially to retailers who are stuck with bad checks.

This *Aid* offers suggestions that should be helpful in keeping bad checks out of the cash registers of small stores. For example, the key items on a check should be examined closely because they can tip off the owner-manager to a worthless check. His procedures should also include a dollar limit on the size of checks he will accept and the type of identification necessary to back up the signature or endorsement. In addition, it is profitable to review with employees the checks which the bank refuses to honor.

The author of this *Aid*, Leonard Kolodny, is Manager of the Retail Bureau of the Metropolitan Washington Board of Trade, Washington, D.C.

A neatly dressed stranger pays for his groceries with a payroll check issued by a company in a nearby city. In the next few hours, he does the same thing in several other food stores.

In another community, a middle aged man pays for a pair of shoes with a Government check. He moves to other stores and cashes several more Government checks.

In a third city, a well-dressed woman pays for an expensive dress with a blank check. "I need a little pocket cash," she says. "May I make the check for \$20 more?" The salesclerk agrees, never suspecting that the customer does not have an account in any bank.

Tomorrow, these three con artists will work in other communities.

The specialist in payroll checks will fill out blank ones which he has stolen. The passer of Government checks is also a thief. He steals Social Security checks, tax refund checks, and so on from individual mail boxes. "Blank Check" Bessie will hit her victim after the banks have closed.

These three, and others who pass worthless checks, are clever. They live by their wits and are often glib talkers. But they are not so clever that you can't outwit them.

TYPES OF CHECKS

Winning the battle of wits against worthless check-passers is largely a matter of knowledge and vigilance. You have to know what you're up against, pass the information on to your employees, and be constantly on guard when accepting checks.

You are apt to get seven different kinds of checks: personal, two-party, payroll, Government, blank, counter, and traveler. And some customers may offer money orders.

A **PERSONAL CHECK** is written and signed by the individual offering it. He makes it out to you or your firm.

A **TWO-PARTY** check is issued by one person to a second person who endorses it so that it may be cashed by a third person. This type of check is most susceptible to fraud because, for one thing, the maker can stop payment at the bank.

A **PAYROLL CHECK** is issued to an employee for services performed. Usually the name of the employer is printed on it, and it has a number and is signed. In most instances, "payroll" is also printed on the check. The employee's name is printed by a check writing machine or typed. In metropolitan areas, you should not cash a payroll check that is handprinted, rubber stamped or typewritten as a payroll check, even if it appears to be issued by a local business and drawn on a local bank. It may be a different story in a small community where you know the company officials and the employee personally.

A **GOVERNMENT CHECK** can be issued by the Federal Government, a State, a county, or a local government. Such checks cover salaries, tax refunds, pensions, welfare allotments, and veterans benefits, to mention a few examples.

You should be particularly cautious with government checks. Often they are stolen, and the endorsement has been forged.

In some areas, such thievery is so great that some banks refuse to cash Social Security, welfare, relief, or income tax checks, unless they know the customer or he has an account with the bank. You should follow this procedure also. In short, know your endorser.

A **BLANK CHECK** or sometimes known as a **universal check** is no longer acceptable to most banks due to the Federal Reserve Board regulations that prohibit standard processing without the encoded characters. This check may be used, but it requires a special collection process on the part of the bank and, therefore, they incur a special cost.

A **COUNTER CHECK** is still used by a few banks and is issued to depositors when they are withdrawing funds from their accounts. It is not good anywhere else. Sometimes a store has its own counter checks for the convenience of its customers. A counter check is **not** negotiable and is so marked.

You should check local bank practices on blank checks and counter checks because of the coded magnetic tape imprints which many banks use for computer processing. Personal printed checks often have the individual's bank account number in magnetic code.

A **TRAVELER'S CHECK** is a check sold with a preprinted amount (usually in round figures) to travelers who do not want to carry large amounts of cash. The traveler signs the checks at the time of purchase. He should counter-sign them only in the presence of the person who cashes them.

In addition, a **MONEY ORDER** can be passed as a check. However, a money order is usually bought to send in the mail. Most stores should not accept money orders in face-to-face transactions.

Some small stores sell money orders. If yours does, never accept

a personal check in payment for money orders. If the purchaser has a valid checking account, he does not need a money order. He can send a check in the mail.

LOOK FOR KEY ITEMS

A check carries several key items such as name and location of bank, date, amount (in figures and spelled out), and signature. Close examination of such key items can sometimes tip you off to a worthless check. Before accepting a check, look for:

NONLOCAL BANKS. Use extra care in examining a check that is drawn on a nonlocal bank and require the best type of identification. List the customer's local and out-of-town address and phone number on the back of the check.

DATE. Examine the date for accuracy of day, month, and year. Do not accept the check if it's not dated, if it's post-dated, or if it's more than 30 days old.

