

**REMITTANCES: REDUCING COSTS,
INCREASING COMPETITION
AND BROADENING ACCESS
TO THE MARKET**

HEARING
BEFORE THE
COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS
FIRST SESSION

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OCTOBER 1, 2003
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**REMITTANCES: REDUCING COSTS,
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TO THE MARKET**

Wednesday, October 1, 2003

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to call, at 10:05 a.m., in Room 2128, Rayburn House Office Building, Hon. Spencer Bachus [acting chairman of the committee] presiding.

Present: Representatives Bachus, Royce, Lucas of Oklahoma, Gillmor, Ose, Biggert, Green, Shays, Shadegg, Capito, Tiberi, Kennedy, Feeney, Hensarling, Garrett, Brown-Waite, Waters, Maloney, Gutierrez, Watt, Sherman, Lee, Inslee, Moore, Gonzalez, Lucas of Kentucky, Clay, McCarthy, Baca, Matheson, Miller and Emanuel.

Mr. BACHUS. [Presiding.] Good morning. The Committee on Financial Services will come to order.

This hearing today is entitled "Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market." Today, the committee meets to learn more about a growing business line that was long dominated by a few players. Remittances describe the funds sent from U.S. residents to friends and loved ones in other countries. Wire transfer companies now compete with banks, credit unions and other small businesses in the remittance market. Because of this competition, access to these services has increased, prices have fallen, and innovative products have been developed.

It has long been my belief that competition in the free market is the best way to increase quality and improve services. The average cost of remittances has fallen approximately 50 percent over the past four years. In some areas, it currently only costs about \$13 to send \$300 to Mexico. Money transfers by individuals living and working in the U.S. to Latin America are currently estimated at \$10 billion annually, and should more than double to \$25 billion by 2010.

Every year, millions of people come to our great country to find good paying jobs and embark on the quest for the American Dream. Many must leave their family and loved ones at home when they come to the U.S., but they are able to share a measure of prosperity through remittances. It is important that we ensure an environment that enables people to have access to safe and low-cost remittance services and that any abusive operators seeking to prey

upon unsophisticated consumers are subject to rigorous enforcement action.

Remittances have grown from just a wire transfer of funds. Products such as debit cards and shared accounts have increased the ways in which funds can move more easily to other countries. Some have called for increased government oversight of the remittance industry. Others have expressed concern that excessive disclosures, artificially reduced fees and other intrusive regulations will only stifle improvements and increase costs.

The purpose of today's hearing is to hear from proponents of these viewpoints and to highlight those innovations in the remittance market that hold the promise of making these vital products available to more consumers at lower cost. I want to especially thank Ranking Member Frank and Representative Gutierrez for bringing this issue to the committee's attention, and want to welcome the witnesses. I look forward to your testimony.

At this time, I will recognize the gentleman from Illinois, Mr. Gutierrez, who actually spearheaded the move to hold this hearing today. I commend your concern and watchfulness over this issue.

Mr. GUTIERREZ. Thank you very much, Acting Chairman Bachus. It is a great pleasure to be here today to talk about this important issue. I would like to start by thanking the majority for agreeing to hold this hearing. I would also like to thank Ranking Member Frank, a steadfast supporter of the remittance legislation throughout the years.

During the past 20 years, remittances to Latin American countries have increased not only in volume, but also as a share of income and total imports. Last week, President Fox announced that remittances sent from Mexican workers in the United States to their families back home reached a record \$12 billion, representing Mexico's largest source of income, more than oil, tourism or foreign investment. However, such transfers can be unnecessarily costly for consumers in the U.S. due to a range of fees, many of them hidden.

Wire transfer companies aggressively target audiences in immigrant communities with ads promising low rates for international transfers. However, such promises are often grossly misleading because the companies do not always clearly disclose extra fees charged for converting dollars into local currency. That is why I, along with Representative Frank, introduced H.R. 2074, the International Money Transfer Disclosure Act. My bill requires financial institutions and money transmitting businesses to, (A) disclose any fees to be charged to the recipient, including exchange rate or currency conversion fees, a final itemization of all costs, including all fees charged, and the exact amounts of foreign currency to be received by the recipient in the foreign country.

Finally, the bill requires that disclosures of information be made in English and in the same language if other than English as the language principally used by financial institutions in the recipient country. For those of you who think I might be simply adding another language to our money markets, let me tell you that financial institutions involved in the money transfer business already spend millions of dollars advertising on Univision and Telemundo, so simply making sure everyone understands converting the language once again is pretty simple. You get it on the front end when you

get the business; you get it on the back end when they show up to your store.

Over three-quarters of all remittances that come to Latin America, approximately \$25 billion, originate in the United States. Almost 70 percent of Latin American immigrants in the U.S. send remittances back home on a regular basis. That means approximately 12 million workers are sending money to their families back home. The money sent out to the families abroad was money earned upon hours of hard work and it was saved with great sacrifice from some very low-income taxpaying workers here in this country.

For those living abroad, this money is vital to help pay for food and housing and education. This help enriches communities in other countries, creating a steady income and jobs for those who might otherwise migrate to the United States to find work. But a sizable portion of these savings never makes it to these countries. Instead, it is claimed as fees, most in the form of punishing exchange rates that remittance services levy on immigrants who wire money home. The fees accompanying remittances made through the wire transfer companies can sometimes reach as high as a 20 percent difference between the benchmark established here in the United States and the exchange rate.

Money transfers have grown significantly since the increased acceptance of the matricula consular by financial institutions. I want to take this opportunity to commend the Department of the Treasury for their recently released rules on section 326 of the PATRIOT Act and for the decision to keep the rules unchanged as far as the matricula consular. Allowing financial institutions to accept the use of matricula consular represents an important step in reducing the number of unbanked and reducing the cost of transferring money, and also brings safety to that money. A study recently conducted by the Pew Hispanic Center indicates that reducing the cost to 5 percent of the amount remitted would free up more than \$1 billion to some of the poorest households in the United States, Mexico and Central America.

In conclusion, I hope we could agree, Mr. Chairman, that offering basic transparency for these services will provide consumers with the ability to make informed and educated decisions regarding the services they choose. I look forward to the testimony today, and will just end by saying, Mr. Chairman, I came about this when I was in Acapulco and I used my ATM card. Then I checked the exchange rate that I, a tourist in a hotel in Acapulco received, with what I received using my ATM card here in the United States, with the exchange rate established by MoneyGram and Western Union. On that particular date, the difference was 14 percent. That is, I got 14 percent more pesos for my dollar than a poor immigrant worker working long hours sending money back to their families. I obviously did not need it as much, being a tourist on vacation, as a hard-working person in the United States. So if that is what's going on, we want transparency. We want clarity, so that there can be true competition for that huge number of people who want to help their families back home.

Thank you very much, Mr. Chairman.

[The prepared statement of Hon. Luis V. Gutierrez can be found on page 58 in the appendix.]

Mr. BACHUS. Thank you, Mr. Gutierrez.

At this time, are there other members that wish to make an opening statement? Mr. Hensarling? The gentleman from Texas is recognized.

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Chairman, the title of this hearing is "Remittances: Reducing Cost, Increasing Competition and Broadening Access to the Market." It seems to me that these three things exemplify what has been occurring in the remittance industry in recent years. So it is my opinion that as we examine the role of the federal government with regard to remittances, we should also celebrate the triumph of free enterprise and competition in providing consumers with readily available low-cost access to money transfer services.

