United States Government Accountability Office

Report to Congressional Requesters

February 2018

BANK SECRECY ACT

Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews

GAO-18-263

GAO Highlights

Highlights of GAO-18-263, a report to congressional requesters

February 2018

BANK SECRECY ACT

Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews

Why GAO Did This Study

Some Southwest border residents and businesses have reported difficulties accessing banking services in the region. GAO was asked to review if Southwest border residents and businesses were losing access to banking services because of derisking and branch closures.

This report (1) describes the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determines the extent to which banks have terminated accounts and closed branches in the region and the reasons for any terminations and closures; and (3) evaluates how regulators have assessed and responded to concerns about derisking in the region and elsewhere, and how effective their efforts have been; among other objectives. GAO surveyed a nationally representative sample of 406 banks, which included the 115 banks that operate in the Southwest border region; analyzed Suspicious Activity Report filings; developed an econometric model on the drivers of branch closures; and interviewed banks that operate in the region.

What GAO Recommends

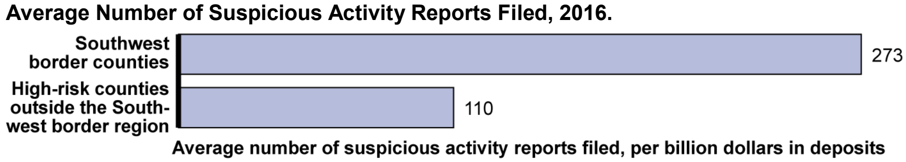
GAO recommends that FinCEN and the federal banking regulators conduct a retrospective review of BSA regulations and their implementation for banks. The review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. The federal banking regulators agreed to the recommendation. FinCEN did not provide written comments.

View GAO-18-263. For more information, contact Lawrance Evans, Jr. at (202) 512-8678 or evansl@gao.gov.

What GAO Found

"Derisking" is the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. The Southwest border region is a high-risk area for money laundering activity, in part, because of a high volume of cash and cross-border transactions, according to bank representatives and others. These types of transactions may create challenges for Southwest border banks in complying with Bank Secrecy Act/anti-money laundering (BSA/AML) requirements because they can lead to more intensive account monitoring and investigation of suspicious activity. GAO found that, in 2016, bank branches in the Southwest border region filed 2-1/2 times as many reports identifying potential money laundering or other suspicious activity (Suspicious Activity Reports), on average, as bank branches in other high-risk counties outside the region (see figure).

Average Number of Suspicious Activity Reports Filed, 2016.



Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

According to GAO's survey, an estimated 80 percent (+/- 11 percent margin of error) of Southwest border banks terminated accounts for BSA/AML risk reasons. Further, according to the survey, an estimated 80 percent (+/- 11) limited or did not offer accounts to customers that are considered high risk for money laundering because the customers drew heightened regulatory oversight—behavior that could indicate derisking. Counties in the Southwest border region have been losing bank branches since 2012, similar to national and regional trends. Nationally, GAO's econometric analysis generally found that counties that were urban, younger, had higher income or had higher money laundering-related risk were more likely to lose branches. Money laundering-related risks were likely to have been relatively more important drivers of branch closures in the Southwest border region.

Regulators have not fully assessed the BSA/AML factors influencing banks to derisk. Executive orders and legislation task the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators with reviewing existing regulations through retrospective reviews to determine whether they should be retained or amended, among other things. FinCEN and federal banking regulators have conducted retrospective reviews of parts of BSA/AML regulations. The reviews, however, have not evaluated how banks' BSA/AML regulatory concerns may influence them to derisk or close branches. GAO's findings indicate that banks do consider BSA/AML regulatory concerns in providing services. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, FinCEN, the federal banking regulators, and Congress do not have the information needed to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome.

Contents

Tables

Figures

Abbreviations

AML	anti-money laundering
ATM	automated teller machine
BSA	Bank Secrecy Act
BSAAG	BSA Advisory Group
CDD	Customer Due Diligence
CIP	Customer Identification Program
CTR	Currency Transaction Report
EDD	Enhanced Due Diligence
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
FATF	Financial Action Task Force
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FFIEC	Federal Financial Institutions Examination Council
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
HIDTA	High Intensity Drug Trafficking Area
HIFCA	High Intensity Financial Crime Area
logit	logistic regression
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
RUCC	Rural-Urban Continuum Code
SAR	Suspicious Activity Report
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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February 26, 2018

Congressional Requesters

Money laundering and terrorist financing pose threats to national security and the integrity of the financial system. The Bank Secrecy Act (BSA) is an important tool in federal law enforcement efforts to detect and deter the use of financial institutions for criminal activity, including money laundering and terrorist financing.[1] The BSA and its implementing regulations generally require financial institutions, including banks, to collect and retain various records of customer transactions, verify customers' identities, maintain anti-money laundering (AML) programs, and report suspicious transactions.

In recent years, some Southwest border residents and businesses reported difficulty accessing banking services, including experiencing bank account terminations. In addition, reports of bank branch closings in the region added to questions about the ability of residents to access banking services. You and others have raised questions about whether some banks may be engaging in "derisking"—the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering.[2]

This report (1) describes the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determines the extent to which banks are terminating accounts and are closing bank branches in the Southwest border region and their reasons for any terminations and closures; (3) describes what Southwest border banking customers and others told us about any effects of account terminations and branch closures on Southwest border communities; and (4) evaluates how the Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators—the Board of

[1]Bank Secrecy Act, Pub. L. No. 91-508, 84 Stat. 1114-24 (1970) (codified as amended in scattered sections of 12 U.S.C., 18 U.S.C., and 31 U.S.C.).

[2]The term "derisking" can be defined in a variety of ways. Our usage of the term does not refer to instances in which banks limit services or terminate relationships based on credible evidence of suspicious or illegal activity. Appendix I contains additional information on the definition we used for derisking.

Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), and the Office of the Comptroller of the Currency (OCC)—have assessed and responded to concerns about derisking in the Southwest border region and elsewhere, and the effectiveness of those efforts.[3]

We defined the Southwest border region as all counties that have at least 25 percent of their landmass within 50 miles of the U.S.-Mexico border. Thirty-three counties in Arizona, California, New Mexico, and Texas fell within this definition. To describe the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience, we interviewed 19 Southwest border banks, a variety of banking industry groups and trade associations, and officials from the federal banking regulators.[4] In addition, we analyzed data on Suspicious Activity Reports (SAR), Currency Transaction Reports (CTR), and BSA/AML enforcement actions and violations identified during bank examinations. We also reviewed documentation from BSA/AML examinations of selected Southwest border banks to gain additional context about BSA/AML violations.[5]

To determine the extent to which banks are terminating accounts and their reasons why, we administered a web-based survey to a nationally representative sample of banks in the United States, which includes 115 Southwest border banks, for a total survey sample of 406 banks. In the survey, we asked banks about terminations of accounts and limitations on

[3]We use the term "Southwest border banks" throughout this report to refer to banks that operate in the Southwest border region. Southwest border banks include banks that only have operations in the Southwest border region, as well as banks that have operations both within and outside of the Southwest border region. Credit unions and the oversight of them provided by the National Credit Union Administration are outside the scope of this review. This review is one of four reviews that address your request. We have three additional reviews that are evaluating other issues related to derisking, including its effects on money transmitters, remittance transfers from the United States to selected fragile countries, and the provision of U.S. humanitarian assistance.

[4]We interviewed 4 of the 5 largest Southwest border banks (based on asset size). We selected the other 15 banks that we interviewed based on the following criteria (1) the number of branches the bank operates in the Southwest border region, (2) the size of the bank based on assets, and (3) the bank's primary federal regulator.

[5]Violations of BSA/AML requirements are identified as part of federal banking regulators' bank examination process. In some cases, a bank regulator may allow the bank to remedy the violation as part of its supervisory process. In appropriate circumstances, however, the bank regulator may take either informal or formal enforcement actions to address violations of BSA/AML requirements.

account offerings related to BSA/AML risk, the types of customers for which the banks terminate or limit account offerings, and the reasons for these decisions for the period January 1, 2014, to December 31, 2016. We obtained a weighted survey response rate of 46.5 percent. See appendix I for additional information about our survey methodology and appendix II for information on survey results. To assess the extent to which banks have closed branches in the Southwest border region and the reasons why, we analyzed trends in bank branch closures by comparing trends in branch closures in the Southwest border region to national and regional trends, as well as trends in high-risk areas elsewhere. We also combined the data on branch closures with demographic, economic, and money laundering-related risk data and conducted an econometric analysis designed to examine the potential drivers of branch closures (see app. III for information on the econometric analysis). We also interviewed representatives from Southwest border banks about the time and resources required to file SARs and how they approached the decision to close a branch.

To describe what Southwest border banking customers and others said about any effects of account terminations and branch closures on Southwest border communities, we conducted site visits to three communities: Nogales, Arizona; San Ysidro, California; and McAllen, Texas. We selected these communities to achieve a sample of locations that collectively satisfied the following criteria: (1) counties with different classifications of how rural or urban they are, (2) counties that experienced different rates of branch closures from 2013 through 2016, and (3) counties that had received different designations by the federal banking regulators as distressed or underserved. We conducted a total of five discussion groups across the three locations and summarized participants' responses about how they were affected by account terminations and branch closures in their communities. Three of the five discussion group sessions included business banking customers and the other two sessions included nonbusiness retail banking customers. We also interviewed economic development specialists, industry and trade organizations that focus on border trade and commerce, and chambers of commerce and municipal officials representing Southwest border communities.

To evaluate how FinCEN and the federal banking regulators have assessed and responded to concerns about derisking and the effectiveness of those efforts, we reviewed agency documentation and guidance the agencies issued to banks related to derisking. We also reviewed documentation on BSA/AML retrospective reviews that FinCEN and the federal banking regulators have conducted. In addition, we reviewed various executive orders that, among other things, require most executive branch agencies, and encourage independent agencies, to develop a plan to conduct retrospective analyses, and Office of Management and Budget guidance implementing those executive orders.[6] Finally, we interviewed officials from FinCEN and the federal banking regulators about the actions they have taken related to derisking, as well as retrospective reviews they had conducted on BSA regulations.

To assess the reliability of the data we used, we reviewed related documentation; conducted electronic testing of the data for missing data, outliers, or any obvious errors; and interviewed knowledgeable officials about the data. We concluded that all applicable data were sufficiently reliable for the purposes of describing BSA/AML compliance risks and challenges for Southwest border banks; identifying banks to survey on account terminations and limitations; evaluating branch closure trends in the Southwest border region and elsewhere, and the factors driving those closures; and describing the effects for Southwest border communities experiencing branch closures and account terminations. Appendix I provides more information on our scope and methodology.

We conducted this performance audit from March 2016 to February 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The BSA established reporting, recordkeeping, and other AML requirements for financial institutions. By complying with BSA/AML requirements, U.S. financial institutions assist government agencies in the detection and prevention of money laundering and terrorist financing by, among other things, maintaining compliance policies, conducting ongoing monitoring of customers and transactions, and reporting suspicious financial activity. Regulation under and enforcement of BSA involves several federal agencies. FinCEN is responsible for administering the

[6] *See e.g.*, Exec. Order No. 13563, 3 C.F.R. § 13563 (2012), Exec. Order No. 13579, 3 C.F.R. § 13579 (2012), and Exec. Order No. 13777, 3 C.F.R. § 13777 (2017).

BSA, has authority for enforcing compliance with its requirements and implementing regulations, and also has the authority to enforce the act, including through civil money penalties.[7] FinCEN issues regulations under BSA and relies on the examination functions performed by other federal regulators, including the federal banking regulators. FinCEN also collects, analyzes, and maintains the reports and information filed by financial institutions under BSA and makes those reports available to law enforcement and regulators.

FinCEN has delegated BSA/AML examination authority for banks to the federal banking regulators.[8] The federal banking regulators have issued their own BSA regulations that require banks to establish and maintain a BSA compliance program which, among other things, requires banks to identify and report suspicious activity.[9] The banking regulators are also required to review compliance with BSA/AML requirements and regulations which they generally do every 12 to 18 months as a part of their routine safety and soundness examinations. Federal banking regulators take a risk-based approach to BSA examinations—that is, they review key customers of risk or specific problems identified by the bank. Among other things, examiners review whether banks have an adequate system of internal controls to ensure ongoing compliance with BSA/AML regulations. The federal banking regulators may take enforcement actions using their prudential authorities for violations of BSA/AML requirements. They may also assess civil money penalties against financial institutions and individuals independently, or concurrently with FinCEN.

[7] FinCEN also serves as the Financial Intelligence Unit (FIU) of the United States and is a component of Treasury's Office of Terrorism and Financial Intelligence. FinCEN was established in 1990 to support government agencies by collecting, analyzing, and disseminating financial intelligence information to combat money laundering. FinCEN is responsible for coordinating with federal and state regulatory agencies on AML and countering the financing of terrorism.

[8] 31 C.F.R. § 1010.810(b).

[9] The appropriate federal prudential regulators are required to prescribe regulations requiring the insured depository institutions under their supervision to establish and maintain procedures that are reasonably designed to assure and monitor the compliance of such institutions with the BSA. 12 U.S.C. § 1818(s). Regulations requiring the establishment of BSA compliance programs are codified at 12 C.F.R. § 21.21 (OCC); 12 C.F.R. § 208.63 (Federal Reserve); and 12 C.F.R. §§ 326.8 (FDIC).

Components of Banks' BSA/AML Compliance Programs

All banks are required to establish an AML compliance program that includes policies, procedures, and processes which, at a minimum, must provide for:[10]

- a system of internal controls to ensure ongoing compliance,
- a designated individual or individuals responsible for managing BSA compliance (BSA compliance officer),
- training for appropriate personnel,
- independent testing for BSA/AML compliance, and
- appropriate risk-based procedures for conducting ongoing customer due diligence.

BSA/AML regulations require that each bank tailor a compliance program that is specific to its size and own risks based on factors such as the products and services offered, customers, types of transactions processed, and locations served. BSA/AML compliance programs may include the following components:

- **Customer Identification Program (CIP)**—Banks must have written procedures for opening accounts and, at a minimum, must obtain from each customer their name, date of birth, address, and identification number before opening an account. In addition, banks' CIPs must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable. Banks must also collect information on individuals who are beneficial owners of a legal entity customer in addition to the information they are required to collect on the customer under the CIP requirement.[11]

[10] 31 U.S.C. § 5318(h)(1). For specific AML program requirements for banks, *see* 31 C.F.R. § 1020.210. Banks' written AML compliance program must be approved by the bank's board of directors and noted in board minutes. *See* 12 C.F.R. § 21.21(c)(1) (OCC); 12 C.F.R. § 208.63(b)(1) (Federal Reserve); 12 C.F.R. §§ 326.8(b)(1), 390.354(b)(1) (FDIC).

[11] A beneficial owner means: each individual, if any, who, directly or indirectly, owns 25 percent of more of the equity interests of a legal entity customer and a single individual with significant responsibility to control, manage, or direct a legal entity customer, including an executive officer or senior manager, or any other individual who regularly performs similar functions. 31 C.F.R. § 1010.230(d). The beneficial ownership rule was finalized in 2016, and banks have until May 11, 2018 to comply with this new requirement. *See* 81 Fed. Reg. 29,398 (May 11, 2016).

- **Customer Due Diligence (CDD)**—CDD procedures enable banks to predict with relative certainty the types of transactions in which a customer is likely to engage, which assists banks in determining when transactions are potentially suspicious. Banks must document their process for performing CDD and implement and maintain appropriate risk-based procedures for conducting ongoing customer due diligence. These procedures include, but are not limited to, understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile, and conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information.[12]
- **Enhanced Due Diligence (EDD)**—Customers who banks determine pose a higher money laundering or terrorist financing risk are subject to EDD procedures. EDD for higher-risk customers helps banks understand these customers' anticipated transactions and implement an appropriate suspicious activity monitoring system. Banks review higher-risk customers and their transactions more closely at account opening and more frequently throughout the term of their relationship with the bank.
- **Suspicious Activity Monitoring**—Banks must also have policies and procedures in place to monitor transactions and report suspicious activity.[13] Banks use different types of monitoring systems to identify or alert staff of unusual activity. A manual transaction monitoring system typically targets specific types of transactions (for example, those involving large amounts of cash and those to or from foreign areas) and includes a manual review of various reports generated by the bank's information systems in order to identify unusual activity. An automated monitoring system can cover multiple types of transactions and use various rules, thresholds, and scenarios to identify potentially suspicious activity. These systems typically use computer programs to identify individual transactions, patterns of unusual activity, or deviations from expected activity. Banks that are large, operate in

[12]31 C.F.R. § 1020.210(b)(5). Banks have until May 11, 2018 to comply with these new requirements. *See* 81 Fed. Reg. 29,398 (May 11, 2016).

[13]A transaction is suspicious and requires reporting if it may involve funds related to potential money laundering or other illegal activity, is designed to evade the BSA or its implementing regulations, has no business or apparent lawful purpose or is not the type of transaction that the particular customer would normally be expected to engage in, and the institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction. 31 C.F.R. § 1020.320(a)(2).

many locations, or have a large volume of higher-risk customers typically use automated monitoring systems.

Banks also must comply with certain reporting requirements, including:

- **CTR:** A bank must electronically file a CTR for each transaction in currency—such as a deposit or withdrawal—of more than $10,000.[14]
- **SAR:** Banks are required to electronically file a SAR when a transaction involves or aggregates at least $5,000 in funds or other assets, and the institution knows, suspects, or has reason to suspect that the transaction meets certain criteria qualifying as suspicious.[15]

Regulatory Requirements Related to Account Terminations and Branch Closures

Generally, the federal banking regulators do not direct banks to open, close, or maintain individual accounts. However, banks generally include policies and procedures to describe criteria for not opening, or closing, an account in their BSA/AML compliance program. For example, although there is no requirement for a bank to close an account that is the subject of a SAR filing, a bank should develop policies and procedures that indicate when it will escalate issues identified as the result of repeat SAR filings on accounts, including criteria on when to close an account. Additionally, a bank's CIP should contain procedures for circumstances when a bank cannot verify the customer's identity, including procedures that include circumstances in which the bank should not open an account and when the bank should close an account.[16]

Federal banking regulators also cannot prohibit banks from closing branches. However, FDIC-insured banks are required to submit a notice of any proposed branch closing to their primary banking regulator no later

[14]Currency is defined as coin and paper money of the United States or of any other country that is designated as legal tender and that circulates and is customarily used and accepted as a medium of exchange in the country of issuance. 31 C.F.R. § 1010.100(m). Certain types of currency transactions need not be reported, such as those involving "exempt persons," a group which can include retail or commercial customers meeting specific criteria for exemption. *See* 31 C.F.R. § 1020.315.

[15]Banks are also required to file a SAR for known or suspected criminal violations involving insider abuse of any amount, as well as violations aggregating $5,000 or more when a suspect can be identified and $25,000 or more even without a potential suspect. *See* 12 C.F.R. §§ 21.11(c)(1)-(3), 163.180(d)(3)(i)-(iii) (OCC); 12 C.F.R. § 208.62(c)(1)-(3) (Federal Reserve); 12 C.F.R. § 353.3(a)(1)-(3) (FDIC).

[16]31 C.F.R. § 1020.220.

than 90 days prior to the date of the proposed branch closing.[17] The notice must include a detailed statement of the reasons for closing the branch and statistical or other information in support of the reasons. Banks are also required to mail a notice to the customers of the branch proposed to be closed at least 90 days prior to the proposed closing and must post a notice to customers in the branch proposed to be closed at least 30 days prior to the proposed closing. The notice should state the proposed date of closing and either identify where branch customers may obtain service following that date or provide a telephone number for customers to call to determine such alternative sites.

Characteristics and Money Laundering-Related Risks of the Southwest Border Region

In October 2017, Mexico was the second largest goods trading partner of the United States in terms of both imports and exports, according to U.S. Census trade data. Trade with Mexico is an important component of Southwest border states' economies, which benefit from their proximity to the international border and the related seaports and inland ports for the exportation and importation of goods. The fresh produce industry is an example of a key industry in the border region. The fresh produce industry encompasses several activities involved with importation, inspection, transportation, warehousing, and distribution of Mexican-grown produce to North American markets, all of which provide employment opportunities and revenues to local economies. Another key industry in the region is manufacturing. The Southwest border has played a role in a growing trend known as production sharing, in which companies—predominantly based in the United States—locate some operations in Mexico, thus achieving lower costs in the overall production process. Local Southwest border communities also benefit from pedestrians crossing into the United States from Mexico to visit and shop in their communities. For example, Department of Transportation border crossing data show that in September 2017, nearly 750,000 pedestrians entered the United States at the San Ysidro, California, border crossing—the busiest pedestrian port of entry into the country.

The Department of State has identified Mexico as a major money laundering country.[18] As a result of its proximity to Mexico, the Southwest

[17]Section 42 of the Federal Deposit Insurance Act imposes notice requirements on insured depository institutions that intend to close branches. *See* 12 U.S.C. § 1831r-1.

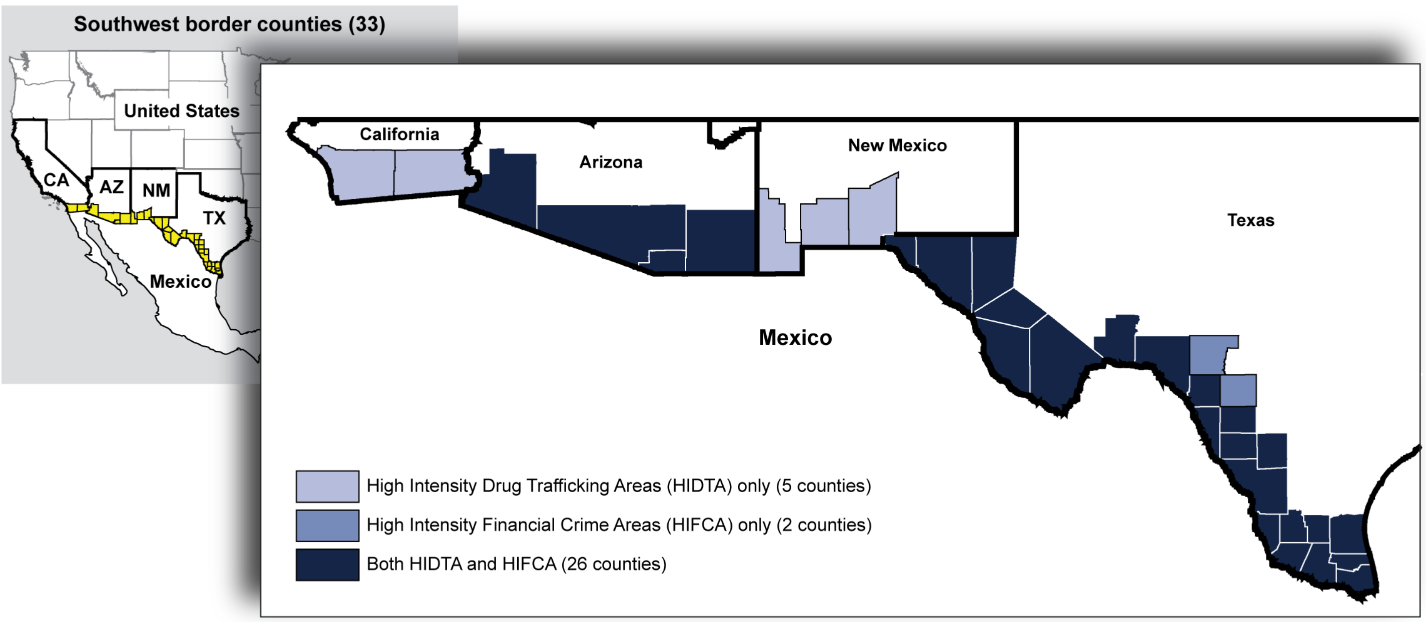
[18]A major money laundering country is defined by statute as "a country whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking." 22 U.S.C. § 2291(e)(7).

border region faces high money laundering and related financial crime risks. The U.S.-Mexico border includes major population centers, transportation hubs, and large tracts of uninhabited desert. According to Treasury's 2015 National Money Laundering Risk Assessment, criminal organizations have used the vast border to engage in cross-border drug trafficking, human smuggling, and money laundering. The 2015 assessment also states that bulk cash smuggling remains the primary method Mexican drug trafficking organizations use to move illicit proceeds across the Southwest border into Mexico.[19] Some cash collected domestically to pay the drug trafficking organizations for drugs is channeled from distribution cells across the United States to cities and towns along the Southwest border, and from there is smuggled into Mexico. All counties within the Southwest border region have been identified as either a High Intensity Financial Crime Area (HIFCA) or a High Intensity Drug Trafficking Area (HIDTA) with the vast majority being identified as both (see fig. 1).[20] HIFCAs and HIDTAs aim to concentrate law enforcement efforts at the federal, state, and local levels to combat money laundering and drug trafficking in designated high-intensity money laundering zones and in areas determined to be critical drug-trafficking regions of the United States, respectively.

