FDIC
FRAUD ALERT
Spring 1994 Volume 3, Number 4

Phony "Certified Money Orders" and "Prime" Bank Instruments Spreading

Two scams are spreading across the United States and internationally: one playing on the ambition to be debt free; and the other to receive a high rate of return on an investment.

While the frauds should be obvious, they continue to trap unsuspecting bankers, would-be investors and gullible consumers.

The first scheme involves "certified money orders" being sold by groups that dismiss currency laws as unconstitutional. These bogus money orders are being sold to buyers who are told they can be used to erase debt. A bank is instructed to mail the money orders to an address, but is never paid. The number is growing, but an estimated 100 to 500 banks have already received the bogus money orders.

The second scheme involves "prime" bank financial instruments and has spread around the world. Federal regulatory agencies have warned bankers to avoid transactions involving these bogus "prime" bank financial instruments.

The articles below advise bankers on what to look for, and what to do.

Certified Money Orders

Banks in at least 37 states have been hit with "Certified Money Orders" from borrowers seeking to pay off loans with the bogus instruments, which are purchased from groups that dismiss the constitutionality of the monetary system.

Banks are not the only victims of this scheme; the phony money orders have also been used to try to pay off loans to government agencies and to buy homes and cars from their owners. One conservative estimate is that about $100 million in the bogus money orders have been written, in a scheme one observer called the biggest scam in more than five years.

The money orders are being sold, federal investigators said, by organizations known as We the Peo-

Continued on page 3

"Prime" Bank Notes

Schemes involving bank instruments labeled "prime" are spreading from the United States to Europe and Asia and have even brought down an Eastern European bank.

The growth in these scams comes despite warnings from depository institution regulators and court actions by the Securities and Exchange Commission.

These schemes do not involve financial instruments issued by any bank with "Prime" in its name; instead the SEC says that prime is used to mean highly reputable and financially sound institutions. The "prime" instruments involved in the scams include notes, debentures, letters of credit and guarantees.

Continued on page 2

Continued from page 1

Investors are promised unrealistic rates of return, some as high as 30 percent a month. These schemes have been promoted through advertisements in legitimate newspapers, through faxes to potential investors and financial advisers, and on computer bulletin boards.

The investments in these schemes can range anywhere from $1,000 to $25 million and have included a variety of victims. The Salvation Army in Great Britain said it lost $8 million, while in this country the National Council of Churches of Christ lost $7.9 million.

The Council of Churches' health insurance fund had invested in the $1.2 billion of "prime bank guarantees" issued by Banka Bohemia in Prague that turned out to be bogus. The issuance of fraudulent securities led the Czech National Bank to take over the bank in April after a run on Banka Bohemia by depositors.

There is a fear, expressed by one banking investigator, that banks in other former Russian satellite countries may fall into the same trap.

The Economist magazine explained the Banka Bohemia fraud as a "rollover scheme."

"The rollover happens when an inexperienced bank, eager to tap the international capital markets, falls prey to middlemen who promise to buy the securities and then resell them at a profit to (equally inexperienced) investors. The bank never sees its money; investors are lumbered with potentially worthless paper; and the middlemen vanish with the cash."

In March, the SEC's Division of Enforcement issued an alert which warned of the possibility of about $600 million in Banka Bohemia "prime" guarantees and of possible "fraudulent attempts" to sell them in the U.S.

These bogus securities are written in English, bear no interest, vary in maturity dates, and have face amounts ranging from $1 million to $25 million.

In October, federal bank and thrift regulators warned depository institutions of schemes involving prime bank instruments. In the interagency advisory, depository institutions were urged to be "attentive to attempted use of any traditional type of financial instrument—such as a standby, performance or commercial letter of credit—that is somehow referred to in an unconventional manner, such as a letter of credit referencing forms allegedly produced or approved by the International Chamber of Commerce." The regulators also pointed out that many of the schemes "appear to involve overly complex loan funding mechanisms."

This complexity, the SEC said, may in the eyes of an unsophisticated investor make a questionable investment appear worthwhile.

Some operators of the scheme reportedly have invoked the names of large, well-known domestic and foreign banks, the World Bank and central banks.

Common targets for these schemes include both institutional and individual investors, who "may be induced to participate in possible 'Ponzi' schemes involving the pooling of investors' funds to purchase 'prime' bank financial instruments,'' the SEC said.

The SEC has brought court action in nine cases in the past year in which investors were duped by schemes that promised high rates of return on investments in "prime" bank instruments. However, no investments were made and the investor's money that was to be pooled to purchase the bank instruments was returned to the investor as "interest payments."

Federal regulatory and law enforcement agencies have urged depository institutions that are aware of such investments to contact the regulatory agencies.

Banks and thrifts also are reminded that they must file a criminal referral form if they suspect a criminal offense is being committed. ■

The *FDIC Fraud Alert* is published quarterly by the Federal Deposit Insurance Corporation, 550 17th Street, N. W., Washington, D.C. 20429

This newsletter is produced by the Office of Corporate Communications.

Andrew C. Hove, Jr., Chairman

Alan J. Whitney, Director, Office of Corporate Communications

Frank Gresock, Editor

Continued from page 1

ple, a division of We the People called the Posse Comitatus, and USA First. These groups dismiss the value of financial instruments not backed by gold or silver.