According to an article from yesterday's Dallas Morning News, my hometown newspaper, remittances from the U.S. to Mexico are somewhere in the neighborhood of \$1 billion a month. As a direct result of competition among banks and credit unions and traditional money transfer service providers, commissions on these remittances have dropped from approximately 20 percent to as low as 4 percent in the last decade. To date, more than 200 credit unions in the United States have partnered with Mexican credit unions to offer money transfer services, granting access to parts of Western Mexico that had previously been unreachable. Banks continue to form partnerships to help them compete with the traditional money transfer companies like Western Union and MoneyGram, who alone operate tens of thousands of outlets throughout North America.

In addition, to help serve consumers more efficiently and effectively, larger banks like Bank of America and Wells Fargo are promoting the use of ATM cards that can be used to withdraw money that has been transmitted from the U.S. All of this gives the appearance of a fairly robust marketplace. The end product of this increase in competition and innovation is what is most important to consumers, more choices at lower cost. The free market, not the government, has brought about this result.

Some maintain that price differentials are unseemly and perhaps border on fraud, but if I can use an analogy, as the father of two small children, I am often asked by my wife to go and buy a gallon of milk. Now, sometimes I can drive five miles to the local Tom Thumb grocery store, park a long way away from the grocery store, and wait in a long line to get my gallon of milk. Or I can go to the neighborhood 7-11 where there is one on about every other street corner, park right in front of the store, wait in no line, but pay 30 cents more for my gallon of milk. Often, I choose the convenience of going to the 7-11.

The point is that a simply higher price for what one may view as a commodity should not necessarily be the subject of a congressional inquiry. One brand name could be stronger than another. One could offer more convenient locations or more convenient hours than another. So concerning the federal government's involvement in this industry, I have to ask myself what could Congress possibly do at this point to benefit consumers choosing to use these services.

We should be very careful, because additional regulatory burdens placed upon these companies in this business could limit access for consumers to these services, and would almost assuredly result in an increased cost in these transfers. To me, the best consumer protection is a competitive marketplace, and from what I see of the evidence that I have gathered so far, a competitive marketplace does exist in this industry.

Some have used the term "fraud" in connection with some players in this industry. I take every accusation of fraud quite seriously. There is no doubt that the large bulk of the population that uses remittances are recent immigrants to America and perhaps more susceptible to fraud than others. I look forward to hearing the evidence of these charges, and should the evidence be persuasive, I will help lead the charge in ending any abusive or fraudulent practices in the industry. But at the end, Mr. Chairman, we should be very, very careful where a competitive industry already exists, that we do not make it less competitive.

I thank the chairman and yield back the balance of my time.

Mr. BACHUS. Thank you. I appreciate that statement, Mr. Hensarling.

At this time, we want to welcome our first panel, which consists of our good friend, Honorable Wayne Abernathy, Assistant Secretary for financial institutions at the Department of the Treasury. We know that this is an extremely important issue for the Department of the Treasury and one that you all have been spending time on, so we very much look forward to your comments, Mr. Secretary. Without objection, your written statement will be made a part of the record. At this time, you will be recognized to give a summary of your testimony.

STATEMENT OF HON. WAYNE ABERNATHY, ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS, DEPARTMENT OF THE TREASURY

Mr. ABERNATHY. Thank you very much, Mr. Chairman. It is a pleasure to be here before you again. I appreciate the invitation from you and the members of this committee to discuss this important issue of the remittance of the hard earnings of people who work here in this country to their homes and families.

People working in the United States and elsewhere have been sending money back home for centuries. According to some estimates, people all around the world send \$72 billion to their homelands, far exceeding the total amount of official development assistance that is provided to poor countries. Mexican Americans will send an estimated \$13 billion to their families in Mexico this year, the largest remittance market.

For many countries, remittances are a substantial share of national income. In Nicaragua, for example, it equals something in the neighborhood of 16.2 percent of gross domestic product. There is a rather paternalistic view that remittances are used for so-called "non-productive" purposes. This idea is wrong. Remittances are used for the same variety of purposes that people here in this country use their income. They are used first and foremost for improving the living standards of their own families. One study has shown that families in El Salvador that receive remittances keep

their children in school longer than families that do not receive remittances.

Whatever the natural barriers to remittances, our experience has shown that market forces are remarkably adept at surmounting these barriers. More stubborn to surmount are governmental barriers. A significant element in the progressive improvement in service and reduction in cost of remittances to Mexico has been the removal of barriers to financial commerce under the North American Free Trade Agreement. Our focus at Treasury has been on promoting competition in remittances as the most effective means of reducing costs, while at the same time improving services.

There are three main components to this effort. First of all, promoting competition in the United States; second, promoting competition in the recipient countries; and third, where appropriate, improving the links between the U.S. financial system and the financial system in recipient countries. In addition, we encourage investments in the financial infrastructure that supports each of these three goals.

Promoting competition in the United States has been the easiest of the three. There are often many artificial barriers in the recipient markets. To cite one example, a country in South America forbids credit unions from receiving remittances, forcing credit unions in that country to convert to banks in order to be a recipient of remittances. We are working to identify such barriers and to persuade these governments to lower these barriers.

It is also important to understand the fundamental value of good banking policy in the recipient countries. For example, Mexico's prompt action to resolve failed banks, Mexico's openness to foreign ownership of banks, and other pro-competitive policies in Mexico are widely credited for the relatively low cost of remittances there, and the continuing decline in the cost of those remittances. The Federal Reserve has been working on extending the International Automated Clearinghouse services to several countries. This will make available a channel for every bank to send remittances and other payments at very low cost. The Treasury Department has financial advisers in several countries throughout Africa to assist strengthening financial regulatory and supervisory practices.

The goal is to ensure that the flow of remittances is handled in a trustworthy and transparent manner, and thereby boost the confidence in their banking system and protect against fraud and money laundering and the flow of funds into the hands of terrorists. Promoting competition works. Recently we have seen several major banks enter the remittance market, expand their product offerings, and reduce their fees.

Remittances are quickly becoming the central source of new foreign capital for many countries. It is funding that almost by definition gets into the hands of those who need it most, the families of those whose hard work earned the money. We will continue to promote competition and the linkages that facilitate it. It is just as important, however, not to kill remittances with kindness. Well-intentioned, but ill-advised mandates and regulation can raise costs and force suppliers out of the market. That, in turn, would likely reduce remittance flows, not increase them. Let us build upon our suc-

cesses that we have already achieved and make it easier for families to build financial security here at home and abroad.

Thank you again for the opportunity to discuss this issue with you today and for the support that members of this committee have given to this important effort to improving this important flow of financing. I am available to answer any questions that you may have.

[The prepared statement of Hon. Wayne Abernathy can be found on page 61 in the appendix.]

Mr. BACHUS. Thank you.

At this time, I recognize Mr. Lucas for questions. No questions? Mr. Shays?

Mr. SHAYS. Thank you very much for being here and for your testimony. With regard to remittances, I would like to just ask, when the Treasury Department established its rules under the PATRIOT Act as it related to the identification of individuals who had accounts. Could you explain to me why the rule would allow government-issued documents evidencing nationality or residence and bearing a photo or similar safeguard?