[19]Bulk cash refers to the large amounts of currency notes criminals accumulate as a result of various types of criminal activity. Smuggling, in the context of bulk cash, refers to criminals' subsequent attempts to physically transport the money from one country to another.

[20]HIFCAs were conceived in the Money Laundering and Financial Crimes Strategy Act of 1998, Pub. L. No. 105-310, 112 Stat. 2941 (1998), and first announced in the 1999 National Money Laundering Strategy. The Office of National Drug Control Policy (ONDCP) Reauthorization Act of 1998 authorized the Director of ONDCP, upon consultation with certain specified federal and state entities, to designate any specified area of the United States as a HIDTA. Pub. L. No. 105-277, Div. C, Title VII, § 707, 112 Stat. 2681-670, 2681-686 (1998) (codified as amended at 21 U.S.C. § 2106). In considering whether to designate an area as a HIDTA, the Director is to consider, among other things, whether the area is a center of illegal drug production, manufacturing, importation, or distribution, and whether drug-related activities in the area are having a harmful impact in other areas of the country. *Id*.

Figure 1: HIFCA and HIDTA Counties in the Southwest Border Region



Sources: GAO analysis of Financial Crimes Enforcement Network and Office of National Drug Control Policy data; MapInfo. | GAO-18-263

Southwest Border Banks Report Heightened BSA/AML Compliance Risks and Challenges Due to Volume of High-Risk Customers

Several characteristics of the Southwest border region make the region a high-risk area for money laundering activity. These characteristics, which require additional efforts for Southwest border banks to comply with BSA/AML requirements, include high volumes of cash transactions, cross-border transactions, and foreign accountholders. Bank representatives we spoke with said that they manage these added BSA/AML compliance challenges through activities such as more frequent monitoring and investigating of suspicious activities, but that these efforts require an investment of resources.

Volume of Cash Transactions and Cross-Border Trade Increases Risk for Money Laundering and Terrorist Financing

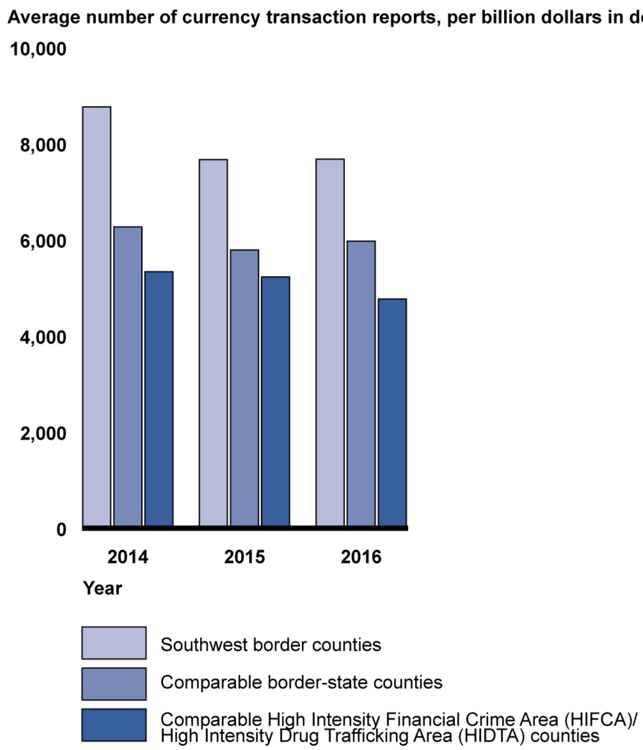
Money laundering risk is high in the Southwest border region because of the high volume of cash transactions, the number of cross-border transactions, and foreign accountholders, according to bank representatives, federal banking regulators, and others. Cash transactions increase the BSA/AML compliance risk for banks because the greater anonymity associated with using cash results in greater risk for money laundering or terrorist financing. A regional economic development specialist noted, for example, that Mexican nationals who shop in border communities typically use cash as a payment form. Further, representatives from a regional trade group told us that border businesses prefer payment in cash over checks from Mexican banks because of potential variations in the exchange rate before a peso-denominated check clears. The trade group representatives we spoke with also noted that currency exchanges also add to the volume of cash transactions in the region. In June 2010, the Mexican finance ministry published new AML regulations that restricted the amounts of physical cash denominated in U.S. dollars that Mexican financial institutions could receive. According to FinCEN officials and some of the federal bank examiners we spoke with, these regulations altered the BSA/AML risk profile of some U.S. banks, particularly those in the Southwest border region. For example, U.S. banks started receiving bulk shipments of currency directly from Mexican nationals and businesses, rather than from Mexican banks. This increased BSA/AML compliance risk for the U.S. banks because they now had to assess the risk of each individual customer shipping them currency, rather than the collective risk from their Mexican banking counterparts. In addition, according to FinCEN, the regulations added to the level of cash in the Southwest border region because businesses in the region saw higher levels of cash payments from Mexican customers. This also created additional risk for U.S. banks when these businesses deposited the cash payments.

Our review of data on banks' CTR filings confirmed that bank branches that operate in Southwest border region counties handle more large cash transactions than bank branches elsewhere. For example, our analysis found that bank branches in Southwest border region counties generally file more CTRs than bank branches in comparable counties in the same border states or in other high-risk financial crime or drug trafficking counties that are not in border states.[21] Specifically, in 2016, bank branches in Southwest border region counties filed nearly 30 percent more CTRs, on average, than bank branches in comparable counties elsewhere in their same state, and about 60 percent more than those in

[21]To better understand the filing trends of CTRs and SARs (and as described later, branch closures) in the Southwest border region, we developed two comparison groups of counties. We compared CTR filings in Southwest border counties to one group of counties in Southwest border states that were not on the border, and a second group of counties that were HIFCAs or HIDTAs and not in Southwest border states. To construct the comparison groups, we matched Southwest border counties to counties with the same 2013 Rural-Urban Continuum Codes, which measure how urban or rural a county is, and by population if there was more than one potential matching county.

other high-risk counties outside the region. Similar differences occurred in 2014 and 2015 (see fig. 2).

Figure 2: Average Number of CTRs Filed per Billion Dollars in Deposits, 2014–2016



Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

Note: Comparable border-state counties are comprised of counties in Arizona, California, New Mexico, and Texas that are not Southwest border region counties. Comparable HIFCA/HIDTA counties are those that have been designated as such and are not located in the border states of Arizona, California, New Mexico, and Texas. Matching was performed based on similar rural-urban characteristics and county population.

Cross-border transactions are also higher risk for money laundering because international transfers can present an attractive method to disguise the source of funds derived from illegal activity. Certain industries, such as agriculture, that are prevalent in the Southwest border region have legitimate business practices that could appear suspicious without sufficient context, regional representatives said. For example, representatives of one produce industry association we spoke with said produce distributors often import produce from Mexican farmers and pay them via wire transfer, which the farmers may then immediately withdraw in cash to pay laborers. Transactions that involve cross-border wire transfers and immediate withdrawals of cash may raise suspicion of money laundering that requires further scrutiny by the bank. BSA/AML regulations generally require banks to keep additional documentation for domestic and international fund transfers of $3,000 or more, including specific identifying information about the originator and beneficiary of the transaction. If the bank sends or receives funds transfers to or from institutions in other countries, especially those with strict privacy and secrecy laws, the bank should have policies and procedures to determine whether the amounts, the frequency of the transfer, and countries of origin or destination are consistent with the nature of the business or occupation of the customer.

Southwest border banks cited foreign accountholders as another type of high-risk customer for money laundering and terrorist financing. These types of customers are prevalent in the Southwest border region, examiners said, and can create challenges for banks to verify and authenticate their identification, source of funds, and source of wealth. Southwest border banks and others cited these types of customers as adding BSA/AML compliance risk for banks, particularly if the accountholders do not reside in the United States. These customers may also have more frequent funds transfers to other countries. Foreign accountholders who are "senior foreign political figures" also create additional money laundering and terrorist financing risk because of the potential for their transactions to involve the proceeds from foreign-official corruption.[22] Some Southwest border banks told us they provide accounts to senior foreign political figures, but may limit the number of those types of accounts.

Southwest Border Banks' High-Risk Customers Require More Intensive Due Diligence and Monitoring

The volume of high-risk customers and cross-border transactions can lead to more intensive account monitoring and investigation of suspicious transactions, Southwest border bank representatives said. Performing effective due diligence and complying with CIP requirements for higher-risk customers and transactions can be more challenging because banks might need specialized processes for higher-risk customers and transactions than for those that are lower-risk. For example,

[22]"Senior foreign political figures" include, among others, current or former senior officials in a foreign government, senior officials of a major foreign political party, senior executives of a foreign government-owned corporate enterprise, and an immediate family member of any such individual. *See* 31 C.F.R. § 1010.605(p).

representatives from some Southwest border banks told us their BSA/AML compliance staff travel to Mexico or collect information from sources in Mexico to establish the legitimacy of businesses across the border. Another bank said they ask to see 3 months of some high-risk businesses' previous bank statements to determine the typical volume of cash and wire transfers and that this type of due diligence is very time-consuming. The bank also collects details about the recipients of the wired funds in an effort to determine the legitimacy of the payments. Some Southwest border banks also described using special processes to evaluate BSA/AML compliance risks for foreign customers and said they used extra caution before accepting them as customers. These special processes included translating business documents from Spanish to English to certify the legitimacy of business customers and developing internal expertise on currently acceptable identity documents issued by foreign governments.

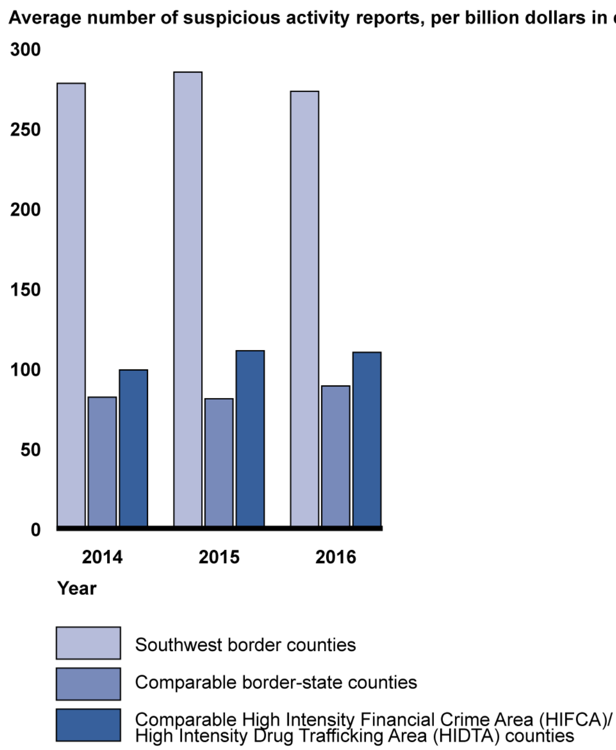
Southwest border bank representatives we spoke with said addressing these compliance challenges also can require more resources for monitoring high-risk customers and investigating suspicious transactions. High-risk customers require additional detail to be collected when accounts are opened and on an ongoing basis. Representatives of one Southwest border bank explained that they monitor high-risk customers' transactions more frequently—every 3 months, compared to every 6 months for medium-risk customers. Further, high volumes of cash activity can generate substantial numbers of alerts in bank monitoring systems, and these alerts are evaluated by banks to determine whether SARs should be filed. Transaction structuring, which involves attempts to evade the $10,000 CTR filing requirement by, for example, making several smaller transactions, is a common source of alerts, some bank representatives said. Several banks we interviewed cited the investigation of potential structuring as one of their common BSA/AML compliance activities.[23] Although many banks have monitoring software to generate suspicious activity alerts, representatives said the flagged transactions generally are investigated manually and can be a labor-intensive part of banks' overall BSA/AML compliance programs. Southwest border bank representatives we spoke with also told us that their suspicious activity monitoring systems often generate "false positives"—meaning further investigation leads to a determination that no SAR filing is warranted. As

[23]FinCEN's SAR form also collects data on, among other things, suspicious activities related to terrorist financing, fraud, money laundering, and the use of false identities.

a result, the total number of SAR filings can actually understate banks' total BSA/AML compliance efforts associated with suspicious transaction monitoring.

We found that bank branches in Southwest border region counties filed more SARs, on average, from 2014 through 2016 than bank branches in comparable counties in the same border states or in other high-risk financial crime or drug trafficking counties that are not in border states. For example, in 2016, bank branches in Southwest border region counties filed three times as many SARs, on average, as bank branches operating in other counties within Southwest border states and about 2.5 times as many SARs, on average, as bank branches in other high-risk financial crime or drug trafficking counties in nonborder states. These differences in SAR filings showed a similar pattern in 2014 and 2015 (see fig. 3).

Figure 3: Average Number of SARs Filed per Billion Dollars in Deposits, 2014–2016



Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

Note: Comparable border-state counties are comprised of counties in Arizona, California, New Mexico, and Texas that are not Southwest border region counties. Comparable HIFCA/HIDTA counties are those that have been designated as such and are not located in the border states of

Arizona, California, New Mexico, and Texas. Matching was performed based on similar rural-urban characteristics and county population.

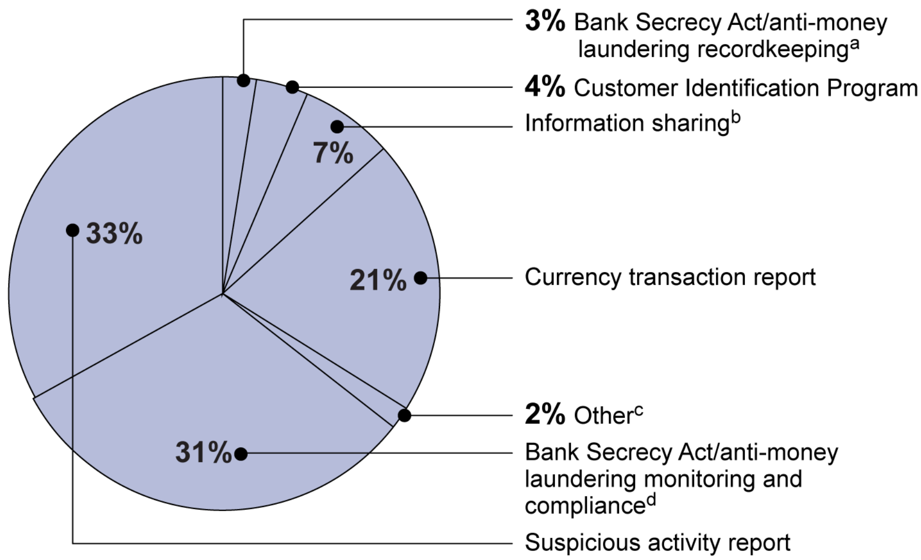
Federal banking regulators cited some Southwest border banks for noncompliance with BSA/AML requirements from January 2009 through June 2016. Those citations included 41 formal or informal enforcement actions taken against Southwest border banks.[24] FinCEN also took two formal enforcement actions during that period.[25] As part of the bank examination process, the federal banking regulators also cited Southwest border banks for 229 BSA/AML violations from January 2009 through June 2016.[26] Of these, SAR-related violations were the most common type of violation (33 percent). This was followed closely by violations related to BSA/AML monitoring and compliance (31 percent)—a category we defined to include competencies such as having an adequate system of BSA/AML internal controls and providing adequate BSA/AML training (see fig. 4).

[24]Informal enforcement actions are mutual agreements between the regulator and a bank to correct an identified problem. They generally involve written commitments from bank management to correct the problem and are used to address problems that are not critical and that plausibly could be corrected through a voluntary commitment from the institution’s management.

[25]Nationwide, there were 576 formal and informal enforcement actions related to noncompliance with BSA/AML requirements taken against banks from January 2009 through June 2016 by the federal banking regulators and FinCEN.

[26]Federal bank regulators identified about 9,000 BSA/AML violations for banks nationwide from January 2009 through June 2016.

Figure 4: BSA/AML Examination Violations for Southwest Border Banks by Type, January 2009–June 2016



Source: GAO analysis of Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency data. | GAO-18-263

Note: Totals do not sum to 100 percent due to rounding.

[a]Includes violations related to records that are required to be kept by banks.

[b]Includes violations of required information sharing between federal law enforcement and financial institutions, such as requirements for financial institutions to comply with certain information requests made by law enforcement.

[c]Includes violations that do not fit into any of our defined categories and those for which we were unable to determine the type of violation because of the lack of specificity in the way it was recorded.

[d]Includes violations involving required monitoring processes such as having an adequate system of BSA/AML internal controls and providing adequate BSA/AML training for bank employees.

Risks Related to Money Laundering Appear to Be a Factor in Reduced Access to Banking Services for Southwest Border Customers

Our nationally representative survey found that most Southwest border banks terminated accounts for reasons related to BSA/AML risk from January 2014 through December 2016 and limited, or did not offer, accounts to certain customer types, consistent with BSA/AML purposes. However, our survey also found that many Southwest border banks may also be engaging in derisking. Nationally, our econometric analysis suggests that counties that were urban, younger, had higher income, or had higher money laundering-related risk were more likely to lose branches. Money laundering-related risks were likely to have been relatively more important drivers of branch closures in the Southwest border region.

Some Account Terminations and Limitations Are Consistent with BSA/AML Purposes

Most Southwest Border Banks Terminated Accounts Because of Suspicious Activity

Most Southwest border banks reported terminating accounts for reasons related to BSA/AML risk. Based on our survey results, from January 1, 2014, through December 31, 2016, we estimate that almost 80 percent of Southwest border banks had terminated personal or business accounts for reasons related to BSA/AML risk.[27] For the subset of Southwest border banks whose operations extend outside of the Southwest border region, we estimate that almost 60 percent reported that they terminated business or personal accounts domiciled in their Southwest border branches.[28] For banks that did not operate in the Southwest border region (non-Southwest border banks), account terminations related to BSA/AML risk varied by the size of the bank. For example, an estimated 93 percent of medium banks and an estimated 95 percent of large banks terminated accounts for reasons related to BSA/AML risk, compared to an estimated 26 percent of small banks.[29] Among the five types of businesses we identified for our survey as high risk for money laundering and terrorist financing, cash-intensive small businesses (for example, retail stores, restaurants, and used car dealers) were the most common types of business accounts that Southwest border banks reported terminating for reasons related to BSA/AML risk. For example, over 70 percent of Southwest border banks reported terminating cash-intensive small business accounts.[30] Between 45 percent and 58 percent of Southwest

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[27]See appendix II for information on survey results. The 95 percent confidence interval for this estimate is (69, 87). Southwest border banks include banks of all asset sizes from small to extra large.

[28]The 95 percent confidence intervals for both the estimates of business account terminations and the estimates personal account terminations are (47, 71).

[29]We classified non-Southwest border banks by asset size where small banks have less than $1 billion in assets; medium banks between $1 billion and less than $10 billion; large banks between $10 billion and less than $50 billion; and extra-large banks $50 billion or greater in assets. The 95 percent confidence intervals for these estimates are: medium (83, 98); large (88, 102); and small (16, 40). The estimate for account terminations by extra-large banks was not statistically reliable, but all nine extra-large banks that responded to the question cited that they had terminated a personal or business account for reasons related to BSA/AML risk.

[30]The 95 percent confidence interval for this estimate is (62, 84).

border banks cited terminating accounts for the remaining four categories of high-risk business accounts we identified: money services businesses, domestic businesses engaged in cross-border trade, nontrade-related foreign businesses, and foreign businesses engaged in cross-border trade.[31]

[31]The estimate for Southwest border banks that have terminated money services businesses is 58 percent; domestic businesses engaged in cross-border trade is 55 percent; nontrade-related foreign businesses is 47 percent; and foreign businesses engaged in cross-border trade is 45 percent. The 95 percent confidence intervals for these estimates are (46, 70), (43, 67), and (36, 59), respectively.

Bank-Reported Data on Accounts Terminated in 2016 for BSA/AML Reasons

In response to our survey, several banks provided data on the number of accounts they terminated in 2016 for reasons related to BSA/AML risk. We found that two extra-large banks (those banks with $50 billion or greater in assets) were responsible for the majority of these account terminations for both business and personal accounts. These terminations accounted for less than half a percent of the extra-large banks' overall accounts. These numbers only represent account terminations for the banks that provided data and are not generalizable to the population of banks.

Terminations of Accounts Domiciled in the Southwest Border Region

- 15 banks reported terminating 5,396 personal accounts
- 16 banks reported terminating 901 business accounts
- Account terminations reported by one extra-large bank:
    - 4,402 terminations of personal accounts
    - 457 terminations of business accounts

Terminations of Accounts Located Outside the Southwest Border Region

- 44 banks reported terminating 40,297 personal accounts
- 36 banks reported terminating 8,101 business accounts.
- Account terminations reported by one extra-large bank:
    - 33,174 personal account terminations
    - 4,162 business account terminations

Source: GAO survey. | GAO-18-263

The most common reason related to BSA/AML risk banks reported for terminating accounts from January 2014 through December 2016 was the filing of SARs associated with the accounts. Based upon our survey, we estimate that 93 percent of Southwest border banks terminated accounts because of the filing of SARs.[32] Through discussions with Southwest border bank representatives, we found that banks vary the level of internal investigations they conduct into the suspicious activity before deciding to terminate an account as a result of a certain number of SAR filings. Representatives from 3 of the 19 Southwest border banks we spoke with told us that their account closure policies generally required the automatic termination of an account when a certain number of SARs—ranging from 1 to 4—were filed for an account. Representatives from two other Southwest border banks said a certain number of SARs filed for one account would lead to an automatic review of the account that would determine whether or not the account should be closed. Other Southwest border bank representatives we interviewed did not indicate having a specific policy for terminating accounts related to the number of SAR filings, but some of these representatives said that SAR filings were one of the factors that could lead to account terminations.

