

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105

July 25, 2003

**BANKING SUPERVISION AND REGULATION:
FRAUDULENT FEDERAL RESERVE NOTES SCHEMES**

To State Member Banks, Bank
Holding Companies, U.S. Branches
and Agencies of Foreign Banks,
and Others Concerned,
in the Twelfth Federal Reserve District

Fraudulent Federal Reserve Note Schemes (SR 03-14)

Over the past several years, the Federal Reserve has issued various advisories relating to bogus investment schemes involving phony “prime bank” notes, letters of credit, and guarantees, and other financial instruments. In May 2002, in SR letter 02-13 the Federal Reserve once again highlighted the dangers associated with investment schemes that promise very high rates of interest that are, among other things, supposedly generated through secret trading programs involving financial instruments. That SR letter listed the general characteristics or “red flags” of illicit financial instrument investment scams.¹

Since the issuance of the Federal Reserve’s last pronouncement about fraudulent investment schemes in 2002, Board staff has become aware of the growing use of altered Federal Reserve Notes as part of illicit investment schemes. The notes are in face amounts of \$1 billion, \$100 million, or \$50 million or some other astronomically large amount and have “coupons” attached to them. Please visit <http://fedweb.frb.gov/fedweb/bsr/srltrs/SR0314.htm> for a visual example.

Except for coins, U.S. currency is in the form of “Federal Reserve Notes.” The notes are designed and printed by the Bureau of Engraving and Printing of the U.S. Department of the Treasury and are circulated through the 12 Federal Reserve Banks in the United States. These notes are familiar—they are the money in our pockets—and are in general circulation in this country and abroad in \$1, \$2, \$5, \$10, \$20, \$50, and \$100 denominations. It would appear that there should be no confusion between the phony notes and legitimate U.S. currency. However, fraudsters often falsely claim that the altered Federal Reserve Notes that they hold are somehow very special (for example, they are part of a secret trove of notes issued by the Federal Reserve under unusual circumstances that have been hidden for decades in secret locations abroad) and are not known to the public because they are so secret. The fraudulent notes are worthless.²

Board staff is also aware that wrongdoers have been falsely claiming that the “notes” can be taken to banks and other financial institutions to be used to collateralize loans or traded as part of an investment program. They cannot be used for any purpose whatsoever because they are entirely bogus.³

¹ SR letter 02-13 can be found on Federal Reserve’s website at <http://www.federalreserve.gov/boarddocs/SRLETTERS/2002/sr0213.html>.

² Other samples of doctored Federal Reserve Notes and examples of Federal Reserve Note scams can be found at <http://www.ny.frb.org/bankinfo/fraudscams/pg2.html>.

³ Sometimes Federal Reserve Notes are altered to become “Federal Reserve *Bonds*” rather than notes. The Federal Reserve does not issue bonds of any nature.

Federal law enforcement authorities have asked the Federal Reserve to advise individuals, banking organizations, and other entities who have been contacted regarding the phony Federal Reserve Notes to contact the local offices of the agencies. This includes the field offices of the Federal Bureau of Investigation, U.S. Secret Service, U.S. Bureau of Immigration and Enforcement, or Internal Revenue Service's Criminal Investigation Division.

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Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's Internet site, at <http://www.frbsf.org/banking/letters>.

For additional information about SR 03-14, please contact our Banking Supervision and Regulation Department at (415) 974-2911.

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