Mr. ABERNATHY. We discussed that issue with a number of law enforcement experts to find out, is there any particular value to be gained by retaining actual photocopies of these particular identification documents, or the regulation as written, would that be enough? Particularly the feedback we got from the local law enforcement people indicated to us that the way we have outlined it in the regulation captures what is needed for law enforcement purposes, without imposing any increased costs on financial services providers.

Mr. SHAYS. How is that accurate, when what you are basically saying is you can be an illegal alien in the United States, get a document from their national government, and then we are allowing them to have transactions in the United States. Isn't that what you are basically concluding? Wasn't the PATRIOT Act attempting to not allow that to happen?

Mr. ABERNATHY. The PATRIOT Act, with regard to the financial flows, was intended to prevent funding used for organized crime, terrorists and other types of activities. It was not intended to be an immigration document. We have other rules in place and other laws for dealing with immigration issues.

Mr. SHAYS. I don't understand how you are responding to me. You are basically saying that an illegal alien will now be able to make financial transactions even though they are in the United States illegally. That is basically what you are saying.

Mr. ABERNATHY. Almost. What I am saying is that illegal aliens in this country will be able to continue to have access to financial services, as they have had for the history of this country; that we did not see and saw no mandate from Congress to say that access to the financial services should be denied to people who are in this country illegally, or they are here without appropriate documents, the same way we do not put that barrier at the grocery store or any other vital services that are needed to conduct your day to day life.

Mr. SHAYS. So basically it is the policy of the Treasury of the United States of America that it will allow for the facilitation of il-

legal aliens to make financial transactions, and the Treasury Department will, under its new regulations, in spite of the PATRIOT Act, allow this to continue.

Mr. ABERNATHY. Actually, we believe that the regulations are in full compliance with the PATRIOT Act, both the word and the legislative history that accompanied that statute.

Mr. SHAYS. Okay. I just would conclude by saying that when I voted for the PATRIOT Act and I voted for this, I thought we were instructing the Treasury Department to crack down on an abuse that has happened for a long time. For you to suggest that because it has happened in the past, somehow makes it consistent, therefore you are going to be consistent. I thought when we passed the PATRIOT Act, we were going to begin to crack down on what we thought were illegal transactions.

Mr. ABERNATHY. Yes, and I believe we do. The concept of the PATRIOT Act is to try to get as much of the financial flows that occur in this country to happen within the mainstream financial system so we can monitor them and so we can clamp down on the use of those funds for organized crime and terrorist purposes. In our view, pushing several millions of people into the financial black market would not achieve the purposes of that Act. We feel rather, by allowing people that are in this country, that are working hard, that are saving their money, who want to be able to engage in a financial transaction that is no more nefarious than wanting to pay their bills, ought to be able to have access to the financial services industry.

Mr. SHAYS. Isn't it a fact, sir, that you just in a sense are facilitating the financial transactions of people who are here illegally? Is that not true?

Mr. ABERNATHY. We are allowing those transactions to occur. That is correct.

Mr. SHAYS. Right.

Mr. ABERNATHY. Yes, sir.

Mr. SHAYS. So when you say you are putting them in the light of day, what you are doing is you are facilitating those transactions.

Mr. ABERNATHY. We are getting them where we can see them; bringing them out of the black market.

Mr. SHAYS. So is it your testimony by doing that you will be able to crack down on terrorist activities by those who are here illegally?

Mr. ABERNATHY. We think it is easier to crack down on something you can see than it is on something that is hidden.

Mr. SHAYS. But something that is hidden may not be able to take place. Let me just ask this. If it can happen and be hidden, that suggests that it is easy to do. Is that your testimony? And if it is easy to do, then why would we even need to pass an Act to make it easy?

Mr. ABERNATHY. I think we are certainly on the record saying that the ability for organized crime and others to engage in financial transactions, in as much as it occurs, if it occurs, is too easy. We want to stop all of those types of illegal, nefarious transactions. But we do not think that we are achieving that goal by preventing

a young worker from being able to open a bank account to pay his bills.

Mr. SHAYS. Thank you very much.

Mr. BACHUS. Mr. Gutierrez?

Mr. GUTIERREZ. Mr. Abernathy, in your testimony you said that foreign countries possess barriers that often adversely affect transactions. For example, you said that one country did not allow credit unions. Can you give us other examples of barriers that foreign countries put in place that debilitate a transaction?

Mr. ABERNATHY. I think one of the most significant problems is that their financial systems are opaque and hard to access across borders. The ability of financial transactions to occur across borders is impaired by a number of procedures and restrictions that make it difficult and raise the cost of any kind of cross-border transaction. In another country, for example, in order to engage in any kind of a cross-border transaction, it is considered to be a foreign currency transaction. All of those transactions have to be done through the central bank or the State-owned bank, in essence disenfranchising any other types of financial providers from the remittances business and decreasing the competition.

Mr. GUTIERREZ. Could you provide the committee with a list of those kinds of barriers so that we might look at them?

Mr. ABERNATHY. I would be happy to do that. I would say, we do not yet have a comprehensive list.

Mr. GUTIERREZ. I understand. But the list that you do have, I think it would be helpful. As I meet with the ambassadors of these countries when they come to visit me, and I am sure other members of the House do as well, we might discuss these issues with them so that we can suggest they can make the necessary reforms and changes.

Mr. ABERNATHY. Sure. I would be happy to do that.

Mr. GUTIERREZ. It seems to me that hard-working people spend a large portion of their salaries sending remittances back to their loved ones in their countries. You mentioned testimony that competition in the marketplace is a key component. How is a consumer able to find the best deal when information is often not disclosed? And how can a consumer negotiate the best price without proper information? And should we do anything so that there is proper disclosure, as we have when I buy a home, for instance, or when I buy a car, for instance? There are state and federal regulations that dictate what I need to know about the interest rate and the what fees are charged.

Mr. ABERNATHY. As I mentioned, we are working on three aspects: promoting competition abroad, promoting competition in the United States, and working on removing barriers. I think the biggest challenge we have in this country is helping to educate people about the variety of financial services that are available to them. I recently made a visit to a financial institution in North Carolina. You will have the President of that organization testifying here later today. They are doing a wonderful job in educating the Latino community.

Mr. GUTIERREZ. Mr. Abernathy, since I only have five minutes, what can we do? What do you propose that we do so that we can have disclosure? Do you agree that there is a difference in conver-

sion fees, that is from dollars to pesos, that many times is not adequately disclosed when a consumer goes to transfer money?

Mr. ABERNATHY. I understand. I think the key thing is—

Mr. GUTIERREZ. I know you understand. Do you agree that those conversion fees are not often clearly established and stipulated when a consumer walks in?

Mr. ABERNATHY. I think there are a number of factors that go into the cost of any particular financial product, and there is continuing discussion about how much do you need to dissect all the pieces to give the consumer adequate understanding of what goes into a particular price.

Mr. GUTIERREZ. Let me give you an example. There is a tragedy in Guadalajara, Mexico, an explosion. A company puts ads on Univision and Telemundo saying, send money free, we are waiving the fee, that is the \$15 fee to send \$300 to Mexico. But is it really free in your opinion is there is a 14 to 18 percent difference in the conversion fee from those dollars to pesos?

Mr. ABERNATHY. In order to provide a financial service, the service provider needs to be compensated.

Mr. GUTIERREZ. I understand, but if someone says, \$15 is waived, and put that on the airways, waived, send money for free, but if it was 15 percent on \$300, that would be a \$45 fee for transferring it. So I made \$45, and it really was not free. I received \$45. What I waived was the \$15 fee, but not the conversion fee.

