

ANTI-MONEY LAUNDERING TRAINING PROGRAM  
OF GREATER FOX CITIES HABITAT FOR HUMANITY

by

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## TABLE OF CONTENTS

	Page
FIELD PROJECT .....	1
Introduction .....	1
Habitat for Humanity Background.....	3
Money Laundering.....	4
Anti-Money Laundering Act.....	4
AML Policy of Greater Fox Cities Habitat for Humanity .....	5
Training Program .....	5
Developing a Training Program.....	6
Explanation of Organization’s Policies .....	7
Introduction on How to Identify Suspicious Activity and Red Flags .....	8
Procedures to Follow when Risk is Identified .....	8
Introduction of Required Forms.....	9
Recordkeeping and Reporting Requirements .....	9
Disciplinary Action for Non-compliance.....	10
Defining Who Needs to be Trained .....	10
Developing Calendar/Timeline for Training .....	10
 MORTGAGE PROCEDURES .....	 12
Audit of Current Mortgage Procedures .....	13
Documenting Activities .....	13
Developing Calendar/Timeline for Risk Assessment and Annual Review ..	14
 AML TRAINING PROGRAM FOR HABITAT FOR HUMANTY .....	 15
Step 1 - Habitat for Humanity AML Policy.....	15
Step 2 - Money Laundering and How it is Defined .....	15
Required Customer Information – Minimum ID Requirements.....	16
Refusal to Provide Information.....	16
Step 3 - How to Identify “Red Flags” .....	16
Step 4 - Risk Identification .....	19
Step 5 - Suspicious Activity and BSA Reporting .....	20
Step 6 - Records Retention .....	21
Step 7 - Disciplinary Actions for Non-compliance.....	22

TABLE OF CONTENTS (Continued)

	Page
Conclusion .....	22
REFERENCES .....	24

## GLOSSARY

AML	Anti-Money Laundering
BSA	Bank Secrecy Act
FinCEN	Financial Crimes Enforcement Network (U.S. Treasury Dept.)
OFAC	Office of Foreign Assets Control (U.S. Treasury Dept.)
RMLO	Residential Mortgage Lenders and Originators
SAR	Suspicious Activity Report

## Field Project

### Introduction

The purpose of this project is to review Habitat for Humanity existing policy on anti-money laundering and propose any needed changes in accordance with recent federal and state legislation. After reviewing the Anti-Money Laundering policy of Greater Fox Cities Habitat for Humanity, I noticed that their training program has been in place but not implemented as the law requires. “Bank Secrecy Act requires all dealers to develop and implement an anti-money laundering (AML) compliance program that complies with the Bank Secrecy Act” (FINRA, n.d.). The amount of money that is illegally laundered in United States estimates to be in hundreds of million dollars each year. In 2012 FinCEN and US Department of Justice issued more than one hundred AML enforcement actions against institutions and their employees. This is mostly due to not having AML policy in place which directly affect employee training on current procedures and law regulations (Bruemmer & Alper, 2013), and results in huge fines and penalties.

The United States has been investing billions of dollars into anti-money laundering regulations, and yet we continue to experience substantial fines for non-compliance. “According to PwC US, many financial institutions commit inadequate attention and resources to maintaining and sustaining the core components of AML programs, leaving them vulnerable to the many risks associated with AML noncompliance” (ABA, 2014). The AML drift occur when the system and compliance program lacked monitoring,

updating, and maintaining accounts. Substantial numbers of changes effected the implementation of the program which at the end makes their current program obsolete. That is why organizations have to make sure that they are following up with regulation changes as well as with their customers. Regulations require yearly risk assessment and maintenance of the AML program along with training requirements. The cost of noncompliance can seriously effect organizations and their future, and that is why firms have to step up and ensure that their reprogram is up to date and their employees are informed and properly trained.

Because of the lack of education in many organizations, I decided to devote my field project to this matter and suggest processes and changes that will help Habitat moving forward and better comply with the regulations. With a couple of areas that I will be focusing on are: (1) the development of a training program and (2) defining who needs to be trained, (3) audit the current mortgage procedures to make sure that they are in compliance, (4) review and document needed activities on ongoing basis to stay in compliance. I will review organization's risk assessment that consists of monitoring suspicious activities and record retention requirements and ensure that they are all up to date and in compliance with the current law. Also I will develop a calendar/timeline to ensure that they conduct the training and annual reviews as a mandatory requirement. In this paper, I will concentrate on these four areas of the training requirements and suggest additional processes in order to develop better training program that will fulfill their current needs.

