

Payments Fraud Liability Matrix

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Prepared by the Federal Reserve Bank of Minneapolis'
Payments Information and Outreach Office

February 2014

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Payment Type	Subtype (Fraud Type)	Consumer Protection	Legal Authority	Who is liable if cannot recover against fraudster or merchant	Legal Authority
ACH					
	Credit Items (ppd)	\$0 Consumer not liable if they report fraud within 60 days after transmittal of the consumer's periodic statement	Reg. E (12 CFR §205.6(b)(3))	Originating Depository Financial Institution ("ODFI") ¹ is liable for breach of warranty that item is authorized Credit Items can be returned at any time	The ODFI warranty is set forth in NACHA ² OR §2.4.1 Liability for breach of warranty is set forth in NACHA OR §2.4.4 Return deadlines for credit items are set forth in NACHA OR §3.8
	Debit Items (ARC, BOC, IAT, POP and RCK have similar recredit rights pursuant to NACHA OR §§3.11.2.1 – 3.11.2.3) ³	\$0 Consumer not liable if they report fraud within 60 days after transmittal of the consumer's periodic statement	Reg. E (12 CFR §205.6(b)(3)) NACHA OR §3.11.1 Consumer has right of immediate recredit if notifies bank within 15 days after receiving statement	ODFI is liable for breach of warranty that item is authorized ODFI must accept the return of unauthorized items that the Receiving Depository Financial Institution ("RDFI") ⁴ returns within 60 days after the settlement date. Separate warranty claims can be brought after the 60-day period outside of the ACH network	The ODFI warranty is set forth in NACHA OR §2.4.1 Liability for breach of warranty is set forth in NACHA §2.4.4 Return deadlines for debit items are set forth in NACHA OG ⁵ 122 - 123

¹ 2014 NACHA Operating Rules ("OR") 8.63.

² Any reference herein to "NACHA" is specifically to the 2014 NACHA Operating Rules ("OR") & Guidelines ("OG").

³ ARC means lockbox items pursuant to NACHA OR §8.1. POP means Point of Purchase conversion items pursuant to NACHA OR §8.70. BOC refers to Back Office Conversion items pursuant to NACHA OR §8.11. Re-presented check entries (RCK) (NACHA OR §8.75), which means items that are collected via ACH after the original paper check has been dishonored, are not covered by Reg. E as it specifically excludes items that were first originated by a check.

⁴ Receiving Depository Financial Institution. See NACHA OR §8.70.

⁵ NACHA Operating Guidelines (2014). The number following OG refers to the page number.

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Check⁶					
	Forged (counterfeit) check	\$0 Consumer not liable as the check is not properly payable ⁷ , which means that it was not authorized or not in accordance with any agreement	UCC §4-401. If check is not properly payable, the depository bank must not charge or is required to recredit the amount of the fraudulent check	Paying bank is liable as there is no breach of presentment warranty	Presentment warranties are set forth in UCC §§3-417 and 4-208
	Forged drawer's signature	\$0 Consumer not liable as the check is not properly payable, which means that it was not authorized or not in accordance with any agreement	UCC §4-401. If check is not properly payable, the depository bank must not charge or is required to recredit the amount of the fraudulent check	Paying bank is liable as there is no breach of presentment warranty	Presentment warranties are set forth in UCC §§3-417 and 4-208
		Possible exception if consumer's negligence substantially contributed to the forged signature or if consumer's failure to timely report forgery	UCC §3-406 drawer's negligence UCC §4-406 drawer's failure to report		
	Forged endorsement	\$0 Consumer not liable as check is not properly payable, which means that it was not authorized or not in accordance with any agreement	UCC §4-401. If check is not properly payable, the depository bank must not charge or is required to recredit amount of the fraudulent check	Depository bank is liable as there is breach of transfer or presentment warranties	Presentment warranties are set forth in UCC §§3-417 and 4-208 Transfer warranties are set forth in UCC §§3-416 and 4-207

⁶ These protections also apply to business checks.

