

PACB ALERT
RE: FINANCIAL FRAUD/BANK ROBBERY ENFORCEMENT MEETING
WITH U.S. ATTORNEY FOR EASTERN DISTRICT OF PENNSYLVANIA,
FBI, AND SECRET SERVICE LAW ENFORCEMENT OFFICIALS

This Alert is to notify you that the Pennsylvania Association of Community Bankers requested and attended a meeting held in Philadelphia, Pennsylvania on Friday, December 15, 2006 with the Honorable Patrick L. Meehan, the United States Attorney for the Eastern District of Pennsylvania, and his senior deputy in charge of financial fraud enforcement, Richard Goldberg, at their offices. Also in attendance from law enforcement agencies responsible for federal criminal law enforcement in the eastern part of Pennsylvania were officials from the Federal Bureau of Investigation and the U.S. Secret Service. The purpose of the meeting was to discuss how to improve investigation, enforcement, and recovery of funds from Financial Fraud committed against banks and their customers and Bank Robberies, as well as how the banks can receive related education and provide cooperative assistance to law enforcement officials against these financial crimes.

Attending the meeting for the PACB were Richard A. Kunsch, Chairman, Pennsylvania Association of Community Bankers, and President/CEO of Phoenixville Federal Bank and Trust, Phoenixville, and Pennsylvania; PACB Subcommittee on Bank Security Chairman Chuck Leyh, President/CEO of Enterprise Bank. Also in attendance for PACB were Martin R. Brown, President/CEO of Ambler Savings Bank, PACB's President/CEO Frank Pinto, and Reg Evans from Shumaker Williams, P.C.

This December 15, 2006 Philadelphia meeting follows a similar meeting on the same subject that was held on October 20, 2006 at PACB headquarters in Harrisburg, Pennsylvania, that was held not only with federal criminal law enforcement officials responsible for enforcement in central Pennsylvania (i.e., U.S. Attorney's Office for the Middle District of Pennsylvania, Federal Bureau of Investigation) and the Pennsylvania Office of Attorney General responsible for statewide enforcement of Pennsylvania criminal laws, but also with banking regulatory agency officials from the federal banking agencies (i.e., Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision) and the Pennsylvania Department of Banking.

The present PACB Alert will summarize the main subjects and discussion from the December 15, 2006 meeting in Philadelphia regarding enforcement against financial fraud and bank robberies in eastern Pennsylvania. A PACB Alert was previously issued regarding the October 20, 2006 meeting with criminal law enforcement officials and banking regulatory agency officials.

Introduction of PACB Enforcement Concerns: Chuck Leyh stated the concern of PACB members that financial fraud is on the rise and costing banks more money, that bank robberies are a growing concern, and that the banks are offering their cooperation and requesting applicable education and enforcement to thwart or prosecute against financial fraud and bank robberies. Items discussed included but were not limited to identity theft, check fraud, debt card and credit card fraud, money laundering, and loan application fraud.

Mr. Meehan indicated that he wants to help prosecute against the big financial fraud perpetrators and acknowledged that helping the community banks can be a very good way to accomplish that law enforcement goal.

Frank Pinto emphasized that collectively the PACB membership of community banks is a large economic group worthy of the U.S. Attorney's attention in enforcement against financial fraud.

During the discussion, Richard Kunsch and Martin Brown emphasized the PACB concern over financial fraud and bank robberies and along with Chuck Leyh, Frank Pinto, and Reg Evans raised related issues and provided examples of financial fraud for the federal law enforcement officials to consider for enforcement strategy purposes.

As in the October 20, 2006 meeting in Harrisburg, PACB representatives attending the December 15, 2006 meeting in Philadelphia discussed the importance of law enforcement officials educating the banks regarding steps that can be taken in the future to assist in the investigation and prosecution of crimes involving financial fraud and bank robberies. The results of the bank fraud survey completed by many member institutions in the PACB were referred to and very important in the discussion with the federal criminal law enforcement officials.

Jurisdictional Enforcement Limitations: Mr. Meehan indicated that there is a geographic limitation based on jurisdiction of the respective Eastern Pennsylvania authorized federal law enforcers. The other enforcement officers acknowledged that their jurisdiction was similarly limited to eastern Pennsylvania.

U.S. Attorney Seeks to Prioritize Financial Fraud Items for Enforcement; Related Education from a Victim's Perspective: U. S. Attorney Patrick Meehan noted that the agencies are working with limited resources. He said that he would be glad to use the "bully pulpit" of his office to communicate with banks and consumers regarding financial fraud schemes, identify what we can use to prevent and enforce against financial fraud, maximize the ability of his office to provide service, and look for criminal schemes and patterns to help enhance enforcement efforts. He said that it would be helpful for the banks to prioritize crimes for enforcement, meaning selecting a couple of the biggest issues, identifying a model per issue for the U.S. Attorney's Office to help, and communicating it to bank constituencies. Mr. Meehan said that banks and their customers should be educated from a victim's perspective so that they will know how to identify and secure evidence that could be used to support prosecution of a financial fraud crime. For example, Mr. Meehan said that computer-based financial crimes are easier to accomplish and monetarily more costly generally than bank robberies.

