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Examining the International and Domestic Implications of De-Risking

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The Subcommittee on Financial Institutions and Consumer Credit met today to examine the key drivers of de-risking, the practice of financial institutions terminating relationships deemed "high risk" clients in an effort to minimize compliance risk exposure. High risk entities include many legitimate businesses such as non-profit organizations, payday lenders, and firearms sales.

"The overly-punitive supervisory and examination tactics employed by federal financial regulators that came in the wake of the financial crisis have had dramatic implications on the availability of financial products and services in all of our communities," said Subcommittee Chairman Blaine Luetkemeyer (R-MO). "Banking relationships with so-called 'high risk' clients have become cost-prohibitive for financial institutions, due in large part to heightened compliance expectations. As a result, many institutions have opted to terminate relationships. This decision has resulted in the elimination of consumer and small business access to financial products and services, a decrease in the availability of money remittances, and reduced flow of humanitarian aid globally."

Key Takeaways

- Many legitimate businesses are shut out of the banking industry because of "de-risking." A blanket prohibition on entire industries, without concern for whether or not specific businesses are legitimate, is concerning.
- De-risking can result in branch closures that can have far reaching consequences on entire communities.
- Congress should continue to carefully examine the issue to determine the key drivers of "de-risking," and consider regulatory and legislative opportunities to ensure equal and consistent access to the financial system.

Topline Quotes from Witnesses

"I am pleased to be here today to discuss our recent work on derisking and how it may be affecting the availability of banking services to customers in the Southwest border region and money transmitter who transmit money to fragile countries… 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." – Michael E. Clements, Director, Financial Markets and Community Investment, Government Accountability Office

"Financial tools, in particular Anti-Money Laundering (AML), Countering the Financing of Terrorism (CFT), and international sanctions policies have become essential instruments in protecting the integrity of the global financial system and promoting international security. In recent years, however, the consequences of these policies on some developing countries and certain sectors, such as money service businesses and humanitarian organizations have become apparent… Without the ability to transfer funds internationally, NPOs are unable to deliver vital humanitarian and development assistance… A commitment of all stakeholders… to the shared responsibility of finding solutions to the financial access

problems of NPOs is necessary to address this growing crisis." – The Honorable Sue E. Eckert, Adjunct Senior Fellow, Center for a New American Security

"De-risking is a phenomenon that has had dramatic impacts on the international financial system over the last decade… These practices have impacted the concentration of trade flows and cross-border payment activity, which challenges financial stability and inclusion for affected markets… Where there are emerging market institutions who can demonstrate their commitment to complying with international best practice, combating illicit financing and transparency more broadly, we should create avenues for their participation." – Gabrielle Haddad, Chief Operating Officer, Sigma Ratings Inc.

"It is important to note that when a credit union is serving a higher risk individual or business, they are very thorough in their evaluation and record-keeping; however, when examiners evaluate that relationship, they can be very demanding of the credit union… This additional pressure and scrutiny from examiners can lead institutions to 'de-risk' by limiting services for certain types of members… Credit unions continue to work with FinCEN and other regulators to develop ways to provide services to legitimate higher risk businesses without incurring compliance burdens and costs that are so onerous that 'de-risking' becomes the only option." – John Lewis, Senior Vice President, Corporate Affairs and General Counsel, United Nations Federal Credit Union on behalf of the National Association of Federally-Insured Credit Unions

"… while it isn't commonly realized, taken as a group, the countries of the Caribbean and Central America are the fifth largest buyer of United States' non-oil exports, and in an era when U.S. trade deficits are a flashpoint for international discourse, as mentioned before, the U.S. consistently records a surplus with the Caribbean… This trade supports hundreds of thousands of jobs in the United States and in the region. If access to banking is removed, or becomes more costly and difficult, it is likely that this healthy trade relationship will begin to be eroded." – Sally Yearwood, Executive Director, Caribbean-Central American Action