So, Mr. Abernathy, I want competition in the marketplace, and we have done that. I think it is part of the government's responsibility, even if we have a marketplace, because I think the marketplace in many instances is driven to competitiveness because of the actions of our judicial system and the actions of our executive branch, and the actions of our legislative branch. This is the Los Angeles Times, Wednesday, October 10, 2001, court clears cash wiring settlement, discount coupons for as much as \$400 million. Western Union, MoneyGram and Orlande Volute agree to pay over \$5 million to community organizations, and they said they would behave themselves. They saw a 10 percent decrease in their business after they began disclosing. So you see, the courts and the people did get involved and that is the way our system works. Sometimes when the executive or the legislative branch ignores the needs of the people they go to court.

I just want to commend you again because I think what we have is disclosure: As we use the matricula consular, we are allowing people to go to their bank, open up a bank account, that is FDIC-insured and regulated; I know how much money is sent to whom and when it was sent and by whom in the United States. I think that kind of transparency is good for this country.

Ms. BROWN-WAITE. [Presiding.] The gentleman's time has expired.

Mr. GUTIERREZ. Thank you very much. If I could just have one additional minute, by unanimous consent.

Ms. BROWN-WAITE. Without objection.

Mr. GUTIERREZ. Thank you.

I just think that as we approach these issues, because I understand when the gentleman from Connecticut raises this issue, that he genuinely feels that there is an issue of national security here.

I just want to work with members of the committee, not on the Banking Committee, but in another committee, simply to say if you ate a chicken recently, it was probably plucked by the hands of an undocumented worker. That is pretty much established. If you had apples or oranges or just about anything that we produce agriculturally, it was probably picked by undocumented workers. If you had a clean dish at your hotel or your bed was nicely made, it was probably cleaned by an undocumented worker.

So we all understand, and I will yield to the gentleman, that there are eight to ten million undocumented workers in this country. We do not have a program or the political will to deport them, nor do we have a program or the assets to do it, and if we did it, we do not know what the impact on our economy would be. So why don't we integrate them fully so that they don't need the matricula consular. They are here. They are working. We receive their services. We should address the issue.

Ms. BROWN-WAITE. The gentleman's time has expired, and because it has expired, you cannot yield your time.

Next, Mr. Hensarling?

Mr. HENSARLING. Thank you, Madam Chair.

Just for the record, as the son and grandson of chicken farmers, I can attest to the fact that a lot of chickens are plucked and a lot of eggs are hand-picked by those who are American citizens as well.

I do thank the gentleman for bringing to our attention this anecdote about the company advertising free remittance services that perhaps are not free. I think that such charges are very serious and need to be examined very closely. My first question for you, Mr. Secretary, is, in your examination of this industry, are such practices which we would commonly view as fraudulent and misleading, is this widespread through this industry?

Mr. ABERNATHY. We have not conducted a survey of the whole industry with regard to whether or not there are fraudulent practices, but we are aware that there are significant laws on the books to deal with fraudulent practices should they occur. FTC has resources. There are local laws in place. The federal financial regulators when dealing with regulated entities are constantly vigilant looking for fraudulent activities. We would join with you that where fraudulent activities occur, they need to be dealt with expeditiously. They need to be dealt with firmly and in a way that sets an example so that you do not have further fraudulent activities that spoil the reputation of the honest service providers.

Mr. HENSARLING. In looking at this marketplace, then, I am trying to figure out what the shortcomings of the marketplace may be. For example, in your survey of the industry, is accessibility a challenge? Are there not sufficient locations and insufficient financial firms offering these services? Is accessibility a problem?

Mr. ABERNATHY. Accessibility is not a major problem in this country. In some of the recipient countries, it is a huge problem. In fact, what accounts in many cases for the significant transfer costs is the cost not here at this end, but of providing the service at the other end in the recipient country.

Mr. HENSARLING. Continuing on this line of questioning, do you view perhaps financial literacy among, once again it appears to be

an immigrant population that largely uses these services, is financial literacy a significant challenge? If so, do you see a role for the federal government in that?

Mr. ABERNATHY. That is a major challenge. In my view, financial education is probably the number one most significant tool we can use to help immigrant populations in this country make the best and most efficient use of the financial services that we provide. That is one of the main tasks that I have in my office. We have a deputy Assistant Secretary for financial education who spends his whole time working on that issue. His job is to organize the resources of the federal government and the private sector to get at the need to helping people understand how they can make best use of financial services here.

Mr. HENSARLING. Would you agree that some of this financial literacy is being handled by the marketplace? I alluded earlier to my hometown newspaper, the Dallas Morning News. An article yesterday states that Western Union is touting its phenomenal network in a new \$300 million global ad campaign. Citigroup is advertising that it offers a lower transfer fee of \$5 to Mexico, half the industry average of \$10. Bank of America and Wells Fargo are advertising a Buddy Card whereby receivers in Mexico can use an ATM card to withdraw the money that is transmitted. Credit union are teaming with Caja Popular Mexicana, or CPM, Mexico's largest credit union. It appears to me that a lot of the knowledge as far as prices and services are already being disseminated by the players in the marketplace.

Mr. ABERNATHY. The vast bulk of the resources that are available for financial education are private resources. One of the tasks that we have set for ourselves at Treasury is helping these people, these private sources, that want to invest their funds in helping educate populations, helping them recognize what is the most effective means of doing that, how they can best use their money. That is where most of the resources are.

Mr. HENSARLING. Finally, Mr. Secretary, you mention in your testimony that well-intentioned, but ill-advised government initiatives in the remittance market could hurt competition. Can you elaborate on the potential negative outcomes of increased regulation?

Mr. ABERNATHY. I think the key is to understand that every element of regulation carries a cost with it. In some cases, we are willing to pay that cost because there is a greater good. One of the areas is with regard to fighting money laundering. Every financial service provider in this country has a certain significant regulatory burden with regard to fighting money laundering, but we have accepted that cost. We try to reduce it as much as we can, but it is an acceptable cost.

But understand that each new regulation has a cost with it. Many of these remittance providers are small operations. Their margin, their ability to withstand costs, are not infinite. We need to be careful to ask that if we are going to impose a regulatory cost, is the value of what that regulation is bringing worth the service that we are obtaining, and might we be driving some people out of that market.

Mr. HENSARLING. I am out of time. Thank you, Mr. Secretary.

Mr. ABERNATHY. Thank you.

Ms. BROWN-WAITE. The gentlelady from California, Ms. Lee, is recognized.

Ms. LEE. Thank you, Madam Chair, and thank you, Mr. Secretary, for being here.

Let me also thank Mr. Gutierrez for his very strong leadership on this very important, but often neglected issue of remittances.

We all understand the nature of predatory lending, just on a domestic level. I think part of this disclosure effort with regard to H.R. 2637, and I am very proud to be a cosponsor of that bill, is to try to make sure that this predatory aspect of what we are dealing with domestically here in many of our communities is stopped in terms of the remittance industry. I would just like to get your take once again as a follow up to what Mr. Gutierrez asked with regard to disclosure and what we can do to protect our constituents and protect those who receive the remittances from this predatory type of practice.

