



TEXAS DEPARTMENT OF BANKING

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SUPERVISORY MEMORANDUM – 1022

August 22, 2024

TO: All Money Services Businesses License Holders

FROM: Charles G. Cooper, Commissioner

SUBJECT: Examination Rating System for Money Services Businesses¹

OVERVIEW

The Department of Banking periodically examines money services businesses pursuant to Chapters 152 and 278 of the Texas Finance Code and Chapter 33 of the Texas Administrative Code. As a result of the examination, the license holder is assigned a rating of 1 to 5 based upon: the degree of compliance with state and federal reporting and recordkeeping statutes; the effectiveness of anti-money laundering policies and practices, adherence to net worth, security, and permissible investment requirements; and overall financial condition.

In an effort to provide money services businesses (MSBs) with a more uniform rating system, the Department has adopted the Uniform Money Transmitters Rating System (MTRS). The MTRS was developed and adopted by the Money Transmitter Regulators Association (MTRA) which the Department is a lead member state. The MTRS ratings are very similar to the composite ratings previously used by the Department and MSBs will receive the same examination ratings, regardless of whether the examination is conducted jointly with other MTRA member states or if the examination is conducted solely by the Department.

A rating of 1 indicates the strongest level of compliance and the least degree of supervisory concern. License holders rated a 5 are accorded the highest degree of supervisory concern due to critical non-compliance with applicable statutes, materially deficient policies, a weak financial condition, and noted operational deficiencies.

DISCLOSURE POLICY

It is the policy of the Department to advise regulated entities of the tentative ratings assigned by the Department at the conclusion of their examinations. Final ratings are communicated in the

¹ This Supervisory Memorandum revises and supersedes the Memorandum issued on December 12, 2011. The revision updates the statutory reference from Chapter 151 to the new Chapter 152 of the Texas Finance Code. This statute change was passed by the 88th Texas Legislature and effective on September 1, 2023.

Report of Examination. The ratings of individual licensees are not a matter of public information and are confidential.

COMPOSITE RATING SYSTEM FOR MONEY SERVICES BUSINESSES

Rating “1” (Strong Overall Condition)

Money transmitters rated a composite “1” are sound in every respect and in substantial compliance with laws and regulations. Any findings or weaknesses noted are relatively minor and can be corrected in the normal course of business. Such money transmitters are financially strong, exhibit strong performance and risk management practices relative to the organization’s size, complexity, and risk profile. Recordkeeping and anti-money laundering policies and practices are satisfactory. These money transmitters are capable of withstanding normal business fluctuations and require minimal supervision.

Rating “2” (Satisfactory Overall Condition)

Money transmitters rated a composite “2” are fundamentally sound and in substantial compliance with laws and regulations. Only moderate weaknesses are present and can be corrected in the normal course of business with management’s capabilities and willingness. Such money transmitters are financially stable, exhibit satisfactory performance and risk management policies and procedures relative to the organization’s size, complexity and risk profile. Recordkeeping and adherence to anti-money laundering policies and procedures is generally satisfactory. These money transmitters are capable of withstanding normal business fluctuations and require limited supervision.

Rating “3” (Marginal Overall Condition)

Money transmitters rated a composite “3” exhibit a combination of weaknesses that range from less than satisfactory to moderately severe and violations of laws and regulations may be evident and recurring. The money transmitter may not be resistant to adverse business conditions. Such money transmitter’s risk management practices may be less than satisfactory relative to the organization’s size, complexity and risk profile. Recordkeeping and adherence to anti-money laundering policies and procedures may be deficient and less than acceptable. Management may lack the ability or willingness to effectively address weaknesses within the appropriate timeframes. Generally, such money transmitters require more than normal supervisory attention to address their weaknesses. Overall strength and financial capacity, however, are still such that their future viability should not be a concern.

Rating “4” (Unsatisfactory Overall Condition)

Money transmitters rated a composite “4” exhibit serious weaknesses and/or violations of laws and regulations that may be recurring that cause its overall condition to be unsafe and unsound. Serious financial and/or managerial deficiencies may result in conditions that threaten the money transmitter’s viability. These money transmitters are generally not capable of withstanding business fluctuations and risk management practices are generally unacceptable relative to the organization’s size, complexity and risk profile. Substantial weaknesses pertaining to

recordkeeping and compliance with anti-money laundering policies and procedures may be noted. Close supervisory attention is required and immediate corrective action by management is necessary to address outstanding problems and weaknesses. Failure of the money transmitter to immediately correct deficiencies may result in an enforcement action, a suspension or revocation of the license.

Rating “5” (Poor Overall Condition)

Money transmitters rated a composite “5” exhibit critical weaknesses and a combination of other identified weaknesses and/or violations of laws and regulations that may be recurring that cause its overall condition to be considered extremely unsafe and unsound. The volume and severity of problems are beyond management’s ability and willingness to control and correct. Materially deficient recordkeeping and anti-money laundering policies and procedures may be noted. The transmitter has inadequate risk management practices and immediate corrective action and constant supervisory attention is warranted. Suspension and/or revocation of the license are highly probable.