



FINANCIAL SERVICE CENTERS OF AMERICA

Fact Sheet: Bank Discontinuance and the MSB Coalition

*Excessive Regulatory Burdens on Banks Threaten the MSB Industry and
Access to Financial Services for Millions of Americans*

Financial service centers (also known as check cashers), money transmitters and other “money services businesses” (MSBs) serve millions of Americans from all walks of life. In recent years, an escalating number of banks have terminated the accounts of their MSB customers; this practice continues today. The most recent example of this was the decision by Banco Popular in May 2009 to stop servicing its New York and New Jersey-based check cashing customers, impacting more than 300 stores. Several other banks, including Wachovia and National City Bank, have also discontinued accounts recently, affecting stores in Florida and many other states.

Because MSBs cannot operate without access to the banking system these account terminations threaten the MSB industry – and threaten to drive otherwise legitimate consumer transactions to underground, illegal channels.

Expense and regulatory exposure has caused banks to terminate their MSB customer accounts.

Prior to 2000, there were few problems between MSBs and the banks that served them. The events of 9/11, enactment of the USA PATRIOT Act and resulting increased scrutiny of money transactions changed those relationships dramatically as MSBs were deemed unacceptable risks, even though their record of compliance has been as good as or better than that of the banks themselves. Now, under current regulations, banks are required to act as the “functional regulator” of their MSB customers. In such an uncertain regulatory environment, banks have been forced to expend ever greater resources in maintaining MSB customer accounts. In response, many banks have decided to sever these relationships.

However, contrary to misperceptions, MSBs are not a high risk for money laundering. In fact, as compared with other financial sectors, the industry’s BSA enforcement record is quite good. For example, although the FinCEN website lists many multi-million dollar civil penalties against banks and other financial institutions, there have been only a few assessed against check cashers and other MSBs.

The need for federal legislation

Federal regulatory agencies have attempted to address this problem ... to no avail. Bank discontinuance continues today, as evidenced by the recent Banco Popular, National City Bank and Wachovia decisions. In response, federal legislation to address this critical problem, is likely to be introduced soon, mirroring the language from H.R. 4049 which passed the House unanimously in the last Congress.

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The bill will be strongly supported by the MSB industry and the banking industry. Both agree with the adoption of legislation that relieves banks of the requirement that they review and monitor the compliance systems of their MSBs customers – leaving regulation of MSBs to federal and state regulators, where it belongs. Only by reducing regulatory burdens on banks serving the MSB industry can a lasting solution to bank discontinuance be realized.

Why does bank discontinuance matter?

- Financial Service Centers provide basic financial services to millions of “unbanked” consumers who either do not want or have been denied access to traditional financial institutions.
- Every year, financial service centers conduct more than 350 million transactions providing an estimated \$106 billion in various products and services to 30 million customers.
- Remittances from the United States are critical to financial stability and growth in many other countries. U.S. remittances to Latin America and the Caribbean in 2007 totaled just under \$50 billion.
- Check cashers and money transmitters cannot conduct business if they are denied access to commercial banking services.
- Alarming, as a result of the recent decision by Banco Popular to leave the New York check cashing market, within the next 18-24 months most of the state’s check cashing industry will be served by only one bank, a very dangerous trend.
- Left unchecked, account terminations threaten the delivery of basic financial services in communities across the country, and threaten overseas remittances to developing countries.
- Loss of MSB services may drive otherwise legitimate consumer transactions to untraceable or underground channels – thwarting U.S. security objectives.

The MSB Coalition

The Coalition is made up of representatives from all segments of the MSB community, including check cashers, money transmitters, money order processors, and all others with an interest in the health of the MSB community and the financially-affected consumers who use their services. The Financial Service Centers of America (FiSCA) is a founding member of the Coalition.

The Mission

In response to the epidemic of bank discontinuance, the MSB Coalition was formed with the goal of uniting all segments of the MSB community to pursue a federal legislative solution to the ongoing problem of the termination of these accounts by banks. This interest was shared by the banking community which wants to work with MSBs to achieve a lasting solution. The Coalition, working in conjunction with the American Banking Association and several other banking associations, supports the Money Services Business Act of 2009.