Secondly, let me just ask you, and I think that this hearing rightfully so is focused on Mexico, Central and Latin America. But I am also interested in the character and nature of the remittance industry as it relates to Haiti and, of course, Cuba. That is a separate category because of the embargo. What is the nature and character of that financial structure? And finally, there are some countries in Africa such as Ethiopia where we know that there are huge dollar amounts of remittances taking place.

Then I would like, Madam Chair, to yield the balance of my time to Mr. Gutierrez after the Assistant Secretary answers my questions. Thank you.

Mr. ABERNATHY. Thank you for your questions. Information, of course, is very valuable. What is done with the information is equally as important. I think in any kind of consideration of what kind of information should be available to people who are deciding what kind of financial services they want to make use of, is making sure that the people getting that information understand it; that they know what they are doing with it; and that it is the information that they particularly need.

One of the challenges that we have with government mandates for information is there is a constant struggle to discover whether or not the information that is being provided is actually the information that is needed, in a form that is usable. As you know, there is a real struggle going on right now as we are looking at the Gramm-Leach-Bliley privacy notices. Congress made a decision, a very good one, that people ought to know what the privacy practices are of their financial institutions, but I do not think anybody is satisfied that the information that is provided subsequent to that law is very usable. It is heavily legalistic. It is long. It is provided in an inconvenient way, and it generally has just increased the costs of financial services without really benefiting consumers. The financial regulators are looking at that right now to find out if there is a way to put that into a usable form.

I think that is the same thing when looking at any kind of financial service and trying to find out what is it that consumers are really interested in, and how can we make sure that that information is provided in a way that they can understand. We would be

interested in continuing to have a dialogue with you on trying to discover just what are the answers to those questions, but I think those are the principles that govern, as well as making sure that any kind of information requirement can be done in a way that encourages and promotes competition, rather than increasing the cost of it.

Within those boundaries, I think we are happy to have a particularly detailed conversation with you to find the answers to those.

Ms. LEE. How about as it relates to Cuba, the nature and character of the remittance industry, as well as countries in Africa and Haiti?

Mr. ABERNATHY. As you mentioned, Cuba is a particularly special case because of the embargoes that we have in place. The ability to send U.S. dollars abroad and keep them out of the hands of a very repugnant regime is a challenging one. I do not think we have the right answer for that, frankly, in any kind of an ongoing basis. We had similar problems with regard to countries in Southeast Asia for a time, terrible stories of families that in essence were held hostage to try to get remittances from this country that would ostensibly be going to help the families abroad in these Southeast Asian countries, but that would be actually gobbled up by the government. That was not helping anybody.

Ms. LEE. How about the countries in Africa, such as Ethiopia?

Mr. ABERNATHY. Countries in Africa, what we are trying to do there is introduce a regulatory regime in those countries that will allow financial services to thrive. If we can develop financial services that reach the consumers, then we can get remittances into the hands of the families themselves. That is the biggest challenge there, and the success varies. In some countries we are having greater success than others. I would have to get back to you on Ethiopia. I just do not know exactly what the status is.

Ms. LEE. Okay. Thank you. May I yield what time I have left to Mr. Gutierrez?

Ms. BROWN-WAITE. Your time has expired.

Ms. LEE. Oh. Sorry.

Ms. BROWN-WAITE. The gentleman from Arizona, Mr. Shadegg, is recognized.

Mr. SHADEGG. Thank you, Madam Chairman, and thank you for this interesting hearing.

Let me begin by asking, as I understand it there has been a substantial increase in competition in this market in the last few years. Is that your understanding?

Mr. ABERNATHY. Very significant. It is almost each month we find a new product that is offering remittances at lower cost and increasing variety that meets the needs of people in this country and in the recipient countries.

Mr. SHADEGG. There are companies that specialize in remittances, and then I take it these companies are getting into the business. Is that correct?

Mr. ABERNATHY. You have some specialized companies that do little more than money transfers. Now, you are having an increase of regular mainstream financial institutions that are offering remittance products not only as a sideline, if you will, as a package of other financial products that they offer to consumers here.

Mr. SHADEGG. Are there some small businesses getting into this market and doing just a niche market in various areas?

Mr. ABERNATHY. There are a number of small businesses, a number of mom-and-pop operations that are providing services that I have to say must be meeting the need because they continue to thrive. Customers are using them.

Mr. SHADEGG. I understand the gentleman's concern about competition. One of the concerns I have is, as you have pointed out, any regulation we might add could in fact be a barrier to entry and stifle competition. One of the concerns I would have about any legislation would be if we impose a regulatory burden which then drives out the small players, we are actually decreasing competition and perhaps driving up prices. Is that not correct?

Mr. ABERNATHY. Yes, I believe that if we just had the major players in this market, you could see an increase in the costs prices going back up. I think it is the threat that there could be new entrants into the market that caused financial players at all levels to try to lower their costs to gain marketshare.

Mr. SHADEGG. To that point of driving up costs, you make the point in your testimony that remittances to some countries are easier and less expensive and could comply with a regulatory scheme, I would assume, more readily than remittances to other countries. For example, in your testimony you make the point that remitting money to Mexico, where there is a pretty established market in the exchange rate and knowing it and publishing it or disclosing it would be fairly easy, is much easier than making remittances to smaller countries. Could you elaborate on that point?

Mr. ABERNATHY. The key is, you need to have a commercial relationship to get the costs down absolutely as far as they can be. One of the goals, I believe, of our effort to establish free trade agreements around the world is not only to deal with transfer of goods, but also transfer of services, and remittance services are an important part of that.

Mr. SHADEGG. The gentleman made the point about this advertisement that disclosed they had waived their fee, and then they in fact did not use a very favorable exchange rate. Exchange rates are published for some countries, but are exchange rates published and is there a market for exchange rates for every country around the world?

Mr. ABERNATHY. A lot of countries fix their exchange rates, so they do not float. They are not exchange rates that change from time to time. They are either pegged, or in some cases they are a hard exchange rate. The same exchange rate that prevails today will prevail tomorrow until there is a significant government change.

Mr. SHADEGG. But aren't there also countries where it is difficult to establish the exchange rate because there is no ready market between the United States and that country?

Mr. ABERNATHY. Certainly. Yes, there are some currencies that are just not convertible, and it is hard to figure out what kind of appropriate exchange rate there may be.

Mr. SHADEGG. One of the concerns I have is that some of the legislation that is being contemplated turns a kind of a blind eye to the differences between countries and says, well, you must publish

in advance the exchange rate for every country in which you do business. As I understand it, that would be, if not impossible, at least difficult, maybe in fact impossible, and certainly would drive up costs for any business that was involved in doing remittances to smaller countries.

Mr. ABERNATHY. Yes. I think what we need to be careful of is any kind of regulatory regime that has at its heart a model that does not apply in these countries. It may be a model that might apply better in financial transactions between the United States and Britain, than might be the case with a financial transaction between the United States and a Caribbean country or in a country that may have multiple exchange rates. Which one do you publish? There are several countries that have exchange rates for domestic transactions, another exchange rate for international transactions. The variances and the varieties are very wide and would be very difficult to capture by any one single rule.

Mr. SHADEGG. Do you know if, for example, requiring the publication in advance of the exchange rate of every country you did business with would in fact cause some of the major players to quit doing remittances to certain small countries?

