
Medallion Signature Guarantee (aka Medallion Notary)

A financial institution provides many services for its customers and members. Some, like IRA (Individual Retirement Plans), 401K plans, and cash management services can also be done by other financial corporations. There are some, though, that are unique to the banking industry. Medallion signature guarantee is one of them.

Purpose

The most common use for the Medallion signature guarantee is for transferring or selling securities. If you hold securities in physical certificate form and want to transfer or sell them, you will need to sign the certificates or securities powers. You'll probably need to get your signature "guaranteed" before a transfer agent will accept the transaction. This process protects the person who owns the stock or certificate by making it harder for someone to forge your signature. Transfer agents insist on signature guarantees because they limit their liability and losses if a signature turns out to be forged. That liability is on the financial institution that accepted the signature and put the Medallion stamp on the certificate.

There are now more than 7,000 financial services companies that participate in the Medallion signature program. These signature guarantee programs are recognized by all major financial services associations throughout the United States and Canada, and are endorsed by the Securities Transfer Association (STA), which represents the major transfer agents in both those countries. An eligible financial services company can be a commercial bank, trust company, security broker or dealer, credit union or a savings association.

In order to be an eligible guarantor institution that is a participant in a signature guarantee program, the application must be approved by the Securities Exchange Commission (SEC), STA, and STC. This program includes: STAMP (Securities Transfer Agents Medallion Program); SEMP (Stock Exchanges Medallion Program); or MSP (New York Stock Exchange Medallion Signature Program).

NOT a Notary Public

The Medallion Signature Guarantee should never be confused with a Notary Public.

Contrary to popular belief, a *Medallion Notary* is not a duly commissioned Notary Public. (This is not to say, that the person who performs the signature guarantee cannot be a notary, just that being a Notary Public does not mean that the notary can perform as a Medallion Guarantor.) The big difference is in the liability. The organization that guarantees the authenticity of the signature is liable for the financial value of the transaction. As this could be certificates worth millions of dollars, the financial institution must be very careful to establish the identity of the person whose signature they are guaranteeing.

How To Apply

In order for a financial institution to be qualified and eligible for the Medallion signature program, they must first get the forms from Kemark Financial Services, Inc. in New York to get the STAMP application, subscription, and indemnity agreement. It must also contact an insurance company to execute a Surety Bond Form. The fee to Kemark is presently \$395, which covers the first 13 months from acceptance. After that it is an annual fee.

Special Equipment and Ink

After all registration is complete, Kemark supplies the financial institution with the stamp to be used by the institution. The new Medallion imprint (designated "STAMP2000 New Technology") incorporates bar code technology. And it has obvious and hidden security features designed to deter counterfeiting. The stamp uses a very special patented green ink, called STAMP2000 ink. This security ink, required since December 31, 2003, has special qualities. One is the visible green pigment. The other is the invisible security compound that is only detectable using a STAMP2000 Transfer Agent Document Reader. The document reader used by the transfer agent is designed to authenticate the frequency specific wavelength emitted by the security compound. The correct "read" results, according to Kemark, is close to 95%.

Obviously ordinary, green ink cannot be used for the stamp. Financial institutions that try to purchase a less expensive type of green ink will soon find themselves in violation of their agreement, and their guarantees will no longer be accepted.

Safeguards

This is a dangerous stamp to have just floating around your office. When your financial institution instituted the Medallion Signature Guarantee Program, Kemark sent a package of information. The person having this information most likely will be the person who reports to Kemark on the usage of the stamp.

Following are steps recommended by security expert Barry Thompson, who says they are the ones established by him when he had the responsibility for the stamps used at his bank.

1. Copy the information provided by Kemark explaining the liability associated with the loss of a stamp or one used fraudulently. Give a copy to anyone having a stamp assigned to them.
2. Assign the stamp to a specific person who realizes they are solely responsible for it.
3. Each holder of the medallion should sign a statement that they are responsible for the security of the stamp, which must be kept under lock and key. This statement should be renewed annually.
4. Have each holder of the stamp keep a record of when they used it, for whom, and what documents they guaranteed with the stamp.
5. Each year Audit should conduct a quick inspection to see that those responsible for the stamps have them in safe keeping.