Figure 5 shows the survey estimates for the other BSA/AML reasons Southwest border banks cited for terminating accounts. Some commonly cited reasons were the failure of the customer to respond adequately to requests for information as part of customer due diligence processes and the reputational risk associated with the customer type. For example, an estimated 80 percent of Southwest border banks cited the failure of the customer to respond adequately to requests for information as part of customer due diligence processes.[33] Some Southwest border bank representatives told us that sometimes customers do not provide adequate documentation in response to their due diligence inquiries. These representatives said that after a certain number of attempts to obtain the documentation, the lack of customer responsiveness results in them terminating the account. A bank may also terminate an account if the activity of the customer could risk the reputation of the bank. About 68 percent of Southwest border banks that terminated accounts cited the reputational risk associated with the customer type as a reason for terminating an account.[34] Some Southwest border bank representatives

[32]The 95 percent confidence interval for this estimate is (84, 97).

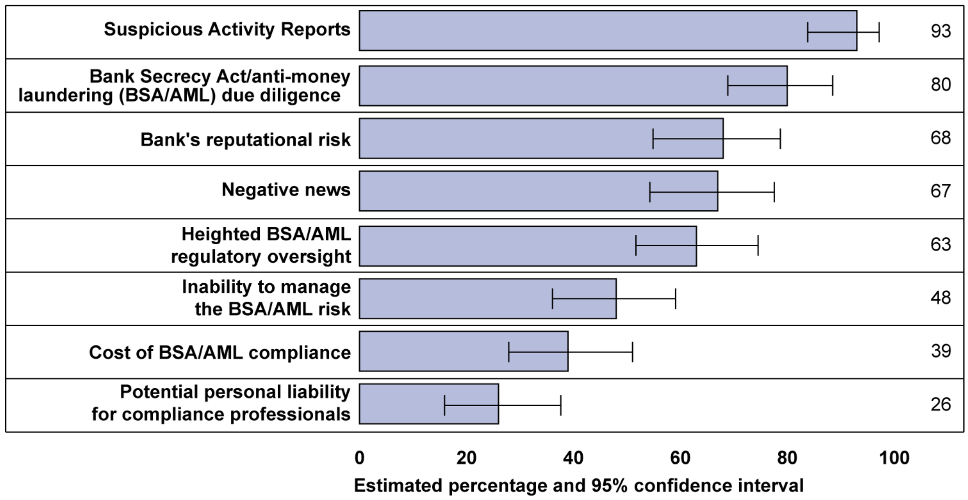
[33]The 95 percent confidence interval for this estimate is (69, 89).

[34]The 95 percent confidence interval for this estimate is (55, 79).

we spoke with said they have closed accounts due to the nature of the business. For example, some bank representatives said they have closed accounts for gambling and marijuana businesses. In addition, law enforcement officials from the Southwest Border Anti-Money Laundering Alliance told us that they thought that some of the accounts terminated by Southwest border banks were a result of the information the banks were given from local law enforcement and other federal agencies. For example, when funnel accounts—accounts in one geographic area that receive multiple cash deposits and from which funds are withdrawn in a different geographic area with little time elapsing between the deposits and withdrawals—were first identified by law enforcement as a money laundering method, banks responded by closing these types of accounts. Non-Southwest border banks generally reported the same primary reasons for terminating accounts as Southwest border banks. The top two reasons for terminating accounts cited by non-Southwest border banks that responded to the survey was the filing of SARs associated with the accounts and the failure of the customer to respond adequately to requests for information as part of customer due diligence processes.[35]

[35]The percentage estimates for non-Southwest border banks are not statistically reliable for the survey questions related to the BSA/AML risk reasons for account terminations. We are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points, but are reporting the frequencies for those that responded to the survey. For non-Southwest border banks (84 out of 91 respondents) reported the filing of SARs associated with the accounts was a reason for terminating accounts and (70 out of 87 respondents) cited the failure of the customer to respond adequately to requests for information as part of customer due diligence processes.

Figure 5: Estimated Percentage of Southwest Border Banks That Terminated Accounts for Various BSA/AML Risk Reasons, 2014–2016



Source: GAO survey. | GAO-18-263

Many Southwest Border Banks Limited Accounts for High-Risk Customers

A majority of Southwest border banks and non-Southwest border banks reported limiting or not offering accounts to certain types of businesses considered high risk for money laundering and terrorist financing, particularly money services businesses and foreign businesses. For example, the estimates for Southwest border banks that have limited, or not offered, accounts to nontrade-related foreign businesses is 76 percent, money service businesses is 75 percent, and foreign businesses engaged in cross-border trade is 72 percent.[36] The most common reason (cited by 88 percent of Southwest border banks) for limiting, or not offering, an account to these types of businesses was that the business type fell outside of the bank's risk tolerance—the acceptable level of risk an organization is willing to accept around specific objectives.[37] Similarly, 69 percent of Southwest border banks cited the inability to manage the BSA/AML risk associated with the customer (for example, because of

[36]The 95 percent confidence intervals for these estimates are (66, 84), (64, 83), and (62, 81), respectively. The estimates for non-Southwest border banks that have limited, or not offered, accounts for nontrade-related foreign businesses is 86 percent; foreign businesses engaged in cross-border trade is 85 percent; and money services businesses 70 percent. The 95 percent confidence intervals for these estimates are (75, 94), (73, 92), and (57, 81), respectively.

[37]The 95 percent confidence interval for this estimate is (79, 94).

resource constraints) as a factor for limiting, or not offering, accounts.[38] Representatives from some Southwest border banks we spoke with explained that they do not have the resources needed to conduct adequate due diligence and monitoring for some of the business types considered high risk for money laundering and terrorist financing. As a result, they told us that they no longer offer accounts for certain business lines. For example, a representative from one Southwest border bank told us that the bank no longer offers accounts to money services businesses because of the BSA/AML compliance requirements and monitoring needed to service those types of accounts. In particular, they stated they do not have the resources to monitor whether the business has the appropriate BSA/AML compliance policies and procedures in place and to conduct site visits to ensure it is operating in compliance with BSA/AML requirements. Another Southwest border bank representative told us they have stopped banking services for used clothing wholesalers who export their product to Mexico because they were unable to mitigate the risk associated with these types of businesses. They explained that these companies' business models involve many individuals crossing the U.S.-Mexico border to purchase with cash pallets of clothing to import to Mexico.[39] The bank representative explained that the business model for this industry made it very hard to identify the source of the large volumes of cash.

Other reasons Southwest border banks reported for limiting, or not offering, certain types of business accounts are shown in figure 6. Similar to the reasons given by Southwest border banks, the most common reason that non-Southwest border banks reported limiting, or not offering accounts, to certain types of businesses considered high risk for money laundering and terrorist financing was that the customer type fell outside of the bank's risk tolerance.[40]

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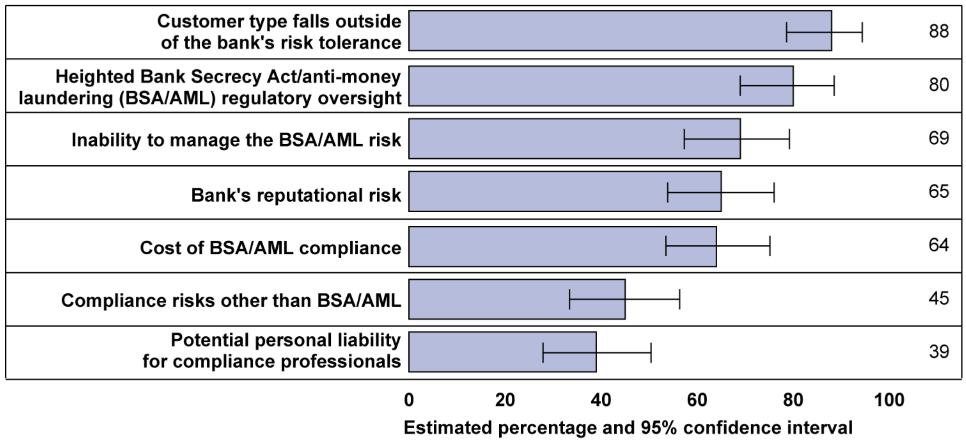
[38]The 95 percent confidence interval for this estimate is (57, 79).

[39]Trade-based money laundering is the process of disguising the origin of criminal proceeds through the import or export of merchandise and trade-related financial transactions. Trade-based money laundering may make use of various schemes such as trading in contraband, falsifying the value of merchandise, or misrepresenting trade-related financial transactions with the purpose of disguising the origin of illicit proceeds and integrating the funds into the financial system.

[40]The estimate for non-Southwest border banks limiting, or not offering, accounts because the customer type fell outside of the bank's risk tolerance is 82 percent. The 95 percent confidence interval for this estimate is (70, 91).

Figure 6: Estimated Percentage of Southwest Border Banks That Limited, or Did Not Offer, Accounts to Certain High-Risk Customers, 2014–2016



Source: GAO survey. | GAO-18-263

Other Account Terminations and Limitations Raise Concerns about Derisking

The second most common reason—cited by 80 percent of Southwest border banks—for limiting, or not offering, accounts to certain types of businesses considered high risk for money laundering and terrorist financing, was that the customer type drew heightened BSA/AML regulatory oversight—behavior that could indicate derisking.[41] For example, representatives from one Southwest border bank explained that they no longer offer accounts to money services businesses because they want to be viewed from a good standpoint with their regulator. They added that banking for these types of customers is very high risk for the bank with very little reward. Another bank that operates in the Southwest border region explained that rather than being able to focus on their own BSA/AML risk assessment and the performance of accounts, they feel pressured to make arbitrary decisions to close accounts based on specific concerns of their examiners. Several Southwest border bank representatives also described how recent BSA/AML law enforcement and regulatory enforcement actions have caused them to become more conservative in the types of businesses for which they offer accounts. For example, representatives from one Southwest border bank we spoke with stated that many of the banks that do business in the Southwest border region have stopped servicing cross-border businesses due to a large

[41]For example, heightened BSA/AML regulatory oversight could involve increased length, frequency, or intensity of regulatory examinations. The 95 percent confidence interval for this estimate is (69, 89).

enforcement action in which the allegations against the bank cited an ineffective AML program that exposed it to illicit United States/Mexico cross-border cash transactions.[42] A representative from another Southwest border bank explained that his bank could have a large banking business in one of the state's border towns, but the bank has chosen not to provide services there because if BSA/AML compliance deficiencies are identified from servicing that area, the penalties could be high enough to shut down the whole bank. In addition, while banks may terminate accounts because of SAR filings as a method to manage money laundering and terrorist financing risk and to comply with BSA/AML requirements, some of these terminations may be related to derisking. For example, some Southwest border bank representatives we spoke with as part of this review, as well as other banks and credit unions we spoke with in a previous review, told us that they have filed SARs to avoid potential criticism during examinations, not because they thought the observed activity was suspicious.[43] Non-Southwest border banks also commonly cited the inability to manage risk associated with the customer type and heightened regulatory oversight as reasons for limiting, or not offering, accounts.[44]

Our survey results and discussions with Southwest border bank representatives are consistent with what a senior Treasury official identified in a 2015 speech as causing correspondent banking and money services business account terminations.[45] The speech noted that a number of interrelated factors may be resulting in the terminations, but that the most frequently mentioned reason related to efforts to comply

[42]Representatives referred to the enforcement actions taken against HSBC Holdings plc. and affiliates in 2012 that led to the largest collective settlement in Treasury's history amounting to $875 million—with more than $1.9 billion assessed in penalties for HSBC's conduct in violation of the BSA and U.S. sanctions. Accessed on November 29, 2017, see https://www.treasury.gov/press-center/press-releases/Pages/tg1799.aspx.

[43]See GAO, *Bank Secrecy Act: Suspicious Activity Report Use Is Increasing, but FinCEN Needs to Further Develop and Document Its Form Revision Process*, GAO-09-226 (Washington, D.C.: Feb. 27, 2009).

[44]The estimate for non-Southwest border banks limiting, or not offering, accounts because of the inability to manage risk associated with the customer type is 77 percent. The estimate for non-Southwest border banks limiting, or not offering, accounts because of heightened regulatory oversight is 74 percent. The 95 percent confidence intervals for these estimates are (64, 87) and (60, 85), respectively.

[45]Remarks by Under Secretary Nathan Sheets at the Center for Global Development, November 12, 2015, accessed at https://www.treasury.gov/press-center/press-releases/Pages/jl0264.aspx.

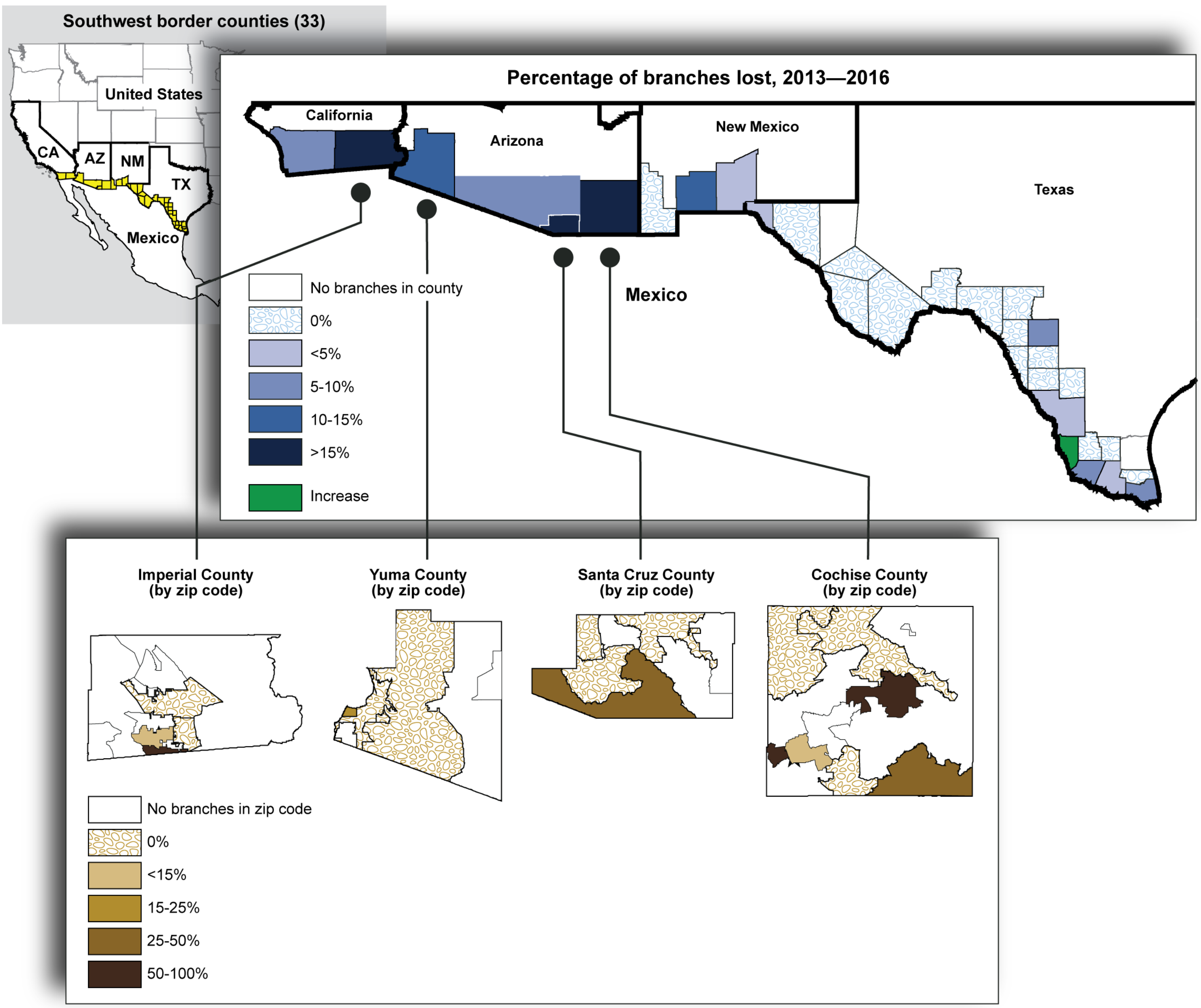
with AML and terrorist financing requirements. In particular, banks raised concerns about (1) the cost of complying with AML and terrorist financing regulations, (2) uncertainty about supervisors' expectations regarding what is appropriate due diligence, and (3) the nature of the enforcement and supervisory response if they get it wrong. The speech noted that banks said that they made decisions to close accounts not so much because they were unable to manage the illicit finance risks but because the costs associated with taking on those risks had become too high. It further stated that there is a gap between what supervisory agencies have said about the standards they hold banks to and banks' assessment of those standards, and that there was still a perception among banks that supervisory and enforcement expectations lack transparency, predictability, and consistency. The senior Treasury official noted this perception feeds into higher anticipated compliance costs and when banks input this perceived risk into their cost-benefit analysis, it may eclipse the potential economic gain of taking on a new relationship.

Southwest Border Bank Branch Closures Have Been Concentrated in a Small Number of Communities

Counties in the Southwest border region have been losing bank branches since 2012, similar to national and regional trends, as well as trends in other high-risk financial crime or drug trafficking counties that are outside the region. Most of the 32 counties (18 counties or nearly 60 percent) comprising the Southwest border region did not lose bank branches from 2013 through 2016, but 5 counties lost 10 percent or more of their branches over this time period (see top panel of fig. 7).[46] Those 5 counties are Cochise, Santa Cruz, and Yuma, Arizona; Imperial, California; and Luna, New Mexico.

[46]Our analysis of the number of branches is based on FDIC's Summary of Deposits database. This database records bank branch information as of June 30 each year. Therefore, in this report, when we discuss changes in the number of branches between 2 years we are reporting changes between June 30 of those years. For example, if we report that a county lost 10 percent of its branches from 2013 through 2016, this implies that the county lost 10 percent of its branches from June 30, 2013, through June 30, 2016. One of the 33 counties in our defined Southwest border region—Kenedy County, Texas—did not have a bank branch from June 30, 2000, through June 30, 2016, and therefore is not included in our analysis of branch closures in the region. Our analysis of bank branches includes both full-service and limited-service branches. Limited-service branches provide some conveniences to bank customers but generally offer a reduced set of bank services.

Figure 7. Bank Branch Closures in the Southwest Border Region, 2013–2016

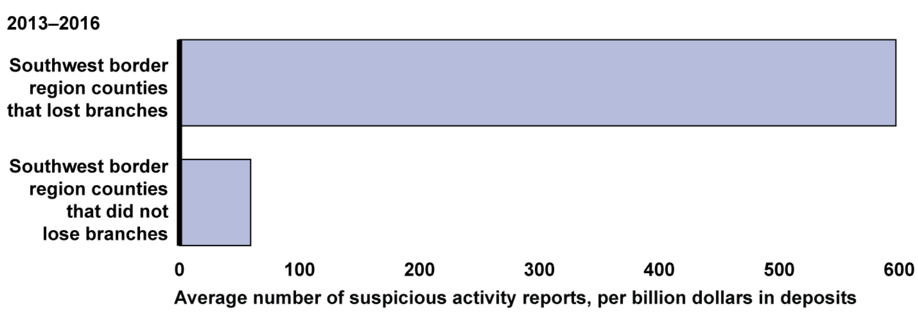


Sources: GAO analysis of Federal Deposit Insurance Corporation data; MapInfo. | GAO-18-263

Within those counties we identified as having the largest percentage loss of branches, sometimes those losses were concentrated in smaller communities within the county (see bottom panel of fig. 7). For example, Calexico in Imperial County, California, lost 5 of its 6 branches from 2013 through 2016. In Santa Cruz County in Arizona, one zip code in Nogales accounted for all of the branch losses in the county from 2013 through 2016, losing 3 of its 9 branches. More generally, branch losses can vary substantially across different zip codes in a county (see for example bottom panel of fig. 7). In other instances, counties that lost a relatively small share of their branches can contain communities that lost a more substantial share—for example San Ysidro in San Diego County lost 5 of its 12 branches (about 42 percent) while the county as a whole lost only 5 percent of its branches from 2013 through 2016.

Based on our analysis, counties losing branches in the Southwest border region tended to have substantially higher SAR filings, on average, than Southwest border region counties that did not lose branches. That is, counties that lost branches from 2013 through 2016 had about 600 SAR filings per billion dollars in deposits, on average, and counties that did not lose branches had about 60 SAR filings per billion dollars in deposits, on average (see fig. 8).

Figure 8: Average Number of SARs Filed per Billion Dollars in Deposits, 2014



Source: GAO analysis of Federal Deposit Insurance Corporation and Financial Crimes Enforcement Network data. | GAO-18-263

Empirical Evidence Suggests Demographic and Money Laundering-Related Risk Factors Are Drivers of Branch Closures

The econometric models we developed and estimated generally found that demographic and money laundering-related risk factors were important predictors of national bank branch closures. These models are subject to certain limitations, some of which we detail later in this section as well as appendix III, and as such, we interpret the results with some degree of caution.[47] In general, our results suggest that counties were more likely to lose branches, all else equal, if they were (1) urban, had a higher per capita personal income, and had a younger population (proportion under 45); or (2) designated as a HIFCA or HIDTA county, or had higher SAR filings. We term the latter three characteristics (HIFCA, HIDTA, and SAR filings) “money laundering-related risk factors.” While our models are unable to definitively identify the causal effect of BSA/AML regulation on branch closures from these money laundering-related risk factors, the impact of the SAR variables, in particular, could reflect a combination of BSA/AML compliance effort and the underlying level of suspicious or money laundering-related activity in a county.

Our econometric models are based on all counties with bank branches in the United States and are designed to predict whether a county will lose a branch the following year based on the characteristics of the county. The models included demographic, economic, and money laundering-related risk factors that might have influenced branch closures nationally since 2010 (see app. III for additional information on our models). The demographic factors included in our models are Rural-Urban Continuum Codes, age profile (proportion of the county over 45), and the level of per capita income. We chose these demographic factors, in particular, because they are associated with the adoption of mobile banking, which may explain the propensity to close branches in a community.[48] The economic factors included in our models—intended to reflect temporary or cyclical economic changes affecting the county—are the growth of per capita income, growth in building permits (a measure of residential

[47]We estimated a large number of econometric models to ensure that our results were generally not sensitive to small changes in our model (for example, how or which variables influenced branch closures and over what time period). Despite the robustness of our results and our efforts to control for relevant factors, our results are subject to a number of caveats associated with this type of empirical work. For example, our regression models may be subject to omitted variable bias—it is unlikely that we have been able to quantify and include all relevant factors in bank branching decisions. As such, we interpret these results with some degree of caution. See appendix III for additional information.

[48]Board of Governors of the Federal Reserve System, *Consumers and Mobile Financial Services 2015* (Washington, D.C.: March 2015).

housing conditions), and growth of the population. The money laundering-related risk factors, as described previously, are whether a county has been designated a HIFCA or a HIDTA and the level of suspicious or possible money laundering-related activity reported by bank branches in the county, as represented by SAR filings.