Mr. ABERNATHY. You certainly do not know for sure which ones might, but certainly a company would have to ask this question: Are remittances a major part of my business or is it a sideline? A lot of companies offer it as a sideline. Convenience stores might offer it as a sideline. And they might consider, I am opening myself up now to a very significant regulatory cost by offering this service. Am I going to be a day late with my publication of exchange rates? Am I going to have the latest list? Am I putting it in the right place? They might decide, just forget about that.

Mr. OSE. [Presiding.] The gentleman's time has expired.

Mr. SHADEGG. Thank you.

Mr. OSE. The gentleman from Wrigley Field.

Mr. EMANUEL. Thank you, Mr. Chairman. I would like to yield my time to my good friend and colleague from Chicago, with one caveat, that if I can also just start with a question about what we could do to encourage the credit unions and other financial institutions to get into this marketplace. What are the incentives we need to do that? And I yield the remaining part of my time to my friend, Congressman Gutierrez.

Mr. ABERNATHY. There are a number of credit unions that are already getting involved. We are excited by the number of credit unions here in this country that are involved, because in many cases credit unions have had the greatest success in reaching out to immigrant populations. A lot of people that come to this country come from countries where banks were not friendly creatures. They were owned by governments or often used to expropriate their customers' resources, so these people are very reluctant to get into the banking system in this country. But they have been open to the mutual concept of a credit union and have been willing to join credit unions in increasing numbers.

So the involvement of credit unions in this country is very important. We are working with the credit union associations to try to encourage that. Moreover, there is an international association of credit unions that is working not only with our credit unions, but

credit unions abroad to increase the use of credit unions in recipient countries as recipient venues for remittances. I think that is important abroad because in many cases a credit union can operate at a lower cost than a larger mainstream financial institution can.

Mr. GUTIERREZ. Thank you. I thank the gentleman from Illinois for yielding the time, and I was very happy with the outcome of last night's game.

[Laughter.]

The issue is not that we want to curtail activity. The fact is that some might extrapolate from comments made here that there is this great community and there is all this competition and that it all happened in a vacuum. That is to say, everybody woke up one day and said, hey, let's be fair and competitive. I do not think that is what happened. I think there were lawsuits filed in the year 2000; millions of dollars paid out as a result of those lawsuits. Of course, as in many lawsuits, nobody claimed fault, just millions of dollars were paid. Up to \$400 million in coupons were offered. There was a settlement reached.

I think what we want to do is have transparency. One of the problems is that immigrants do not trust the banking systems from the countries that they come from because of the lack of transparency. I would like to assure them and to guarantee them that in America there is transparency when you make some kind of financial transaction. So I look at it, and I say, look at our United States Postal Service. It is in the business. Now, they charge you a fee. They tell you what the fee is, and they partner with the Mexican bank, BancoMER, and they establish the exchange rate. The fact is that there are different exchange rates, and the public cannot know what it truly is costing them to send money.

We have already established that this is a \$1 billion industry to Mexico alone.

Mr. ABERNATHY. Each month, each month. Yes.

Mr. GUTIERREZ. \$12 billion a year, a huge industry. I do not think anybody is going to walk away from it because we say you have to establish what the exchange rate is. What we want is for people to know what it is going to cost, because these workers make some of the lowest wages, work the longest hours, and then what do they do with their money? God, if we would all do it. They send it back to their mom, their dad, their brothers and sisters. So as you said, Mr. Secretary, they can stay in school, they can get healthcare.

So, they are not investing it. The thing is, Mr. Secretary, all we want to do is figure out a way so that I or any member of this committee or any American tourist, when they visit Mexico, can understand the exchange rates. You don't need to have an MBA from the University of Chicago to understand exchange rates. You go to your hotel. It says pesos to dollars. You go to the local bank, it says pesos to dollars. They are posted everywhere and they are clearly available.

Do they change on a day-to-day basis? Yes, they change on a day-to-day basis, and they are competitive. But the fact is, we should be able to reach some kind of way so that when I walk in and I say I want to send \$300 to mom, and they say it is going to cost me \$15, I should at least get somewhat the exchange rate that the

tourist in the hotel in Acapulco or Cancun is getting. Don't you think we should try to get that kind of exchange rate?

Mr. OSE. The gentleman's time has expired. We are going to let the witness answer the question.

Mr. ABERNATHY. I think there is no disagreement between you and the Treasury on the need to get these costs down, to make sure people understand what the costs are. I think the problem is extremely complex, however. I lived for two years in Spain, not terribly long ago. I was a missionary. I in essence lived by remittances, because each month I would get a check from my parents that would keep me going for the following month. I remember going around trying to find out what was the best exchange rate. I found on any given day I could find four or five different exchange rates depending on where I went, because there are different ways that a financial institution can be compensated. They can be compensated by just a regular fee. They can be compensated in the exchange rate that they offer you, or in the fee that they charge as a percentage of that exchange rate. I do not know that we want to be in a business of saying which is the best way for you to be compensated. But we are eager to continue to have this dialogue with you and to find out if there is a way to identify the best means of getting the right information into people's hands, so that we can promote these markets.

Mr. OSE. The chair, having arrived early and not having claimed his time, is going to claim his time and yield to Mr. Shays.

Mr. SHAYS. Thank you, Mr. Chairman. What I would do, though, I would love to be able to utilize your time after my other colleagues have spoken, with your permission.

Mr. OSE. We will rescind my recognition of time.

Mr. SHAYS. I hope you give it to me later, sir.

Mr. OSE. I don't know.

[Laughter.]

I will have to get back to you on that. I am going to recognize the gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you, Chairman.

Mr. Secretary, I want to thank you for your thoughtful testimony on the topic of remittances this morning. This is a very important subject to my district. I am pleased that this issue is being debated before this committee.

Since we are fortunate, Mr. Abernathy, to have you here this morning, I wanted to ask you a few questions about GSE regulatory reform as well. Specifically, people engaged in the GSE debate seem very concerned right now about the topic of mission regulation, and specifically on product approval. I believe the new regulator should have the authority for product approval, but could you tell me the Treasury's position on where product approval authority should reside? And could you explain to me the rationale for that position?

Mr. ABERNATHY. Certainly, Congressman, and thank you for asking that question. In essence, I will be just re-echoing the testimony that Secretary Snow presented here. In our view, we need to solve the problem. The problem today is that the regulators for our GSEs, they were never given enough authority and they have not grown in their authority, particularly not nearly as quickly as the

agencies they regulate have grown in activities and significance in their markets.

One of the most significant authorities that the GSE regulators currently do not have, and they suffer for not having it, is the ability to review and on occasion perhaps to say no to a new product or a new activity. If you ask a bank regulator, you might have a discussion with members of the OCC or the OTS, ask them how significant new activity authority, the ability to review new activities, is as part of their panoply of tools to properly regulate institutions. I think they would say it is essential. They could not do their job without it.

We are concerned that we get this legislation right so we do not have to come back here a few years later and say we blew it. We had an opportunity to give the regulator full authorities that they need and we did not do it, and now we have to come and do it again.

Mr. ROYCE. Thank you. I have another question. I have been arguing for some time that the risk profile of the federal home loan bank system is changing. I would like to ask if you agree with me, and if so, if you could explain how the acquisition and the retention of mortgage assets has changed that system in terms of new types of interest rate risk and so forth.