LOCATION. Look first to be sure that the check shows the name, branch, town and State where the bank is located.

AMOUNT. Be sure that the numerical amount agrees with the written amount.

LEGIBILITY. Do not accept a check that is not written legibly. It should be written and signed in ink and must not have any erasures or written-over amounts.

PAYEE. When you take a personal check on your selling floor, have the customer make it payable to your firm. Special care should be used in taking a two-party personal check.

AMOUNT OF PURCHASE. Personal checks should be for the exact amount of the purchase. The customer should receive no change.

CHECKS OVER YOUR LIMIT. Set a limit on the amount—depending on the amount of your average sale—you will accept on a check. When a customer wants to go beyond that limit, your salesclerk should refer him to you.

LOW SEQUENCE NUMBERS—be more cautious with low sequence numbers—below #300. Experience indicates that there seems to be a higher number of these checks that are returned. Most banks who issue personalized checks begin the numbering system with 101 and continue with the same sequence numbering even when a customer re-orders new checks.

\$\$\$ AMOUNT OF CHECK—Most bad check passers pass checks in the \$25.00 to \$35.00 range on the assumption the retailer will be more cautious when accepting a larger check.

TYPES OF MERCHANDISE PURCHASED—Be watchful of the types of merchandise purchased. Random sizes, selections, lack of concern about prices should indicate that a little more caution should be exercised when accepting a check.

REQUIRE IDENTIFICATION

Once you are satisfied that the check is okay, the question is, "Is the person holding the check the right person?" Requiring identification helps you to answer the question.

But keep in mind that no identification is foolproof. A crook is a crook no matter what type of identification you ask him to show. If he wants to forge identification, he can.

Some stores demand at least two pieces of identification. It is important to get enough identification so the person presenting the check can be identified and located if, and when, the check turns out to be worthless.

The following types of identification should be useful in determining the type to use in your store.

CURRENT AUTOMOBILE OPERATORS LICENSE. If licenses in your State do not carry a photograph of the customer, you may want to ask for a second identification.

AUTOMOBILE REGISTRATION CARD. Be sure the name of the State agrees with the location of the bank. If it doesn't, the customer must have a plausible reason. Also make sure that the signatures on the registration and check agree.

SHOPPING PLATES. If they bear a signature or laminated photograph, shopping plates and other credit cards can be used as identification. The retail merchants' organization in some communities issues lists of stolen shopping plates to which you should always refer when identifying the check-passer.

GOVERNMENT PASSES can also be used for identification in cashing checks. Picture passes should carry the name of the department and a serial number. Building passes should also carry a signature.

IDENTIFICATION CARDS, such as those issued by the armed services, police departments, and companies, should carry a photo, a description, and a signature. Police cards should also carry a badge number.

Several types of cards and documents are not good identification. Some of them (for example, club cards) are easily forged, and others (for example, customer's duplicate saleschecks) were never intended for identification. Unless they are presented with a current automobile operator's license, do not accept the following:

- | | |
|----------------------------|----------------------------|
| Social Security Cards | Letters |
| Business Cards | Birth Certificates |
| Club or Organization Cards | Library Cards |
| Bank Books | Initialed Jewelry |
| Work Permits | Unsigned Credit Cards |
| Insurance Cards | Voter's Registration Cards |
| Learner's Permits | Customer's Duplicate Cards |

Some large stores photograph each person who cashes a check along with his identification. This procedure is a deterrent because bad check passers don't want to be photographed.

Some stores, when in doubt about a check, will verify an address and telephone number in the local telephone directory or with the information operator. Someone intending to pass a bad check will not necessarily be at the address shown on the check. If the address and telephone number cannot be verified, the check should be considered a potential return.

COMPARE SIGNATURES

Regardless of the type identification you require, it is essential that you and your employees compare the signature on the check with the one on the identification.

You should also compare the person standing before you with the photograph and/or description on the identification.

"His writing did not compare with his character and age," the owner-manager of a store in the Midwest said. He was referring to a forger he helped catch. The forger was a tall, athletic-looking man, but his writing was like a woman's. It was small and precise. Moreover, he wrote very slowly and carefully.

SET A POLICY

You should set a policy on cashing checks, write it down, and instruct your employees in its use. Your policy might require your approval before a salesclerk can cash a check. When all check-cashers are treated alike, customers have no cause to feel that they are being treated unfairly.

Your procedure might include the use of a rubber stamp. Many stores stamp the lower reverse side of a check and write in the appropriate information. Here is a sample of such a stamp.