Demographic characteristics of counties were important predictors of branch closures. Our results were consistent with those demographic characteristics associated with the adoption of mobile banking. As such, our results are consistent with the hypothesis that mobile banking is among the factors leading some banks to close branches. The most urban counties were about 22 percentage points more likely to lose one or more branches over the next year than the most rural counties. A county with 70 percent of the population under 45 was about 9 percentage points more likely to lose one or more branches over the next year than a county with half the population under 45. A county with per capita income of $50,000 was about 7 percentage points more likely to lose one or more branches over the next year than a county with per capita income of $20,000.

Money laundering-related characteristics of a county were also important predictors of branch closures in our models. HIDTA counties were about 11 percentage points more likely to lose one or more branches over the next year than non-HIDTA counties (the effect in HIFCA counties is less significant statistically and smaller in magnitude).[49] A county with 200 SARs filed per billion dollars in bank deposits was about 8 percentage points more likely to lose one or more bank branches over the next year than a county where no bank branch had filed a SAR. Southwest border bank officials we spoke with generally said that SAR filings were a time- and resource-intensive process, and that the number of SARs filings—to some extent—reflected the level of effort, and overall BSA compliance risk, faced by the bank. That said, the impact of SAR variables in our models could reflect a combination of (1) the extent of BSA/AML compliance effort and risk faced by the bank, as expressed by bank officials, and (2) the underlying level of suspicious or money laundering-related activity in a county.

[49]HIDTA and HIFCA designations in our model could proxy for a number of features of a county, including but not limited to the intensity of criminal activity related to drug trafficking and financial crimes.

Money laundering-related risk factors were likely to have been relatively more important drivers of branch closures in the Southwest border region because it had much higher SAR filings and a larger share of counties designated as HIDTAs than the rest of the country. More generally, given the characteristics of Southwest border counties and the rest of the United States, our models suggest that while demographic factors have been important drivers of branch closures in the United States overall, risks associated with money laundering were likely to have been relatively more important in the Southwest border region. Specifically, the Southwest border region is roughly as urban as the rest of the country, has a somewhat lower per capita income (about $35,000 in the Southwest border region versus about $41,000 elsewhere) and is somewhat younger on average (about 40 percent 45 and over in the Southwest border region versus about 45 percent elsewhere), but money laundering-related risk factors were relatively more prevalent, based on our measures, in the Southwest border region.

Southwest border bank representatives we interviewed told us they considered a range of factors when deciding whether or not to close a branch. For example, most Southwest border bank representatives that we spoke with about the reasons for branch closures (6 of 10) told us that BSA/AML compliance challenges were not part of the decision to close a branch.[50] However, most Southwest border bank representatives said that the financial performance of the branch is one of the most important factors they consider when deciding to close a branch, and as described previously, BSA/AML compliance can be resource intensive, which may affect the financial performance of a branch. Further, nearly half of the Southwest border bank representatives we spoke with (4 of 10), did mention that BSA/AML compliance costs could be among the factors considered in determining whether or not to close a branch. In addition, at least one bank identified closing a branch as one option to address considerable BSA/AML compliance challenges. Finally, some Southwest border bank representatives (3 of 10) also mentioned customer traffic in the branch or the availability of mobile banking as relevant to their decision to close a branch.

[50]The total number of Southwest border banks that we spoke with cited here is less than the total number of Southwest border banks we spoke with referenced earlier in the report. The difference reflects the fact that not all Southwest border banks we spoke with had closed branches in the 5 years previous to our interview or that the bank representatives present for the interview were not knowledgeable about their banks' decisions in closing branches.

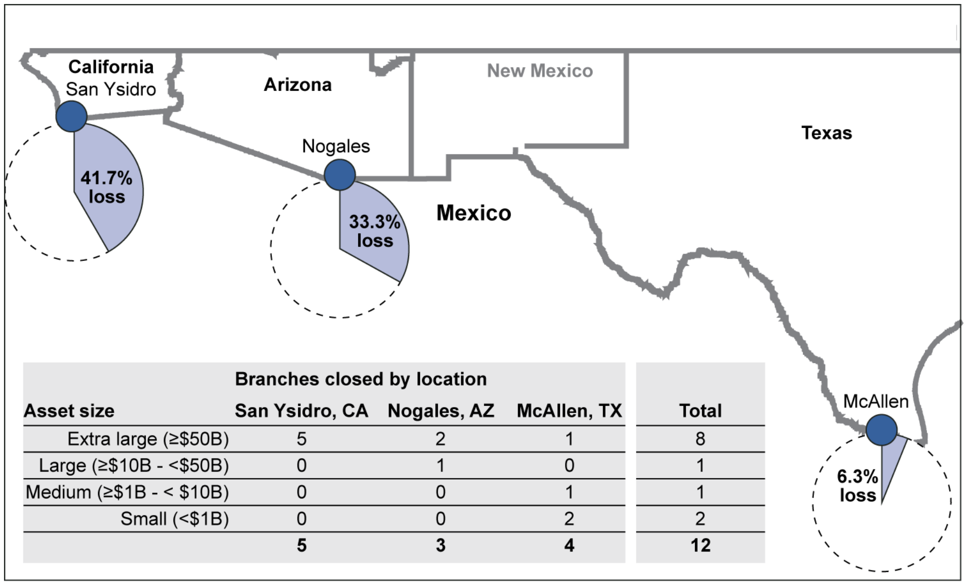
Select Border Communities Raised Concerns That Branch Closures and Account Terminations Reduced Economic Growth and Access to Banking Services

Communities we visited in Arizona, California, and Texas experienced multiple bank branch closures from 2013 through 2016. Some local banking customers that participated in the discussion groups we held in these communities also reported experiencing account terminations. While perspectives gathered from our visits to the selected cities cannot be generalized to all locations in Southwest border counties, stakeholders we spoke with noted that these closures affected key businesses and local economies and raised concerns about economic growth.

Border Communities We Visited Experienced Account Terminations and Branch Closures

According to some discussion group participants, local businesses, economic development specialists, and other stakeholders (border stakeholders) in the three Southwest border communities we visited, banks in their communities terminated the accounts of longtime established customers, sometimes without notice or explanation. They acknowledged that, because of their proximity to the U.S.-Mexico border, their communities were susceptible to money laundering-related activity and described how banks' increased efforts to comply with BSA/AML requirements may have influenced banks' decisions to terminate accounts. Each of the three Southwest border communities we visited—Nogales, Arizona; San Ysidro, California; and McAllen, Texas—also experienced multiple bank branch closures from 2013 through 2016 (see fig. 9).

Figure 9: Bank Branch Closures in Selected Southwest Border Communities, 2013–2016



Asset size	Branches closed by location: San Ysidro, CA	Nogales, AZ	McAllen, TX	Total
Extra large (≥$50B)	5	2	1	8
Large (≥$10B - <$50B)	0	1	0	1
Medium (≥$1B - < $10B)	0	0	1	1
Small (<$1B)	0	0	2	2
	5	**3**	**4**	**12**

Sources: GAO analysis of Federal Deposit Insurance Corporation data; MapInfo. | GAO-18-263

Our analysis shows that from 2013 through 2016, these communities lost a total of 12 bank branches, 9 of which were branches of large or extra-large banks, based on asset size. But the percentage of branch closures in some communities was more significant in locations where there were already a limited number of branch options. For instance, Nogales (3 of its 9 branches closed) and San Ysidro (5 of its 12 branches closed) both lost a third or more of all their bank branches compared to McAllen where approximately 6 percent of its branches were closed (4 of its 63 branches closed).

Account Terminations and Branch Closures Affected Key Southwest Border Businesses and Customers and Concerns about Limited Economic Growth Were Reported

According to border stakeholders we spoke with, businesses engaged in cross-border trade, cash-intensive businesses, and Mexican nationals—all significant parts of the border economy—were affected by account terminations and branch closures in the three communities we visited. For example, the cross-border produce industry accounts for almost 25 percent of jobs and wages in Nogales, according to a 2013 study prepared for Nogales Community Development.[51] One produce business owner who had an account terminated told us that she was told that the volume of funds deposited into the account from her affiliated Mexican business created security risks that the bank was no longer willing to sustain, and she was unable to negotiate with the bank to keep it open. She said that it took almost 7 months to open a new account and that it involved coordination among bankers in multiple cities on both sides of the border. While some produce businesses and economic development specialists we spoke with explained that some regional banks in their communities have opened accounts for some small- to medium-sized produce businesses, they still have concerns about the long-term effects of limited access to banking services on smaller produce firms. One economic development specialist explained that these small companies often rely on local banks for funding, which enables them to develop and bring innovation to the produce industry.

Some discussion group participants who we spoke with also described challenges related to account terminations that cash-intensive businesses face in operating in the Southwest border region because of banks' increased emphasis on BSA/AML compliance. They explained that cash transactions raised suspicions for banks because of their associated money laundering risk; however, cash is a prevalent payment source for legitimate businesses in the region. For example, one money services business owner who participated in our discussion group in San Ysidro said that because his business generates large volumes of cash, he struggles to keep a bank account as a result of banks' oversight of and caution regarding cash transactions. He said his business account has been closed three times over the past 35 years and that banks have declined his requests to open an account at least half a dozen times. Similarly, another discussion group participant explained that companies

[51]Vera Pavlakovich-Kochi, Ph.D., and Gary D. Thompson, Ph.D., prepared for Nogales Community Development, *Fresh Produce and Production-Sharing: Bi-National Business Linkages Associated with Foundations and Opportunities for Nogales and Santa Cruz County* (Nogales, AZ: The University of Arizona, 2013).

that import automobiles into Mexico use cash to pay for cars in the United States and that trying to make these large cash deposits raised suspicions for U.S. banks.

Border stakeholders we spoke with also described how challenges associated with branch closures and terminations of accounts of Mexican nationals affected the Southwest border communities we visited. Border communities like San Ysidro are home to retail businesses, such as restaurants and clothing stores. According to our analysis of Bureau of Transportation Statistics data, an average of almost 69,000 personal vehicle passengers and 25,000 pedestrians entered the United States daily in September 2017 through the San Ysidro land port of entry. Economic development specialists told us that these visitors spend money on goods and services in local border communities. For example, one economic development specialist in Arizona estimated that Mexican nationals spend about $1 billion in Pima County alone each year, and another one estimated that 70 percent of the sales taxes collected in Nogales are paid by Mexican customers who cross the border to shop. One of the specialists explained that Mexicans—both Mexican day travelers to Tucson, as well as those who own U.S. real estate and travel to the United States for other investment business—used to visit the region and withdraw money from their U.S. bank accounts and subsequently spend money in border communities. He explained that Mexican nationals find it easier to have U.S. bank accounts to use while visiting and shopping on the U.S. side of the border. However, some discussion group participants said that because Mexican nationals have faced difficulties maintaining U.S. bank accounts, they have made fewer trips across the border and engaged in less commerce, which has affected the economies in their communities. Some participants also said that branch closures have affected businesses' sales volumes in their communities. For example, one participant said that when branches closed in the San Ysidro Boulevard area—which is at the base of the pedestrian border crossing—businesses have had difficulty thriving due to reduced foot traffic by customers.

According to border stakeholders we spoke with, branch closures also resulted in fewer borrowing options and limited investment in the communities, which they thought hindered business growth. For example, one discussion group participant explained that middle-sized businesses, such as those with revenues of approximately $2 million–$25 million, have fewer borrowing options when branches closed in the community because the remaining regional and smaller banks may not have the capital to support the lending needs of businesses that size. One economic development specialist and some discussion group participants also suggested that branch closures limited opportunities for local business expansion when banks outside the community are reluctant to lend to them. For example, in Tucson, Arizona, one specialist said that small businesses are having difficulty getting loans, which affects the ability of businesses to grow. To fill the void, some local businesses have turned to alternative lending options, such as title loan companies, accounts receivable lending companies, and family members as alternative funding sources. Rigorous academic research we reviewed suggests that branch closures reduce small business lending and employment growth in the area immediately around the branch. Our analysis of branch closure data based on estimates from this research suggests closed branches in the communities we visited could have amounted to millions of dollars in reduced lending and hundreds of fewer jobs. For example, in McAllen, Texas, this research suggests that the loss of four bank branches could have reduced employment growth by over 400 jobs and small business lending by nearly $3.5 million.[52]

Discussion Group Participants in Communities We Visited Reported Reduced Access to Banking Services

Some discussion group participants said that as a result of branch closures and account terminations in the Southwest border communities we visited, they traveled further to conduct banking activities, paid higher fees for new banking alternatives, and experienced difficulty completing banking transactions. Some participants told us that they had to travel further to their new banking location, which resulted in additional costs and inconvenience for customers. For instance, some participants in Nogales and San Ysidro said they had to travel 20 to 40 minutes further to the next closest bank branch, with one participant noting that this especially created difficulty for elderly bank customers. One discussion group participant said that when their local bank branch closed, they kept their account with that bank and traveled more than 70 miles to the next closest branch because they were afraid that they would not be able to open an account with another bank. Another participant also noted the additional cost of gas and time lost for other important matters as a result

[52]We reviewed and applied relevant research on the impact of branch closures (Hoai-Luu Q. Nguyen, *Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes,* Working Paper (September 2016)) to the border communities we visited. We did so by identifying the census tracts of all branch closures in these communities from 2013 through 2016 and applying impact estimates from this research to the level of small business lending and employment in these communities, based on data from Community Reinvestment Act reporting (small business lending) and the U.S. Census American Community Survey (employment).

of traveling further to a branch. Other participants also noted that they experienced longer lines at their new branches because of the higher volume of customers from closed branches. Some participants also found that some banking alternatives were more expensive than their previous banking options when their accounts were terminated or a local branch closed. For instance, some discussion group participants said they paid higher fees at their new bank and one participant mentioned that she received a lower interest rate on her deposits at her new bank. Some participants also mentioned that some banking alternatives they used, such as currency exchanges, were more expensive than their previous banking options.

Some discussion group participants also told us that they experienced difficulty completing banking transactions in their communities as a result of branch closures or banks' increased efforts to comply with BSA/AML requirements. For example, some participants from one discussion group session said that only an automated teller machine (ATM) was available in their community after their branch closed and it was not appropriate for all types of banking transactions. Further, some participants were unsatisfied with not being able to get in-person assistance from bank staff when their branch closed. For instance, one participant said that without a local branch, there was no nearby bank personnel to help her when the local ATM malfunctioned.[53] Further, while acknowledging banks' need to comply with BSA/AML requirements, some discussion group participants explained that some banking transactions have become more difficult, such as banks requiring additional forms of identification and limitations placed on cash transactions. Some participants, many who were longtime customers with their bank, also noted their disapproval with banks' additional questioning and documentation requirements, and that there was little acknowledgment by the bank of their value as a legitimate customer or of their knowledge about them as a customer. Some participants acknowledged that they did not experience this challenge because of the increasing availability of mobile banking options, which allow customers to complete some transactions without going to a physical branch location. As another example, one business owner said she mostly used online banking and has a check reader in her office that she uses to deposit checks directly into her business accounts.

[53]Some participants also noted that sometimes they need in-person service and appreciate having access to bank branch staff who know them personally.

Regulators Have Not Fully Assessed the BSA/AML Factors Influencing Banks to Reduce Services

The results of our survey (for both Southwest border banks and non-Southwest border banks) and discussions with Southwest border bank representatives indicate that banks are terminating accounts and limiting services, in part, as a way to manage perceived regulatory concerns about facilitating money laundering. In addition, the econometric models we developed and estimated also generally found that money laundering-related risk factors that could be reflective, in part, of BSA/AML compliance effort and risks, were an important predictor of national bank branch closures, and likely to have been relatively more important in the Southwest border region. Regulators have taken some actions in response to derisking, including issuing guidance and conducting some agency reviews. Regulators have also conducted retrospective reviews on some BSA/AML requirements. However, regulators have taken limited steps aimed at addressing how banks' regulatory concerns and BSA/AML compliance efforts may be influencing banks to engage in derisking or close branches.

Regulators Have Issued Guidance and Taken Some Actions Related to Derisking

FinCEN and the federal banking regulators have responded to concerns about derisking on a national level by issuing guidance to banks and conducting some evaluations within their agencies to understand the extent to which derisking is occurring. The guidance issued by regulators has been aimed at clarifying BSA/AML regulatory expectations and discouraging banks from terminating accounts without evaluating risk presented by individual customers or banks' abilities to manage risks. The guidance has generally encouraged banks to use a risk-based approach to evaluate individual customer risks and not to eliminate entire categories of customers.[54] Some of the guidance issued by regulators attempted to clarify their expectations specifically for banks' offering of services to money services businesses. For example, in March 2005, the federal banking regulators and FinCEN issued a joint statement on providing banking services to money services businesses to clarify the BSA requirements and supervisory expectations as applied to accounts opened or maintained for this type of customer. The statement

[54]For example, in January 2015, FDIC issued a Financial Institution Letter to encourage institutions to take a risk-based approach in assessing individual customer relationships rather than declining to provide banking services to entire categories of customers without regard to the risks presented by an individual customer or the bank's ability to manage the risk. Federal Deposit Insurance Corporation, *Statement on Providing Banking Services*, Financial Institution Letter FIL-5-2015 (January 2015).

acknowledged that money services businesses were losing access to banking services as a result of concerns about regulatory scrutiny, the risks presented by these types of accounts, and the costs and burdens associated with maintaining such accounts.[55] In addition, in November 2014, OCC issued a bulletin which explained that OCC-supervised banks are expected to assess the risks posed by an individual money services business customer on a case-by-case basis and to implement controls to manage the relationship commensurate with the risks associated with each customer.[56] More recently, Treasury and the federal banking regulators issued a joint fact sheet on foreign correspondent banking which summarized key aspects of federal supervisory and enforcement strategy and practices in the area of correspondent banking.[57]

In addition to issuing guidance, FDIC and OCC have taken some steps aimed at trying to determine why banks may be terminating accounts because of perceived regulatory concerns.[58] For example, in January 2015, FDIC issued a memorandum to examiners establishing a policy that examiners document and report instances in which they recommend or require banks to terminate accounts during examinations. The memorandum noted that recommendations or requirements to terminate accounts must be made and approved in writing by the Regional Director before being provided to and discussed with bank management and the board of directors. As of December 2017, FDIC officials stated that there were no instances of recommendations or requirements for account terminations being documented by examiners. In 2016, OCC reviewed how the institutions it supervises develop and implement policies and procedures for evaluating customer risks as part of their BSA/AML

[55]Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Financial Crimes Enforcement Network, National Credit Union Administration, Office of the Comptroller of the Currency, and Office of Thrift Supervision, *Joint Statement on Providing Banking Services to Money Services Businesses,* March 30, 2005.

[56]Office of the Comptroller of the Currency, *Statement on Risk Management Associated With Money Services Businesses*, OCC Bulletin 2014-58 (November 2014).

[57]Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of the Comptroller of the Currency, and U.S. Department of Treasury, *Joint Fact Sheet on Foreign Correspondent Banking: Approach to BSA/AML and OFAC Sanctions Supervision and Enforcement*, (August 30, 2016).

[58]The Treasury Office of Inspector General also has an ongoing review assessing issues related to derisking at OCC.

programs and for making risk-based determinations to close customer accounts. OCC focused its review on certain large banks' evaluation of risk for foreign correspondent bank accounts.[59] This effort resulted in OCC issuing guidance to banks on periodic evaluation of the risks of foreign correspondent accounts. The guidance describes corporate governance best practices for banks' consideration when conducting these periodic evaluations of risk and making account retention or termination decisions on their foreign correspondent accounts.[60] Further, OCC's Fiscal Year 2018 Bank Supervision Operating Plan noted that examiners should be alert to banks' BSA/AML strategies that may inadvertently impair financial inclusion. However, as of September 2017, OCC officials stated that the agency has not identified any concerns related to financial inclusion.

Treasury and the federal banking regulators have also participated in a number of international activities related to concerns about the decline in the number of correspondent banking and money services business accounts. For example, FDIC, OCC, and the Federal Reserve participate in the Basel Committee on Banking Supervision's Anti-Money Laundering/Counter Financing of Terrorism Experts Group. Recent efforts of the group involved revising guidelines to update and clarify correspondent banking expectations.[61] Treasury leads the U.S. engagement to the Financial Action Task Force (FATF)—an inter-governmental body that sets standards for combating money laundering, financing of terrorism, and other related threats to the integrity of the international financial system—which has issued guidance on correspondent banking and money services businesses. Treasury also participates in the efforts to combat derisking that are occurring through the Financial Stability Board's Correspondent Banking Coordination Group, the Global Partnership for Financial Inclusion, and the International Monetary Fund.

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[59]A foreign correspondent account is an account established by a bank for a foreign bank to receive deposits from, or to make payments or other disbursements on behalf of the foreign bank, or to handle other financial transactions related to the foreign bank.

[60]See Office of the Comptroller of the Currency, *Risk Management Guidance on Foreign Correspondent Banking,* OCC Bulletin 2016-32 (October 2016).

[61]Bank for International Settlements, *Guidelines: Sound Management of Risks Related to Money Laundering and Financing of Terrorism* (June 2017).

The federal banking regulators also met with residents and businesses in the Southwest border region to discuss concerns related to derisking in the region. For example, FDIC officials hosted a BSA/AML workshop in Nogales, Arizona, in 2015 for banks, businesses, trade organizations, and others. Officials from the Federal Reserve and OCC also participated in the workshop during which the regulators tried to clarify BSA/AML regulatory requirements and expectations. In addition, OCC officials told us that they met with representatives of the Fresh Produce Association of the Americas, who had concerns about banks not providing services in the region. OCC officials spoke to the produce industry representatives about various money laundering schemes and the role of the agency's examiners during the meeting.