## **Habitat for Humanity Background**

The Greater Fox Cities Habitat for Humanity organization was founded in 1993. They have been operating as a non-profit organization that is dedicated to helping low income families build affordable housing. Their mission is to bring community together to build homes using volunteer labor, and the home is sold for no profit which means that homeowners do not pay interest on their mortgages. The community level office works on behalf of Habitat for Humanity International and was founded in 1976. Since then they have helped more than four million people all over the world, constructing new houses, and rehabilitation or preservation of existing homes, which makes them the largest non-profit house builders in the world (Habitat, 2014a).

On a local level, Greater Fox Cities Habitat for Humanity has built over 200 homes providing affordable homes to nearly 500 people in the community (Habitat, 2014a). The organization's leadership believes that housing is part of human life, health, quality of life, and economic prosperity. Programs offered by Habitat for Humanity are: home ownership, neighborhood revitalization, and "*Almost Home*" program.

The home *ownership program's* goal is to: "build affordable housing...through volunteer labor and donations of money and materials, Habitat builds and rehabilitates simple, decent homes with the help of Habitat partner families. Habitat homes are then sold to partner families at no profit and financed with affordable, no-interest mortgage loans"(Habitat, 2014c). The *neighborhood revitalization* program's goal is to help low-

income homeowners address health and safety issues in their homes and preserve the appearances of their homes with zero-percent interest repair loans. Partnering with a variety of organizations provides the volunteers and resources needed to repair homes at a reduced and affordable rate. The *almost home* is a program that "...helps families meet the financial requirements for Habitat home ownership and assists current Habitat homeowners during financial emergencies" (Habitat, 2014c).

### **Money laundering.**

Money laundering is generally defined as "engaging in acts designed to conceal or disguise the true origin of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets" (NASD, 2002). It occurs in three stages. First money is introduced into the system by some means which is called *placement*. Then it involves transaction to hide the source – *layering* and the final step involves the wealth generated by this transaction – *integration*. Money laundering occurs in connection with a wide variety of crimes, including, but not limited to, drug trafficking, robbery, fraud, racketeering, and terrorism" (Stark & Co., Inc., n.d.).

### **Anti-money Laundering Act.**

On October 26, 2001, President Bush signed "the uniting and strengthening America by providing appropriate tools required to intercept and Obstruct Terrorism Act of 2001" (FinCEN, 2007). "Title III of the PATRIOT Act, referred to as the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001 (Money Laundering

Abatement Act), imposes obligations on broker/dealers under new anti-money laundering (AML) provisions and amendments to the existing Bank Secrecy Act (BSA) requirements” (Glass, 2007). “Anti-Money laundering term is used in financial and legal industries that describe legal control to detect, prevent and report money laundering activities” (FINRA, 2014) within the organization. Anti-Money Laundering Act requires all financial institutions to establish and implement the policy within the organization” (FINRA, 2014).

#### **AML policy of Greater Fox Cities Habitat for Humanity.**

Last updated in July of 2012 the Anti-Money laundering policy of Habitat for Humanity has been in the place since 2001 making sure that organization is in compliance. The policy contains a statement informing its members of “...prohibiting money laundering and its overall efforts to detect, deter, and prevent any such violations” (Habitat, 2014b). The organization is required to update, review and train employees, non-constructive, and voluntary workers on all law changes as needed. According to Habitat’s compliance officer, they will be reviewing current policy on an annual basis to make sure that they are in compliance with the law.

#### **Training program.**

It has been brought to my attention by the organization’s compliance officer that the current training program has not been followed on a regular basis and in this paper I will make necessary recommendation for whom, how often and on what the training will be

performed in the future. Also, I will make necessary changes and additions to the policy which can be used as the future to maintain the training requirements.

