

POTENTIAL MONEY LAUNDERING WARNING SIGNS

POTENTIAL ABUSIVE ACTS - CUSTOMER ACTIVITY WARNING SIGNS

Activity Inconsistent with the Customer's Business

- A customer opens several accounts for the type of business he or she purportedly is conducting and/or frequently transfers funds among those accounts.
- A customer's corporate account(s) has deposits or withdrawals primarily in cash rather than checks.
- The owner of both a retail business and a check cashing service does not ask for cash when depositing checks, possibly indicating the availability of another source of cash.
- The customer engages in unusual activity in cash purchases of traveler's checks, money orders, or cashier's checks.
- A large volume of cashier's checks, money orders, and/or wire transfers are deposited into an account in which the nature of the account holder's business would not appear to justify such activity.
- A customer frequently makes large dollar transactions (such as deposits, withdrawals, or purchases of monetary instruments) without an explanation as to how they will be used in the business, or the purchases allegedly are for a business that generally does not deal in large amounts of cash.
- A business account history that shows little or no regular, periodic activity; the account appears to be used primarily as a temporary repository for funds that are transferred abroad. For example, numerous deposits of cash followed by lump-sum wire transfers.
- A customer's place of business or residence is outside the financial institution's service area.
- A corporate customer who frequently makes large cash deposits and maintains high balances, but does not use other banking services.
- A retail business routinely makes numerous deposits of checks, but rarely makes cash withdrawals for daily operations.
- A retail business has dramatically different patterns of cash deposits from similar businesses in the same general location.
- The currency transaction patterns of a business experience a sudden and inconsistent change from normal activities.
- The amount and frequency of cash deposits are inconsistent with that observed at the customer's place of business.
- The business frequently deposits large amounts of cash, but checks or other debits drawn against the account are inconsistent with the customer's retail business.
- Businesses that do not normally generate currency make numerous currency transactions (i.e., a sanitation company that makes numerous deposits of cash).
- Financial transactions involving monetary instruments that are incomplete or contain fictitious payees, remitters, etc., if known.
- Unusual transfer of funds among related accounts or accounts that involve the same principal or related principals.
- A business owner, such as an owner who has only one store, who makes several deposits the same day using different bank branches.

Avoiding the Reporting or Record Keeping Requirement

- A business or new customer asks to be exempted.
- A customer intentionally withholds part of the currency deposit or withdrawal to keep the transaction under the reporting threshold.
- A customer is reluctant to provide the information needed to file the mandatory report, to have the report filed, or to proceed with a transaction after being informed that the report must be filed.
- A customer or group tries to coerce a bank employee into not filing any required record keeping or reporting forms.
- An automatic teller machine or machines (ATM) are used to make several bank deposits below a specified threshold.
- Unusually large deposits of U.S. food stamps (often used as currency in exchange for narcotics).
- A customer is reluctant to furnish identification when purchasing negotiable instruments in amounts exceeding thresholds for additional reporting.

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Fund (Wire) Transfers

Wire transfer activity to/from financial Countries of Concern without an apparent business reason or when it is inconsistent with the customer's business or history.

- Periodic wire transfers from a personal account(s) to bank secrecy haven countries.
- Large incoming wire transfers on behalf of a foreign client with little or no explicit reason.
- Frequent or large volume of wire transfers to and from offshore banking centers.
- Large, round dollar amounts.
- Funds transferred in and out of an account on the same day or within a relatively short period of time.
- Payments or receipts with no apparent links to legitimate contracts, goods, or services.
- Transfers routed through multiple foreign or domestic banks.
- Unexplained repetitive or unusual patterns of activity.
- Deposits of funds into several accounts, usually in amounts of less than \$3000, which are consolidated subsequently into one master account and transferred, often outside of the country.
- Instructions to a financial institution to wire transfer funds abroad and to expect an incoming wire transfer of funds (in an equal amount) from other sources.
- Regular deposits or withdrawals of large amounts of cash, using wire transfers to, from, or through countries that either are known sources of narcotics or whose laws are ineffective in controlling the laundering of money.
- Many small incoming wire transfers of funds received or deposits made using checks and money orders, with all but a token amount almost immediately being wire transferred to another city or country, in a manner inconsistent with the customer's business or history.
- Large volume of wire transfers from persons or businesses that do not hold accounts.

Insufficient or Suspicious Information by Customer

- The reluctance of a business that is establishing a new account to provide complete information about the purpose of business, its prior banking relationships, names of its officers and directors, and information about the location of the business.
- A customer's refusal to provide the usual information necessary to qualify for credit or other banking services.
- A spike in the customer's activity with little or no explanation.
- A customer desires to open an account without providing references, a local address, or identification (passport, alien registration card, driver's license, or social security card); or refuses to provide any other information the financial institution requires to open an account.
- Unusual or suspicious identification documents that the financial institution cannot readily verify.
- The discovery that a customer's home/business phone is disconnected.
- No record of past or present employment on a loan application.
- A customer makes frequent or large transactions and has no record of past or present employment experience.
- The customer's background is at variance with his or her business activities.
- The customer's financial statements differ from those of similar businesses.

