

BSA and OFAC Compliance for Volunteers



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Bank Secrecy Act History and Requirements

History

The Bank Secrecy Act, also known as the Financial Record Keeping and Reporting of Currency and Foreign Transactions Act, was created in 1970 to help in the investigation of money laundering, tax evasion, and other criminal activity.

The Bank Secrecy Act also includes a number of other acts: The Money Laundering Control Act, Anti-Drug Abuse Act, Currency and Foreign Transactions Reporting Act, and Title III of the USA PATRIOT Act.

Required Elements

The Bank Secrecy Act requires credit unions to develop BSA programs. The credit union programs must be written and approved by their board. BSA programs should have four components:

1. BSA compliance officer;
2. System of internal controls to ensure compliance;
3. Independent testing at least annually by credit union audit staff or outside auditors or consultants; and
4. On-going staff training;

Risk Assessment

Credit unions are expected to use a risk-based approach when developing their BSA/AML compliance programs. *A credit union's risk assessment should be the foundation of its compliance program.*

BSA/AML compliance program should be designed to address the risks inherent in the credit union's business—taking into account the credit union's membership, products/services and geographic location(s).



Member Identification Programs (MIP)

Credit unions are required under BSA to develop Member Identification Programs (MIP). The **purpose** of a member identification program is to assist in the detection and prevention of money laundering and terrorist financing. The member identification program should be based on the credit union's risk assessment and may vary based on the size, location, the type of business, or membership base, the credit union participates in. The Member Identification Program must be incorporated into a credit union's overall BSA program and this should be approved by the board of directors.

Who should be the focus of your program?

Generally the focus of the member identification program should be individuals opening **new** accounts, including joint signers and fiduciaries. It would generally **exclude** existing members in most cases because there should already be documentation on file such that the credit union is comfortable with the identity of those with established accounts. A credit union may consider getting additional information about an existing member with a dormant account or in accounts for existing members where the credit union is not sure that the information on record is accurate. In such cases, staff should update that information and make sure that they have accurate information about the existing member. A member identification program would **exclude** individuals who are not actually establishing a relationship with the credit union.

For instance, an individual who is coming in to simply inquire about rates would not need to be included in the Member Identification Program.

What information is required?

- Name
- Address
- Date of birth
- Identification number
(For U.S. residents — A social security number or a tax identification number.
For non-U.S. residents — An alien identification number or, in some cases, the *matricula consular* identification documentation.)

How to Verify Identity?

Member identification programs also require credit unions to **verify** the identity of the individual who is applying for membership with the credit union. Credit unions can use either **documentary** or **non-documentary** methods to verify an identity.

Some examples of documentary methods of identity verification for individuals include:

- Unexpired government-issued document
- Driver's license
- State-issued identification card
- Military identification

Documentary verification for businesses includes things like:

- Articles of incorporation
- Government-issued business license
- Partnership agreement

Examples of non-documentary methods of verification include:

- Databases (ex. ChexSystems)
- Credit Bureaus
- References from other financial institutions
- Telephone Directories

Special Cases

Beyond this, a credit union's member identification program must include procedures for special cases. For instance, in special cases it should take into account what, if any, additional identification is needed and whether or not accounts will be granted on a provisional basis until verification is complete. Credit unions should remember that OFAC checks must be done to ensure new members entering the credit union are not on the OFAC list.

Member Due Diligence

Member due diligence is a **requirement** for credit unions and member due diligence policies are expected to aid in the detection of unusual and suspicious activity. Basically, an effective due diligence program will require a credit union to obtain additional information about potential members beyond the four standard items required by the Member Identification Program (name, address, date of birth, and identification number). The idea here is to "**Know Your Member.**"

Obtaining this information at account opening should help enable the credit union to predict the normal and expected activity on a particular account. This is important because credit unions often mention the difficulty in developing suspicious activity programs to monitor such activity in membership accounts. If the credit union establishes a base line understanding of what normal and expected activity on