NCUA LETTER TO CREDIT UNIONS

NATIONAL CREDIT UNION ADMINISTRATION
1775 Duke Street, Alexandria, VA 22314

DATE: **December 2014** **LETTER NO.: 14-CU-10**

TO: **Federally Insured Credit Unions**

SUBJ: **Identifying and Mitigating Risks of Money Services Businesses**

ENCL: **Supervisory Letter — Money Services Businesses**

Dear Board of Directors and Chief Executive Officer:

If your credit union provides account services to a money service business (MSB), or is contemplating doing so, you should review the enclosed examiner guidance.

NCUA has developed the enclosed Supervisory Letter to provide field staff with guidance on evaluating credit unions that provide account services to money services businesses (MSBs).[1]

What are Money Services Businesses?

MSBs include transactional businesses such as check cashers, prepaid card providers, foreign currency dealers, money transmitters, and money orders and travelers checks issuers.

MSBs can provide necessary and valued services to a community, and a credit union may consider providing services to MSBs that operate within its field of membership.

However, like any third party, MSBs can expose credit unions to certain risks, and NCUA expects credit unions to consider, monitor, and mitigate those risks.

What are the Potential Risks?

The level and types of risk posed by an MSB depend on the nature and scope of the MSB operation. MSBs range from large international money transmitters to small independent businesses that offer financial services only as a secondary component to their primary business – for example, a grocery store that offers check cashing.

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[1] The Financial Crimes Enforcement Network (FinCEN) has defined MSBs to include the U.S. Postal Service and six distinct types of financial services providers: 1) dealers in foreign exchange, 2) check cashers, 3) issuers and sellers of traveler's checks or money orders, 4) providers of prepaid access, 5) money transmitters, and 6) sellers of prepaid access. 31 CFR 1010.100(ff).

The enclosed guidance provides several indicators of high-risk as well as low-risk MSBs.

However, in general, larger MSBs may present off-balance-sheet risks by generating significant transaction volumes that could overwhelm smaller credit unions. Credit unions with only a few million dollars of assets could end up processing billions of dollars' worth of money services transactions.

Some MSBs even raise heightened risks of money laundering for drug cartels and terrorist groups.

Enforcement authorities are charging substantial fines to financial institutions that fail to meet all compliance requirements of the Bank Secrecy Act.

NCUA and the Financial Crimes Enforcement Network (FinCEN) are particularly concerned about the vulnerability of credit unions that do not have sufficient scale, internal controls and compliance programs to perform the necessary due diligence on MSBs and manage high volumes of cash flows.

How Can Credit Unions Mitigate the Risks?

As part of the initial due diligence process, NCUA expects credit unions to:

- Perform the required Customer Identification Program procedures;
- Confirm that member MSBs register with FinCEN;
- Confirm that member MSBs comply with state or local licensing requirements;
- Confirm the member MSBs' agent status; and
- Conduct a Bank Secrecy Act (BSA) / Anti-Money Laundering (AML) risk assessment to document the level of risk associated with the account and whether greater due diligence is necessary.

To ensure compliance with the BSA regulations, credit unions are expected to assess the risks posed by each individual MSB account on a case-by-case basis, monitor and report any unusual activities, and implement appropriate controls to manage any risk exposure.

Each credit union needs to know and understand each MSB member's business model and customer base. While many MSBs provide services to individuals, some MSBs provide services to other MSBs. This added layer of anonymity between the credit union and the transactions originator could pose additional complexity in identifying suspicious activities.

Appropriately designed policies, procedures, and controls can effectively mitigate the risk posed by MSBs, and can prevent money launderers and other criminals from accessing the financial system.

The enclosed guidance is designed to reinforce a consistent examination approach to evaluating credit unions' BSA compliance and risk exposure with respect to MSBs.

Please contact your regional office or state supervisory authority with any questions on this subject.

Sincerely,

/s/

Debbie Matz
Chairman

Enclosure