BSA/AML Regulatory Reviews Have Not Evaluated All Factors Influencing Banks to Derisk and Close Branches

Evaluation of BSA/AML regulations and their implementation is essential to ensuring the integrity of the financial system while facilitating financial inclusion. Without oversight of regulations after implementation, they might prove to be less effective than expected in achieving their intended goals, become outdated, or create unnecessary burdens.[62] Regulations may also change the behaviors of regulated entities and the public in ways that cannot be predicted prior to implementation. Some regulators and international standard setters recognize that establishing a balanced BSA/AML regulatory regime is challenging. For example, in a 2016 speech, the then Comptroller of the Currency Curry stated that preventing money laundering and terrorist financing are important goals, but that a banking system that is truly safe and sound must also meet the legitimate needs of its customers and communities. FinCEN officials also told us that while the agency's mission is to safeguard the financial system from illicit use and combat money laundering, they also must be cautious that their efforts do not prevent people from using the system. Further, FATF acknowledged that AML and counter-terrorism financing safeguards can affect financial inclusion efforts. FATF explained that applying an overly

[62]For example, in previous work we conducted in 2008, we evaluated ways to avoid unnecessary burdens associated with the filing of CTRs. As a result of that work, we recommended that FinCEN review and revise certain BSA/AML regulations related to the filing of CTRs to improve their effectiveness. See GAO, *Bank Secrecy Act: Increased Use of Exemption Provisions Could Reduce Currency Transaction Reporting While Maintaining Usefulness to Law Enforcement Efforts,* GAO-08-355 (Washington, D.C.: Feb. 21, 2008). In response to our recommendations, FinCEN issued a new rule in January 2009 to make its administration of BSA more effective and efficient. Amendment to the Bank Secrecy Act Regulations—Exemptions from the Requirement to Report Transactions in Currency, 73 Fed. Reg. 74010 (Dec. 5, 2008).

cautious approach to safeguards for money laundering and terrorist financing can have the unintended consequence of excluding legitimate businesses and consumers from the formal financial system.[63]

Executive orders encourage and legislation requires agencies to review existing regulations to determine whether they should be retained, amended, or rescinded, among other things. Retrospective reviews of existing rules help agencies evaluate how existing regulations are working in practice. A retrospective review is an important tool that may reveal that an existing rule—while needed—has not operated as well as expected, and that changes may be warranted. Retrospective reviews seek to make regulatory programs more effective or less burdensome in achieving their regulatory objectives. Many recent presidents have directed agencies to evaluate or reconsider existing regulations. For example, in 2011 President Obama issued Executive Orders 13563 and 13579.[64] Among other provisions, Executive Orders 13563 and 13579 require executive branch agencies and encourage independent regulatory agencies, such as the federal banking regulators, respectively, to develop and implement retrospective review plans for existing significant regulations.[65] Further, the Trump Administration has continued to focus on the need for agencies to improve regulatory effectiveness while reducing regulatory burdens. Executive Order 13777, issued by President Trump in February 2017, also reaffirms the objectives of previous executive orders and directs agency task forces to identify regulations which, among other criteria, are outdated, unnecessary, or ineffective.[66] In addition to the executive orders, the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) requires federal banking regulators to review the regulations they prescribe not less than once every 10 years

[63]Financial Action Task Force, Asia/Pacific Group on Money Laundering, and The World Bank; *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*, 5 (2013).

[64]*See* Exec. Order No. 13563, 3 C.F.R. § 13563 (2012); Exec. Order No. 13579, 3 C.F.R. § 13579 (2012).

[65]Significant regulatory actions are those likely to result in a rule that may have an annual effect on the economy of $100 million or more, among other things. *See* Exec. Order No. 12866 § 3(f), 3 C.F.R. § 12866 (1993). Some BSA rules have been deemed significant regulatory actions. *See e.g.* Customer Due Diligence Requirements for Financial Institutions, 81 Fed. Reg. 29398 (May 11, 2016).

[66]Exec. Order No. 13771, (to be codified at 3 C.F.R. § 13777 (2018)).

and request comments to identify outdated, unnecessary, or unduly burdensome statutory or regulatory requirements.[67]

FinCEN and Federal Banking Regulators' BSA/AML Retrospective Reviews

FinCEN and the federal banking regulators have all participated in retrospective reviews of different parts of the BSA/AML regulations. For example, FinCEN officials told us that they review each new or significantly amended regulation to assess its clarity and effectiveness within 18 months of its effective date. Each assessment is targeted to the specific new regulation, or significant change to existing regulations, and a determination is made on how best to evaluate its effectiveness. FinCEN officials explained that the agency consistently receives feedback from all of the relevant stakeholders, including law enforcement, regulated entities, relevant federal agencies, and the public, which informs their retrospective reviews. Based on the specific findings of an assessment, FinCEN considers whether to publish guidance or whether additional rule making is required. For example, FinCEN officials explained that they revised the money services business definitions to adapt to evolving industry practice as part of the regulatory review process.

As part of fulfilling their requirements under EGRPRA, the federal banking regulators—through the Federal Financial Institutions Examination Council (FFIEC)—have also participated in retrospective reviews of BSA/AML regulations.[68] As part of the 2017 EGRPRA review, FFIEC received several public comments on BSA/AML requirements, including increasing the threshold for filing CTRs, the SAR threshold, and the overall increasing cost and burden of BSA compliance.[69] The federal banking regulators referred the comments to FinCEN. FinCEN is not a

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[67]The Economic Growth and Regulatory Paperwork Reduction Act of 1996, Pub. L. No. 104–208 § 2222, 110 Stat. 3009-414-15 (1996) (codified at 12 U.S.C. § 3311).

[68]The Financial Institutions Regulatory and Interest Rate Control Act of 1978 established FFIEC as a vehicle through which bank regulators could communicate formally. FFIEC is a forum for the development of uniform standards and principles and it can make recommendations to promote uniformity in the supervision of financial institutions. While EGRPRA does not govern BSA itself, it does cover the regulations under the federal banking regulators' supervisory authority promulgated under BSA.

[69]*See* Joint Report to Congress: Economic Growth and Regulatory Paperwork Reduction Act, 82 Fed. Reg. 15900 (Mar. 30, 2017). The first EGRPRA review was issued in July 2007 and also discussed issues related to BSA. The review highlighted concerns related to CTR and SAR filing requirements, the need for additional guidance on CIP requirements, and recordkeeping requirements. Joint Report to Congress, July 31, 2007; Economic Growth and Regulatory Paperwork Reduction Act, 72 Fed. Reg. 62036 (Nov. 1, 2007).

part of the EGRPRA review and is not required to consider the comments; however, in its response in the 2017 EGRPRA report, the agency stated that it finds the information helpful when assessing BSA requirements. FinCEN officials and the federal banking regulators stated that the agencies are working to address the BSA-related EGRPRA comments—particularly those related to CTR and SAR filing requirements—through the BSA Advisory Group (BSAAG), which established three subcommittees to address some of the concerns raised during the EGRPRA process.[70] One subcommittee is reviewing the metrics used by industry, law enforcement, and FinCEN to assess the value and effectiveness of BSA reporting. Another subcommittee is focusing on how SAR filing requirements could be streamlined or reduced while maintaining the value of the data, and the third subcommittee is focusing on issues related to the filing of CTRs. FinCEN and the federal banking regulators are also considering, through the advisory group, the EGRPRA comments that involve the supervisory process and expectations related to BSA examinations of financial institutions. FinCEN officials stated that there have been significant discussions during two BSAAG meetings since the 2017 EGRPRA report was issued and that, as of November 2017, all of these efforts are ongoing. In addition to the BSAAG, regulators also told us that that the FFIEC BSA/AML working group has discussed EGRPRA and other compliance burden issues at its recent meetings and is trying to promote BSA examination consistency through its monthly meetings and with the interagency FFIEC BSA/AML examination manual.[71]

The actions FinCEN and the federal banking regulators have taken related to derisking—issuing guidance, conducting internal agency reviews, and meeting with affected Southwest border residents—have not been aimed at addressing and, if possible ameliorating, the full range of factors that influence banks to engage in derisking, in particular banks'

[70]The Annunzio-Wylie Anti-Money Laundering Act of 1992 requires the Secretary of the Treasury to establish a Bank Secrecy Act Advisory Group on Reporting Requirements consisting of representatives of the Departments of Treasury and Justice, the Office of National Drug Control Policy, and other interested persons, financial institutions, and trades and businesses subject to the reporting requirements of the Currency and Foreign Transactions Reporting Act (known as the Bank Secrecy Act) or Section 60501 of the Internal Revenue Code of 1986.

[71]The federal banking regulators have also expanded the number of banks eligible for an extended examination cycle. As of January 2017, the asset size limit for banks eligible for an extended examination cycle of 18 months was raised from $500 million to $1 billion, assuming other established criteria are also met.

regulatory concerns and BSA/AML compliance efforts. Further, the actions regulators have taken to address concerns raised in BSA/AML retrospective reviews have focused primarily on the burden resulting from the filing of CTRs and SARs, but again, these actions have not evaluated how regulatory concerns may influence banks to engage in derisking or close branches. Federal internal control standards call for agencies to analyze and respond to risks to achieving their objectives.[72] Further, guidance implementing Executive Orders 13563 and 13579 states that agencies should consider conducting retrospective reviews on rules that unanticipated circumstances have overtaken.[73]

Our evidence shows that derisking may be an unanticipated response from the banking industry to BSA/AML regulations and their implementation. For example, our evidence demonstrates that banks not only terminate or limit customer accounts as a way to address legitimate money laundering and terrorist financing threats, but also, in part, as a way to manage regulatory concerns. Further, our econometric models and discussions with bank representatives suggest that BSA/AML compliance costs and risks can play a role in the decision to close a branch. The actions FinCEN and the federal banking regulators have taken to address derisking and the retrospective reviews that have been conducted have not been broad enough to evaluate all of the BSA/AML factors banks consider when they derisk or close branches, including banks' regulatory concerns which may influence their willingness to provide services. Without assessing the full range of BSA/AML factors that may be influencing banks to derisk or close branches, FinCEN, the federal banking regulators, and Congress do not have the information they need to determine if adjustments are needed to ensure that the BSA/AML regulations and their implementation are achieving their regulatory objectives in the most effective and least burdensome way.

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[72]See GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

[73]Memorandum from Cass R. Sunstein, Administrator, Office of Management and Budget, to the Heads of Executive Departments and Agencies, and of Independent Regulatory Agencies (Feb. 2, 2011), *available at* https://www.va.gov/ORPM/docs/EO_OIRA_Guidance_M11-10.pdf and Memorandum from Cass R. Sunstein, Administrator, Office of Management and Budget, to the Heads of Independent Regulatory Agencies (July 22, 2011), *available at* https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2011/m11-28.pdf.

Conclusions

BSA/AML regulations promote the integrity of the financial system by helping a number of regulatory and law enforcement agencies detect money laundering, drug trafficking, terrorist financing, and other financial crimes. As with any regulation, oversight after implementation is needed to ensure the goals are being achieved and that unnecessary burdens are identified and ameliorated. The collective findings from our work indicate that BSA/AML regulatory concerns have played a role in banks' decisions to terminate and limit accounts and close branches. However, the actions taken to address derisking by the federal banking regulators and FinCEN and the retrospective reviews conducted on BSA/AML regulations have not fully considered or addressed these effects. Retrospective reviews help agencies evaluate how existing regulations are working in practice and can assist to make regulatory programs more effective or less burdensome in achieving their regulatory objectives. BSA/AML regulations have helped to detect money laundering and other financial crimes, but there are also real concerns about the unintended effects, such as derisking, that these regulations and their implementation may be having. While it is important to evaluate how effective BSA/AML regulations are in helping to identify money laundering, terrorist financing, and other financial crimes, it is also important to identify and attempt to address any unintended outcomes. We have found that reduced access to banking services can have consequential effects on local communities. However, without evaluating how banks' regulatory concerns may be affecting their decisions to provide services, the federal banking regulators, FinCEN, and Congress do not have the information to determine if BSA/AML regulations and their implementation can be made more effective or less burdensome in achieving their regulatory objectives.

Recommendations for Executive Action

We are making four recommendations to FinCEN and the three federal banking regulators in our review—FDIC, the Federal Reserve, and OCC—to jointly conduct a retrospective review of BSA/AML regulations and their implementation for banks.

The Director of FinCEN should jointly conduct a retrospective review of BSA/AML regulations and their implementation for banks with FDIC, the Federal Reserve, and OCC. This review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. In conducting the review, FDIC, the Federal Reserve, OCC, and FinCEN should take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure that BSA/AML regulatory objectives are being met in the most effective and least burdensome way. (Recommendation 1)

The Chairman of FDIC should jointly conduct a retrospective review of BSA/AML regulations and their implementation for banks with the Federal Reserve, OCC, and FinCEN. This review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. In conducting the review, FDIC, the Federal Reserve, OCC, and FinCEN should take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure that BSA/AML regulatory objectives are being met in the most effective and least burdensome way. (Recommendation 2)

The Chair of the Federal Reserve should jointly conduct a retrospective review of BSA/AML regulations and their implementation for banks with FDIC, OCC, and FinCEN. This review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. In conducting the review, FDIC, the Federal Reserve, OCC, and FinCEN should take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure that BSA/AML regulatory objectives are being met in the most effective and least burdensome way. (Recommendation 3)

The Comptroller of the Currency should jointly conduct a retrospective review of BSA/AML regulations and their implementation for banks with FDIC, the Federal Reserve, and FinCEN. This review should focus on how banks' regulatory concerns may be influencing their willingness to provide services. In conducting the review, FDIC, the Federal Reserve, OCC and FinCEN should take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure that BSA/AML regulatory objectives are being met in the most effective and least burdensome way. (Recommendation 4)

Agency Comments and Our Evaluation

We provided a draft of this report to CFPB, the Department of Justice, the Federal Reserve, FDIC, Treasury/FinCEN, and OCC. The Federal Reserve, FDIC, and OCC provided written comments that have been reproduced in appendixes IV–VI, respectively. Treasury/FinCEN did not provide a written response to the report. FDIC, Treasury/FinCEN, and OCC provided technical comments on the draft report, which we have incorporated, as appropriate. CFPB and the Department of Justice did not have any comments on the draft of this report.

In their written responses, the Federal Reserve, FDIC, and OCC agreed to leverage ongoing interagency work reviewing BSA/AML regulations and their implementation for banks to address our recommendation. We agree that using existing interagency efforts is an appropriate means for conducting a retrospective review of BSA/AML regulations that focuses on evaluating how banks' BSA/AML regulatory concerns may be influencing their willingness to provide services.

The Federal Reserve, FDIC, and OCC also raised concerns with some of the findings of our report and the methodologies we used. For example, in their responses, each agency discussed that the report did not take into consideration the extent to which law enforcement activities may be a driver of account terminations and branch closures in the Southwest border region. In response to this comment, we added some information to the report that we received from law enforcement officials about instances in which some account terminations were the result of law enforcement's identification of suspicious accounts. This type of account termination, however, is not included in our definition of the term "derisking," because such terminations are consistent with BSA/AML purposes. In addition, when we discuss the role that enforcement actions have played in making Southwest border banks more conservative in their account offerings, we've clarified the language to ensure it encompasses both regulatory enforcement actions taken by the federal banking regulators and criminal enforcement actions taken by law enforcement agencies. Treasury/FinCEN's technical comments also noted that the report did not take into consideration the 2010 Mexican exchange control regulations and their subsequent changes, which it considers to be the most important catalyst of changes to BSA risk profiles for banks in the Southwest border region. To address this comment, we added language describing these regulations and their potential effects on Southwest border banks.

In its written response, the Federal Reserve stated that the report does not find a causal linkage between the agency's regulatory oversight and derisking decisions made by some banks that operate along the Southwest border (see app. IV). OCC made a similar comment in its technical comments on the draft report. While the methodologies used in our report included a nationally representative survey of banks, econometric modeling of potential drivers of branch closures, and discussions with bank representatives, do not on their own allow us to make a definitive causal linkage between regulation and derisking, the collective evidence we gathered indicates that banks' BSA/AML regulatory concerns have played a role in their decisions to terminate and limit accounts and close branches. We believe that, based on this evidence, further examination by the federal banking regulators and FinCEN into how banks' perceived regulatory concerns are affecting their offering of services is warranted.

OCC's written response noted that the definition of derisking we used is inconsistent with definitions used by other regulatory bodies and that our definition encompasses a wide range of situations in which banks limit certain services or end customer relationships (see app. VI). Treasury/FinCEN also made a similar comment in its technical comments on the draft report. OCC's letter notes that FATF and the World Bank define derisking as situations in which financial institutions terminate or restrict business relationships with entire countries or classes of customers in order to avoid, rather than to manage, AML-related risks. We, however, defined derisking for the purposes of our report as the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering because it best described the bank behavior we wanted to examine. While we recognize that there are narrower definitions of derisking that focus solely on the treatment of entire countries or classes of customers, we chose to focus on banks' perceived regulatory concerns because these concerns could influence banks' decisions to provide services in a variety of ways. Moreover, including perceived regulatory concerns as a factor enabled us to examine whether there were ways the federal regulators may be able to improve the implementation of BSA/AML to reduce the effects of derisking on different populations of banking customers. Furthermore, our definition is broader and allows us to include individual decisions banks make to terminate or limit accounts, as well as whole categories of customer accounts. Our decision to define derisking in this manner was based on, among other things, discussions we had with representatives of Southwest border banks who indicated such behavior was occurring. We added additional information on the definition of derisking we chose to our scope and methodology section (see app. I).

OCC's response letter also notes that because we focus exclusively on BSA/AML regulatory issues, the report does not take into consideration other reasons that banks terminate account relationships. We recognize that banks may terminate accounts for a variety of reasons, some of which are not related to BSA/AML regulatory issues. However, because the focus of our review was to determine why banks are terminating accounts for BSA/AML regulatory reasons, we did not seek to identify all the potential reasons banks may terminate accounts.

Finally, OCC's letter states that the agency has concerns regarding our econometric analysis and the conclusions that can be drawn from it. FDIC made similar comments in its technical comments on the draft report. In response to these comments, we have clarified how we interpret the effect of money laundering-related risk in our models. We agree that the econometric results on their own do not provide definitive evidence that regulatory burden is causing branch closures, but our econometric models and discussions with bank representatives together suggest that BSA/AML compliance costs and risks can play a role in the decision to close a branch.

FDIC's written letter states that the report does not distinguish account or branch closures resulting from suspected money laundering or other illicit financial transactions from closures that may have resulted from ineffective or burdensome regulations. In response to this concern, we revised language in the report to ensure that we do not imply that instances in which banks limit services or terminate relationships based on credible evidence of suspicious or illegal activity reflects derisking behavior. As noted above, we also clarified how we interpret the effect of money laundering-related risk on branch closures in our models and recognize that our econometric results alone do not provide definitive evidence that regulatory burden is causing branch closures. However, our econometric models coupled with discussions we had with bank representatives suggest that BSA/AML compliance costs and risks can play a role in the decision to close a branch. FDIC's letter also stated that our report highlighted that 1 in 10 branch closures may be due to "compliance challenges." This statement is incorrect. The report states that nearly half of the Southwest border bank representatives (4 of 10) we spoke with mentioned that BSA/AML compliance costs could be among the factors considered in whether or not to close a branch. Further, we identified one bank that considered closing a branch as an option to address considerable BSA/AML compliance challenges. In addition, most Southwest border bank representatives we spoke with said that the financial performance of the branch is one of the most important factors they consider when deciding to close a branch, and as we describe in the report, BSA/AML compliance can be resource intensive, which may affect the financial performance of a branch.

We are sending copies of this report to the appropriate congressional committees, the Director of Financial Crimes Enforcement Network, the Chairman of the Federal Deposit Insurance Corporation, the Chair of the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Attorney General, the Acting Director of the Bureau of Consumer Financial Protection, and other interested parties. The report will also be available at no charge on our website at http://www.gao.gov.

If you or your staffs have any questions about this report, please contact me at (202) 512-8678 or evansl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs are listed on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VII.

Lawrance Evans, Jr.
Managing Director, Financial Markets and Community Investment

List of Requesters

The Honorable Jeff Flake
United States Senate

The Honorable Catherine Cortez Masto
United States Senate

The Honorable Wm. Lacy Clay
Ranking Member
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
House of Representatives

The Honorable Gwen Moore
Ranking Member
Subcommittee on Monetary Policy and Trade
Committee on Financial Services
House of Representatives

The Honorable Keith Ellison
House of Representatives

The Honorable Tom Emmer
House of Representatives

The Honorable Adam Smith
House of Representatives

The Honorable Juan Vargas
House of Representatives

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) describe the types of heightened Bank Secrecy Act/anti-money laundering (BSA/AML) compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determine the extent to which banks are terminating accounts and closing bank branches in the Southwest border region and their reasons for any terminations or closures; (3) describe what Southwest border banking customers and others told us about any effects of account terminations and branch closures on Southwest border communities; and (4) evaluate how the Department of the Treasury's (Treasury) Financial Crimes Enforcement Network (FinCEN) and the federal banking regulators—the Board of Governors of the Federal Reserve System (Federal Reserve), Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC)—have assessed and responded to concerns about derisking in the Southwest border region and elsewhere, and the effectiveness of those efforts.[1]

We defined "derisking" to mean the practice of banks limiting certain services or ending their relationships with customers to, among other things, avoid perceived regulatory concerns about facilitating money laundering. We developed this definition by reviewing various existing definitions used by international banking industry standard setters and others, including the Financial Action Task Force (FATF)—an intergovernmental body that, among other things, sets standards for combating money laundering; the Bank for International Settlements; the World Bank; and the Global Partnership for Financial Inclusion. We also reviewed guidance and other documentation issued by the federal banking regulators, Treasury, and FinCEN; research reports on derisking; an industry survey; and testimonial evidence from several banks we interviewed. The methodologies we used allowed us to gather information on a variety of factors that may be causing banks to limit services, while our definition of derisking allowed us to focus on the role played by the federal regulators in implementing BSA/AML requirements.

We defined the Southwest border region as all counties that have at least 25 percent of their landmass within 50 miles of the U.S.-Mexico border. Thirty-three counties fell within this definition. They are: Cochise, Pima, Santa Cruz, and Yuma, Arizona; Imperial and San Diego, California;

[1]Credit unions and the oversight of them provided by the National Credit Union Administration are outside the scope of this review.

Dona Ana, Hidalgo, and Luna, New Mexico; and Brewster, Brooks, Cameron, Culberson, Dimmit, Edwards, El Paso, Hidalgo, Hudspeth, Jeff Davis, Jim Hogg, Kenedy, Kinney, La Salle, Maverick, Presidio, Starr, Terrell, Uvalde, Val Verde, Webb, Willacy, Zapata, and Zavala, Texas. We excluded credit unions from the scope of our review based on discussions with and information received from the National Credit Union Administration (NCUA)—which oversees credit unions for compliance with BSA/AML requirements—and two regional credit union groups that cover the Southwest border states. These groups noted that neither branch closures nor account terminations by credit unions were prevalent in the Southwest border region.

To describe the types of heightened BSA/AML compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience, we analyzed data from FinCEN on the volume of Suspicious Activity Reports (SAR) and Currency Transaction Reports (CTR) filed by bank branches in Southwest border counties and compared the volume of those filings to filings in similar geographic areas outside the Southwest border region from 2014 through 2016.[2] To adjust for variances in the size of counties, which may be reflected in the number of SAR and CTR filings by counties, we standardized the quantity of SARs and CTRs filed by county by calculating the number of SAR and CTR filings per billion dollars in bank branch deposits. We used data from FDIC's Summary of Deposits database for information on bank branch deposits.[3] To construct comparison groups that were comparable along some key dimensions, we matched Southwest border counties to counties with the same 2013 Rural-Urban Continuum Code (RUCC), which measures how urban or rural a county is, and by population if there was more than one potential matching county.[4] We undertook this

[2]We us the term "Southwest border banks" throughout this report to refer to banks that operate in the Southwest border region. Southwest border banks include banks that only have operations in the Southwest border region, as well as banks that have operations both within and outside of the Southwest border region. One of the 33 counties in our defined Southwest border region—Kenedy County, Texas—did not have a bank branch from June 30, 2000, through June 30, 2016, and therefore did not have any associated SAR or CTR filings.

[3]FDIC's Summary of Deposits database is constructed based on an annual survey of branch office deposits as of June 30 for all FDIC-insured institutions, including insured U.S. branches of foreign banks.