In states like Texas and Oklahoma the money orders are sold as part of a kit. The kit sells for $300 to $350, but in other parts of the country it sells for up to $600. It contains six of the certified money orders along with instructions on how to file court actions if the lender forecloses after the borrower tries to pay off a loan with the bogus instrument.

Some of the bad money orders arrive at the financial institution with an accompanying letter and statement, which when read turn out to be nothing more than legal gobbledegook.

The money orders look authentic. Investigators from the U.S. Postal Service and the U.S. Secret Service executed a search warrant in Waxahachie, Texas, and seized records and equipment used in the scam. A similar seizure was carried out in Tigerton, Wis. But less than six months after the raids, operations have resumed in both places.

Waxahachie and Tigerton are among five addresses to which bankers have been instructed to send the certified money orders for payment. [See box on this page for the complete list of addresses.]

The scam starts at meetings typically held in small rural towns. Potential buyers are told they can be debt-free by using the money orders. They are urged to use the fraudulent documents to pay off loans but not to make new purchases.

In one case, however, a Dallas man used the certified money orders to buy homes, which he then quickly leased. But the original owners found themselves in default, while trying to regain the titles to their homes and the use of their property.

The amounts are substantial. Investigators seized a money order made out for $7 million to pay off a Farmers' Home Administration loan. In some cases borrowers make out the money order for thousands of dollars more than the amount required to pay off the loan, and ask the lender to refund the excess amount.

Some lenders have made the mistake of mailing the titles to property and cars to the borrowers before the institutions discover the money orders will never be paid.

Instead of being paid, the banks receive a "Certified Bank's Check," which is equally fraudulent.

Bankers can protect themselves by watching for a few telltale signs that indicate they may have a bogus money order in their possession.

First, if the instrument has the words "certified money order" on it, it is bogus.

Second, if the certified money order is "redeemable" by an entity other than a financial institution or by mailing it to one of the addresses listed below, it is no good.

Third, do not turn over titles until any money order clears.

Fourth, a sure sign is an accompanying letter or statement that is garbled with legal citations and nonsensical legal phrases.

Should your institution receive one of these fraudulent money orders, contact federal law enforcement agencies or your FDIC Division of Supervision regional office. ■

Locations Where Bankers are told to send "Certified Money Orders" for Redemption

Many banks that have received "certified money orders" have been asked to send them to these addresses for redemption.

O.M.B.
W. D. McCall
P.O. Box 500-284
Victoria, Texas 77901, and
P. O. Box 954
Waxahachie, Texas 75165

L. A. Pethahiah
P.O. Box 287
Tigerton, Wisconsin

Mount Calvary Fund
P.O. Box 9580
Warwick, Rhode Island 02889

Patrick E. Rudd
P.O. Box 9580
Warwick, Rhode Island 02889

Banks that have accepted bogus money orders and sent them to any of the addresses above have received in return a "Certified Bank's Check." No bank has collected its funds thus far.

Financial institutions, regulators warn, should use extreme caution if they are involved in such transactions. These fraudulent transactions should be reported to law enforcement authorities and to your FDIC Division of Supervision regional office. ■

Russians Attempting to Cash Checks Stolen from New York Mailbags

Many banks are being victimized by a scheme involving checks stolen from U.S. Postal Service mailbags in New York City and later negotiated through bank accounts opened by Russian nationals up and down the East Coast.

The perpetrators normally provide a passport from the former Soviet Union and another piece of identification, such as a driver's license, when the accounts are opened. The addresses normally are mail drops, and the telephone numbers generally turn out to be answering services.

The "customer" routinely is accompanied by an interpreter, who also is Russian. The account is opened with a small amount of cash, and an automatic teller machine (ATM) card is always requested.

The account normally is dormant for one to two months, or for whatever period the targeted financial institution waits before allowing normal withdrawals against deposited items.

The stolen checks are then deposited into the accounts in either of two ways. The most common method is to simply endorse the name of the original payee along with the name of the account holder and deposit the checks through ATM machines, where deposited items may receive less scrutiny.

The other method involves altering checks by adding the name of the Russian account holder above the name of the original payee and adding the symbol "c/o" after the inserted Russian name. Typically, the funds are withdrawn by ATM, or by check, one to three days following the deposit, but before the bank is notified the checks are stolen.

Financial institutions can try to protect themselves from this scheme in several ways.

First, attempt to verify addresses and telephone numbers given by new customers. Addresses that are unfamiliar or suspected to be mail drops should be investigated further. Any attempted telephone contacts with the customer that are routed through an answering service also should be investigated.

Second, financial institutions should be suspicious of accounts that are suddenly active after being dormant for a short time after opening, especially if the deposits consist of large checks from metropolitan New York City businesses bearing multiple payees and/or endorsements.

Third, line tellers and those who balance ATM deposits should be immediately alerted to this scheme and told to notify their supervisors of any suspicious activity.

Finally, financial institutions are advised to exercise extreme caution if they are involved in any such transactions. Transactions determined to be fraudulent should be reported to federal law enforcement authorities and your FDIC Division of Supervision regional office. ■

FDIC
Federal Deposit Insurance Corporation
Washington, DC 20429-9990

OFFICIAL BUSINESS
Penalty for Private Use, $300

BULK RATE
MAIL
Postage &
Fees Paid
FDIC
Permit No. G36

Attn: Chief Executive Officer