Patterns of Financial Fraud and Emphasis on Check Fraud Enforcement; Future Meeting: The U.S. Attorney wants patterns of financial fraud to be identified for enforcement purposes and for the bankers to select one or two main areas of needed enforcement. Based on the PACB survey on financial fraud and the collective experience of the assembled PACB bankers, Chuck Leyh indicated that check fraud is the biggest problem worthy of enforcement

focus. PACB will prepare and provide examples of check fraud, including Check 21 fraud involving substitute checks, to assist the federal enforcers in identifying methods of check fraud for enforcement purposes. For example, during the meeting, Mr. Leyh emphasized that fraudulent paper checks that include bank water marks making them appear identical to real bank checks are being used by perpetrators of fraud. Another example of new financial fraud schemes provided to the law enforcement officials is the burglarizing of businesses and obtaining the middle checks in the business checkbook so that the checks can be fraudulently used and potentially not noticed by the business until some time in the future after the top checks in the business checkbook are completely used. The U.S. Attorney and other federal enforcement officers were enthusiastic about having patterns of check fraud conduct identified for them by the bankers to help with enforcement.

Mr. Meehan will review the list and then stated that a meeting will be set with PACB to discuss further cooperation between federal law enforcement officials and the banks.

Need for Bank Cooperation in Prosecution against Financial Fraud and Bank Robberies Emphasized by U.S. Attorney's Office: Richard Goldberg of the U. S. Attorney's Office emphasized that his office needs the time and cooperation of the banks in order to successfully prosecute a case. For example, he said that if a bank teller was a witness to a financial crime and is needed for depositions or trial preparation or testimony, then the bank must allow that person to leave work to help in the prosecution.

Electronic Evidence versus Paper Evidence: Mr. Goldberg also said that electronic documents, while legally valued, are not nearly as useful or helpful as evidence in a prosecution as paper items, such as paper checks. The PACB bankers pointed out their concern that when using substitute checks in electronic form under the Check 21 Act authority, the banks destroy the checks to protect themselves against resubmission of the checks. The attendees recognized the counterpurposes of prosecutors wanting the paper checks for fingerprints and other first-hand evidence purposes, versus bankers destroying these paper checks to protect themselves against future mistakent or fraudulent resubmission of checks.

Improvement in Suspicious Activity Report Preparation Requested. Richard Goldberg of the U.S. Attorney's Office said that all Suspicious Activity Reports in his district are reviewed but that many could be improved to state in more direct and plain language the problem or issue being addressed.

Financial Fraud Prevention Programs: Mr. Leyh noted that banks are commencing enhanced financial fraud prevention programs, such as a check verification system in which the customer must electronically submit to the bank a list of checks written for respective monetary amounts that corresponds to the checks actually submitted to the bank for payment or else the bank will not honor the check.

Bank Robbery Enforcement: Regarding bank robberies, the FBI's Mike Carbonelli said that the Eastern District of Pennsylvania has been actively enforcing against bank robberies, especially in Philadelphia. He said that the banks can expect that the Middle District of Pennsylvania, including Harrisburg, will increase focus and enforcement against bank robberies.

Education: Mr. Meehan said part of the education to make financial fraud prevention and prosecution viable is to recognize and identify that the technology is moving and evolving fast, encoding is being updated and revised rapidly to outwit fraud prevention techniques and devices, and merchants are part of the problem when all three traits of encoding are maintained on the merchants computer system, opening the merchant to fraud. In regard to merchant security, the Infraguard program to protect businesses with security against financial fraud was referred to by one of the two FBI representatives.

Mr. Meehan said we should together identify an educational curriculum regarding fraudulent checks, the scope of what check fraud bankers are experiencing, look for general patterns, realize which fraud technology has changed or is changing, improve education, and if victimized, have provided education so that the bankers know how to collect evidence and respond. He indicated that he would like for the cooperation between the bankers and his criminal law enforcement office to include discussion of the latest fraud technology so that his offices are not looking for yesterday's methods.

Education Opportunities: Mr. Meehan suggested inviting banks to security education shows. Federal agency officials were enthusiastic about inviting banks to a Philadelphia area working group meeting attended by over 200 entities and at which bank robbery and identity theft are discussed and education is provided.

Cooperation from Communication in Meetings with Law Enforcement Officials: Both the December 15, 2006 meeting in Philadelphia and the previous October 20, 2006 meeting in Harrisburg are viewed by PACB as positive beginnings of a cooperative effort toward increased enforcement against financial fraud and bank robberies in central Pennsylvania and eastern Pennsylvania.

Future Discussions: U.S. Attorney Patrick Meehan indicated that after his office receives from PACB a list of patterns and methods of committing check fraud that a meeting will be scheduled to further pursue education of bankers from a victim's perspective, and how to cooperatively work together to enforce against check fraud. Mr. Meehan and the assembled other federal law enforcement officials indicated that PACB would be provided information and an invitation for member bankers to attend annual financial fraud enforcement meetings for education and enforcement purposes.

Chuck Leyh and Frank Pinto emphasized that future discussions with the Western District Office of the U.S. Department of Justice would be important to allow PACB members across the state to participate in obtaining enforcement education from law enforcement officials and increased actual enforcement against financial fraud and bank robberies. PACB was advised to directly contact the Western District Office of the U.S. Department of Justice to discuss coordination between community banks and criminal law enforcement agencies to improve enforcement against financial fraud and bank robberies. This contact has been made by PACB which is attempting to arrange a meeting with the Western District Office of the U.S. Department of Justice so that all three Justice Department offices with separate regional jurisdiction in Pennsylvania shall have been met with to discuss how community banks can work

cooperatively with criminal law enforcement agencies to deter, detect, and recover absconded funds through enhanced financial fraud and bank robbery enforcement and related cooperative education of bankers.

Notice to the PACB Membership regarding Other Enforcement Meetings: As with the completion of the meetings with Middle District and Eastern District Offices of the U.S. Department of Justice, the PACB membership will be kept apprised regarding the completion of any significant future meetings on the subjects of financial fraud and bank robbery enforcement and related education opportunities.

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