Congress of the United States
Washington, DC 20515

January 4, 2016

The Honorable Gene L. Dodaro
Comptroller General
Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dodaro:

We write to express our concerns regarding reduced access to banking services for non-bank financial institutions, especially remittances providers, and for financial institutions along the Southwest U.S. border. This letter requests a GAO study on the issues we raise in this letter.

As licensed money remitters, known as Money Services Businesses or MSBs, lose their ability to open bank accounts and remit funds, U.S.-based immigrants are unable to provide critical humanitarian assistance to their loved ones in their home nations. As bank branches close across the U.S. border, families and businesses lose access to banking services which hinders families' ability to be financially self-reliant and harms the local economy.

While financial institutions should only take on risks they are willing and prepared to manage, we share the concerns of Oxfam, the Center for Global Development, the British Bankers Association, and other charity and trade groups that the push by financial institutions to reduce lines of business that are perceived as "high risk" could have significant adverse consequences for poor communities and the wide range of businesses that serve them. We are also concerned about the impact of the closures on our national security and the national security of other nations.

When asked why financial institutions decline to serve MSBs, financial industry leaders have expressed concerns with their ability to comply adequately with the Bank Secrecy Act (BSA) and anti-money laundering programs. BSA is a central pillar in the nation's law enforcement efforts to detect and deter the use of bank and non-bank financial institutions (including those that send remittances) for criminal activity, particularly money laundering and terrorist financing. The BSA and its amendments generally require depository and other financial institutions, to make and retain various records of customer transactions, verify customers' identities, maintain anti-money laundering (AML) programs, and report suspicious transactions and large currency transactions.

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identities, maintain anti-money laundering (AML) programs, and report suspicious transactions and large currency transactions.

We believe a financial institution should be able to meet its BSA and AML requirements and still be capable of providing services to regulatory-compliant MSBs and other non-bank financial institutions. In addition, we believe that bank branches along the border can also comply with the law and continue to offer banking services.

The closures of branches and MSB accounts are very concerning to us because they play a critical role in the economy. They often serve to promote the economic growth and viability of local communities. In rural and underserved communities across the nation, these financial institutions (or branches) account for a significant portion of all banking activity. Similarly, MSBs provide needed services like check cashing, prepaid stored value cards, money orders, traveler's checks and money transfer, among other services.

The MSBs' money transfer services enable immigrants to provide critical, lifesaving money to their families abroad through remittances. Remittances are a significant and relatively stable source of capital flows for many developing countries, and address, in part, the important U.S. foreign policy objectives regarding the reduction of global poverty set out in draft legislation previously introduced—the Global Poverty Act of 2009 – by Rep. Smith. Without these remittances, families in many countries would be unable to pay for food, school fees and health care. In addition, the bulk of small businesses in many vulnerable nations are started with these remittances funds. Unfortunately, fragile nations like Somalia have been hard hit be the closure of MSB accounts serving their citizens. According to Somali President Hassan Sheikh Mohamud, cutting off money from the diaspora could significantly strengthen the appeal of terrorism and piracy for young Somali men. A disruption in remittances could reverse the limited gains that the Somali government and the international community have made to reduce terrorist activity in Somalia and the greater Horn of Africa. For both humanitarian and national security reasons, we are concerned about the difficulty MSBs serving Somalia are having obtaining and retaining banking services.

As a result of reduced access to banking services, Somali-American MSBs have resorted to utilizing cash couriers to send hundreds of millions of dollars to the Horn of Africa, a practice that, while legal, increases the risk of terrorist financing, increases costs for Somali-Americans, and reduces the core income of Somalis. Separately, the Australian Transaction Reports and Analysis Centre (AUSTRAC) asserted that bank de-risking is likely responsible for remittance companies' reduced access to banking in Australia. This appears to have had an impact in Somalia. An October 2015 study by the Food Security, Nutrition, and Analysis Unit – Somalia, a branch of the Food and Agriculture Organization, showed that in cities other than the capital Mogadishu, between 25-49 percent of households experienced reductions in remittances. Somalia is far from the only nation at risk of loss of access to remittances monies from immigrants.