PRINT			
Salesperson—Name and No.			
Auth. Signature			
Customer's Address			
Home Phone	Business Phone		
Ident. No. 1			
Ident. No. 2			
Dept. No.	Amount of Sale		
Take	Send	COD	Will Call

Your policy might also include verifying a check through the bank that issued the check. Some banks will do this only if you are a depositor in the bank. It might be helpful to establish business accounts in several banks, particularly where many of your customers have accounts.

You may want to verify a check through a check verification service. Should you contract with such a service or if you receive lists of bad check passers, ask the service to show you proof from the Federal Trade Commission that their service is in compliance with the Fair Credit Reporting Act.

You should frequently review your policy and procedure on check cashing with your employees. Remind them about what to watch for in spotting bad checks.

Employee apathy toward accepting checks is a big reason why stores get stuck with bad checks. The bigger the store, the more difficult it is to keep employees interested in catching bad checks. One effective way is to show employees your bad checks.

REFUSING A CHECK

You are not obligated to take anyone's check. Even when a stranger presents satisfactory identification, you do not have to take his check.

In most cases, you will accept a check when the customer has met your identification requirements. You want to make the sale. But never accept a check if the person presenting it appears to be intoxicated.

Never take a check if the customer acts suspiciously. For example, he may try to rush you or your employees while you are checking his identification. Or he may appear nervous and be over-attentive to the people about him.

Never take a check that has an old date.

Never take a check that is dated in advance.

Never discriminate when refusing a check. Don't tell a customer that you can't accept his check because he is a college student or lives in a bad neighborhood, etc. If you do, you may be in violation of a State or Federal law on discrimination.

WHAT CAN YOU RECOVER?

Whether you can recover a bad check depends on the person who gave it to you and his circumstances. He may be one of your best customers who inadvertently gave you a check when the funds in his bank account were insufficient. On the other end of the scale, he may be a forger.

INSUFFICIENT FUNDS. Most checks returned because of insufficient funds clear the second time you deposit them. Notify the customer that he has overdrawn his account and that you are redepositing his check. But if the check is returned a second time, in some localities, it is the retailer's collection item. He must notify the maker and ask for immediate payment.

You should check the practices of your bank. In the Washington, D.C. area, for example, after a second return for insufficient funds, the bank will not let you re-deposit the check. It is your collection item. Some stores prosecute if the customer does not redeem such a check within a week of the second return. Stores with a reputation for being easy-going about insufficient funds checks usually receive plenty of them.

The procedure on prosecution depends on the State. In one jurisdiction, for example, a merchant must send the check writer a certified or registered letter and give him 5 days from date of receipt of that notice to comply before the merchant can prosecute. In another

jurisdiction, the maker has 5 days after the date of notice to make the check good. In a third, a resident has 10 days to make good his check.

NO ACCOUNT. Usually you've lost when the bank returns a check marked "no account." Such a check is evidence of a swindle or a fraud unless there has been an extraordinary error. In *rare* instances, a customer may issue a check on the wrong bank or on a discontinued account. You should quickly determine what the circumstances are. If the person is known in the community, proceed with your collection efforts. If you find yourself "stuck" with the check, call your police department.

CLOSED ACCOUNT. A check marked "closed account" is a warning of extreme carelessness or fraud. Accounts are closed by both individuals and by banks. The latter may close an account because of too many overdrafts. An individual may open a new account by removing funds from his old account. In such case, he may forget that he has issued a check that is still outstanding against the old account.

If you don't get your money back within a reasonable time, you should consider prosecuting the check writer.

FORGERY. Forged checks are worthless.

Any alteration, illegal signature(s) of the maker of the check, a forgery of the endorsement, an erasure or an obliteration on a genuine check is a *crime*.

Watch out for smudged checks, misspelled words, poor spacing of letters or numbers indicating that changes may have been made. Payroll checks with the company's name and address typed in could be fraudulent. Most payroll checks are printed.

When you suspect forgery, call the police. Thus, you help protect yourself and others against further forgery.

You should refer a forged U.S. Government check to the field office of U.S. Secret Service.

A forged check transported in interstate commerce is a Federal offense.

You should check with your lawyer about local practices on collecting through the courts on a bad check which a customer used to pay on his account. In the Washington, D.C. area, for example, merchants cannot collect through the courts on such bad checks. The reason is: **The merchant still has the account and no injury was suffered through the issuance of the check. The account may be collectible through the usual civil procedures used for collection purposes.**

A bad check issued to pay for merchandise taken is not a theft but a misdemeanor. It is an exchange—the checks for goods. A misdemeanor carries a lighter penalty than a theft since a check may be collectible through civil procedures. Criminal action may be taken through signing a formal charge with the police.

GET EVIDENCE. You cannot prosecute bad check passers without good evidence. The person who cashed the bad check should be positively identified and connected with the receiving of money for it.

END