The training program of Habitat for Humanity states that they will develop and provide ongoing training of their employees and any volunteers who perform administrative duties (Habitat, 2012b). Training will occur on at least an annual basis. The training offered will include, at a minimum, the following:

- How to identify “red flags” and signs of money laundering;
- What to do after the risk is identified;
- The employee’s role in Habitat's compliance efforts;
- Habitat’s record retention policy related to AML compliance; and
- Disciplinary consequences (including civil and criminal penalties) for non-compliance with the BSA.

The compliance officer will ensure the maintenance of records, who received the training dates and subject matter, as well as refresher training as needed. “New hire non-construction employees/volunteers shall receive AML training within two months of commencing employment/volunteer time with Habitat”. (Habitat, 2012b)

### **Developing a Training Program**

Residential mortgage lenders and originators (RMLOs) -- known as "mortgage companies" and "mortgage brokers" but not individual loan originators -- now are subject to the Bank Secrecy Acts (BSA), an anti-money laundering regime pursuant to a long expected new regulation backed by "FinCEN" (MRA, 2012). According to FinCEN

Financial Crimes Enforcement Network website, the compliance officer's duty is to “develop and provide ongoing training for all employees and any volunteers who perform administrative duties. One of the key components of an effective compliance program for any organization is employee training which must include: explanation of the organizations policies and procedures, introduction on how to identify suspicious activity and red flags, procedures to follow when risk is identified, introduce required forms, recordkeeping and reporting requirements, and disciplinary action for non-compliance”. (FinCEN, 2011) Before training, all employees are required to review and sign an acknowledgment form that will be retained in their personnel file. Habitat for Humanity will keep records to prove that employees have received necessary training until separation of employment.

### **Explanation of organization's policies.**

This process is done by compliance officer or designated trainer. It is important that employees are informed on Habitat for Humanity AML policy, procedures, and controls and why it is important, who is their AML Compliance Officer, and explain the training procedure and what will be accomplished. An introduction to the components of an AML Program are: what is AML and requirements to comply with laws and regulations, what is SARS and why they need to file reports, who needs to follow and why they need to follow written anti-money laundering policy of that organization.

**Introduction on how to identify suspicious activity and red flags.**

This is one of the most important parts of the training. Filing and notification procedures need to include: what to file, where to file, mandatory notifications to law enforcement and voluntary notifications. Training has to cover the importance of the keeping information confidential and non-disclosed.

**Procedures to follow when risk is identified.**

Suspicious activity needs to be reported and documented when the one suspects or has a reason to suspect suspicious transactions that involve \$5,000 or more. Necessary documentation needs to be filled within 30 days. Structuring a transaction occurs when one tries to bribe an employee to not file a report or when large transactions are broken into two or more smaller transactions to avoid reporting. This is a federal crime, and it needs to be communicated clearly to all employees. When filing a report one has to make sure that the documentation contains all necessary information: a description of unusual activity; the conduct that raised suspicion; was the transaction attempted or completed; who benefited from the transaction and why; and what explanation was given to the customer. Also, the report has to include height, weight, age, clothing, and any unusual activity that happened. Customers should never be informed that the report is being filled for them; only individuals that are legally entitled to know should be informed.

**Introduction of required forms.**

Form 109 needs to be filled out when suspicious activity is detected. Instructions on how to fill the report are included in the form and should be carefully reviewed. (FinCEN, 2012)

**Recordkeeping and reporting requirements.**

Federal law requires to file a suspicious activity report, and also states that "...the law provides that a financial institution, and its directors, officers, employees and agents, that make a disclosure of any possible violation of law or regulation, including in connection with the preparation of suspicious activity reports, shall not be liable to any person under any law or regulation of the United States, any constitution, law, or regulation of any State or political subdivision of any State, or under any contract or other legally enforceable agreement (including any arbitration agreement), for such disclosure or for any failure to provide notice of such disclosure to the person who is the subject of such disclosure or any other person identified in the disclosure." (FinCEN, 2007). The final rule of RMOLs requires the financial or loan officer to maintain up-to-date AML policy in place, and always to file report on suspicious activities. As of July 1<sup>st</sup> 2001, FinCEN requires "all forms to be filled electronically. Extensions and exceptions are made in certain situations when the person who files a report does not have access to a computer and the Internet. Once filled, forms have to be stored in a secure location and kept on file for 5 years". (FinCEN, 2012)

**Disciplinary action for non-compliance.**

Failure to comply with Habitat for Humanity AML programs and policies may result in criminal and civil penalties against the individual and the organization. Penalties may include imprisonment, monetary fines, and loss of business. Employees may be subject to disciplinary action by the company, up to and including termination of employment as a result of such activities.