Our other concern relates to branch closings. As the GAO's January 2013 study on the causes and consequences of bank failures suggests, households and businesses in markets with limited

bank presence are vulnerable to bank closings.[1] Many of these border towns are in rural and underserved areas where branch closings are more likely to impact market concentration and, therefore, increase prices or reduce the availability of at least some banking products and services. While many factors may be driving branch closings, one factor of significance might be the risks and administrative burdens associated with BSA/AML compliance.[2]

Finally, de-risking has resulted in a breakdown of correspondent banking relationships. We are worried that this has made it more difficult for humanitarian organizations, businesses, the United Nations, and foreign United States embassies and missions to transfer money to jurisdictions that are perceived as high-risk. We believe this could have, if it has not had already, significant adverse effects on US diplomacy and humanitarian response, as well as privately funded charitable activity.

Based on these concerns, we respectfully request that GAO analyze:

1) The effects de-risking has had on MSB customers and their ability to provide international remittances. We would like the study to include information specifically on Somalia.
2) The effects of de-risking on the U.S. State Department, USAID, and their humanitarian and other civil society partners operating in jurisdictions that are viewed as high-risk.
3) The causes of de-risking. Are financial institutions closing accounts and branches due to compliance costs, reputational risk, inability to cover their costs, lack of clarity in exams or for other reasons? What would give financial institutions, especially correspondent banks, more confidence to serve MSBs, especially those serving fragile nations?
4) Whether there are other options for sending remittances to fragile nations including use of the Federal Reserve Wire, accessing USAID or embassy accounts, establishing a bank or credit union specifically for fragile nations like Somalia, etc.
5) What role the Bank Secrecy Act Advisory Group's working group on remittances play in helping to analyze the problem and find solutions?
6) Would an interagency effort to update the 2005 joint interagency guidance to banks and credit unions on providing banking services to MSBs be useful in clarifying regulatory expectations and lowering banks' and credit union's perception of the risk in providing banking services to this industry?
7) Should banks and credit unions receive access to MSB exam information in order to gather useful information about a potential MSB customer when doing their due diligence? MSBs would have the option to provide their exam, an option they are not allowed now.
8) How has the Money Remittances Improvement Act (PL113-156) been implemented and what has been its impact? This new law allows FinCEN to rely on state exams of non-bank financial institutions.

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[1] Financial Institutions: Causes and Consequences of Recent Bank Failures, January 2013, GAO-13-71.

[2] Several institutions have been cited for BSA/AML deficiencies resulting in millions of dollars in fines.

1) Whether there are a disproportionate number of bank branches closing on the U.S.-Mexico border as compared to other regions of the country.
2) The potential root causes for any such disparity, such as lower profitability due to lower income communities and additional anti-money laundering compliance costs under the Bank Secrecy Act due to the higher volume of cash transactions and deposits.
3) Whether there are any particular types of financial institutions closing branches (i.e. large multinational banks, community banks, credit unions, etc.). If there is a specific type of institution that is closing branches, what is causing those institutions to close over other institutions?
4) Whether the termination of certain bank accounts—including those of MSBs—along U.S.-Mexico border are indicative of the trends seen in branch closings?
5) Whether there are potential solutions that would reduce or eliminate incentives to close branches along the U.S.-Mexico Border.

Given the scope of these issues, GAO may wish to conduct two separate reviews or combine them in one report. Thank you for your attention to this matter and we look forward to your response. If you have any questions concerning this request, please direct your staff to contact Carol Wayman at (202) 225.4755/Carol.Wayman@mail.house.gov with Mr. Ellison or Scott Hinkle at (202) 225.8045/Scott.Hinkle@mail.house.gov with Mr. Vargas.

Sincerely,

Adam Smith
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