Mr. ABERNATHY. Certainly, the federal home loan bank system is an evolving one. It always has been, but I think the pace of evolution has increased over the last 10 years, partly as a result of new powers that were given to the federal home loan bank system under the Gramm-Leach-Bliley Act; partly just because of changes in the marketplace. In addition to the traditional role of providing liquidity to banks, there are a number of federal home loan banks that offer particular products with regard to mortgages. Certainly, that has to change the risk profile of these institutions. I do not know if it makes them more or less risky. That is really an issue for the regulators to evaluate, but it certainly changes the risk profile. The regulators need to have the authority and ability to adjust to those changes in risk.

Mr. ROYCE. A last question, again on the issue of GSE reform. I put forward a proposal in which we constructed a new regulator with independence from the Treasury, and that would be along the same lines as the OCC and the OTS, the same concept. It seems to me that there are a number of similarities between my proposal and the Treasury's. However, the Treasury does not want the ability to review policy. I was going to ask you, why does the Treasury believe that this is an important component of the reforms you are putting forward?

Mr. ABERNATHY. I think it would be impossible for me to over-emphasize how important that responsibility would be, to place that responsibility with Treasury. While we are looking at the mission of the GSE regulator, an even more important mission that we have to keep in mind is, what is the mission of the Treasury? The Treasury has the responsibility for the cash flows, the in-comes and the out-goes of the entire federal government. An essential element of that is the role that Treasury plays in going into the marketplace, the Treasury bills, the Treasury notes, and other instruments that carry the full faith and credit of the federal govern-

ment. We must do nothing that compromises the ability of Treasury to go into those markets clean and to preserve our reputation, our spotless reputation in those international marketplaces.

To place the regulator for government-sponsored enterprises that each year are into the marketplace for trillions of dollars, not billions, trillions of dollars, if you are to place that regulator within the Treasury, but not give the Secretary of the Treasury any authority over how that entity carries out its responsibility, is to place in jeopardy the ability of the United States to offer its own debt instruments and to protect them from contamination from whatever should happen to the GSEs.

Do we want to be in a situation where the troubles of a GSE can flow into and affect the ability of the federal government to issue its own debt? We cannot be in that kind of a situation. That would be an intolerable situation. All we have asked is that the Treasury secretary be able to have responsibility for reviewing new regulations and when policy issues are presented to the Congress. I think that is the minimum that is needed to make sure that we can protect the Treasury from any kind of contamination in the regulatory efforts over the GSEs from Treasury's main responsibility.

Mr. OSE. The gentleman's time has expired.

Mr. ROYCE. Thank you, Mr. Chairman.

Mr. OSE. The gentleman from California, Mr. Sherman.

Mr. SHERMAN. We do not have enough time to deal with the GSEs. Let me just comment that you have state-regulated banks that are reviewed for safety and soundness by the federal government and federally insured. So the idea that the federal government needs program oversight in order to provide for safety and soundness is one that you might respond to in the record.

Mr. ABERNATHY. I would be happy to do that. Thank you.

Mr. SHERMAN. The idea that someone's immigration status should cause us to not want to provide consumer protection seems relatively absurd. If we want to deal with our immigration laws, that is one thing. But when you sign up for the do-not-call list, we do not ask you what your immigration status is, nor has anyone suggested that we can reduce the number of undocumented workers in this country if we just afflict them with telemarketers, nor is afflicting them with lack of consumer protection and financial services likely to be an effective substitute for the immigration policy our country does not have.

I think it is important that we move forward with reform in this area for the terrorism control aspects. If we are successful in pretty much driving out of business the gray market operators, then they will be small enough so that law enforcement can concentrate on what they do, while using computers and cooperation to look at the big operators who will then have most of the business. Terrorists will always use the black and gray market operators, but when those operators are doing billions of dollars, it is going to be hard to find the needles in the haystack. If we can get all the hay out of the black market, then you will be able to find the needles.

The question is, how do we get better consumer protection, lower prices, better exchange rates, as Mr. Gutierrez has pointed out the need for, to those who are sending money abroad? We need more information for people, and especially more competition. In the ab-

sence of competition and the absence of information, certain companies make outrageously high profits. Who is making the high profits now? Is it those who control the incoming, the U.S. branches, or those who control the branches in foreign countries?

It occurs to me that there are dozens of companies in my district anxious to compete for this remittance business. But if the only way they can get that money to a village in Guatemala is contract with one company in Guatemala, then they all are competing for the opportunity to pay a very high fee to the Guatemalan side of the transactions. Perhaps, Mr. Secretary, you can tell us, if you are paying \$20, how much of that is going to the U.S. side and how much of that is being paid to those who control the foreign side, whether it be a U.S. company or whether it be a Guatemalan company, or whatever. Do we know?

Mr. ABERNATHY. I think you are demonstrating one of the tough challenges that we have. Just by looking at a price itself, you have no way of knowing how much of a profit is the particular company obtaining from that. We do know that in several countries, the recipient market, if you will, is so controlled that there you do have parties that are obtaining monopoly rates. You have to go through certain channels, and those people, they take advantage of that.

Mr. SHERMAN. What I would ask the Department of the Treasury to do is to issue a report, because this concerns us. It is one thing if a foreign country is inefficient in this or that transaction, but here it is a U.S.-foreign country transaction. To issue a report as to which countries are doing a good job of serving consumers on both ends of this transaction, and which countries are not, that could be a very powerful force in causing certain countries to get away from, sometimes they are tied to tradition; sometimes the government is making a fortune on this; sometimes, and I know it never happens here in the United States, powerful political interests are exercising some control as to how financial services are operating. A U.S. government report that said, here are some countries that could change in this or that area, so that both sides of this U.S.-initiated transaction could be treated fairly, could certainly open things up.

I would like to shift to one other question. I see you nodding. Can we count on you to issue such a report?

Mr. ABERNATHY. Yes. I would be happy to comment. I think that is an excellent idea. From time to time, the federal government has issued reports on the barriers to financial services. This is certainly an area where the barriers to financial services have some very real human welfare consequences to it. It is not just a matter of whether or not an American company has the opportunity to market its products abroad. We see here where the barriers are decreasing the ability to send livelihood to a family, to help them meet their daily needs or maybe even build for the future.

Mr. SHERMAN. Yes.

Mr. OSE. The gentleman's time has expired.

Mr. SHERMAN. My time has expired.

Mr. OSE. The gentleman from New Jersey.

Mr. GARRETT. Good morning.

Mr. ABERNATHY. Good morning.

Mr. GARRETT. I appreciate the testimony we have heard so far, and I am encouraged on the one hand, by the positive effects that the market forces have had in this area, basically driving down the cost to consumers who want to engage in these activities. I want to follow up with just one question along the lines that my colleague from Connecticut was raising.

While we have the objective of trying to make it easier for immigrants to our country to be able to engage in this activity and send money back, as the Statement over here on this side of the aisle was, to mom and dad who are still living overseas and need the funds and benefit to the other countries, I think we can agree that we do not have the objective of providing this service for illegal immigrants to do so, whatever the noble causes they may have over there, where they are sending the money back.

This committee has had the opportunity in past months to have hearings in the area of money laundering and terrorism use of funds that are sent back. My colleague raised some of those points. I was struck by your comment when they were raised, to say that, well, we do not do this in the area of checking for identification at the food store or what have you. And my colleague on the other side raised the interesting point as far as telemarketers. Maybe we should just say that the only people that telemarketers can call are illegal immigrants, and that might have an impact on immigration here.