[4]The 2013 Rural-Urban Continuum Codes form a classification scheme that distinguishes metropolitan counties by the population size of their metro area and nonmetropolitan counties by degree of urbanization and adjacency to a metro area.

process for two comparison groups, one for counties in Southwest border states, but not directly on the U.S.-Mexico border, and one for counties outside the Southwest border states that were designated as High Intensity Financial Crimes Areas (HIFCA) or High Intensity Drug Trafficking Areas (HIDTA). In addition, we analyzed data on BSA/AML bank examination violations using nonpublic data provided by FDIC, OCC, and the Federal Reserve from January 2009 through June 2016. We obtained data for all Southwest border banks (if they had been cited for a BSA/AML compliance violation during the period we reviewed), as well as aggregated data for all banks in the United States that received a BSA/AML compliance violation during the period we reviewed. Because each regulator categorized violations differently, we developed a set of categories to apply to violations across all three regulators. We analyzed the distribution of violations by category. In addition, we analyzed data on BSA/AML informal enforcement actions provided by the federal banking regulators and formal BSA/AML enforcement actions taken by the federal banking regulators and FinCEN from January 2009 through June 2016. We also reviewed documentation from BSA/AML examinations of selected Southwest border banks to gain additional context about BSA/AML violations.

We also interviewed representatives from 19 Southwest border banks. Using data from FDIC's Summary of Deposits database, we identified all Southwest border banks as of June 30, 2016. We then selected banks to interview in the following ways. First, we interviewed four of the five largest Southwest border banks (based on asset size). Second, as part of our site visits to communities in the Southwest border region (described below), we interviewed nine Southwest border banks that operate in or near the communities we visited— Nogales, Arizona; San Ysidro, California; and McAllen, Texas. We selected banks in these communities based on the following criteria: (1) the number of branches the bank operates in the Southwest border region, focusing on banks that operate only a few branches in the region; (2) the size of the bank based on assets; and (3) the bank's primary federal regulator. We focused our selection on banks that operate fewer branches in the region because we interviewed four of the five largest banks in the region that operate many branches in the region. To the extent that a bank was located in the community and willing to speak with us, we interviewed at least one bank that was regulated by each federal banking regulator (Federal Reserve, FDIC, and OCC). Third, we interviewed six additional Southwest border banks as part of the development of our bank survey (described in more detail below) and also asked them questions related to their efforts to comply with BSA/AML requirements.[5] We selected these banks using the same criteria we used for the selection of banks in our site visit communities: the bank's primary federal regulator, size of the bank (based on assets), and number of branches. For the interviews, we used a semistructured interview protocol, and responses from bank officials were open-ended to allow for a wide variety of perspectives and responses. Responses from these banks are not generalizable to all Southwest border banks. In addition to the interviews with banks, we also interviewed officials from FDIC, Federal Reserve, and OCC, as well as BSA/AML examination specialists from each federal banking regulator to gain their perspectives on the risks faced by banks in the Southwest border region.

To determine the extent to which banks are terminating accounts in the Southwest border region and the reasons for the terminations, we administered a web-based survey to a nationally representative sample of banks to obtain information on bank account terminations for reasons related to BSA/AML risk. In the survey, we asked banks about limitations and terminations of accounts related to BSA/AML risk, the types of customer categories being limited or terminated, and the reasons for these decisions. We administered the survey from July 2017 to September 2017, and collected information for the 3-year time period of January 1, 2014, to December 31, 2016. Appendix II contains information on the survey results.

To identify the universe of banks, we used data from FDIC's Statistics on Depository Institutions database. Our initial population list contained 5,922 banks downloaded from FDIC's Statistics on Depository Institutions database as of December 31, 2016. We stratified the population into five sampling strata and used a stratified random sample. First, banks that did not operate in the Southwest border region (non-Southwest border banks) were stratified into four asset sizes (small, medium, large, and extra-large).[6] Second, to identify the universe of Southwest border banks, we

[5]FDIC's 2016 Summary of Deposits database was not available when we conducted this work; therefore, we used data from the 2015 Summary of Deposits database to identify these six banks.

[6]We classified non-Southwest border banks by asset size where small banks have less than $1 billion in assets, medium banks between $1 billion and less than $10 billion, large banks between $10 billion and less than $50 billion, and extra-large banks $50 billion or greater in assets.

used FDIC's Summary of Deposits database as of June 30, 2016. This is a hybrid stratification scheme.

Our initial sample size allocation was designed to achieve a stratum-level margin of error no greater than plus or minus 10 percentage points for an attribute level at the 95 percent level of confidence. Based upon prior surveys of financial institutions, we assumed a response rate of 75 percent to determine the sample size for the asset size strata. Because there are only 17 extra-large banks in the population, we included all of them in the sample. We also included the entire population of 115 Southwest border banks as a separate certainty stratum.[7] We reviewed the initial population list of banks in order to identify nontraditional banks not eligible for this survey.[8] We treated nontraditional banks as out-of-scope. We also reviewed the initial population list to determine whether subsidiaries of the same holding company should be included separately in the sample.[9] In addition, during the administration of our survey, we identified six banks that had been bought and acquired by another bank, as well as one additional bank that was nontraditional and, therefore, not eligible for this survey. We treated these sample cases as out-of-scope; this adjusted our population of banks to 5,805 and reduced our sample size to 406. We obtained a weighted survey response rate of 46.5 percent.[10]

[7]Since the Southwest border banks were selected based on geographic criteria, this stratum contains banks from all four categories of asset size. We applied a finite population correction factor as part of the sample size calculation for the three asset-based size strata (small, medium, and large) that were not certainty take-all strata.

[8]We considered banks nontraditional if they did not offer the types of accounts for which we were surveying banks about: checking, savings, or money market accounts.

[9]We excluded subsidiaries that were regulated by the same primary federal regulator and included subsidiaries that were regulated by different primary federal regulators.

[10]To encourage survey participation, we conducted pre-administration notification and followed up with banks. Before administering the survey, we obtained contact information (phone numbers and e-mail addresses) for the sample of banks from their primary bank regulators. We then sent notification letters and e-mails to these banks, and for those whose e-mails were undeliverable, we researched banks' websites or called representatives to correct the e-mail addresses and confirm the points of contact. During survey administration, we called sampled banks that had not completed the survey (nonrespondents) to update their contact information, answer any questions or concerns they had about taking the survey, and obtain their commitment to take the survey. We also sent emails and letters to nonrespondents with reminders and instructions for taking the web-based survey.

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval (for example, plus or minus 7 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. Confidence intervals are provided along with each sample estimate in the report. All survey results presented in the body of this report are generalizable to the estimated population of 5,805 in-scope depository institutions, except where otherwise noted.

The practical difficulties of conducting any survey may introduce errors, commonly referred to as nonsampling errors. For example, difficulties in interpreting a particular question or sources of information available to respondents can introduce unwanted variability into the survey results. We took steps in developing the questionnaire, collecting the data, and analyzing the results to minimize such nonsampling error. To inform our methodology approach and our survey development, we conducted interviews with representatives from seven selected Southwest border banks.[11] From these interviews, we gathered information on the type and amount of data banks keep on account terminations for reasons related to BSA/AML risk. The selection process used to identify these banks is described above. We conducted pretests of the survey with four banks. We selected these banks to achieve variation in geographic location (within and outside the Southwest border region) and asset size (small, large, extra large). The pretests of the survey were conducted to ensure that survey questions were clear, to obtain any suggestions for clarification, and to determine whether representatives would be able to provide responses to questions with minimal burden. We also interviewed the federal banking regulators; federal, state, and local law enforcement officials; and bank industry associations, to obtain their perspectives on banks' experience with account terminations.

To determine the extent to which banks have closed branches in the Southwest border region and the reasons for the closures, we analyzed data from a variety of sources and interviewed bank officials. To assess trends in bank branch closures, we analyzed data from FDIC's Summary

[11]These seven banks represent the six we described previously that we interviewed to inform the development of our bank survey and one of the five largest Southwest border banks.

of Deposits database on the size and location of bank branches. Our measure of bank branches includes both full-service and limited-service branches. Limited-service branches provide some conveniences to bank customers but generally offer a reduced set of bank services. As of 2016, limited-service branches were about 2.5 percent of branches in the Southwest border region. We compared growth rates for all branches in the Southwest border region and only full-service branches, for 2013 through 2016, and found that they were almost identical (-5.92 percent and -5.93 percent, respectively). We combined the Summary of Deposits data on the size and location of bank branches with demographic, economic, and money laundering-related risk data from the U.S. Census Bureau, U.S. Department of Commerce's Bureau of Economic Analysis, and FinCEN, among other sources. We then utilized the merged dataset to conduct an econometric analysis of the potential drivers of branch closures (see app. III for information on the econometric analysis). We also compared trends in branch closures in the Southwest border region to national trends, as well as trends in counties in Southwest border states that were not in the Southwest border region, and trends in HIFCA and HIDTA counties not in Southwest border states. We also interviewed representatives from banks that operate in the Southwest border region about the time and resources required to file SARs and how they approached the decision to close a branch.

To describe what Southwest border banking customers and others told us about any effects of account terminations and branch closures in Southwest border communities, we conducted site visits to communities in three of the four Southwest border states (Nogales, Arizona; San Ysidro, California; and McAllen, Texas).[12] We selected these communities to achieve a sample of locations that collectively satisfied the following criteria: (1) counties with different classifications of how rural or urban they are based on their RUCC classification; (2) counties that experienced different rates of branch closures from 2013 through 2016; and (3) counties that had received different designations by the federal

[12]We excluded sites in New Mexico because of the rural nature of the border in that state, the cost associated with travel to remote locations, and sparse population. We also interviewed New Mexico banking officials and analyzed data on branch closures in New Mexico to validate that this state had experienced a lower percentage of bank closures compared to other Southwest border states in our scope. According to our analysis, New Mexico had only one county that had experienced more than a 10 percent decrease in the number of branches from 2013 through 2016.

banking regulators as distressed or underserved as of June 1, 2016.[13] Perspectives gathered from our visits to the selected cities cannot be generalized to all locations in Southwest border counties.

During our site visits, we conducted a total of five discussion groups and summarized participants' responses about how they were affected by account terminations and branch closures in their communities. Discussion groups included a range of 2 to10 participants with varied experiences related to access to banking services in their area, including customers whose accounts were terminated or branch was closed. Participants were selected using a convenience sampling method, whereby we coordinated with local city government and chamber of commerce officials who agreed to help us recruit participants and identify facilities where the discussion groups were held. Local officials disseminated discussion group invitations and gathered demographic data on potential participants. Three of the five discussion group sessions included business banking customers—persons representing businesses that utilize banking services (such as banking accounts or business loans). The other two sessions included nonbusiness retail banking customers—persons with individual experience with banking services (such as a personal checking or savings account) and were conducted in Spanish. Each session was digitally recorded, translated (if necessary), and transcribed by an outside vendor, and we used the transcripts to summarize participant responses. An initial coder assigned a code that best summarized the statements from discussion group participants and provided an explanation of the types of discussion group participant statements that should be assigned to a particular code. A separate individual reviewed and verified the accuracy of the initial coding. The initial coder and reviewer discussed orally and in writing any disagreements about code assignments and documented consensus on the final analysis results. Discussion groups are intended to generate in-depth information about the reasons for the participants' views on specific topics. The opinions expressed by the participants represent their points of view and may not represent the views of all residents in the Southwest border region.

[13]We chose at least one location that was designated as a distressed or underserved nonmetropolitan middle-income geography by the federal banking regulators. Distressed nonmetropolitan middle-income geographies are defined by rates of poverty, unemployment, and population loss. Underserved nonmetropolitan middle-income geographies are defined by population size, density, and dispersion.

We also interviewed various border stakeholders including economic development specialists, industry and trade organizations that focus on border trade and commerce, as well as chamber of commerce and municipal officials representing border communities. We reviewed recent articles on the effects of account terminations and branch closures on communities as well as research organization, industry, and government reports. Finally, we reviewed academic studies on the effects of branch closings on communities. In particular, we focused our review on one recent paper that estimated the impact of branch closings, using detailed geographic and lending data, on employment growth and small business lending, among other outcomes.[14] We identified the census tracts of all branch closures in our three site visit communities from 2013 through 2016 and applied impact estimates from this research to the level of small business lending and employment in these communities, based on data from Community Reinvestment Act reporting (small-business lending) and the U.S. Census American Community Survey (employment).These results are intended to illustrate an approximate magnitude of effects and not produce precise estimates of local impacts.

To evaluate how FinCEN and the federal banking regulators have assessed and responded to concerns about derisking and the effectiveness of those efforts, we reviewed guidance the agencies issued to banks related to derisking, related agency memorandums and documents, and an OCC internal analysis on derisking. We also reviewed guidance from FATF on AML and terrorist financing measures and financial inclusion.[15] In addition, we reviewed various executive orders that require most executive branch agencies, and encourage independent agencies, to develop a plan to conduct retrospective analyses, and Office of Management and Budget guidance implementing those executive

[14]Hoai-Luu Q. Nguyen, *Do Bank Branches Still Matter? The Effect of Closings on Local Economic Outcomes,* Working Paper (September 2016).

[15]Financial Action Task Force, *FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*, 5 (2013).

orders.[16] We reviewed Treasury documentation on BSA regulatory reviews and the BSA-related components of the 2007 and 2017 Economic Growth and Regulatory Paperwork Reduction Act reports issued by the Federal Financial Institutions Examination Council (FFIEC).[17] We also reviewed federal internal control standards related to risk assessment.[18] Finally, we interviewed officials from FinCEN and the federal banking regulators about the actions they have taken related to derisking, as well as retrospective reviews they had conducted on BSA regulations.

We utilized multiple data sources throughout our review and took steps to assess the reliability of each one. First, to assess the reliability of data in FDIC's Summary of Deposits database we discussed the appropriateness of the database for our purposes with FDIC officials, reviewed related documentation, and conducted electronic testing for missing data, outliers, or any obvious errors. Second, to assess the reliability of FinCEN's data on SAR and CTR filings, we interviewed knowledgeable agency officials on the appropriateness of the data for our purposes, any limitations associated with the data, and the methods they used to gather the data for us. We also reviewed related documentation and conducted electronic testing to identify missing data, outliers, and any obvious errors. Third, we assessed the reliability of the HIFCA and HIDTA county designations by interviewing officials from FinCEN, the Office of National Drug Control Policy, and the National HIDTA Assistance Center on changes to county designations over time and reviewed related documentation. Fourth, to assess the reliability of FDIC's Statistics on Depository Institutions database, we reviewed related documentation and

[16]*See* Exec. Order No. 13563, 3 C.F.R. § 13563 (2012), Exec. Order No. 13579, 3 C.F.R. § 13579 (2012), and Exec. Order No. 13777, (to be codified at 3 C.F.R. § 13777 (2018)). Also see Memorandum from Cass R. Sunstein, Administrator, Office of Management and Budget, to the Heads of Executive Department and Agencies, and of Independent Regulatory Agencies (Feb. 2, 2011), *available at* https://www.va.gov/ORPM/docs/EO_OIRA_Guidance_M11-10.pdf and Memorandum from Cass R. Sunstein, Administrator, Office of Management and Budget, to the Heads of Independent Regulatory Agencies (July 22, 2011), *available at* https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2011/m11-28.pdf.

[17]Joint Report to Congress, July 31, 2007; Economic Growth and Regulatory Paperwork Reduction Act, 72 Fed. Reg. 62036 (Nov. 1, 2007) and Joint Report to Congress: Economic Growth and Regulatory Paperwork Reduction Act, 82 Fed. Reg. 15900 (Mar. 30, 2017).

[18]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: Sept. 10, 2014).

conducted electronic testing of the data for missing data, outliers, or any obvious errors. Fifth, we interviewed officials from FDIC, the Federal Reserve, and OCC on the data the agencies collect related to BSA/AML bank exam violations and also asked them questions related to methods they used to gather the data for us and any limitations associated with the data. We also manually reviewed the data for any obvious errors and followed up with agency officials, as needed. Finally, for data we obtained from the U.S. Census Bureau (American Community Survey data on population and age and the Residential Building Permits Survey), the Bureau of Economic Analysis (Local Area Personal Income), and Department of Agriculture (Rural-Urban Continuum Codes), we reviewed related documentation, interviewed knowledgeable officials about the data, when necessary, and conducted electronic testing of the data for missing data, outliers, or any obvious errors. We concluded that all applicable data were sufficiently reliable for the purposes of describing BSA/AML risks and compliance challenges for Southwest border banks; identifying banks to survey on account terminations and limitations; evaluating branch closure trends in the Southwest border region and elsewhere, and the factors driving those closures; and describing the effects for Southwest border communities experiencing branch closures and account terminations.

We conducted this performance audit from March 2016 to February 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Responses to Selected Questions from GAO's Survey of Banks on Account Terminations and Limitations

From July 2017 to September 2017, we administered a web-based survey to a nationally representative sample of banks. In the survey, we asked banks about the number of account terminations for reasons related to Bank Secrecy Act/anti-money laundering (BSA/AML) risk; whether banks are terminating, limiting, or not offering accounts to certain types of customer categories; and the factors influencing these decisions. We collected information for the 3-year time period of January 1, 2014, to December 31, 2016. All survey results presented in this appendix are generalizable to the population of banks, except where otherwise noted. We obtained a weighted survey response rate of 46.5 percent.[1] Because our estimates are from a generalizable sample, we express our confidence in the precision of our particular estimates as 95 percent confidence intervals. Responses to selected questions we asked in our survey that were directly applicable to the research objectives in this report are shown below.[2] Survey results presented in this appendix are categorized into three groups (1) all banks nationwide, (2) Southwest border banks, and (3) non-Southwest border banks, unless otherwise noted.[3] Our survey was comprised of closed- and open-ended questions. In this appendix, we do not provide information on responses provided to the open-ended questions. For a more detailed discussion of our survey methodology, see appendix I.

[1]We used a weighted response rate because our survey sample incorporates strata with different probabilities of selection. A weighted response rate may more accurately reflect the level of participation. For example, large units that contribute relatively more to the estimate of a total would have a larger "weight" on the response rate.

[2]The survey included 44 questions, 23 of which we include in this appendix, which were directly applicable to the research objectives in this report. The remaining questions will be published in related work we are conducting on derisking, including its effects on money transmitters and remittance transfers from the United States to selected fragile countries.

[3]All banks nationwide include all banks in the survey population including banks that have no operations in the Southwest border region (non-Southwest border banks) and those operating within the Southwest border region. Southwest border banks include both banks that only operate within the Southwest border region and banks that have operations within and outside the Southwest border region.

Table 1: Between January 1, 2014 and December 31, 2016, did the bank offer personal and/or business checking, savings, or money market accounts? (Question 1)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
			All banks nationwide	
1a. Personal	Yes	98.5	91.9	100.0
No		1.5	0.0	8.1
1b. Business	Yes	96.6	89.1	99.5
No		3.4	.5	10.9
			Southwest border banks	
1a. Personal	Yes	100.0	94.4	100.0
No		0.0	0.0	5.6
1b. Business	Yes	100.0	94.3	100.0
No		0.0	0.0	5.7

Source: GAO. | GAO-18-263

Table 2: As of December 31st of each year below, what was the total number of personal checking, savings, and money market accounts domiciled in the bank's U.S. branches? (Question 2)

Enter a zero if no accounts were domiciled in the bank's U.S. branches in a given year.

Calendar year	Number of accounts
	All banks nationwide
2014	n/r
2015	n/r
2016	n/r
	Southwest border banks
2014	n/r
2015	n/r
2016	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked of banks that answered yes to having personal accounts (question 1a).

Table 3: As of December 31st of each year below, what was the total number of business checking, savings, and money market accounts domiciled in the bank's U.S. branches? (Question 3)

Enter a zero if no accounts were domiciled in the bank's U.S. branches in a given year.

Calendar year	Number of accounts
	All banks nationwide
2014	31,897,652
2015	34,437,657
2016	37,099,012
	Southwest border banks
2014	n/r
2015	n/r
2016	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked of banks that answered yes to having business accounts (question 1b).

Table 4: Does the bank offer, only offer on a limited basis, or not offer business checking, savings, or money market accounts to the following categories of customers? (Question 4)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
All banks nationwide				
4a. Money service businesses: dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access, and money transmitters	Offers	28.1	17.8	40.4
	Offers on limited basis or does not offer	70.2	57.8	80.7
	Don't know	1.7	0.0	8.9
4b. Foreign businesses engaged in cross-border international trade	Offers	8.4	3.1	17.4
	Offers on limited basis or does not offer	84.4	73.4	92.1
	Don't know	7.2	2.2	16.7
4c. Nontrade-related foreign businesses	Offers	6.9	2.3	15.2
	Offers on limited basis or does not offer	86.1	75.4	93.4
	Don't know	7.0	2.0	16.7
4d. Domestic businesses engaged in cross-border international trade	Offers	31.1	20.5	43.3
	Offers on limited basis or does not offer	61.7	50.2	73.3
	Don't know	7.2	2.2	16.7
4e. Cash-intensive small businesses (e.g., retail stores, restaurants, used car dealers, etc.)	Offers	82.4	71.4	90.6
	Offers on limited basis or does not offer	15.8	8.2	26.6
	Don't know	1.7	0.0	8.9

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
All banks nationwide				
4f. Other (please specify below)	Offers	2.8	1.3	5.2
	Offers on limited basis or does not offer	16.1	6.5	30.9
	Don't know	81.1	66.8	91.2
Southwest border banks				
4a. Money service businesses: dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access, and money transmitters	Offers	23.5	15.3	33.6
	Offers on limited basis or does not offer	74.5	64.3	83.1
	Don't know	2.0	0.2	7.3
4b. Foreign businesses engaged in cross-border international trade	Offers	26.0	17.3	36.3
	Offers on limited basis or does not offer	72.0	61.5	81.0
	Don't know	2.0	0.2	7.5
4c. Nontrade-related foreign businesses	Offers	20.0	12.3	29.8
	Offers on limited basis or does not offer	76.0	65.8	84.4
	Don't know	4.0	1.0	10.4
4d. Domestic businesses engaged in cross-border international trade	Offers	60.8	50.8	70.8
	Offers on limited basis or does not offer	37.3	27.3	47.2
	Don't know	2.0	0.2	7.3

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Southwest border banks				
4e. Cash-intensive small businesses (e.g., retail stores, restaurants, used car dealers, etc.)	Offers	84.3	75.2	91.1
	Offers on limited basis or does not offer	13.7	7.4	22.5
	Don't know	2.0	0.2	7.3
4f. Other (please specify below)	Offers	n/r	n/r	n/r
	Offers on limited basis or does not offer	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
Non-Southwest border banks				
4a. Money service businesses: dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access, and money transmitters	Offers	28.2	17.7	40.8
	Offers on limited basis or does not offer	70.1	57.4	80.9
	Don't know	1.7	0.0	9.2
4b. Foreign businesses engaged in cross-border international trade	Offers	8.0	2.7	17.4
	Offers on limited basis or does not offer	84.6	73.4	92.5
	Don't know	7.3	2.2	17.0
4c. Nontrade-related foreign businesses	Offers	6.6	2.0	15.3
	Offers on limited basis or does not offer	86.4	75.3	93.7
	Don't know	7.0	2.0	17.0

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Non-Southwest border banks				
4d. Domestic businesses engaged in cross-border international trade	Offers	30.4	19.6	43.0
	Offers on limited basis or does not offer	62.3	50.4	74.1
	Don't know	7.3	2.2	17.0
4e. Cash-intensive small businesses (e.g., retail stores, restaurants, used car dealers, etc.)	Offers	82.4	71.1	90.7
	Offers on limited basis or does not offer	15.9	8.1	26.9
	Don't know	1.7	0.0	9.2
4f. Other (please specify below)	Offers	2.3	0.9	4.8
	Offers on limited basis or does not offer	n/r	5.9	30.9
	Don't know	82.1	67.2	92.2

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. We included estimates for non-Southwest border banks for this question because we provided these estimates earlier in the report when we discuss non-Southwest border banks reported limiting, or not offering accounts to certain types of businesses considered high risk for money laundering and terrorist financing. This question was only asked of banks that answered yes to having business accounts (question 1b). For those banks that selected "Other" (4f), they were prompted to answer the open-ended question: For which other category of customers does the bank not offer business accounts, or only offer them on a limited basis?

