

## **Fraudulent Activity Alert – IOLTA (Interest on Lawyers Trust Accounts) Accounts**

Attorneys in our area continue to fall victim to scams targeting attorneys and, more specifically, their IOLTA accounts. The perpetrators of these scams are incredibly sophisticated and thorough in their fraudulent stories. This will explain the basics of these internet scams and provide you with tips on how to avoid becoming a victim.

### **Here is a how these scams work**

Although there are multiple variations, the scam typically begins with an email from a potential client who is overseas. The potential client requests representation in a commercial collection matter against a local debtor. The debt is usually in the six or low seven figure range. The potential client executes a retainer agreement and dutifully returns it by email. Almost immediately after the retainer is signed, the client reports that a settlement has been reached independently with the debtor and that the client has informed the debtor to mail the settlement proceeds via bank or cashier's check to the attorney. The client advises the attorney to deposit the debtor's check when it is received, then to wire the net proceeds to the client after deducting the attorney's fee. The check is deposited into the attorney's IOLTA account, and then the net proceeds minus the attorney's fee are wired to the client's account overseas. When the attorney's bank presents the debtor's check for payment from the issuing bank, the check is returned because it is a forgery. By then, the client has disappeared with the wired money.

### **What to look out for**

- You are asked to pay money out of your account ( "monies required to be remitted to a third party based upon acting as an intermediary, not related to a legal transaction"). This is a five-star red flag.
- You are asked to act very quickly. Scammers don't want you to have time to verify whether the official check is authentic.
- You are approached by somebody abroad. Fake check scammers often claim to be in another country.
- You notice discrepancies/unusual markings on the check. Evaluate the check; any slight alteration (in the pay to the order area of the check, the bank name or location of the bank, any numbers on the bottom of the check) could reflect fraudulent activity.
- You are presented with a deal that is "too good to be true". Exercise caution.

### **How to avoid the scam**

- Wait for the check to clear and be honored (a fraudulent official check may take

- days or weeks to be identified) before using the money.
- Don't be fooled into thinking that the company is real or legitimate just because its website looks professional or the names of legitimate people and companies are used.
  - Know with whom you are dealing. Don't be quick to take on a new client unknown to you. Independently confirm the name, address, home number and work number of the prospective client by consulting a phone book, directory assistance, an Internet database, or better yet, a combination of the three.
  - Be wary of the need for great speed in processing the money.
  - Understand the risks. Your deposits are your responsibility. If you have deposited a check that is returned, the bank will withdraw the original dollar amount credited to your IOLTA account. The Bank will also immediately deduct existing funds from your IOLTA account to cover any wire transfers. The funds of other clients and third parties may be implicated. In addition, if the IOLTA account is overdrawn as a result of the scam, the Bank must report the overdraft to the Connecticut Statewide Grievance Committee.
  - Fake checks can be impossible to identify. Insist on an official check drawn on a local bank or a bank that has a local branch so that you can verify its validity. If that's not possible, call the bank where the check was purchased (get the bank's phone number from directory assistance or an Internet database, not from the person who gave you the check) and verify that the check is valid. If you'd rather not call the bank, ask someone at your bank to make the inquiry.
  - Most importantly, ask questions. A legitimate prospective client has nothing to hide and will gladly provide the answers. Also, verify the transaction directly with all parties.
  - Communicate these helpful tips throughout your firm to create awareness.

**If you have any questions, please feel free to contact your local  
First County Bank branch or your relationship manager.**

Dated: May 21, 2015