

US Escalating Money Laundering Probes

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US banks warned to be more proactive in identifying 'dirty money'

Wachovia Bank recently agreed to pay \$160 million to settle allegations by the Treasury and Justice departments that it operated with a weak anti-money laundering regime between May 2003 and June 2008. Thanks to its lack of AML controls, Wachovia unwittingly laundered a significant amount of cocaine proceeds on behalf of Mexican *casas de cambio*, entities that are notorious for laundering drug proceeds smuggled across the US-Mexico frontier.

Authorities in both the United States and Mexico have publicly recognized the homeland security threat posed by this dirty cash that flows virtually unchecked across the international frontier.

While the fine suffered by Wachovia is relatively large, it is not the first bank targeted by Treasury and Justice for laundering drug money for Mexican *casas de cambio*. In September 2007, Union Bank of California agreed to pay \$31.6 million for similar transgressions. While both banks suffered financial and reputational damage for their failures to adequately combat drug money laundering, there is a back story that has not received attention from the mainstream press.

In April 2006, Treasury authorities warned US financial institutions to be on the lookout for drug money flowing back into the United States from Mexico. This "advisory" noted that drug trafficking organizations were increasingly smuggling their dirty cash into Mexico. Ironically, the USA Patriot Act of 2001 was in part to blame. The Patriot Act, which aimed to combat terrorist financing, tightened AML controls and made it more difficult for drug traffickers to launder their ill-gotten gains by depositing them directly into US financial institutions.

As a result, drug traffickers must smuggle more of their dirty money south of border for deposit into Mexican banks and *casas de cambio*. Some of these institutions, which either lack AML controls or openly embrace drug money, hold so-called correspondent accounts at US financial institutions. They pump drug traffickers' dirty money into and through these interbank accounts, thereby allowing the traffickers to enter the US financial system through a "back door" – for a healthy fee of course.

Fortunately, Immigration and Customs Enforcement, the largest investigative agency in the Department of Homeland Security, is well aware of this activity, as are other law enforcers and bank regulators. However, as long as the veritable river of drug cash continues to flow southward into Mexico, these funds are going to find their way back into the US financial system via American banks with perilous risk appetites and weak AML controls.

If such banks ignore the penalties suffered by Wachovia and UBOC, they are doomed to experience similar fates, if not worse. In light of the recent murders of a US consular employee and her husband in Mexico, ostensibly by drug traffickers, and the grave homeland security

threat posed by these narco-terrorists, US authorities are sure to escalate their enforcement of money laundering laws and AML regulations. Drug traffickers will no doubt continue to make it through the "back door" into the US financial system, but when this occurs, the bank that was charged with guarding that door will pay a dear price.

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