⁷ An item is "properly payable" if it is authorized by the customer and is in accordance with any agreement between the customer and bank. UCC §4-401(a).

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Check					
	Fraudulent Alteration	\$0 Consumer not liable as check is not properly payable, which means that it was not authorized or not in accordance with any agreement	UCC §§3-407 and 4-401. If check is not properly payable, the depository bank must not charge or is required to recredit amount of fraudulent check	Depository bank is liable as there is breach of transfer or presentment warranties	Presentment warranties are set forth in UCC §§3-417 and 4-208 Transfer warranties are set forth in UCC §§3-416 and 4-207
		Possible exception if consumer's negligence substantially contributed to the alteration or if consumer failed to timely report the alteration	UCC §3-406 drawer's negligence UCC §4-406 drawer's failure to report		
	Remotely Created Checks	\$0 Consumer not liable as check is not properly payable, which means that it was not authorized or not in accordance with any agreement	UCC §4-401. If check is not properly payable, the depository bank must not charge or is required to recredit amount of the fraudulent check	Depository bank is liable for all kinds of fraud for remotely created checks	Reg. CC (12 CFR §229.34(d)) contains transfer and presentment warranties for remotely created checks in which depository bank warrants that the check is authorized

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Credit Cards⁸					
	Card Present (signature or Pin required)	\$50 The consumer's maximum liability under federal law is \$50 for unauthorized use	Truth in Lending Act ("TILA") (15 USC §1643(a)) and Reg. Z (12 CFR §226.12(b))	The Issuing Bank is generally liable for fraudulent transactions	Visa and MasterCard Policies ¹⁰
		If the credit card is reported as stolen before it is used by an unauthorized person, then the card issuer cannot hold the customer liable for unauthorized charges.	Ftc.gov ⁹		
		\$0 The consumer has no liability for unauthorized use under Visa/MasterCard consumer policies, provided that the consumer has taken reasonable measures to protect the card and has not acted negligently in failing to timely report the loss MasterCard has more specific requirements for a customer to have \$0 liability ("Zero Liability" policy) ¹¹ : a. The Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft; b. The Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the	Visa/ MasterCard websites		

⁸ MasterCard and Visa are used in this document as examples for illustrative purposes only since there are many other credit card companies. If you have specific questions regarding other credit card companies, please consult their websites, policies, and/or terms and conditions.

⁹ Federal Trade Commission consumer fact sheet, LOST OR STOLEN CREDIT, ATM, AND DEBIT CARDS, <http://www.consumer.ftc.gov/articles/0213-lost-or-stolen-credit-atm-and-debit-cards> (February 25, 2014).

¹⁰ The Visa and MasterCard network rules apply only between the Issuing Bank (the bank that issues cards to cardholders) and the Acquiring Bank (the bank that has the relationship with the merchant). Visa's rules are not public and the legal authority is derived from statements made by Visa and in litigation and from other secondary sources. MasterCard publishes its policies, MASTERCARD RULES (December 13, 2013).

¹¹ MasterCard's "Zero Liability" policy does not apply to MasterCard payment cards: 1) used for commercial, business or agricultural purposes (PLEASE NOTE: Zero Liability does apply to MasterCard credit and debit cards for small businesses); 2) anonymous prepaid cards, such store or gift cards, until such time as the identity of the cardholder has been registered with the financial institution that issued the card; or 3) if a PIN is used for the unauthorized transaction. <http://www.mastercard.us/zero-liability.html> (February 26, 2014).

