

Lending Activities — Overview

Objective. *Assess the adequacy of the bank’s systems to manage the risks associated with lending activities, and management’s ability to implement effective due diligence, monitoring, and reporting systems.*

Lending activities include, but are not limited to, real estate,²⁴⁰ trade finance,²⁴¹ cash-secured, credit card, consumer, commercial, and agricultural. Lending activities can include multiple parties (e.g., guarantors, signatories, principals, or loan participants).

Risk Factors

The involvement of multiple parties may increase the risk of money laundering or terrorist financing when the source and use of the funds are not transparent. This lack of transparency can create opportunities in any of the three stages of money laundering or terrorist financing schemes. These schemes could include the following:

- To secure a loan, an individual purchases a certificate of deposit with illicit funds.
- Loans are made for an ambiguous or illegitimate purpose.
- Loans are made for, or are paid for, a third party.
- The bank or the customer attempts to sever the paper trail between the borrower and the illicit funds.
- Loans are extended to persons located outside the United States, particularly to those in higher-risk jurisdictions and geographic locations. Loans may also involve collateral located outside the United States.

Risk Mitigation

All loans are considered to be accounts for purposes of the CIP regulations. For loans that may pose a higher risk for money laundering and terrorist financing, including the loans listed above, the bank should complete due diligence on related account parties (i.e., guarantors, signatories, or principals). Due diligence beyond what is required for a particular lending activity varies according to the BSA/AML risks present, but could include performing reference checks, obtaining credit references, verifying the source of collateral, and obtaining tax or financial statements on the borrower and any or all of the various parties involved in the loan.

The bank should have policies, procedures, and processes to monitor, identify, and report unusual and suspicious activities. The sophistication of the systems used to monitor lending account activity should conform to the size and complexity of the bank’s lending business. For example, the bank can review loan reports such as early payoffs, past dues, fraud, or cash-secured loans.

²⁴⁰ FinCEN has published [strategic analytical reports](#) on trends and patterns relating to mortgage loan fraud as well as money laundering through commercial and residential real estate.

²⁴¹ Refer to the expanded overview section, “Trade Finance Activities,” page 267, for additional guidance.