

UNITED STATES DEPARTMENT OF THE TREASURY



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## **FinCEN Penalizes California Bank for Egregious Violations of Anti-Money Laundering Laws**

**WASHINGTON**—The Financial Crimes Enforcement Network (FinCEN) today announced the assessment of a \$7 million [civil money penalty](#) (CMP) against Merchants Bank of California of Carson, CA for willful violations of several provisions of the Bank Secrecy Act (BSA). The Office of the Comptroller of the Currency (OCC), the primary federal regulator of Merchants, has identified deficiencies in the Bank's practices that resulted in violations of previous consent orders entered into by Merchants, as well as other violations. The OCC simultaneously assessed a \$1 million CMP against Merchants for these violations.

Merchants failed to (a) establish and implement an adequate anti-money laundering (AML) program, (b) conduct required due diligence on its foreign correspondent accounts, and (c) detect and report suspicious activity. Merchants' failures allowed billions of dollars to flow through the U.S. financial system without effective monitoring to adequately detect and report suspicious activity. Many of these transactions were conducted on behalf of money services businesses (MSBs) that were owned or managed by Bank insiders who encouraged staff to process these transactions without question or face potential dismissal or retaliation. Bank insiders directly interfered with the BSA staff's attempts to investigate suspicious activity related to these insider-owned accounts.

"The banking of money services businesses is important to the global financial system, and we believe that banks can mitigate the risks associated with such businesses, just as they do with other customers," said FinCEN Acting Director Jamal El-Hindi. "But here we had an institution run by insiders essentially to provide banking services to MSBs that the insiders owned, combined with directions from Bank leadership to staff to ignore BSA requirements with respect to those MSB customers and others. It is certainly not an acceptable way to bank MSBs."

Merchants specialized in providing banking services for check-cashers and money transmitters. However, it provided those services without adequately assessing the money laundering risks and without designing an effective AML program. Merchants also provided its high-risk

customers with remote deposit capture services without adequate procedures for monitoring their use.

Merchants failed to provide the necessary level of authority, independence, and responsibility to its BSA officer to ensure compliance with the BSA as required, and compliance staff was not empowered with sufficient authority to implement the Bank's AML program. Merchants' leadership impeded BSA analysts and other employees from investigating activity on transactions associated with accounts that were affiliated with Bank executives, and the activity in these accounts went unreported for many years. Merchants' interest in revenue compromised efforts to effectively manage and mitigate its deficiencies and risks.

In addition, Merchants banked customers located in several jurisdictions considered to be high-risk but did not identify these customers as foreign correspondent customers and therefore did not implement the required customer due diligence program. In a three-month period, Merchants processed a combined \$192 million in high-risk wire transfers through some of these accounts.

The Bank's payment of the \$1 Million OCC penalty will be credited towards the satisfaction of the FinCEN penalty. FinCEN's settlement with a financial institution does not preclude consideration of separate enforcement actions that may be warranted with respect to any financial institution or any partner, director, officer, or employee of a financial institution.

FinCEN seeks to protect the U.S. financial system from being exploited by illicit actors. Its efforts focus on compromised financial institutions and their employees, significant fraud, third-party money launderers, transnational organized crime and security threats, and cyber threats. FinCEN has a broad array of enforcement authorities to target both domestic and foreign actors affecting the U.S. financial system.

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*FinCEN's mission is to safeguard the financial system from illicit use and combat money laundering and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.*