

The BSA Examiner®

A Quarterly Publication from Wayne Barnett Software
Volume 96, 4th Quarter 2024

The BSA Examiner is a quarterly newsletter published by Wayne Barnett Software. If you have a question to ask or a story to tell (we promise anonymity), please call us at 469-464-1902.

Case #1—The waiting is the hardest part.

No ma'am and sir, we aren't channeling our inner Tom Petty. But since you asked, did you know The Waiting was released in 1981 (43 years ago). It was just another album cut until it was re-released twelve years later (1993)—and then it went to #1 on the Billboard 100. One more piece of trivia: Tom Petty credited Janis Joplin for this phrase. Janis famously said, "I love being on stage; everything else is just waiting."

Most of us can relate to Tom and Janis—and that's especially true for community bankers going through the merger and acquisition (M&A) process.

"We have a deal ready to go," said a banker we recently spoke with. "We want to be in oil and gas lending. The family that owns the bank wants to sell. But the regulators are saying **Nope—not until the selling institution improves its BSA rating.**"

"Can someone please explain this to me?" said the acquiring banker. "We have strong ratings in all areas. We are 30x larger than this bank and promise to immediately resolve the regulator's concerns. Why is there a holdup?"

We reached out to the regulator; their response: "We understand how this seems punitive but it's not. When it comes to M&A, we don't issue provisional approvals. If the management of a bank has M&A plans it must have satisfactory ratings in all areas before we'll start the approval process."

So, what does the selling bank have to say? "Yes, we have BSA issues. We hired three compliance managers in the past five years, and none stayed long enough to fix the problems. We now have three months to implement remedial issues before the regulators issue their next order and I doubt anything we do will assuage them. Jeez ... why don't they just let us sell?"

If you think this is a mess, you're right. And based on our 40+ years of experience, we outline our predictions for what's next.

1. The selling bank will have to hire an experienced BSA officer. And because that person knows the job will only last 2-3 years, it will be at a premium salary. We estimate a cost of \$175,000/year for 2.5 years. If we include relocation costs and a performance bonus, we estimate a total expense of \$500,000.
2. The bank will have to go back in time 2 – 3 years (at a minimum to 01-01-2023, and possibly to 01-01-2022) and look forward for missed suspicious activity and CTRs. It will have to acquire a BSA system to automate the process and pay the core system vendor to create the necessary files. Estimated costs: \$150,000 - \$250,000 to the core system vendor, and \$400,000 for the BSA system. (Note: most BSA vendors require a commitment of five years, with a one-year termination fee—hence the large cost. For the record, Barnett Software still has annual agreements and no termination fee.)

3. A cease-and-desist order (C&D) will be coming but won't be delivered until the BSA operations are cleaned up and the bank acquisition is approved. The fine from the C&D will be 10% – 15% of the sales price (an estimated expense of \$2 million).

Bottom line: BSA issues derail 20 – 25% of M&As. If your bank is hoping to sell in the next 3 – 5 years, get your BSA operations in order now. M&A delays can take 2-3 years to resolve and be far more expensive than you imagined.

Case #2— Make that connection.

Continuing with our Tom Petty theme (and kudos to you if you know this song as it was never on an album—only on a 1987 B side), BSA exams will soon be more difficult. Please let us explain.

1. In his first administration, President Trump vetoed just one bill: the National Defense Authorization Act (NDAA) of 2020. Congress overrode the veto and the NDAA became law.
2. This massive bill did many things—including strengthening FinCEN's authority to impose and revise anti-money laundering (AML) rules.
3. FinCEN previously announced intentions to use its new authority in a robust matter. However, the pandemic altered things and AML rules barely changed from 2021 – 2024.
4. But change is coming. Specifically, banks will soon have to prove they are actively searching for money laundering.

How, you ask, can the regulators determine that your bank is actively searching for money laundering? A strategy shared with us by one agency is outlined below.

1. Can your bank easily spot related party transactions that warrant a CTR? For example, if two people that are signors on each other's accounts and they both deposit \$6,000 in cash, is your bank automatically alerted to the need for a CTR?
 - a) If your answer is "yes" then congratulations! You're on the right track!
 - b) If your answer is "no" (and banks/credit unions that don't have an AML system will usually answer "no"), your institution will be ordered to automate its BSA operations.
2. "The strategy for our agency will include asking for a list of all inter-account transaction relationships," said a senior regulator we spoke with. "More specifically, the bank needs to know which of its consumer accounts have owners and signors that can access multiple accounts." (For example, an adult woman who can access her account and her parent's account.) "To the best of my knowledge," said the regulator, "no core banking system has this feature built in."
 - a) If your bank can't produce this list, it will be ordered to improve its BSA operations. (Note: the only way we know to address this is to automate your BSA function.)

3. Assuming that your bank can produce the aforementioned report, the next thing the regulators will want is a list of cash transactions for these related accounts.
 - a) All BSA systems could produce such a report.
 - b) However, two widely used BSA systems consider this a “special report”, and they charge extra for it. (And, trust us, you will grimace when you hear the charge. This one report from the big guys costs about the same as we charge for six months of comprehensive service.)
4. The regulators will review the cash transactions to see if any CTRs were missed. If they find three or more missing CTRs from the past year ... well, that will be really bad.

“We anticipate more banks being cited for BSA issues in the next two years, than any time in the past,” said the regulator. We ask why and they responded, “No one will publicly say that DOGE is creating apprehension—but it is. And more things get cited when jobs are on the line.”

If you like the commonsense stories we tell in our newsletters, you'll love our easy-to-use software. We remove the complexity from your AML/BSA/risk rating operations. Likewise, we bet our fraud detection features saves you more each year than our software costs.

We are Wayne Barnett Software. We're not a big company, but our products compare nicely with Verafin, Abrigo and the other corporate behemoths (none of whom will care about you as much as we do!) You can contact us at rrigdon@barnettsoftware.com or 469-464-1902. Thanks for reading our newsletter.