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AARO 2020 Advocacy Survey Results

Article 4: Outing the US Banks

Which ones dump us and why?

By Doris L. Speer

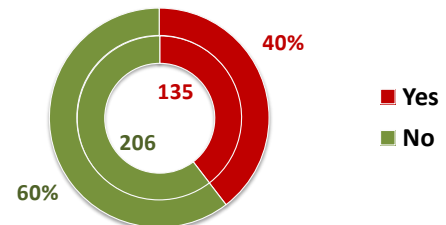
March 29, 2021

In this article we address why many of you have found it difficult to maintain savings/checking accounts and/or investment/brokerage accounts in the US. We see that you also have issues with US retirement and local bank accounts, which we will cover in future articles.

We can't get basic US bank accounts

135 of you (40%) have had a US bank refuse your business. One of you even *"received a check in the mail without warning!"* One person who lost an account *"had been banking there for 25 years!"*

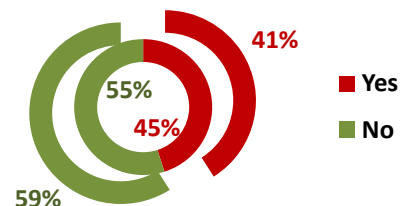
Has a US Bank Refused Service?



We also lose US investment and brokerage accounts

Almost half of our respondents overseas have found US investments difficult, if not impossible. The inner circle shows that 107 of you (45%) who tried to open a US investment account were refused, while 55% had no problem. As you can see by the outer circle, 112 of you (41%) who did manage to have a brokerage account found it, however, either liquidated or restricted. *"We were poison,"* per one of you. In another case, the bank *"threw me out in 2018 and nobody would take up my investment account elsewhere."*

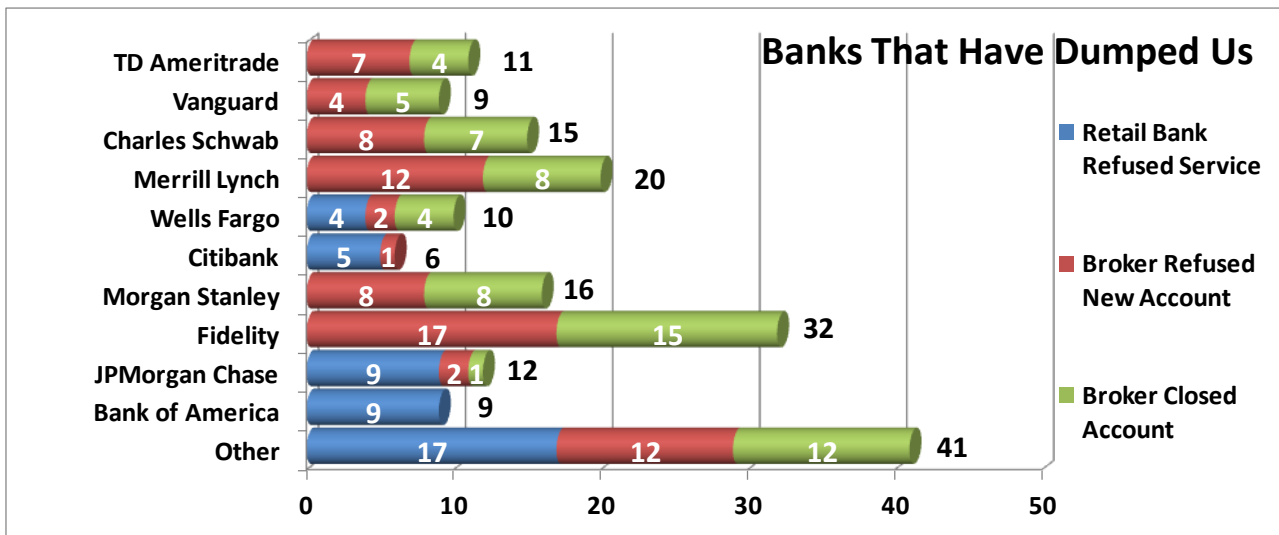
Has a US Broker Refused Service?