**Defining Who Needs to be Trained**

Under the Federal law all employees and volunteers who preform administrative duties need to be trained on company's AML policy laws and requirements. Training should occur on an annual basis, and it should include all the necessary steps in order to be in compliance. Training records such as: subject matter and the dates of the training will be maintained in the personnel files. Periodically, refresher training will be offered when the compliance officer deems it necessary/sees the need and in accordance with law requirements. "Newly hired non-construction employees/volunteers shall receive AML training within two months of commencing employment/volunteer time with Habitat". (Habitat, 2012b)

**Develop Calendar/ Timeline for Training**

AML Training will be held in July each year, and will be reviewed annually. Newly hired non-construction and volunteers employees will receive AMP training within the

first two months of employment. Refresher training will be done on a regular basis, or whenever the law requires it.

## **Mortgage Procedures**

Current mortgage procedures of Habitat for Humanity have been in place since its foundation in 1976 (Habitat, 2014a). As part of the requirement for every homeownership applicant, every family has to fulfill three major requirements: the need for housing, ability to pay, and willingness to partner. Need for housing is determined when a family cannot obtain a regular loan for a variety of reasons; families have to prove that they have regular cash flow and can pay their mortgage; and they have to be willing to participate in a number of activities, classes and seminars to make sure that they are informed on all aspects of homeownership. Some classes include learning how to pay off debt and save money; other classes offer information on landscaping or yearly tax preparation. After this step, a homeowner will participate in a Homeowner Applicant Orientation Meeting where they will be instructed on the whole process and program; at the end the applications are distributed. After an application is submitted to Habitat, the staff will review it; also civil/criminal records about the individual will be pulled and examined, as well as their credit report. After the initial documentation review, the individual will be invited for an hour interview. The next step in the process takes place at the applicant's place of residence, where the Habitat representative will meet with the family and review the income and any additional documentation needed. After the complete application is processed, the Board of Directors will review the application and make a decision. This can take up to a month and a half. Approved families are informed, and they can start the process of completing 300 hours for a single parent and 500 hours for married couples of

sweat equity. “Sweat equity is the unpaid labor invested by homeowner partners in building their own- and others- Habitat houses. This has been expanded to include homeowner workshops, community service, working at the ReStore and other work that may serve the affiliate or improve homeowner skills. Sweat equity increases the personal stake of each family member in the home, fosters partnership with Habitat and is a key principle of Habitat in building partnerships across economic, racial and national divisions” (Habitat, 2014c). These hours have to be completed prior to the purchase and move in their homes.

### **Audit of Current Mortgage Procedures**

The audit of current mortgage procedures should be reviewed annually to make sure that they are in compliance with federal and state regulations. Recent rules and regulation changes that impact the Habitat should be communicated, constructed within their policy and implemented in time.

### **Documenting activities.**

State and federal regulation changes, as well as the Federal register with the proposed rule changes should be reviewed and communicated among all Habitat employees/volunteers during regular meeting sessions in order to stay with compliance.

### **Develop Calendar/ Timeline Risk Management and Annual Review**

The current calendar for risk management is scheduled every 18 months or sooner if changes occur that will impact the current policy in place (Habitat, 2012d). Changes that would materially impact the risk assessment are products, services, customers, geographical location, new product or sales activity. A new line of business must undergo AML risk assessment prior to any kind of involvement. The last updated Risk Assessment dates were back in July 25, 2012; and they are long overdue. The compliance officer should take into consideration recent changes within mortgage loans and make sure to update all necessary documentation. Recent changes that have been effective since January of 2014 are: “ability to pay requirements for mortgage loans, establishment requirements for services of mortgage loans, and background checks requirements”. (CFPB, 2014) All these regulation changes affect Habitat and the compliance officer must inform employees on recent changes and update the policy in place in order to stay in compliance with the law. Also he/she must organize a training session and document and store appropriate documentation in employees’ files. These procedures will ensure that the anti-money laundering policy is updated, training requirements are met and the AML risk assessment is updated.