Table 5: If the bank made a decision not to offer, or only offers on a limited basis, business checking, savings, or money market accounts to any of the customer categories identified above (in question 4), was it for any of the following reasons? (Question 5)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
All banks nationwide				
5a. Cost of Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance made the customer type unprofitable	Yes	65.0	51.3	77.0
	No	30.4	19.1	43.8
	Don't know	4.6	0.8	13.9
5b. Customer type drew heightened BSA/AML regulatory oversight	Yes	73.8	60.1	84.7
	No	25.7	14.8	39.4
	Don't know	0.6	0.1	1.7
5c. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	76.4	63.8	86.4
	No	23.0	13.1	35.7
	Don't know	0.6	0.1	1.6
5d. Potential personal liability for BSA/AML compliance professionals	Yes	44.8	31.4	58.2
	No	51.7	38.3	65.1
	Don't know	3.5	0.6	10.9
5e. Customer type fell outside of the bank's risk tolerance	Yes	82.5	70.1	91.2
	No	15.1	7.1	27.0
	Don't know	2.4	0.1	10.6
5f. Bank's reputational risk	Yes	56.4	43.1	69.7
	No	42.7	29.4	56.0
	Don't know	0.9	0.3	2.2

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
All banks nationwide				
5g. Compliance risks other than BSA/AML associated with the customer type	Yes	44.3	31.1	57.5
	No	42.9	29.8	56.0
	Don't know	12.8	5.3	24.5
5h. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
Southwest border banks				
5a. Cost of Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance made the customer type unprofitable	Yes	64.3	53.5	75.1
	No	31.0	20.8	42.7
	Don't know	4.8	1.2	12.3
5b. Customer type drew heightened BSA/AML regulatory oversight	Yes	80.0	68.9	88.5
	No	17.5	9.5	28.3
	Don't know	2.5	0.3	9.3
5c. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	69.0	57.3	79.2
	No	28.6	18.7	40.2
	Don't know	2.4	0.2	8.9
5d. Potential personal liability for BSA/AML compliance professionals	Yes	39.0	27.9	50.2
	No	58.5	47.3	69.8
	Don't know	2.4	0.2	9.1

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Southwest border banks				
5e. Customer type fell outside of the bank's risk tolerance	Yes	88.1	78.6	94.4
	No	7.1	2.5	15.5
	Don't know	4.8	1.2	12.3
5f. Bank's reputational risk	Yes	65.0	54.0	76.0
	No	30.0	19.7	42.0
	Don't know	5.0	1.2	12.9
5g. Compliance risks other than BSA/AML associated with the customer type	Yes	45.0	33.5	56.5
	No	47.5	35.9	59.1
	Don't know	7.5	2.6	16.2
5h. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
Non-Southwest border banks				
5a. Cost of Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance made the customer type unprofitable	Yes	65.0	51.0	77.3
	No	30.4	18.8	44.1
	Don't know	4.6	0.8	14.2
5b. Customer type drew heightened BSA/AML regulatory oversight	Yes	73.6	59.6	84.8
	No	25.9	14.7	39.9
	Don't know	0.5	0.1	1.8
5c. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	76.6	63.6	86.7
	No	22.9	12.8	35.9
	Don't know	0.5	0.1	1.7

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
Non-Southwest border banks				
5d. Potential personal liability for BSA/AML compliance professionals	Yes	44.9	31.3	58.6
	No	51.5	37.9	65.2
	Don't know	3.5	0.5	11.2
5e. Customer type fell outside of the bank's risk tolerance	Yes	82.3	69.7	91.3
	No	15.3	7.1	27.5
	Don't know	2.4	0.1	10.9
5f. Bank's reputational risk	Yes	56.2	42.6	69.8
	No	43.0	29.4	56.6
	Don't know	0.8	0.2	2.2
5g. Compliance risks other than BSA/AML associated with the customer type	Yes	44.3	30.8	57.8
	No	42.8	29.4	56.2
	Don't know	12.9	5.3	24.9
5h. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. We included estimates for non-Southwest border banks for this question because we provided these estimates earlier in the report when we discuss common reason that non-Southwest border banks reported limiting, or not offering accounts to certain types of businesses considered high risk for money laundering and terrorist financing. This question was only asked of banks that answered yes to having business accounts (question 1b). For those banks that selected "Other" (5h), they were prompted to answer the open-ended question: What was the other reason(s) the bank made a decision not to offer, or only offers on a limited basis, business accounts to certain customer categories?

Table 6: Between January 1, 2014 and December 31, 2016, did the bank terminate any personal and/or business checking, savings, or money market accounts for reasons related to BSA/AML risk? Check one. (Question 6)

	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		Small banks	
Yes	26.3	15.5	39.7
No	70.2	56.6	81.6
Don't know	3.5	0.4	12.1
		Medium banks	
Yes	92.6	82.7	97.8
No	5.6	1.3	14.8
Don't know	1.9	0.1	9.3
		Large banks	
Yes	95.0	87.8	102.2
No	5.0	-2.2	12.2
Don't know	0.0	0.0	13.9
		Extra large banks	
Yes	n/r	n/r	n/r
No	n/r	n/r	n/r
Don't know	n/r	n/r	n/r
		Southwest border banks	
Yes	78.8	69.2	86.6
No	19.2	11.8	28.7
Don't know	1.9	0.2	7.2

Source: GAO. | GAO-18-263

Note: Because the responses by all banks nationwide for this question varied dramatically by the asset size category of the bank, we are providing results by asset category instead of for all banks nationwide. We classified non-Southwest border banks by asset size where small banks have less than $1 billion in assets; medium banks between $1 billion and less than $10 billion; large banks between $10 billion and less than $50 billion; and extra-large banks $50 billion or greater in assets. Southwest border banks include banks of all asset sizes from small to extra-large. n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points.

Table 7: Between January 1, 2014 and December 31, 2016, did the bank terminate any personal and/or business checking, savings, or money market accounts for the following reasons related to BSA/AML risk? (Question 7)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		All banks nationwide		
7a. Suspicious Activity Reports filed associated with the accounts	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	0.2	0.1	0.6
7b. Cost of BSA/AML compliance made the customer type unprofitable	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	2.0	0.6	4.9
7c. Customer type drew heightened BSA/AML regulatory oversight	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
7d. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	1.4	0.3	3.9
7e. Potential personal liability for BSA/AML compliance professionals	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	1.9	0.5	4.9
7f. Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	0.8	0.1	3.0

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
			All banks nationwide	
7g. Bank's reputational risk	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	2.0	0.6	5.0
7h. Negative news associated with the customer	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	2.7	1.0	5.9
7i. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
			Southwest border banks	
7a. Suspicious Activity Reports filed associated with the accounts	Yes	92.5	83.8	97.4
	No	2.5	0.3	9.3
	Don't know	5.0	1.2	12.9
7b. Cost of BSA/AML compliance made the customer type unprofitable	Yes	39.5	27.9	51.1
	No	52.6	40.8	64.5
	Don't know	7.9	2.7	17.0
7c. Customer type drew heightened BSA/AML regulatory oversight	Yes	63.2	51.7	74.6
	No	31.6	20.8	44.0
	Don't know	5.3	1.3	13.5
7d. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	Yes	47.5	35.9	59.1
	No	47.5	35.9	59.1
	Don't know	5.0	1.2	12.9

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		Southwest border banks		
7e. Potential personal liability for BSA/AML compliance professionals	Yes	25.6	15.9	37.5
	No	69.2	57.0	79.7
	Don't know	5.1	1.3	13.2
7f. Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	Yes	80.0	68.9	88.5
	No	15.0	7.7	25.4
	Don't know	5.0	1.2	12.9
7g. Bank's reputational risk	Yes	67.6	54.9	78.6
	No	24.3	14.6	36.4
	Don't know	8.1	2.8	17.5
7h. Negative news associated with the customer	Yes	66.7	54.4	77.5
	No	23.1	13.8	34.7
	Don't know	10.3	4.3	19.9
7i. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked to banks that answered yes to having terminated a personal or business account (question 6). For those banks that selected "Other" (7i), they were prompted to answer the open-ended question: What was the other reason(s) related to BSA/AML risk that the bank terminated personal and/or business accounts?

Table 8: Between January 1, 2014 and December 31, 2016, did the bank terminate personal and/or business checking, savings, or money market accounts for reasons related to BSA/AML risk? (Question 8)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		All banks nationwide		
8a. Personal	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
8b. Business	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	0.6	0.0	2.9
		Southwest border banks		
8a. Personal	Yes	87.8	78.1	94.3
	No	9.8	4.1	18.9
	Don't know	2.4	0.2	9.1
8b. Business	Yes	95.0	87.1	98.8
	No	5.0	1.2	12.9
	Don't know	0.0	0.0	7.2

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. Only banks that said they terminated accounts in question 6 answered this question.

Table 9: As of December 31st for each year below, approximately how many personal checking, savings, or money market accounts did the bank terminate for reasons related to BSA/AML risk? (Question 9)

Calendar year	Number of accounts	Don't know
2014	n/r	n/r
2015	n/r	n/r
2016	n/r	n/r

Source: GAO. | GAO-18-263

Note: Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. All the percentage estimates for this question are not statistically reliable. This question was only asked to banks that answered yes to having terminated a personal account (question 8a). Banks could also have selected "Do not have this data for ANY of the three years.

Table 10: Between January 1, 2014 and December 31, 2016, approximately what percentage of the bank's total number of personal checking, savings, and money market accounts did the bank terminate for reasons related to BSA/AML risk? (Question 10)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		All banks nationwide	
1% or less	n/r	n/r	n/r
2% to 10%	0.5	0.0	2.2
11% to 19%	2.4	0.1	13.2
20% or more	0.0	0.0	10.9
Don't know	n/r	n/r	n/r
		Southwest border banks	
1% or less	n/r	n/r	n/r
2% to 10%	n/r	n/r	n/r
11% to 19%	n/r	n/r	n/r
20% or more	n/r	n/r	n/r
Don't know	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked to banks that selected in question 9 "Do not have this data for ANY of the three years." Not enough Southwest border banks responded to provide reliable estimates.

Table 11: As of December 31st for each year below, approximately how many business checking, savings, or money market accounts did the bank terminate for reasons related to BSA/AML risk? (Question 11)

Calendar year	Number of accounts
	All banks nationwide
2014	37,725
2015	45,517
2016	n/r
	Southwest border banks
2014	n/r
2015	n/r
2016	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked to banks that answered yes to having terminated a business account (question 8b). Banks could also have selected "Don't know" or "Do not have this data for ANY of the three years".

Table 12: Between January 1, 2014 and December 31, 2016, approximately what percentage of the bank's total number of business checking, savings, and money market accounts did the bank terminate for reasons related to BSA/AML risk? (Question 12)

Responses	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
All banks nationwide			
1% or less	n/r	n/r	n/r
2% to 10%	0.9	0.1	3.8
11% to 19%	n/r	n/r	n/r
20% or more	0.0	0.0	11.3
Don't know	0.7	0.1	3.0
Southwest border banks			
1% or less	n/r	n/r	n/r
2% to 10%	n/r	n/r	n/r
11% to 19%	n/r	n/r	n/r
20% or more	n/r	n/r	n/r
Don't know	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked to banks that selected in question 11 "Do not have this data for ANY of the three years." Not enough Southwest border banks responded to provide reliable estimates.

Table 13: Between January 1, 2014 and December 31, 2016, did the bank terminate any checking, savings, or money market accounts for the following types of businesses for reasons related to BSA/AML risk? (Question 13)

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		All banks nationwide		
13a. Money service businesses: dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access, and money transmitters	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	1.2	0.2	3.9
13b. Foreign businesses engaged in cross-border international trade	Yes	5.5	3.0	9.2
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
13c. Nontrade-related foreign businesses	Yes	5.5	3.0	9.2
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
13d. Domestic businesses engaged in cross-border international trade	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r
13e. Cash-intensive small businesses (e.g., retail stores, restaurants, used car dealers, etc.)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	2.9	0.9	6.8
13f. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		Southwest border banks		
13a. Money service businesses: dealers in foreign exchange, check cashers, issuers or sellers of traveler's checks or money orders, providers or sellers of prepaid access, and money transmitters	Yes	57.9	46.2	69.6
	No	34.2	22.9	45.5
	Don't know	7.9	2.7	17.0
13b. Foreign businesses engaged in cross-border international trade	Yes	44.7	32.9	56.6
	No	42.1	30.4	53.8
	Don't know	13.2	6.2	23.5
13c. Nontrade-related foreign businesses	Yes	47.4	35.5	59.2
	No	39.5	27.9	51.1
	Don't know	13.2	6.2	23.5
13d. Domestic businesses engaged in cross-border international trade	Yes	55.3	43.4	67.1
	No	31.6	20.8	44.0
	Don't know	13.2	6.2	23.5
13e. Cash-intensive small businesses (e.g., retail stores, restaurants, used car dealers, etc.)	Yes	73.7	61.6	83.6
	No	15.8	8.1	26.7
	Don't know	10.5	4.4	20.4

Responses		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		Southwest border banks		
13f. Other (please specify below)	Yes	n/r	n/r	n/r
	No	n/r	n/r	n/r
	Don't know	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. For those banks that selected "Other" (13f), they were prompted to answer the open-ended question: What was the other type(s) of businesses for which the bank terminated personal and/or business accounts?

Table 14: Between January 1, 2014 and December 31, 2016, approximately what percentage of the business accounts that the bank terminated for reasons related to BSA/AML risk where accounts of cash-intensive small businesses? (Check one) (Question 14)

	Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
	All Banks nationwide		
5% or less	n/r	n/r	n/r
6% to 15%	1.9	0.2	7.0
16% to 24%	4.1	1.1	10.4
25% or more	n/r	n/r	n/r
Don't know	8.8	3.6	17.3
	Southwest border banks		
5% or less	55.6	41.5	69.6
6% to 15%	3.7	0.4	13.5
16% to 24%	3.7	0.4	13.5
25% or more	11.1	3.9	23.5
Don't know	25.9	14.4	40.5

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. This question was only asked to banks that selected "yes" to having terminated a cash-intensive small business in question 13e.

Questions 15 through 23 applied only to banks in our sample that had branches domiciled both inside and outside of the Southwest border region in order to obtain information on their accounts domiciled in the Southwest border region.

Table 15: As of December 31st of each year below, what was the approximate number of personal and/or business checking, savings, and money market accounts domiciled in the bank's Southwest border branches? (Question 15)

Enter a zero if no accounts were domiciled in the bank's U.S. branches in a given year.

	Calendar year	Number of accounts	Don't know
		Southwest border banks	
Personal	2014	n/r	n/r
	2015	n/r	n/r
	2016	n/r	n/r
Business	2014	n/r	n/r
	2015	n/r	n/r
	2016	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. All the percentage estimates for this question are not statistically reliable. Because this question applies only to a subset of Southwest border banks we did not include estimates for all banks nationwide.

Table 16: Between January 1, 2014 through December 31, 2016, did the bank terminate any personal and/or business checking, savings, or money market accounts domiciled in the bank's Southwest border branches for reasons related to BSA/AML risk? (Question 16)

		Estimated percentage	95 percent confidence interval—lower bound (percentage)	95 percent confidence interval—upper bound (percentage)
		Southwest border banks		
Personal	Yes	59.0	47.4	70.5
	No	28.2	18.1	40.2
	Don't know	10.3	4.3	19.9
	Not applicable	2.6	0.3	9.5
Business	Yes	59.0	47.4	70.5
	No	28.2	18.1	40.2
	Don't know	10.3	4.3	19.9
	Not applicable	2.6	0.3	9.5

Source: GAO. | GAO-18-263

Note: Because this question applies only to a subset of Southwest border banks we did not include estimates for all banks nationwide.

Table 17: As of December 31st for each year below, approximately how many personal checking, savings, or money market accounts domiciled in the bank's Southwest border branches did the bank terminate for reasons related to BSA/AML risk? (Question 17)

Enter a zero if no accounts domiciled in the bank's Southwest border branches were terminated for reasons related to BSA/AML risk in a given year.

Calendar year	Number of accounts
2014	n/r
2015	n/r
2016	n/r

Source: GAO. | GAO-18-263

Note: Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. All the percentage estimates for this question are not statistically reliable. Banks could also have selected "Don't know" or "Do not have this data for ANY of the three years".

Which of the following best describes the rate of personal checking, savings, and money market accounts terminated for reasons related to BSA/AML risk between January 1, 2014 and December 31, 2016 and domiciled in the bank's Southwest border branches? (Check one.) (Question 18)

a) Personal accounts domiciled in the bank's Southwest border branches were terminated at a higher rate than accounts domiciled in the bank's other U.S. branches

b) Personal accounts domiciled in the bank's Southwest border branches were terminated at a lower rate than accounts domiciled in the bank's other U.S. branches

c) Personal accounts domiciled in the bank's Southwest border branches were terminated at about the same rate as accounts domiciled in the bank's other U.S. branches

d) Don't know

All the percentage estimates for this question are not statistically reliable.

Note: This question was only asked to banks that selected in question 17 "Do not have this data for ANY of the three years."

Table 18: As of December 31st for each year below, approximately how many business checking, savings, or money market accounts domiciled in the bank's Southwest border branches did the bank terminate for reasons related to BSA/AML risk? (Question 19)

Enter a zero if no accounts domiciled in the bank's Southwest border branches were terminated for reasons related to BSA/AML risk in a given year.

Calendar year	Number of accounts
2014	n/r
2015	n/r
2016	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. All the percentage estimates for this question are not statistically reliable. Banks could also have selected "Don't know" or "Do not have this data for ANY of the three years".

Which of the following best describes the rate of business checking, savings, and money market accounts terminated for reasons related to BSA/AML risk between January 1, 2014 and December 31, 2016 and domiciled in the bank's Southwest border branches? (Check one.) (Question 20)

a) Business accounts domiciled in the bank's Southwest border branches were terminated at a higher rate than accounts domiciled in the bank's other U.S. branches

b) Business accounts domiciled in the bank's Southwest border branches were terminated at a lower rate than accounts domiciled in the bank's other U.S. branches

c) Business accounts domiciled in the bank's Southwest border branches were terminated at about the same rate as accounts domiciled in the bank's other U.S. branches

d) Don't know

All the percentage estimates for this question are not statistically reliable.

Note: This question was only asked to banks that selected in question 19 "Do not have this data for ANY of the three years."

Between January 1, 2014 and December 31, 2016, did the bank terminate any cash-intensive small business checking, savings, or money market accounts domiciled in the bank's Southwest border branches for reasons related to BSA/AML risk? (Check one.) (Question 21)

a) Yes

b) No

All the percentage estimates for this question are not statistically reliable.

Between January 1, 2014 and December 31, 2016, approximately what percentage of business checking, savings, or money market accounts domiciled in the bank's Southwest border branches that the bank terminated for reasons related to BSA/AML risk were accounts of cash-intensive small businesses? (Check one.) (Question 22)

a) 5% or less

b) 6% to 15%

c) 16% to 24%

d) 25% or more

e) Don't know

All the percentage estimates for this question are not statistically reliable.

Note: This question was only asked to banks that answered "Yes" to question 21 about having terminated a cash-intensive small business.

Table 19: Between January 1, 2014 and December 31, 2016, did the bank terminate any cash-intensive small business checking, savings, or money market accounts domiciled in the bank's Southwest border branches for the following reasons related to BSA/AML risk? (Question 23)

Responses	Yes	No	Don't know
23a. Suspicious Activity Reports filed associated with the accounts	n/r	n/r	n/r
23b. Cost of BSA/AML compliance made the customer type unprofitable	n/r	n/r	n/r
23c. Customer type drew heightened BSA/AML regulatory oversight	n/r	n/r	n/r
23d. Inability to manage the BSA/AML risk associated with the customer type (e.g., resource constraints)	n/r	n/r	n/r
23e. Potential personal liability for BSA/AML compliance professionals	n/r	n/r	n/r
23f. Customer failed to provide information for the bank to conduct adequate BSA/AML due diligence	n/r	n/r	n/r
23g. Bank's reputational risk	n/r	n/r	n/r
23h. Negative news associated with the customer	n/r	n/r	n/r
23i. Other (please specify below)	n/r	n/r	n/r

Source: GAO. | GAO-18-263

Note: n/r indicates that we are not reporting the estimate because the maximum half-width of the confidence interval is greater than 15 percentage points. All the percentage estimates for this question are not statistically reliable. This question was only asked to banks that answered "Yes" to question 21 about having terminated a cash-intensive small business. For those banks that selected "Other" (23i), they were prompted to answer the open-ended question: What was the other reason(s) related to BSA/AML risk that the bank terminated cash-intensive small business personal or business accounts?

Appendix III: Econometric Analysis of Bank Branch Closures

This technical appendix outlines the development, estimation, results, and limitations of the econometric model we described in the report. We undertook this analysis to better understand factors that may have influenced banks to close branches in recent years.

Model Development and Specification

We developed a number of econometric models that included demographic, economic, and risk factors that might have influenced branch closures nationally since 2010. We developed these models based on a small number of relevant studies, our discussions with banks and regulators, and our own prior empirical work on banking.[1] Our models are based on all counties with bank branches in the United States and are designed to predict whether a county will lose a branch the following year based on the characteristics of the county. Because we are modeling a binary outcome (whether or not a county lost a branch) we use a specific functional form for our regression models known as a logistic regression (logit).[2]

The demographic factors included in our models are rural-urban continuum codes, age profile (proportion of the population of the county over 45), and the level of per capita income.[3] We chose these demographic factors, in particular, because they tend to be associated with the adoption of mobile banking, which may explain the propensity to close branches in a community. The economic factors included in our models—intended to reflect temporary or cyclical economic changes affecting the county—are the growth of per capita income, growth in building permits (a measure of residential housing conditions), and growth of the population. The money laundering-related risk factors are whether

[1]See Robert Avery, Raphael Bostic, Paul Calem, and Glenn Canner, "Consolidation and Bank Branching Patterns," *Journal of Banking and Finance*, vol. 23 (1999): 497-532; Andrew Cohen and Michael Maseo, "Investment Strategies and Market Structure: An Empirical Analysis of Bank Branching Decisions," *Journal of Financial Services Research*, vol. 38 (2010): 1-21; Timothy Hannan and Gerald Hanweck, "Recent Trends in the Number and Size of Bank Branches: An Examination of Likely Determinants," Finance and Economics Discussion Series # 2008-2, Board of Governors of the Federal Reserve System, Washington, D.C. (2008); Eric C. Breitenstein and John M. McGee, "Brick and Mortar Banking Remains Prevalent in an Increasingly Virtual World," *FDIC Quarterly*, vol. 9 (2015): 37-51; and GAO, *Financial Institutions: Causes and Consequences of Recent Bank Failures,* GAO-13-71 (Washington, D.C.: Jan. 3, 2013).