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		<p>immediately preceding 12-month period; and</p> <p>c. The account to which Transactions initiated with such Card are posted is in good standing.</p> <p>If a MasterCard customer does not meet these requirements, then a customer is liable for the lesser of \$50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer</p>			
	<p>Card not present (telephone or web initiated use)</p>	<p>\$50</p> <p>The consumer’s maximum liability under federal law is \$50 for unauthorized use</p>	<p>Truth in Lending Act (“TILA”) (15 USC §1643(a)) and Reg. Z (12 CFR §226.12(b))</p>	<p>The Acquiring Bank is generally liable for fraudulent transactions if the Acquirer is not able to pass the liability on to the merchant pursuant to the merchant agreement</p>	<p>Visa and MasterCard Policies</p>
		<p>No liability for unauthorized use if credit card number was used, but not the actual card itself</p>	<p>Ftc.gov¹²</p>		
		<p>\$0</p> <p>The consumer has no liability for unauthorized use under Visa/ MasterCard consumer policies, provided that the consumer has taken reasonable measures to protect the card and has not acted negligently in failing to timely report the loss</p> <p>MasterCard has more specific requirements for a customer to have \$0 liability (“Zero Liability” policy)¹³:</p> <p>a. The Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft;</p> <p>b. The Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and</p>	<p>Visa/ MasterCard websites</p>		

¹² Federal Trade Commission consumer fact sheet, LOST OR STOLEN CREDIT, ATM, AND DEBIT CARDS, <http://www.consumer.ftc.gov/articles/0213-lost-or-stolen-credit-atm-and-debit-cards> (February 25, 2014).

¹³ MasterCard’s “Zero Liability” policy does not apply to MasterCard payment cards: 1) used for commercial, business or agricultural purposes (PLEASE NOTE: Zero Liability does apply to MasterCard credit and debit cards for small businesses); 2) anonymous prepaid cards, such store or gift cards, until such time as the identity of the cardholder has been registered with the financial institution that issued the card; or 3) if a PIN is used for the unauthorized transaction. <http://www.mastercard.us/zero-liability.html> (February 26, 2014).

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		<p>c. The account to which Transactions initiated with such Card are posted is in good standing.</p> <p>If a MasterCard customer does not meet these requirements, then a customer is liable for the lesser of \$50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer</p>			
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Debit Cards					
	Card Present (signature or Pin required)	<p>\$0</p> <p>The consumer has no liability for unauthorized use under Visa/MasterCard consumer policies, provided that the consumer has taken reasonable measures to protect the card or has acted negligently in failing to report the loss timely</p> <p>MasterCard has more specific requirements for a customer to have \$0 liability (“Zero Liability” policy)¹⁴:</p> <ul style="list-style-type: none"> a. The Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft; b. The Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and c. The account to which Transactions initiated with such Card are posted is in good standing. <p>If a MasterCard customer does not meet these requirements, then a customer is liable for the lesser of \$50 or the amount of money, property, labor, or services obtained</p>	<p>Visa/MasterCard websites</p>	<p>The Issuing Bank is generally liable for fraudulent transactions if merchant has obtained signature or required use of PIN</p>	<p>Visa and MasterCard Rules</p>

¹⁴ MasterCard’s “Zero Liability” policy does not apply to MasterCard payment cards: 1) used for commercial, business or agricultural purposes (PLEASE NOTE: Zero Liability does apply to MasterCard credit and debit cards for small businesses); 2) anonymous prepaid cards, such store or gift cards, until such time as the identity of the cardholder has been registered with the financial institution that issued the card; or 3) if a PIN is used for the unauthorized transaction. <http://www.mastercard.us/zero-liability.html> (February 26, 2014).

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		by the unauthorized use before notification to the Issuer			
		Visa's Zero Liability Policy only applies to U.S.-issued cards and does not apply to ATM transactions, certain commercial card transactions, PIN or other transactions not processed by Visa ¹⁵			
		\$0 If the loss or theft is reported immediately and prior to the card being used	Ftc.gov ¹⁶		
		Up to \$50 If the consumer provides notice within two business days after learning of the loss of the debit card	Reg. E (12 CFR §205.6(b)(1))		
		Up to \$500 If the consumer fails to notify the bank within two business days after learning of loss or theft, but does notify within 60 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals	Reg. E (12 CFR §205.6(b)(2))		
		Unlimited consumer liability for transactions occurring in the period starting 60 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals and until notice is provided	Reg. E (12 CFR §205.6(b)(3))		