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Other Suspicious Customer Activity

- Substantial deposit(s) of numerous \$50 and \$100 bills without apparent business purpose.
- Mailing address outside the United States.
- Frequent exchanges of small dollar denominations for large dollar denominations.
- Certificate(s) of deposit or other investment vehicle used as loan collateral.
- A large loan is suddenly paid down with no reasonable explanation of the source of funds.
- Frequent deposits of large amounts of currency wrapped in currency straps that have been stamped by other banks.
- Frequent deposits of currency wrapped in currency straps or currency wrapped in rubber bands that are disorganized and do not balance when counted.
- Frequent deposits of musty or extremely dirty bills.
- A customer who purchases cashier's checks, money orders, etc., with large amounts of cash.
- A professional service provider, such as a lawyer, accountant, or broker, who makes substantial deposits of cash into client accounts or in-house company accounts, such as trust accounts and escrow accounts.
- A customer insists on meeting bank personnel at a location other than their place of business.
- Domestic bank accounts opened in the name of a *casa de cambio* (money exchange house), followed by suspicious wire transfers and/or structured deposits (under a specified threshold) into these accounts.
- Suspicious movements of funds from one bank into another bank and back into the first bank. For example:
 - ▶ purchasing cashier's checks from bank A;
 - ▶ opening up a checking account at bank B;
 - ▶ depositing the cashier's checks into a checking account at bank B; and
 - ▶ wire transferring the funds from the checking account at bank B into an account at bank A.
- Offshore companies, especially those located in bank secrecy haven countries, asking for a loan from a domestic U.S. bank, or for a loan secured by obligations of offshore banks.
- Use of loan proceeds in a manner inconsistent with the stated loan purpose.
- A person or business that does not hold an account and that purchases a monetary instrument with large denominations bills.
- A customer who purchases a number of cashier's checks, money orders, or traveler's checks for large amounts under a specified threshold, or without apparent reason.
- Couriers, rather than personal account customers, make the deposits into the account.
- Money orders deposited by mail, which are numbered sequentially or have unusual symbols or stamps on them.

POTENTIAL ABUSIVE ACTS - TRANSACTION WARNING SIGNS WITHIN BANK OPERATIONS

The following is a substantial list of potential abusive activities employees may encounter. Employees need to be alert to these situations and report their suspicions to their supervisor. Bank employees should always think of the following steps when confronted with suspicious activities:

- Evaluate the transaction, situation, or the individual causing suspicions considering the following common warning signs.
- Assemble appropriate supporting transaction records.
- Discuss your suspicions with a supervisor or senior officer.
- If not satisfied with supervisor's action, go to someone higher up, preferably to the security officer.

BANK EMPLOYEE ACTIVITIES

- Lavish lifestyle cannot be supported by an employee's salary.
- Absence of conformity with recognized systems and controls, particularly in private banking.
- Reluctance to take a vacation.

BANK-TO-BANK TRANSACTIONS

- Significant changes in currency shipment patterns between correspondent banks.
- Increase in large amounts of cash without a corresponding increase in the filing of mandatory currency transaction reports.
- Deposits with a Federal Reserve Bank or its branches are disproportionate to the previous historical volume or volumes of similarly sized depository institutions.
- Significant turnover in large denomination bills that would appear uncharacteristic given the bank's location.
- Inability to track the true account holder of correspondent or concentration account transactions.
- A large increase in small denomination bills and a corresponding decrease in large denomination bills with no corresponding currency transaction report filings.
- The rapid increase in the size and frequency of cash deposits with no corresponding increase in non-cash deposits.

BRANCH OPERATIONS

BSA Exemption and CTR Red Flags

- Transaction activity for customers that appears to be unreasonably high given the type and location of the business.
- Exempt entities list contains numerous customers with minimal review procedures.
- CTRs are frequently incomplete or inaccurate.

Currency Red Flags

- Teller cash frequently exceeds limitation set in the bank's security program.
- Large volume of cash being deposited into a customer's account whose business would not generate this level of cash.
- Cash deposit to a correspondent account by means other than armored car.
- Large turnover in large bills or an excess of small bills from the bank accompanied by the bank's demand for large bills not normally seen in this sized bank.