Inner: Broker Refused to Open Account?
Outer: Broker Closed Account?

Which banks do this?

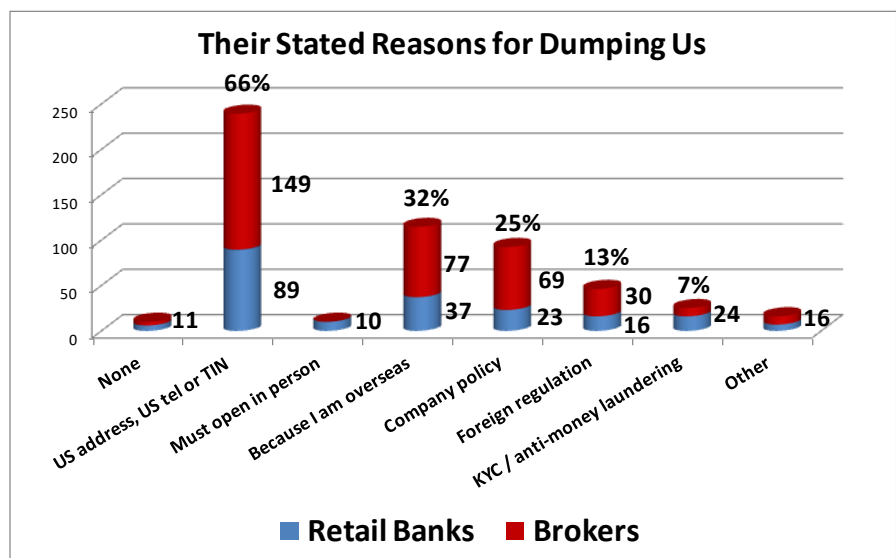
“All companies that I contacted refused to open an account from me.” The most popular and well known institutions have dumped overseas Americans, as you can see by the below chart, which indicates how many times each institution was cited by survey respondents. One of you simply wrote “NUMEROUS,” which says it all. Another had been a “client since 1978.”



Of the 23 institutions in the “Other” category, T. Rowe Price, PNC, Citizens and US Bank had 4 citations each. Fidelity is, by far, the most cited “worst offender” with 32, but others will not be far behind. For example, Wells Fargo announced in January 2021 that it will exit all international business and start a “methodical exit process” for existing international accounts, which it expects to complete by September 2021.

Why do they say they do it?

As you can see by this chart, the issue most cited by far (by 238 of you) is lack of US address, US telephone number or a tax identification number (TIN, or your SSN) (66%). Next, the banks tell you that they refuse you because you are overseas (32%) and/or because of company policy (25%). As you will see below, these reasons are related and are based on the same underlying issues.



So, why is this happening?

FATCA is not the villain here, although the implementation of FATCA did have the unintended consequence of drawing attention to other compliance restrictions that were previously ignored. As one of you said, “*FATCA came into force, the world changed.*” But, a US bank rejects a US expat’s US account in order to reduce its legal and financial exposure due to banking laws in your country of residence and US money laundering rules. The banks are telling you the truth.

European regulations

For those who live in Europe, two European regulations play a huge role: The Alternative Investment Fund Managers Directive (AIFMD) would apply extraterritorially to any mutual fund (including from the US) when its investor has an address in the EU. The Markets in Financial Instruments Directives (MIFID 1 and MIFID 2), which were designed to ensure market transparency and investor protection, apply to US-based global asset managers who do business in Europe.

Long story short: EU regulations impose onerous requirements on financial professionals who market their products to European residents (such as risk management, transaction reporting and disclosure). These regulations, intended for EU customer protection, but in effect create a captive market for EU banks and fund managers, require affected firms to make costly changes to their businesses. Many US firms do not want to risk their relationships with European regulators, nor expose their banking functions to this regulatory oversight, nor risk fines for failure to comply, for what they consider to be a small population of clients. So, they prefer to reject mutual fund and brokerage accounts for American clients living in Europe.