The following is a suggested training program guide for Habitat.

### **AML Training Program for Habitat for Humanity**

#### **Step 1 - Habitat for Humanity AML Policy**

Introduce the Habitat for Humanity AML Policy and explain its purpose to employees/volunteers. It is very important that trainee introduces the verbiage of the policy itself, creates a sense of importance amongst the employees and clearly communicate the message. “It is the Policy of Habitat to comply fully and completely with all applicable governmental requirements that have been designed to prohibit and prevent both actual and potential money laundering, as well as other activities that facilitate money laundering and the funding of terrorists and/or other criminal activity, including mortgage fraud” (Habitat, 2012b).

#### **Step 2 - Money Laundering and How it is Defined**

“Money laundering” is generally defined as engaging in acts designed to conceal or disguise the nature, control, or true origin of criminally derived proceeds so that those proceeds appear to have been derived from legitimate activities or origins or otherwise constitute legitimate assets” (Habitat, 2012b). Generally, money laundering occurs in three stages and employees needs to be informed on what the placement and structuring is, what the layering is, and what integration means.

**Required customer information – minimum ID requirements.**

Prior to engaging in any activity that potentially may involve money laundering, the following information for all customers' needs to be collected:

1. Name
2. Address
3. Date of Birth
4. Government-issued identification number

**Refusal to provide information.**

If any customers have questions regarding the necessity of providing identification, they will be informed that it is required by federal regulations. If a customer refuses to provide the information, no transaction will be completed. If, after consultation with the Compliance Officer or Designee it is determined to be required, Habitat will file a Suspicious Activity Report. Employees should be informed on how verification of information is done and what to do in case that the documentation cannot be verified.

**Step 3 - How to Identify “Red Flags”**

It is a requirement by law ( §103.125(d)(2)) that all compliance officers adopt a written AML Compliance Program that is reasonably designed to ensure proper recordkeeping and reporting of certain transactions, and to prevent business from being used to launder money. Employees have to be aware that money laundering comes in many different forms such as: “submission of invalid documentation,

falsification of checks, applicant does not reside on the address in the primary residence, incomplete or improper documentation, third party solicitation, etc”.

(Walsh, 2014) Training has to cover the importance of the keeping information confidential and non-disclosed. According to Habitat’s Anti Money Laundering Policy, red flags that signal possible money laundering include, but are not limited to:

1. The customer exhibits unusual concern about Habitat’s compliance with government reporting requirements and Habitat’s AML policies (particularly concerning his or her identity or type of business), or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspicious identification or documents.
2. “A fraud or activity alert is included with a consumer report obtained with respect to the consumer.
3. A consumer reporting agency provides a notice of credit freeze in response to a request for a credit report.
4. A consumer reporting agency provides a notice of address discrepancy.
5. The customer wishes to engage in a transaction that appears to lack sense.
6. The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.

7. Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
8. The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
9. The customer exhibits a lack of concern regarding transaction costs.
10. The customer has difficulty describing the nature of his or her business.
11. The customer asks for exemptions from Habitat's AML policies.
12. The customer requests that a transaction be processed to avoid Habitat's normal documentation requirements.

Habitat's unique mortgage products and practices greatly reduce the likelihood of mortgage fraud occurring. Red Flags that signal possible mortgage fraud in the broader mortgage industry include, but are not limited to:

1. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate reasons, to provide information or is otherwise evasive regarding that person or entity.
2. Title to the subject property is held by virtue of an unrecorded deed.
3. A loan on the proposed security property was recently paid off.

4. The proposed sale is occurring within a year of obtaining title.
5. The real estate sales contract provides for a large seller allowance which may signal that the allowance is a method for the seller to funnel down payment funds to the buyer.
6. The brokers or other agents are receiving excessive commissions.
7. The sales price of the property exceeds fair market value.
8. A party requests that the loan be used to pay debts not secured by the property or required by the lender to be paid off.
9. The file contains more than one contract with significant differences in price.
10. The buyer's check indicates another to be the provider of funds and no gift letter is presented" (Habitat, 2012b).