¹⁵ http://usa.visa.com/personal/security/zero-liability.jsp?ep=v_sym_security&symlinkref=http%3A%2F%2Fwww%2Egoogle%2Ecom%2Furl%3Fsa%3Dt%26rct%3Dj%26q%3D%26esrc%3Ds%26frm%3D1%26source%3Dweb%26cd%3D8%26cad%3Drja%26ved%3D0CGcQFjAH%26url%3Dhttp%253A%252F%252Fwww%2Evisa%2Ecom%252Fsecurity%252F%26ei%3DFSI0U8K%2DC8qi2wVv04H4Dg%26usg%3DAFQjCNFD6kkWlkk%2D9EeMjxB59dcm%2DRKlug%26bvm%3Dbv%2E61965928%2Cd%2Eb2I#anchor_3 (February 25, 2014).

¹⁶ Federal Trade Commission consumer fact sheet, LOST OR STOLEN CREDIT, ATM, AND DEBIT CARDS, <http://www.consumer.ftc.gov/articles/0213-lost-or-stolen-credit-atm-and-debit-cards> (February 25, 2014).

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Payment Type	Subtype (Fraud Type)	Consumer Protection	Legal Authority	Who is liable if cannot recover against fraudster or merchant	Legal Authority
Debit Cards					
	Card not Present (telephone or web initiated use)	<p>\$0</p> <p>The consumer has no liability for unauthorized use under Visa/MasterCard consumer policies, provided that the consumer has taken reasonable measures to protect the card or has acted negligently in failing to report the loss timely</p> <p>MasterCard has more specific requirements for a customer to have \$0 liability ("Zero Liability" policy)¹⁷:</p> <ul style="list-style-type: none"> a. The Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft; b. The Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and c. The account to which Transactions initiated with such Card are posted is in good standing. <p>If a MasterCard customer does not meet these requirements, then a customer is liable for the lesser of \$50 or the amount</p>	Visa/MasterCard websites	The Acquiring Bank is generally liable for fraudulent transactions if the Acquirer is not able to pass the liability on to the merchant pursuant to the merchant agreement	Secondary Sources ¹⁹

¹⁷ MasterCard's "Zero Liability" policy does not apply to MasterCard payment cards: 1) used for commercial, business or agricultural purposes (PLEASE NOTE: Zero Liability does apply to MasterCard credit and debit cards for small businesses); 2) anonymous prepaid cards, such store or gift cards, until such time as the identity of the cardholder has been registered with the financial institution that issued the card; or 3) if a PIN is used for the unauthorized transaction. <http://www.mastercard.us/zero-liability.html> (February 26, 2014).

¹⁹ The card system rules are not publicly available and there is very little hard law on the issue. A number of secondary sources, however, assign the liability to the issuing bank. See Arnold S. Rosenberg, "Better than Cash? Global Proliferation of Debit and Prepaid Cards and Consumer Protection Policy," 44 Column. J. Transnat'l L. 520, 587 (2006).

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		of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer			
		Visa's Zero Liability Policy only applies to U.S.-issued cards and does not apply to ATM transactions, certain commercial card transactions, PIN or other transactions not processed by Visa ¹⁸			
		Up to \$50 If the consumer provides notice within two business days after learning of the loss of the debit card	Reg. E (12 CFR §205.6(b)(1))		
		Up to \$500 If the consumer fails to notify the bank within two business days after learning of loss or theft, but does notify within 60 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals	Reg. E (12 CFR §205.6(b)(2))		
	Decoupled Debit Cards (Cards issued by Institution other than Bank in which consumer maintains an account. Settlement between merchant and card issuer is through branded payment networks, such as Visa/MasterCard. Settlement between	Unlimited consumer liability for transactions occurring in the period starting 60 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals and until notice is provided	Reg. E (12 CFR §205.6(b)(3))	Under NACHA Rules, the ODFI, which is likely the Card Issuer's bank, is liable for breach of warranty as described above under ACH Debits. The ODFI is likely to pass liability to card issuer by agreement.	
		\$0 The consumer has no liability for unauthorized use under Visa/MasterCard consumer policies, provided that the consumer has taken reasonable measures to protect the card or has acted	Visa/MasterCard websites		

