Making a Mystery Of How to Comply With Patriot Act

From: American Banker

Wednesday, May 19, 2004
By Paul Nadler

Regulators have made meeting the USA Patriot Act's requirements much harder than it needs to be, bankers at a recent Rutgers University seminar said.

Everyone on the panel -- five bankers and four regulators -- agreed with the goal: to discourage the funding of terrorist activities.

The means were another thing.

The meeting was inspired by Gerry Lipkin, the CEO of New Jersey's Valley National Bank. The head of Rutgers' new Financial Institutions Center had asked him to suggest a topic for an inaugural event that would be of real value.

In some ways, things have improved since the post-9/11 law's first year. At first regulators overwhelmed banks with requests to search their records for suspected money launderers and terrorists. The Treasury finally ordered a temporary moratorium.

But finding information in bank records that would avert another attack would be like finding a needle in a haystack, bankers at the Rutgers seminar said. After all, the 9/11 attacks cost only $300,000 to finance, and banks transfer billions of dollars a day.

In addition, the bankers complained that enforcement remains rigid, inscrutable, and vague. They want benchmarks--for example, lists of sensitive areas, sensitive transactions, and nations to which money transfers should arouse suspicion.

One banker said: "We went to the regulators and said, 'Give us a list of the 20 things you want us to do and we will do them.' 'No,' replied the regulator. 'You tell us 20 things you are doing and we will tell you if that is enough.'"

Bankers also said they want timely responses to their requests for clarification. And they expressed some complaints about the law itself.

One was about the requirement that they report cash transactions of $10,000 or more. The number is about 25 years out of date, they said; it should be updated to reflect a quarter-century of inflation.

One panelist said community banks have the hardest job in Patriot Act compliance because they have relatively few accounts over which to spread the cost. And violations carry fines of up to $1 million, which could kill a community bank or a check-cashing service in short order.

"At our bank alone we have a million customers and handle five million pieces of paper a day," Mr. Lipkin said. "We are writing programs that monitor cash deposits made after a customer visits the vault." A team at Valley National does nothing but scrutinize large cash transactions and file suspicious-activity reports, he said.

Regulators at the meeting expressed some sympathy but warned the bankers to take the act seriously. Several stressed that it is mandatory to verify documents such as Social Security cards and driver's licenses, and that banks
must keep copies and explain why to new depositors.

And here's an example of what not do. Don't be like the bank that kept no record of who attended Patriot Act training programs.

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