[2]See, for example, Jeffrey M. Wooldridge, *Econometric Analysis of Cross Section and Panel Data*, MIT Press: Cambridge, MA (2002).

[3]See Federal Reserve, "Consumers and Mobile Financial Services, 2015" March 2015.

a county has been designated a High Intensity Financial Crime Area (HIFCA) or a High Intensity Drug Trafficking Area (HIDTA), and the level of suspicious or possible money laundering-related activity reported by bank branches in the county (known as Suspicious Activity Report (SAR) filings). HIDTA and HIFCA designations in our model could proxy for a number of features of a county, including but not limited to the intensity of criminal activity related to drug trafficking or financial crimes. Bank officials we spoke with generally said that SAR filings were a time and resource-intensive process, and that the number of SARs filings—to some extent—reflected the level of effort, and overall BSA compliance risk, faced by the bank. That said, the impact of SAR variables in our models could reflect a combination of (1) the extent of BSA/AML compliance effort and risk faced by the bank, as described by bank officials, and (2) the underlying level of suspicious or money laundering-related activity in a county.

We constructed variables from the following data sources to estimate our models:

- Net branch closures and the size of deposits in each county, from Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits;[4]
- Rural-urban continuum codes, from the U.S. Department of Agriculture;
- Population growth and age profile in each county, from the Census Bureau's American Community Survey;
- Per capita income, from Bureau of Economic Analysis Local Area Personal Income data;
- Building permits by county, from the Census Bureau;
- HIFCA and HIDTA county designations from the Financial Crimes Enforcement Network (FinCEN) and the Office of National Drug Control Policy, respectively; and
- SAR filings by depository institution branches, from FinCEN

We estimated a large number of econometric models to ensure that our results were generally not sensitive to small changes in our model, in

[4]As we noted in the body of the report, this database records bank branch information as of June 30 each year and, therefore, when we discuss changes in the number of branches between 2 years, we are reporting changes between June 30 of those years.

other words, to determine if our results were "robust." Our results, as described in the body of the report, were highly consistent across models and were generally both statistically and economically significant—that is, results of this size are unlikely to occur at random if there were no underlying relationship (p-values of interest are almost always less than 0.001), and the estimated impacts on the probability of branch closures are substantively relevant.

For our baseline model, we estimated branch closures (dependent variable: 1/0 for whether or not a county lost one or more branches, on net, that year) as a function of the 1 year lagged share of the population over 45 in the county, a rural-urban continuum code, level of per capita income, population growth, growth in the value of building permits, growth in per capita income, whether or not the county is a HIDTA, and the level of suspicious activity report filings per billion dollars of deposits held in the county, including time and state fixed effects.[5] Economic variables were adjusted for inflation (converted to constant 2015 dollars) using appropriate price indices. We generally estimated models with cluster robust standard errors, clustering at the county.[6] See the logistic regression equation for our baseline model below, where the *c* subscript represents the county and the *t* subscript represents the year.

[5]Fixed effects are indicator variables equal to one only when a particular condition is realized—in this case whether it is a particular year or whether a county is in a particular state. Year fixed effects help control for unidentified national factors influencing branching equally in all counties in a particular year. State fixed effects, similarly, help to control for unidentified state-level factors that have a consistent influence over time on all counties in a state.

[6]Cluster robust standard errors improve our variance estimates when errors in a particular county are correlated over time.

$$
\begin{aligned}
&Probability(Net\ branch\ loss = 1)_{c,t} \\
&= f\Bigg(\beta_0 + \beta_1 \times share\ of\ population\ over\ 45_{c,t-1} \\
&+ \sum_{RUCC} \alpha_{RUCC} \times rural - urban\ continuum\ code_c\ + \beta_2 \\
&\times per\ capita\ income_{c,t-1} + \beta_3 \\
&\times population\ growth_{c,t-1} + \beta_4 \times building\ permit\ growth_{c,t-1} + \beta_5 \\
&\times per\ capita\ income\ growth_{c,t-1} +\ \beta_6 \times HIDTA_c + \beta_7 \\
&\times suspicious\ activity\ reports\ per\ billion\ dollars\ in\ deposits_{c,t-1} \\
&+ \sum_{Years} \delta_{year} \times year_t\ + \sum_{States} \gamma_{State} \times State_c\Bigg)
\end{aligned}
$$

Where *f* is the cumulative logistic function: $f(z) = \frac{e^z}{1+e^z}$

Full year SAR filings are only available for 2014–2016 which is generally the limiting factor on the time dimension of our panel. Because FinCEN changed reporting requirements as of April 2013, we were able to obtain an additional year of data by calculating SAR filings for 4 truncated years, which is April–December 2013, April–December 2014, April–December 2015, and April–December 2016. As we discussed earlier in the report, this variable is an important geographic measure of money laundering-related risk, based on a bank-reported measure of the extent of suspicious or money-laundering related activity associated with branches located in a particular county. After confirming that results were similar for full year and truncated year SARs, we continued estimation with truncated year SARs to benefit from the additional year of data. We report estimates from the version of our baseline model that includes truncated year SARs. Marginal effects for select coefficients (and associated p-values) are reported in table 20 below along time period, sample size, and goodness-of-fit (pseudo r-squared).

Table 20: Marginal Effects for Select Variables for Baseline Model, and Other Statistical Information

Variable	Marginal effect (p-value)
Rural-urban continuum code (RUCC) (RUCC =1 is the omitted category, defined as counties in metro areas of 1 million population or more)	
2 (Counties in metro areas of 250,000 to 1 million population)	0.004109 (0.842)
3 (Counties in metro areas of fewer than 250,000 population)	-0.00248 (0.907)
4 (Urban population of 20,000 or more, adjacent to a metro area)	-0.00468 (0.840)
5 (Urban population of 20,000 or more, not adjacent to a metro area)	-0.00094 (0.979)
6 (Urban population of 2,500 to 19,999, adjacent to a metro area)	-0.12172 (<0.001)
7 (Urban population of 2,500 to 19,999, not adjacent to a metro area)	-0.14744 (<0.001)
8 (Completely rural or less than 2,500 urban population, adjacent to a metro area)	-0.20945 (<0.001)
9 (Completely rural or less than 2,500 urban population, not adjacent to a metro area)	-0.22204 (<0.001)
High Intensity Drug Trafficking Area (indicator variable)	0.1095234 (<0.001)
Per capita income	
Going from $20,000 to $50,000 per year	0.0703706 (<0.001)
Proportion over 45	
Going from 30 to 50 percent	-0.0909244 (<0.001)
Suspicious Activity Report filings (per billion dollars in deposits, truncated year)	
Going from 0 to 200	0.0791494 (<0.001)

Variable	Marginal effect (p-value)
Other information	
Time period	2013-2016
Sample size	8,594
Pseudo r-squared	0.1735

Source: GAO. | GAO-18-263

Note: Marginal effects are calculated as the mean marginal effect over the full range of the values of the independent variables. Positive values indicate an increase in the probability of a branch closing over the next year relative to the baseline or omitted category.

Generally speaking, across our baseline specifications and robustness tests, counties were more likely to lose branches, all else equal, if they were (1) urban, high income, and had a younger population (proportion under 45), or (2) designated HIFCA, HIDTA, or had higher SAR filings. Economic variables were generally not statistically significant.

Below is a list of robustness tests—changing how or which variables influenced branch closures in the model, over what time period—we performed. Unless specifically noted the results described above were very similar in the models listed below (i.e., robust):

- As an alternative to total SARs as an indicator of money laundering-related risk, we estimated a model with only those SARs that were classified as money laundering or structuring. Total SARs include suspicious activity that may be unrelated to money laundering or structuring, including, for example, check fraud.
- As an alternative to HIDTAs as a county risk designation we estimated a model with HIFCA county designations. The impact of HIFCAs in the model was smaller magnitude and less statistically significant.
- We estimated a model interacting HIDTAs with SARs (the interaction suggests SARs have a larger impact on non-HIDTA counties).
- We estimated models restricted to only rural counties or only urban counties. SARs and HIDTAs have larger effects in urban counties and the impact of the age profile and per capita income are not statistically significant in the model with only rural counties.
- We estimated models with MSA fixed effects or state-year fixed effects, in addition to state and year fixed effects.

- We estimated models that assumed that economic conditions from the previous 2 years were relevant or only economic conditions from 2 years prior. Our baseline model assumed only the prior year's economic conditions influenced branch closures.
- We estimated a panel logit with random effects.
- We estimated a panel logit with county fixed effects. None of the results discussed above are statistically significant when county fixed effects are introduced. This suggests that the model is identified primarily based on cross-sectional (differences between counties that persist over time) rather than time series variation in the relevant variables. The role of county fixed effects here may also indicate the presence of unobserved, county characteristics that are omitted from our models, although it is generally not possible to simultaneously estimate the role of highly persistent factors that influence branch closures while including fixed effects.
- We estimated models where we omitted small percentage changes in branches from our indicator dependent variable—for example, we estimated models with indicators equal to one only if branch losses were above 3 percent or 5 percent (omitting smaller branch losses from the dependent variable altogether). Generally speaking, demographic factors have less explanatory power for larger loss levels although SARs remains statistically significant and at practically meaningful magnitudes. This suggests that higher SARs are relatively better at explaining larger branch losses while demographic factors are better at explaining smaller branch losses.

Despite the robustness of our results and our efforts to control for relevant factors, our results are subject to a number of standard caveats. The variables we use come from a number of datasets, and some of them have sampling error, relied on imputation, or are better thought of as proxy variables that measure underlying factors of interest with some degree error. As such, our statistical measures, including standard errors, p-values, and goodness of fit measures such as pseudo r-squared, should be viewed as approximations. Some of the effects we measure based on these variables may reflect associational rather than causal relationships. Also, our regression models may be subject to omitted variable bias or specification bias—for example, it is unlikely that we have been able to quantify and include all relevant factors in bank branching decisions, and even where we have measured important drivers with sufficient precision the functional form assumptions embedded in our choice of regression model (e.g., logistic regression) are unlikely to be precisely correct. Should omitted variables be correlated with variables that we include, the associated coefficient may be biased. We interpret our results, including our statistical measures and coefficients values, with appropriate caution.

Appendix IV: Comments from the Board of Governors of the Federal Reserve System

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF
SUPERVISION AND REGULATION

February 7, 2018

Lawrance Evans, Jr.
Managing Director
Financial Markets and Community Investment
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Evans:

Thank you for providing the Board of Governors of the Federal Reserve System ("Federal Reserve") with an opportunity to review the final draft of the Government Accountability Office ("GAO") report titled: *Bank Secrecy Act: Derisking Along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews* (GAO-18-263). The GAO's report reviewed the types of heightened Bank Secrecy Act and anti-money laundering ("BSA/AML") compliance risks and challenges that banks operating in the Southwest border area may face, the extent to which banks are terminating accounts and closing bank branches in the Southwest border region, and how the U.S. Department of the Treasury's ("Treasury") Financial Crimes Enforcement Network ("FinCEN") and the federal banking regulators have assessed and responded to concerns about such derisking.

The GAO report indicates the two most common reasons reported by banks for terminating accounts are the identification of suspicious customer transactions leading to the filing of Suspicious Activity Reports ("SARs") and the failure of the customer to respond adequately to requests for information as part of the customer due diligence processes. In addition, the

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2

GAO found that some banks terminated accounts because they had determined that a certain customer or type of account exceeded the bank's risk tolerance or ability to manage the BSA/AML risk. However, the GAO's report does not find a causal linkage between the Federal Reserve's regulatory oversight and derisking decisions made by some banks that operate along the Southwest Border. Further, the report did not take into consideration the extent to which account and branch closures in the Southwest Border region may be the result of law enforcement activities. We appreciate the report's recognition of the efforts made by the Federal Reserve to clarify BSA/AML regulatory requirements and expectations.

The report recommends that the Federal Reserve conduct a retrospective review of BSA/AML regulations and their implementation for banks, jointly with FinCEN, the Federal Deposit Insurance Corporation ("FDIC"), and the Office of the Comptroller of the Currency ("OCC"). The Federal Reserve is committed to ensuring that BSA/AML regulations and their implementation are effectively meeting their objective of safeguarding the U.S. financial system from the abuses of financial crime, including money laundering, terrorist financing, and other illicit financial transactions, in the least burdensome way possible for the institutions we supervise. As described below, the Federal Reserve is currently participating in several ongoing initiatives focused on efficiency and reducing BSA/AML regulatory burden. In order to fully leverage this work, the Federal Reserve will collaborate with FinCEN, FDIC, and the OCC to jointly identify any additional areas of retrospective review, as recommended by the GAO.

Consistent with the GAO's recommendation, the Federal Reserve recently concluded a retrospective review as part of the 2017 Economic Growth and Regulatory Paperwork Reduction Act process and has referred the public comments we received related to BSA/AML compliance burden to Treasury and FinCEN for consideration. As a result of this referral, FinCEN has created three subgroups of the Bank Secrecy Act Advisory Group ("BSAAG") to review the efficiency and effectiveness of specific BSA requirements.[1] The BSAAG brings together federal financial institution supervisors, FinCEN, law enforcement and the industry. The Federal Reserve is participating in the work of these BSAAG subgroups, which is ongoing.

The Federal Reserve also participates in the development and updating of interagency BSA guidance and examination procedures through the Federal Financial Institutions Examination Council BSA/AML Working Group ("FFIEC BSA/AML Working Group"). Over the last several months,

[1] Structuring SAR Working Group, CTR Aggregation Working Group, and Metrics Working Group.

the FFIEC BSA/AML Working Group has engaged with industry groups on issues such as derisking. These engagements allow the Federal Reserve and the FFIEC BSA/AML Working Group members to better understand money laundering risks and calibrate our guidance and examination procedures.

Further, Treasury published a Request for Information in 2017 inviting the public to submit comments and recommendations for regulations, forms, and guidance documents that could be eliminated, modified, or streamlined to alleviate unnecessary regulatory burden, in response to Executive Orders 13771 and 13777.[2] Treasury received a number of comment letters specific to the BSA, which are currently under review.

These initiatives will allow the Federal Reserve and other federal banking regulators to leverage work already in progress in order to respond to the GAO's recommendation. The Federal Reserve is committed to continuing the close working relationships it has with Treasury, FinCEN, law enforcement, and the other supervisory agencies to assess ways to improve the efficiency and effectiveness of the BSA/AML requirements and their implementation and reduce unnecessary compliance burden. Elimination of unnecessary compliance burden will assist banks in areas where there is a high risk of money laundering activity to serve legitimate customers more efficiently while meeting the bank's obligations to combat money laundering.

The Federal Reserve is committed to continuing to improve the U.S. anti-money laundering regime. We appreciate the GAO's review of the challenges faced by banks operating in the Southwest border region and for the opportunity to comment.

Sincerely,

Michael S. Gibson
Director

[2] Review of Regulations, 82 Fed. Reg. 27217 (June 14, 2017).

Appendix V: Comments from the Federal Deposit Insurance Corporation

FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Division of Risk Management Supervision

February 7, 2018

Lawrance Evans, Jr.
Managing Director
Financial Markets and Community Investment Team
United States Government Accountability Office
Washington, D.C. 20548

Dear Mr. Evans:

Thank you for the opportunity to comment on the U.S. Government Accountability Office's (GAO's) draft audit report titled, *Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews: GAO-18-263* (Report). The FDIC agrees that Bank Secrecy Act (BSA)/anti-money laundering (AML) objectives should be met as efficiently as possible, and that periodic regulation reviews are helpful in identifying needed changes. We appreciate the Report's recognition of steps the FDIC has taken related to de-risking – issuing guidance, refining examination policies, promoting BSA/AML examination consistency through the Federal Financial Institutions Examination Council BSA/AML working group, participating in the BSA Advisory Group, and meeting in Nogales, Arizona with Southwest border stakeholders. We also appreciate the Report's recognition of prior retrospective reviews of BSA/AML regulations such as those performed as part of the Economic Growth and Regulatory Paperwork Reduction Act.

The Report discusses the reasons for account and branch closures and highlights that most account terminations are due to suspicious activity, and that one in ten branch closures may be due to "compliance challenges." The Report states that in 2017 the Department of State identified Mexico as a major money laundering country, and that sophisticated drug trafficking organizations based in Mexico take advantage of, among other things, the extensive U.S.-Mexico border and the high volume of legal commerce to conceal illicit financial transfers to and from Mexico. The Report notes that the greater AML risks in Southwest border counties results in more frequent monitoring and investigating of suspicious activities, which requires more resources. In addition, the Report notes that branches in Southwest border counties filed two and a half to three times as many suspicious activity reports as branches in other counties within Southwest border states, and as branches in other high intensity financial crime area or high intensity drug trafficking area counties. Notably, the Report does not distinguish account or branch closures resulting from suspected money laundering or other illicit financial transactions from closures that may have resulted from ineffective or burdensome regulations. The Report is also limited in that it did not evaluate the effect of law enforcement activities on Southwest border account and branch closures.

The FDIC appreciates the concerns raised by the GAO and understands the importance of the recommendations. In response to the GAO's recommendations, the FDIC will work jointly with FinCEN and the other federal banking agencies (FBAs) to review BSA/AML regulations and their implementation for banks, and how regulator concerns may be influencing their willingness to provide services. This review will leverage other, similarly focused interagency work that has occurred or is currently underway. In addition, the FDIC will continue to work collaboratively with the FBAs and FinCEN to promote the objectives of BSA/AML regulations and their implementation that effectively safeguard the U.S. banking system from financial crime, including money laundering and terrorist financing, in the least burdensome way.

We appreciate the GAO's review of branch closings along the Southwest border, and the opportunity to comment. If you have any questions relating to this response, please contact Lisa D. Arquette, Associate Director, at 202-898-8633.

Sincerely,

Doreen R. Eberley
Director

Appendix VI: Comments from the Office of the Comptroller of the Currency

Office of the Comptroller of the Currency

Washington, DC 20219

February 8, 2018

Mr. Lawrance L. Evans, Jr.
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. Evans:

The Office of the Comptroller of the Currency (OCC) has received and reviewed the Government Accountability Office's (GAO) draft report titled "Bank Secrecy Act: Derisking along the Southwest Border Highlights Need for Regulators to Enhance Retrospective Reviews." The report (1) describes the types of heightened Bank Secrecy Act/Anti-Money Laundering (BSA/AML) compliance risks that Southwest border banks may face and the BSA/AML compliance challenges they may experience; (2) determines the extent to which banks have terminated accounts and closed branches in the region and describes reasons for terminations and closures; and (3) evaluates how the Financial Crimes Enforcement Network (FinCEN), the Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System (FRB) and the OCC have assessed and responded to concerns about de-risking in the Southwest border region and elsewhere, and the effectiveness of those efforts. The report concedes some limitations of its analysis, in terms of omitted variable bias and specification bias, and interprets the aforementioned results with appropriate caution. The OCC also has concerns regarding the econometric analysis and what conclusions can be drawn based on that analysis.

As part of its review, the GAO recommended that the OCC work jointly with FinCEN, the FDIC and the FRB to conduct a retrospective review of BSA/AML regulations and their implementation for banks, focusing on how banks' regulatory concerns may be influencing their willingness to provide services to certain populations. The GAO is recommending further that the FDIC, the FRB, the OCC and FinCEN take steps, as appropriate, to revise the BSA regulations or the way they are being implemented to help ensure BSA/AML regulatory objectives are being met in the most effective and least burdensome way.

The OCC appreciates the concerns raised by the GAO and understands the importance of these recommendations. In response to the GAO's recommendations, the OCC will work jointly with FinCEN, the FDIC, and the FRB to leverage the substantial interagency work that has occurred or is currently underway to review BSA/AML regulations and their implementation for banks. The OCC will work with the other agencies to identify any gaps that may exist in that work or additional retrospective review that should be conducted. In addition, the OCC will continue to work collaboratively with FinCEN, the FDIC, and the FRB to promote the objectives of BSA/AML regulations and implementation that effectively safeguards the U.S. banking system from financial crime, including money laundering and terrorist financing, in the least burdensome way.

Over the past several years, the OCC has worked with the FinCEN, the FDIC, and the FRB to strengthen our understanding of the various drivers related to account closures in the correspondent banking context both internationally and domestically. These efforts have included participation in surveys conducted by the World Bank, membership on the Financial Stability Board (FSB) and the FSB's Correspondent Banking Coordination Group, membership in the BSA/AML Working Group of the Federal Financial Institutions Examination Council's Task Force on Supervision, and participation in the FinCEN-led Bank Secrecy Act Advisory Group. Please refer to the Appendix for additional details concerning our participation in these efforts.

We previously advised the GAO of our concerns that the definition of de-risking used by the GAO in this review is flawed, and casts doubt on many of the judgments underlying GAO's conclusions. The definition is inconsistent with well-established definitions widely used by other regulatory bodies. The GAO definition encompasses a wide range of situations in which banks limit certain services or end customer relationships. This is inconsistent with well-established and commonly used de-risking definitions such as those used by the Financial Action Task Force and the World Bank, which focus on situations where financial institutions terminate or restrict business relationships *with entire countries or classes of customers* in order to avoid, rather than to manage, AML-related risks.

The OCC is also concerned that the report's approach of focusing exclusively on BSA/AML regulatory issues does not take into account the drivers for terminating account relationships such as changes to the business model or business strategy, the termination of dormant relationships, industry and branch consolidation, lack of profitability, overall risk appetite, and other drivers related to AML, countering the financing of terrorism or sanctions compliance, which respected international bodies like the FSB have identified in the context of foreign correspondent banking. In addition, the report does not take into account the influence of criminal investigations and prosecutions related to money laundering activity and bank compliance program deficiencies, that also contribute to de-risking and account or branch closures. Please refer to the Appendix for additional information on the relevant findings of international bodies.

The OCC will continue to work with FinCEN, the FDIC, and the FRB in the areas described above and to focus on effectively achieving the objective of safeguarding the U.S. banking system from financial crimes including money laundering and terrorist financing, while reducing regulatory burden. The OCC will collaborate with FinCEN, the FDIC, and the FRB to identify any additional areas that are appropriate for retrospective review.

2

We believe this approach will meet the objectives of the report's recommendation and we plan to complete the review by the end of 2018.

Sincerely,

G. N. Gardineer

Grovetta N. Gardineer
Senior Deputy Comptroller
Compliance and Community Affairs

3

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact:

Lawrance Evans, Jr. (202) 512-8678 or evansl@gao.gov

Staff Acknowledgments

In addition to the individual named above, Stefanie Jonkman (Assistant Director), Christine Houle (Analyst in Charge), Carl Barden, Timothy Bober, Rebecca Gambler, Toni Gillich, Michael Hansen, Michael Hoffman, Jill Lacey, Patricia Moye, Erica Miles, Marc Molino, Steve Robblee, Tovah Rom, Jerry Sandau, Mona Sehgal, Tyler Spunaugle, and Verginie Tarpinian made key contributions to this report.

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