¹⁸ http://usa.visa.com/personal/security/zero-liability.jsp?ep=v_sym_security&symlinkref=http%3A%2F%2Fwww%2Egoogle%2Ecom%2Furl%3Fsa%3Dt%26rct%3Dj%26q%3D%26esrc%3Ds%26frm%3D1%26source%3Dweb%26cd%3D8%26cad%3Drja%26ved%3D0CGcQFjAH%26url%3Dhttp%253A%252F%252Fwww%2Evisa%2Ecom%252Fsecurity%252F%26ei%3DFSI0U8K%2DC8qi2wVVo4H4Dg%26usg%3DAFQjCNFD6kkWlkk%2D9EeMjxB59dcm%2DRKlug%26bvm%3Dbv%2E61965928%2Cd%2Eb2I#anchor_3 (February 25, 2014).

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<p>Card issuer and consumer is via ACH debits to consumer's bank account)</p>	<p>negligently in failing to timely report the loss</p> <p>MasterCard has more specific requirements for a customer to have \$0 liability ("Zero Liability" policy)²⁰:</p> <ul style="list-style-type: none"> a. The Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft; b. The Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and c. The account to which Transactions initiated with such Card are posted is in good standing. <p>If a MasterCard customer does not meet these requirements, then a customer is liable for the lesser of \$50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer</p> <p>Visa's Zero Liability Policy only applies to U.S.-issued cards and does not apply to ATM transactions, certain commercial card transactions, PIN or other transactions not processed by Visa²¹</p>		<p>whether it is a card-present or card not present situation. See above for debit cards.</p>
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²⁰ MasterCard's "Zero Liability" policy does not apply to MasterCard payment cards: 1) used for commercial, business or agricultural purposes (PLEASE NOTE: Zero Liability does apply to MasterCard credit and debit cards for small businesses); 2) anonymous prepaid cards, such store or gift cards, until such time as the identity of the cardholder has been registered with the financial institution that issued the card; or 3) if a PIN is used for the unauthorized transaction. <http://www.mastercard.us/zero-liability.html> (February 26, 2014).

²¹ http://usa.visa.com/personal/security/zero-liability.jsp?ep=v_sym_security&symlinkref=http%3A%2F%2Fwww%2Egoogle%2Ecom%2Furl%3Fsa%3Dt%26rct%3Dj%26q%3D%26esrc%3Ds%26frm%3D1%26source%3Dweb%26cd%3D8%26cad%3Drja%26ved%3D0CGcQFjAH%26url%3Dhttp%253A%252F%252Fwww%2Evisa%2Ecom%252Fsecurity%252F%26ei%3DFSI0U8K%2DC8qi2wVVo4H4Dg%26usg%3DAFQjCNFD6kkWlkk%2D9EeMjxB59dcm%2DRKlug%26bvm%3Dbv%2E61965928%2Cd%2Eb2I#anchor_3 (February 25, 2014).

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		Up to \$50 If the consumer provides notice within four business days after learning of the loss of the debit card	Reg. E (12 CFR §205.14(b)(1)(v) and §205.6(b)(1))		
		Up to \$500 If the consumer fails to notify the bank within four business days after learning of loss or theft, but does notify within 60 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals	Reg. E (12 CFR §2014.6(b)(1)(v) and §205.6(b)(2))		
		Unlimited consumer liability for transactions occurring in the period starting 90 days after transmittal of the consumer's periodic statement listing the unauthorized withdrawals and until notice is provided	Reg. E (12 CFR §205.14(b)(1)(v) and §205.6(b)(3))		
		Consumer has right of immediate recredit under NACHA Rules if notifies its bank within 15 days after receiving statement	NACHA OR §3.11.1		