No Dates

If a Medallion Signature Guarantee is dated, it is only good for that date. The Securities Transfer Association has a long standing rule regarding this subject, which says in part: "...a signature guarantee may not be qualified in any manner, whether by date or otherwise..." The warranties that accompany a signature guarantee are not subject to time limitations. The STA explains that the rule stated above was initiated in order to retain the intent of the UCC, which clearly outlines the responsibilities and warranties connected to the application of a signature guarantee to an endorsement. It does not include dating or otherwise amending the transaction. Transfer Agents will not accept dated or amended Medallion Guarantees.

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Great Liability

Obviously there is a great deal of liability connected to the use of a medallion signature guarantee, and, as in any part of our financial institution, we must be watchful for fraud. It's true that you are insured for transactions that occur fraudulently because of your applying the medallion stamp. But it's also true that if your insurance company suspects negligence, carelessness or willful blindness on the part of the person who guaranteed the signature on behalf of the bank, they may refuse to pay the claim.

His Problem

One incident, related on a web site complaining about financial institutions, told of a man who needed a Medallion Signature Guarantee in order to surrender some stocks. All his accounts were on the Internet, so he didn't have a local financial institution. When he went to a local bank for the Medallion Signature Guarantee they told him that although they don't charge for the service, they couldn't do it for him because he was not their customer. Their policy was that they would provide this service only for their customers.

His Solution

He immediately went to another branch of the same bank. Opened up a savings account for \$10. The next day he went in to have his signature guaranteed, and even after the employee remarked that he had only had his account for one day, she still did the Medallion Signature Guarantee for him! We have two problems with this incident. One is, of course, the fact that he was able to get his signature guaranteed. Unless he had a passel of identification, or was personally known to the employee, this was a chancy accommodation. The second is that he related this on a web site. That can't help us.

Caution

Bottom line - this program is not a money maker, but rather a service provided, usually for our more solvent depositor base. With the increase of incidents of identity theft, and the potential loss through counterfeiting, anyone who is connected to this program should be made aware of the risks involved.

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Notary Public Notarization vs Signature & Medallion Services

	SIGNATURE NOTARIZATION	SIGNATURE GUARANTEE	MEDALLION GUARANTEE
WHO?	Any duly commissioned Notary public	Depends on Bank Policy	Generally only a Bank Officer unless the entity providing the guarantee decides otherwise.
WHAT?	A signature and seal provided by a Notary Public signifies that the signature is genuine, because the person often signs in the presence of the notary and always provides positive proof of identity.	A bank guaranteeing a check is providing assurance that the person endorsing the check is known to the bank.	Authenticate the signature and capacity of a person requesting the redemption or transfer of securities. Its use protects the issuer of the security; the owner(s) of the security; and transfer agents because a guarantee limits their liability and losses if a signature turns out to be forged.
UCC WARRANTIES?	None	None	<p>Signature was genuine- means that the person signed in your presence and that you identified that person</p> <p>Signer was the appropriate person – Means that the person signing the security was either the named owner of the security or that you reviewed documentation establishing legal ownership, such as a Will, Trust, etc.</p> <p>Signer had legal capacity- Means that the person signing was of legal age, sane, sober, of sound mind and under no legal handicap or duress. Remember that a contract involving a minor is voidable by the minor but binding on the other party</p>
REGULATED BY?	State	Bank Policy	STAMP, KEMARK
BOND REQUIRED?	Depends on state requirements	No	Yes, in the amount of the bank's Medallion Guarantee

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	SIGNATURE NOTARIZATION	SIGNATURE GUARANTEE	MEDALLION GUARANTEE
FEE ALLOWED?	Yes, set by State law	Set by Bank Policy, but generally, none	Yes- a “reasonable” fee may be charged.
RECORD RETENTION?	Notary Journal or log required or recommended – generally set by state law	No	Strongly recommended. Documents relied upon as well as the actual documents guarantees should be retained by the guaranteeing institution under the “paperless legals” program.
DOLLAR LIMITS?	No	No	Yes – a FI should not guarantee anything exceeding the amount of its bond.
EQUIPMENT PROTECTED?	Each notary secures his or her own notary tools	No	Yes- treat the STAMP like cash. Secure under dual control if possible.
OFFICIAL STAMP REQUIRED?	Yes, in most cases	No	Yes
TRAINING REQUIRED?	Regulated by State law	No	Yes – each employee who is authorized to perform a Medallion Guarantee must be certified.
IDENTIFICATION REQUIRED?	Yes	No, except as provided by Bank Policy	Yes
PERSONAL LIABILITY FOR FRAUDULENT TRANSACTIONS?	Yes	No, except as provided by Bank Policy	No, but all assets of your Financial Institution are available to remedy any fraudulent transfer.