Banks Keep Deposits Confidential?

Don't Bank On It!

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Several months ago, the angry reaction of the American people forced the government to withdraw its plan to require banks to make a computer profile of all their customers, based on their deposits and withdrawals, and report "suspicious" deviations. At least 254,000 letters poured into the Federal Deposit Insurance Corporation in opposition to what was called "Know Your Customer."

At the time, we wondered why the 254,000 negative comments came mostly from individuals and only a handful from banks that presumably would find this requirement burdensome and costly. Now we know why.

Without any authorization from customer or government, many banks have been selling personal customer financial information to telemarketers who use it to peddle insurance, travel clubs, health plans, and a host of other consumer products. In return for this valuable information, some banks receive commissions on sales made by the telemarketers.

Senator Richard Shelby (R-AL) flushed this issue out into the open last week by urging that strong consumer privacy protections be written into the big Financial Modernization bill (H.R. 10) that is now making its way through Congress. As passed by the House, the bill would give customers the right to "opt-out" of letting banks share information with third parties.

But Shelby believes the American people deserve an "opt-in" system. That would mean that banks would first have to get the permission of their depositors before selling their personal information to third parties.

Bank lobbyists immediately staged tantrums about this suggestion, claiming they need the current system

to prevent "fraud" and to "compete in global markets." Bank lobbyists are so upset that they threaten to withdraw support for the entire financial modernization bill if an "opt-in" requirement is included.

Consumer groups claim that the real reason for this reaction is that banks just don't want to give up the profits they've been making by secretly selling customers' personal financial information. Banks don't want to have to ask customers for permission because they doubt that customers will give it, and that's probably correct.

The checks you write and receive, the invoices you pay, and the investments you make reveal as much about you as a personal diary. Some bankers shamelessly admit that they profile their customers so the bank can advise telemarketers which products a customer might like.

But why should banks be able to make secret profits off of customers' personal information such as deposits, checks, phone numbers or credit card numbers? Many of us don't want to be solicited by any telemarketers.

One of the incidents that brought this secret banking practice to public attention is the case of Albert Newman, age 79, of Washington State who suddenly started getting mailings from an insurance company. It turned out that Mr. Newman was a cryptographer during World War II, and he deciphered the numbers on the mailing labels and traced them to his local bank.

In another recent case (according to a report filed in U.S. District Court in Los Angeles), a San Fernando Valley, California bank sold 3.7 million credit card numbers compiled from its merchants' accounts. The buyer ran up $45.7 million in bogus charges against these credit cards before his fraud was discovered.

The most amazing thing about this case is that it's not clear that the bank's sales are illegal!

Another problem involving banks revealing personal financial information was caused by a new federal law designed to catch parents who fail to pay child support. Financial institutions are now required to help locate so-called deadbeat parents by searching their customer databases every three months for matches against state-provided lists of child-support delinquents.

If matches are found, the banks must turn over the names, account balances and all other information to

the state, which can then seize the assets. But small banks and credit unions that can't afford the technology or manpower to comply are using a provision in the law that lets them simply hand over all confidential information on all their customers, thus forcing the state to conduct the search for matches.

This is another shocking invasion of the personal privacy of law- abiding Americans. Information about your spending habits should be your property, not the bank's, and the overbearing demands of the law enforcement lobby should not be allowed to override the rights of law- abiding citizens.

In order to catch crooks and money launderers, the Bank Secrecy Act of 1970 requires banks to send a Currency Transaction Report to the government for every transaction involving more than $10,000 cash. The inefficiency of the process is shown by the fact that, between 1987 and 1995, the snoopers sent 77 million Currency Transaction Reports to the government but the bureaucrats failed to catch the $50,000 transmissions made by the Communists to CIA spy Aldrich Ames.

One of the worst aspects of all this snooping is that Congress has prohibited financial institutions from telling their customers that the bank spied on them and reported their transactions to the government. Three cheers for Senator Shelby for speaking up for law-abiding citizens' privacy rights in their personal financial information.