American expat Judith Furukawa, who lives in Dubai, has run into problems with U.S. bank accounts, as financial firms adapt to government policies meant to prevent money laundering and tax evasion.

Americans living abroad are being cut off by banks and brokerages as financial institutions seek to steer clear of a U.S. crackdown on money laundering and tax evasion.

The traditional challenges of expatriate life—adapting to a new culture, separation from family and friends—are being complicated by the tougher U.S. laws and more aggressive scrutiny of customer accounts.

It isn't what William Hart expected when he moved to Berlin from North Carolina nearly four years ago. This spring, the 24-year-old e-commerce analyst said he was rejected for an online brokerage account by Deutsche Bank AG DBK.XE +0.24%, although he has a checking account there and worked as an intern at the company. In
addition, a smaller local bank turned him down for an online checking account, and he says Wells Fargo & Co., his U.S. bank, closed his brokerage account when it learned he lives in Germany.

The German banks gave U.S. regulatory changes as the reason, he said. A spokeswoman for Deutsche Bank and a spokesman for Wells Fargo declined to comment.

"I seem to exist in a no-man's-land," said Mr. Hart. "Can it really be that expats are facing such massive obstacles in basic financial matters?"

The Tax-Haven Crackdown

Read Wall Street Journal coverage of key points in Washington's five-year crackdown on offshore accounts: 5 Things to Read on the Tax-Haven Crackdown

Today, the answer is often "yes," say advocates for the estimated 7.6 million U.S. citizens living outside the country. "The reality on the ground is that overseas Americans are facing restrictions and lockouts from both U.S. and foreign financial firms," said Marylouise Serrato, the director of American Citizens Abroad, the leading group representing U.S. expatriates.

Experts say a broad range of U.S. expats are affected, and that the wealthy and employees of multinational firms aren't immune. "The financial institutions weigh how lucrative the relationship is against the possible compliance risks and burdens," said Jonathan Lachowitz, an adviser at White Lighthouse Investment Management, a firm based in Massachusetts and Switzerland.

Several factors are contributing to the squeeze. One is the Foreign Account Tax Compliance Act, called Fatca. Congress enacted it in 2010 after learning that foreign banks, especially in Switzerland, had profited by encouraging U.S. taxpayers to hide money with them abroad. The main provisions of Fatca took effect in July.

As a result, foreign financial firms must report to the Internal Revenue Service investment income and balances above certain thresholds for accounts held by U.S. customers. Nearly 100,000 banks and other companies have registered with the IRS. If they hadn't, all their customers would have 30% withheld from income received from U.S. sources, such as interest and dividends.

Still, many registered firms are closing accounts for Americans abroad or declining to open new ones, in order to avoid increased compliance costs and the consequences for potential errors.

Martin Karges, a senior director at BDO USA LLP in New York, said many companies are wary, because a bank official must sign a statement guaranteeing compliance with Fatca.
"Banks look at this from a liability perspective," he said. "The less the bank has to report to the IRS, the less risk there is."

Another factor is heightened enforcement of rules against so-called illicit finance, such as money laundering or financial transactions that breach U.S. sanctions. Enforcement is again intensifying after a pause during the financial crisis, making it more expensive or difficult to move money from one country to another.

Among those affected by the tightened policies are retirees of modest means in communities around Lake Chapala in Mexico, where an estimated 10,000 Americans live. "It hit people out of the blue," said Ann Lewis, 75, a former small-business owner from New Jersey, who was notified in late May that her account with Banamex USA, a unit of Citigroup Inc., would be closed this past June 30. A Citigroup representative declined to comment. Ms. Lewis said she found Mexican banks expensive and harder to work with: Checks can take weeks to clear while exchange rates fluctuate, she said, and wire transfers can each cost $45 or more.

Judith Furukawa, an American living in Dubai who has been an expat for nearly 15 years, is willing to pay fees to wire money from her U.S. account in Pennsylvania—but her U.S. bank no longer accepts wire requests from overseas. Americans abroad are also encountering troubles with U.S.-based investment accounts. In recent months, firms including Fidelity Investments, Charles Schwab Corp., T. Rowe Price Group Inc. and others have told overseas investors and advisers they may no longer buy or trade mutual funds.

For Allen Cutler, a U.S. citizen who has lived in the Philippines for 30 years and said he had an account at T. Rowe Price for two decades, the restriction is "very unsettling, leaving me with the feeling that more is to follow."

A spokesman for T. Rowe Price said its customers abroad who already hold mutual funds at the firm can continue to do so.

Other firms have closed accounts outright, as happened with Mr. Hart, the Berlin resident. Some also appear to be checking online details to see where customers are logging in from, even if they claim a U.S. address, said Chad and Peggy Creveling, Bangkok-based financial advisers.

U.S. investment firms don't want to leave themselves open to charges that they are selling funds that aren't registered for sale abroad, said Mercer Bullard, a law professor at the University of Mississippi.

Business reasons may also have prompted closures. "The regulatory excuse can be a screen for getting rid of unprofitable customers with smaller accounts," he said.

Mr. Bullard said the U.S.'s pursuit of wrongdoing by foreign banks has fueled fears of retaliation by foreign countries. In May, Credit Suisse Group AG pleaded guilty to aiding U.S. tax evasion and agreed to pay $2.6 billion. In June, BNP Paribas SA pleaded guilty to violating U.S. sanctions and agreed to pay nearly $9 billion.
Some experts say the issues raised by Fatca could ease, because dozens of countries have signed on to a similar reporting standard designed to detect tax evasion by their own residents. As financial firms become familiar with these rules, "existing dislocations due to Fatca should fade over time," said Itai Grinberg, a law professor at Georgetown University in Washington.

However, issues due to greater enforcement of money-laundering and sanctions rules may persist, said Chip Poncy, who heads the Financial Integrity Network, a consulting firm. "Many firms are dropping categories of legitimate but higher-risk customers until they know how to manage the risks," he said.

Meanwhile, many U.S. expatriates are coping with restrictions by going to extraordinary lengths.

For example, some customers say they are opening accounts at more than one U.S. bank with links to no-fee ATMs abroad, claiming the U.S. address of a relative or friend, and then rotating withdrawals among them, so they won't appear to be living outside the country.

Because Ms. Furukawa's U.S. bank won't accept overseas requests for wire transfers, she has developed a workaround. She wires money twice a month from her U.S. bank account, which is linked to direct deposits, to a credit union in the western U.S. She then moves cash from the credit union, which permits wire transfers overseas, to her bank account in Brussels.

In Berlin, Mr. Hart remains stymied. Following the closure of his U.S. brokerage account and the rejection of his application for a German one, he says his investment funds are in a savings account earning 0.05%.

"Investing just isn't an option right now," he said. "That's frustrating."

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