Bottom line: US citizens residing in Europe are, for all practical purposes, excluded from accessibly-priced US-based investment products. The same would likely be true for Americans living elsewhere in the world whose local laws are similar to Europe’s.

“Know Your Customer” laws

The proliferation of anti-money laundering regulations (also known as “know your customer” (KYC) rules) is another culprit, affecting US personal and investment bank accounts of overseas Americans, wherever they live in the world.

The US Patriot Act (established following 9/11) made KYC mandatory for banks in order to combat money laundering and terrorism. Over the years, enforcement has been stepped up, reflecting an enhanced focus on cross-border activity. KYC requires US banks to confirm identification of the client so to assess an account’s risk, so many banks developed algorithms to score clients against internal risk matrices. Being non-resident is deemed a high risk, so these algorithms are likely to indicate a higher risk score for an account with a non-US address. As a result, certain

transactions in this account trigger an enhanced due diligence. Many US banks have found it not worthwhile from a cost benefit analysis standpoint to service non-resident clients, so, they refuse their business.

Bottom line: Many overseas US citizens have great difficulties maintaining US checking and savings bank accounts. Even worse, they are widely excluded from typical or low cost US investment/brokerage accounts.

Solutions are elusive for some

Banks do not all react in the same manner; an individual bank does not treat all its customers equally. This is why some of you have been rejected by one bank or firm while others have not. US expats are treated differently due to a variety of factors, such as country of residence; the bank's internal procedures, its appetite for due diligence and its grandfathering policy; the relationship one has with the bank; the amount of money in the account; the number and kind of transactions in a year; and/or timing (unfortunately, a bank may still be assessing these evolving laws).

What is difficult is that you likely won't know much ahead of time if your account is in jeopardy of being closed. If you have not yet been contacted by a bank cited in this article, you may or may not be. Just in case, it would be best to lay low (try to avoid irregular or large cross-border transfers) while researching alternatives.

Following are some suggestions for alternatives: Although not as diversified a strategy as US index funds, one could still purchase individual stocks and bonds; the market has been trying to fill this gap. Some US brokers may still be willing to work with Americans abroad who have an independent financial advisor to conduct the due diligence, although this "double layer" solution would be costly. One of you said "*Only Etrade and interactive brokers seem to accept US citizens in France.*" Also, one may try to open an account with a small, locally-operating US institution, which may be more flexible. Finally, the State Department Federal Credit Union gives accounts to members of American Citizens Abroad as well as to members of the American Consumer Council (which did and may still accept non-residents).

But, some of you have found solutions at your own bank. One person has "*avoided this problem by going through a financial advisor who "knows" me and assumes responsibility.*" A few others also managed: "*problems with foreign address, finally resolved*" and "*closed my account without warning. Reopened at my request.*"

Of course, the easiest solution for Americans abroad who split their time with the US is to maintain their US address. For those who have fully moved overseas, you should resist subverting the rules by using a family member or friend's address, lying to your bank or brokerage firm, or using an online "street address" service. As you say, we shouldn't have to do that: "*Of course, I would prefer that these arrangements be straightforward.*" And, many of you tell us that it doesn't work anyway: "*They did not accept the US residence address I provided and determined I*

could not use their services because my main residence was France,” “Not just US address but actual US residence,” and “Need demonstrated US address 183 days a year.”

AARO’s efforts and advocacy

AARO is always on the lookout for solutions and will continue to educate our members of developments in this area. We call for changes in US law and regulation to require US banks to provide services to overseas US citizens while satisfying their KYC requirements in order to correct the injustice caused by US financial institutions rejecting Americans on the sole basis of their overseas address.

The Association of Americans Resident Overseas (AARO) researches issues that significantly affect the lives of overseas Americans and keeps its members informed on these issues. Founded in 1973 and headquartered in Paris, AARO is an international, non-partisan association with members in 46 countries. For more information please email us at contact@aaro.org.

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