



FINANCIAL SERVICE CENTERS OF AMERICA

Fact Sheet: Bank Discontinuance

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

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 and this practice continues today. 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. Federal legislation is clearly needed to address this critical problem and has been introduced this year.

The problem stems from a perception by federal bank regulators that MSBs are a heightened risk for money laundering and financial crime. Consequently, banks that service MSBs are faced with an uncertain regulatory environment -- forcing them to expend ever greater resources in maintaining MSB customer accounts.

The expense and regulatory exposure in serving MSBs has caused many banks to terminate their MSB customers.

Contrary to misperceptions, MSBs are not a high risk for money laundering. As compared with other financial sectors, the industry’s BSA enforcement record is quite good. 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.

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 – and the trend continues to climb.
- Check cashers and money transmitters cannot conduct business if they are denied access to commercial banking services.
- Alarming, nearly 90% of the New York check cashing industry is now served by only two banks; the money transmitter industry is experiencing similar dangerous trends.
- Left unchecked, account terminations threaten the delivery of basic financial services in communities across the country, and threaten international remittances to developing countries.
- Loss of MSB services may drive otherwise legitimate consumer transactions to untraceable or underground channels – thwarting U.S. security objectives.

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What does the government think about the industry?

“As the regulator of national banks, the OCC has long been committed to ensuring that all Americans have fair access to the banking system and financial services, and we recognize the positive role that MSBs play in this process. MSBs provide financial services to individuals who, for a variety of reasons do not have accounts with mainstream banks. MSBs generally offer convenience, neighborhood locations and a variety of financial services that appeal to these customers. Furthermore, some of the products and services offered by MSBs (*e.g.*, foreign remittance services) may not be available at the local neighborhood bank.” -- Testimony of Ann Jaedicke, Deputy Comptroller, OCC, June 21, 2006

The need for federal legislation

Prior to the year 2000, banks treated their MSB customers like any other form of commercial account holders. Under current regulations, however, banks are required to act as the “functional regulator” of their MSB customers – which has caused many banks to sever these accounts.

Recent FinCEN regulatory guidance has not provided a solution to the bank discontinuance crisis. MSB account terminations are continuing across the United States. Federal legislation is clearly needed to relieve banks of these excessive regulatory burdens.

HR 4049 was introduced earlier this year, 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.