Deposit/Withdrawal Discrepancies

- Kiting situations, where a large number of small checks are deposited and a few large checks are written off the account and the average account balance is generally held at very low levels given the account activity
- A large volume of deposits to several different accounts with frequent transfers of a significant portion of the balances to one account
- Checks on the account are frequently paid against uncollected funds and account balance is consistently low

Official Check Red Flags

- Significant volume of official checks and traveler checks sold for cash
- A large volume of official checks deposited into a customer's account whose business would not normally support this type of activity

Cash Shipment Red Flags

- Cash shipments which appear large in comparison to the number of CTRs filed
- Increase in cash shipments without a proportional increase in the number of accounts

**POTENTIAL ABUSIVE ACTS -
TRANSACTION WARNING SIGNS WITHIN BANK OPERATIONS**

WIRE TRANSFERS

Number and Size of Wires

- Significant number of wire transfers to/from offshore banks
- Wire transfers to/from countries known to be used to evade BSA rules
- Frequent or large wire transfers against uncollected funds
- Wire transfers involving currency exceeding \$10,000

Circumvention of Wire Transfer Controls

- Continual circumvention of wire transfer internal controls, such as ignoring approval limits
- Splitting transactions to evade authority limitations
- Lack of control of password access
- Recurrent wire transfer errors and customer complaints about errors

LENDING

Lending Production/Documentation

- Disproportionate lending out of the bank's normal territory
- Loan production a factor in officer bonuses
- Requests for large loans coupled with unsolicited buyout offers from third parties
- Loan purpose not noted
- Loan purpose inaccurately recorded

Deposit/Loan Activity Links

- Promise of large dollar deposits in exchange for favorable treatment on lending decision (e.g., deposit not pledged as collateral)
- Brokered deposit transactions where the broker's fees are paid for through loan proceeds
- Loan or deposit solicitations from entities or individuals who claim to have access to large deposits from confidential sources

Offshore Issues

- Loans to offshore companies or immediate transfer of loan proceeds to offshore companies
- Loans secured by obligations of offshore companies
- Loan transactions supported by offshore "shell" bank
- Loans collateralized by investments located in countries known to be used to evade BSA rules

CREDIT CARD AND ELECTRONIC FUNDS TRANSFERS

Controls

- No separation of duties between area issuing cards and area issuing PIN
- Substandard controls over unissued cards and PINs
- Substandard controls over returned mail which may contain returned ATM or credit cards
- Substandard controls of credit limit increases
- Substandard control over name and address changes
- No daily transaction limits established on ATM withdrawals

Operational

- Frequent failure of payment authorization system
- Unusual mail delay of cards and PINs to customers
- Circumventions of approval limits on credit cards by merchants

MISCELLANEOUS

- Frequent overrides of internal controls or intentional circumvention of bank policy
- Unresolved and frequently occurring exceptions report
- Accounts out of balance

THIRD PARTY OBLIGATIONS

- Closely held companies value is not sustained by audited financial information
- Inadequate credit information on third party obligor
- Inadequate documentation on guarantees

SUSPICIOUS CASH WITHDRAWALS OR DEPOSITS CHECKLIST

THE PURPOSE OF THIS CHECKLIST IS TO DESCRIBE RECOMMENDED PROCEDURES FOR THE IDENTIFICATION OF PERSONS WHO ATTEMPT TO INITIATE SUSPICIOUS TRANSACTIONS INVOLVING ANY TYPE OF ACCOUNT.

On occasion, persons may request the institution to accept deposits and release cash to them under unusual or suspicious circumstances. The institution may have no authority to deny deposits or to withhold funds on deposit. In many instances the institution is obligated to accept deposits to accounts and release funds. However, when the best interests of the customer and the institution would be served by at least delaying the transaction, do so if at all possible.

To protect the customer's interests and the integrity of the institution, the following procedures shall be implemented by all employees when a suspicious or unusual transaction is requested:

- The employee receiving the withdrawal request shall satisfactorily identify the person making the request in accordance with institution policy and procedure.
- Verify that funds on deposit are not subject to **any** holds.
- The person making the withdrawal request shall sign all required documents in the employee's presence.
- Any customer or other person requesting the delivery of a large sum of money in cash should be offered a cashier's check, teller's check or other negotiable document instead.
- If the person requesting the withdrawal will not accept a negotiable document, the office manager or designee should talk to the customer to verify the necessity for a cash withdrawal.
- If it appears that the customer could be the intended victim of a criminal scheme, the institution security officer should be contacted immediately. Contact with the local law enforcement agency should be made by the security officer or designee.

If a customer frequently deposits or withdraws large amounts of cash in a manner that is suspicious, the security officer should be notified of the circumstances. If appropriate, a Suspicious Activity Report should be filed.

Employees presented with deposits or withdrawals in excess of regulatory limits will be required to complete all necessary forms, and should contact a supervisor when suspicious deposits and/or withdrawals occur.

An internal report describing suspicious activity must be forwarded to the security officer within 24 hours of any incident involving significant or unusual deposit or withdrawal activity.