#### **Step 4 - Risk Identification**

It is important to notify the Compliance Officer and make sure that proper information is gathered about the suspicious activity, because they will be held accountable for overall compliance. It is also important to establish whether the description of unusual activity or conduct that raised suspicion was a transaction attempted or completed; who benefited from the transaction and why; and what explanation was given to the customer. When an employee or volunteer of Habitat detects any red flag, he or she must

immediately contact the Compliance Officer or Designee to see whether further investigation should be undertaken. Any such investigation would take place only under the direction of the Compliance Officer or Designee, and might include gathering additional information internally or from third-party sources, including the applicant. Ultimately, information obtained in such an investigation may lead to the Compliance Officer contacting the government or authorizing the filing of a SAR. SAR logs will be maintained by the Compliance Officer or Designee and will be used to track the auditing of accounts that may be subject to SAR filing. All accounts subject to SAR filing will be documented and will include information such as a SAR date, reported dollar amounts, a FinCEN submission date, and a tracking number used in the SAR Log.

### **Step 5 - Suspicious Activity and BSA Reporting**

The trainer must demonstrate how to: file a SAR Report, find FinCEN website, access the suspicious Activity Report guidance website, and introduce the Form 109 to employees. Also, he or she must explain the instructions on how to fill out the form and where to find the information.

Habitat must file SARs for any activity conducted or attempted through a Habitat location involving (or in the aggregate) \$5,000 or more of funds where it is suspected, or there is a reason to suspect, that: (a) “the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation or to

avoid any transaction reporting requirement under federal law or regulation, (b) the transaction is designed, whether through structuring or otherwise, to evade the requirements of the BSA regulations, (c) the transaction has no apparent business or lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and, after examining the background, possible purpose of the transaction, and other facts, we have found no reasonable explanation for the transaction, or (d) the transaction involves the use of Habitat to facilitate criminal activity”. (Habitat, 2012b).

Employees should be informed that customers should not be informed that the report is being filled, and also instructed on how to file necessary forms.

### **Step 6 - Records Retention**

Federal law (31 CFR § 1029.320) requires filing suspicious activity report with FinCEN. “Certain financial institutions operating in the United States shall file with FinCEN, to the extent and in the manner required by 31 CFR Chapter X and 12 CFR §§ 21.11, 163.180, 208.62, 353.3, and 748.1, a report of any suspicious transaction relevant to a possible violation of law or regulation”(FinCEN, 2002). Habitat must document verification, including all identifying information provided by a customer, the methods used and results of verification, and the resolution of any discrepancy in identifying information. Habitat for Humanity will maintain records confidentially, including description of any document that were relied on to verify a customer’s identity, noting the

type of document, any identification number contained in the document, the place of issuance, the date of issuance, if any, and the expiration date. These records must be retained for at least five (5) years following termination of the customer relationship or dormancy of an account. All such records may be retained in an electronic form.

### **Step 7 - Disciplinary Actions for Non-compliance**

Because of the risk that individual and organization might face, importance of educating all employees on Anti-Money Laundering is crucial to the organization. Employees who violate the policy may be subject to disciplinary actions, and also company could face being convicted of a crime. Such penalties can jeopardize and damage the reputation of that management and organization, and employees must realize that they will be held accountable for their actions.

### **Conclusion**

Anti-Money laundering policy of Habitat for Humanity has been in place, but the training of employee has not been followed through on a regular basis. After reviewing the policies there have been spots that needed little more clarification such as a training plan and its timeline. The policy clearly states that employees have to be informed and trained on AML policy regulations and actions needed in case of suspicious activity is detected. I have suggested training program that covers all regulatory requirements needed to be done on a regular basis which will make sure that compliance officer and

employees have clear understanding of what money laundering is and how it can be detected. Also I suggested strategies on how to identify red-flags and other signs of money laundering, what to do after the risk has been identified, records retention and consequences for non-compliance. I have suggested necessary additions to the policy itself which will ensure the risk assessment process is more effective. Included in this paper are the necessary forms that employees should be introduced to as well as the acknowledgment of employee training on AML policy which will need to be signed by employee after they receive necessary training. That form should be stored in their personal employee files and refreshed as needed. For all new hired employees that falls into under category of non-construction or administrative duties should be trained within the first two months of employment. Out of this paper, Habitat for Humanity will benefit from the training program that is constructed to cover all necessary training requirements and an easy to follow training session that will make sure they are in compliance with the law.

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