You raise a point in a serious note that we do not do this in other areas, but obviously in the financial area we are talking about something that is regulated by the federal government. The banks are chartered by the federal government. It is only in a banking situation where we already have the law, correct me if I am wrong, that if I want to go in and open up an account at my local bank that I have used for 20 years, I have to provide proof of identification now. Is that correct?

Mr. ABERNATHY. Yes.

Mr. GARRETT. But I do not have to do that if I go to the food store or if I go to use a telemarketer. I do not have to do that in those areas. So we are regulating and provide for identification in these areas. So can't we in this committee be able to draw a distinction where there are certain areas where we need to provide identification and there are laws already on the books saying you have to provide identification, that that identification has to be a valid form of identification? And the other areas such as food stores, telemarketing companies, the dry cleaners, where we are not asking for identifications, we can draw a bright line between those two areas and say which ones we will regulate and which ones we won't.

Mr. ABERNATHY. Yes, sir. I agree with that entirely. In fact, the regulation we put forward places an affirmative obligation on the part of financial institutions to be sure that the form of identification that they are receiving is a valid form of identification. That is the obligation that is placed upon the financial institution. It is enforced by the financial regulator. When they examine a bank, they ask the bank, what are your practices to make sure that your new accounts that are opened are being opened by people who present to you valid forms of identification? Frankly, the burden is

on the financial institution to convince the regulator that their system is a bona fide system to verify that that person is who that person says he is.

Mr. GARRETT. And would it be satisfactory to a regulator that the bank provides them with something as far as identification?

Mr. ABERNATHY. Currently, most regulators do, yes. It is a bank-by-bank relationship, but as I understand it, bank regulators will rely upon ID cards, and there are a variety of different forms of identification that they use, in many cases multiple forms of identification where they think that additional forms are necessary.

Mr. GARRETT. Why, then, should I feel satisfied that there is any legitimacy whatsoever to that form of identification if this state or this nation has no control over the adequacy of the documentation initially required to get that form of identification? Why should I feel satisfied that the regulators are doing a good job by accepting that identification?

Mr. ABERNATHY. I think really the proof would be in the pudding. If it turns out that the regulators are allowing forms of identification that are lending themselves to significant volumes of fraudulent identities, then they ought to look at those and say, that does not work for us.

Mr. GARRETT. Let me ask you this question, then. Who would be using those forms of identification?

Mr. ABERNATHY. The consular ID's?

Mr. GARRETT. Yes.

Mr. ABERNATHY. In many case in this country, probably the vast number of them are used by people who are otherwise undocumented here in this country.

Mr. GARRETT. So can you think of anyone who is in this country, other than an illegal immigrant, that would be using one of those forms of identification?

Mr. ABERNATHY. We have received information from the State Department and others that they are used by a lot of people here for valid reasons, so that they do not have to produce their passport frequently, for fear of losing their passport, or people who have lost their passport. People who come here from Canada, for example, they do not bring their passport with them. They use a driver's license as their form of identification. We do not require a passport to come from Canada.

The question that the financial services regulator is supposed to ask is not are you here legally; the question is, are you the person that this form of identification claims that you are. That is the issue that I need to know as a financial service provider.

Mr. OSE. The gentleman's time has expired.

Mr. GARRETT. If I could just ask this final question?

Mr. OSE. You are going to have to get it on the second round.

Mr. GARRETT. Okay. Thank you.

Mr. OSE. The gentleman from North Carolina.

Mr. MILLER OF NORTH CAROLINA. Mr. Chairman, I yield my time to Mr. Gutierrez.

Mr. GUTIERREZ. Thank you very much.

As you can see, I guess that is why we have two parties, differing opinions on how we see things. But I think there is some commonality that is being derived as I listen to my colleagues on both

sides of the aisle. And that is that there is an optimism on one side of the aisle that things are pretty good and if we leave them alone, they will probably get better. There is a slightly more pessimistic look on this side of the aisle that things are getting better, and we need to make them better and we should do some things to make them better because there are still some problems out there.

I think we can all agree there are still some problems out there; that we do not have a perfect system; that we have a \$12 billion industry just to one country alone, and that country happens to be, what is it, our second trading partner in the world, Mexico?

Mr. ABERNATHY. Second, and perhaps quickly becoming our first.

Mr. GUTIERREZ. And quickly becoming our first, which means that when we send these dollars back to Mexico, and they are converted to pesos, the more pesos they have, the more they can buy American goods, so more American workers thrive and have jobs, because our economy is global. When one person has money and spends it, he buys goods and products.

Secondly, immigration issues are raised. I think you were pretty clear, Secretary Abernathy, when you said their kids have more of a tendency to be in school. They will be better educated, less likely to emigrate to another country and stay in their country, and very, very important, probably, strengthen that country; strengthen the intellectual fortitude of that country so it can be stronger and provide a more robust economy that will provide jobs for their people. Because people do not wake up one day and say, I want to travel thousands of miles across a dangerous border to a country where I do not understand the culture, the mores or the language, simply because that is what I want to do as an adventure. They do it because they have very serious needs.

So I think that maybe if we could establish some kind of working force, because it seems to me, Mr. Secretary, that the President was very wise and very prudent in the very early months of his administration when he set forth, with President Fox of Mexico, to figure this out. Probably as the former governor of Texas, he had very good experience at understanding the relationship between the United States and Mexico. As I recall, he said he wanted to figure this out, figure out what we do with the undocumented workers here and how we provide for them to come across the border and work in industries where we do not have enough workers. He also wanted to establish some kind of sense of certainty about the money.

I have listened to Secretary Colin Powell, state the same things, that we need to go back. Maybe we need to go back to that discussion and that debate so that we can take care, because I think that Mr. Shays' concerns and Mr. Garrett's concerns about issues of national security are prudent and reasonable and well-founded concerns, and we should address them. But I think we are going to need a holistic approach to address them, so that we can get at them.

I, as a member of Congress, which last time I checked was among the number one percent of wage earners. Does \$155,000 count for number one percent of wage earners?

Mr. ABERNATHY. I would think so, probably yes.

Mr. GUTIERREZ. We have Treasury to establish, the number one percent of wage earners in the United States. I pay \$2 to get \$300 exchanged. We need to look into this framework, so that I, a person among the number one percent of wage earners in the United States, go on vacation, use the money to rent a jet ski, then the person who makes minimum wage, who is sending money back home so that his mom, his wife, his children can be better fed and better educated, obviously a higher purpose than a jet ski, can get somewhere a better exchange rate or a similar exchange rate to the one I get. I think that there is probably no disagreement on either side of the aisle that that should be a goal.

How can we work, because we will have this hearing. Everyone will go back home and things might not change. How do we get there, Mr. Secretary? What would you propose we do?

Mr. ABERNATHY. I can tell you, after this hearing I go back to work on these issues. These are issues that we deal with every day. I think we have had a lot of success. But you are correct, there is a lot more that needs to be done.

I think it is not only the exchange costs that we want to reduce. There are a lot of other fees that we would like to get down. We would like to reduce the fees of just obtaining the kind of cards that allow the low-cost transactions to be executed. We are trying to get a lot more people in this country to establish savings accounts, checking accounts; to get their credit card so that they can take advantage of the products of some of these large banks that are establishing a system where people in Mexico can just have a card and go to a number of different merchants, and they avoid the exchange fees almost entirely.

Mr. OSE. The gentleman's time has expired.

The chair is going to claim his time now, and yield to the gentleman from New Jersey.

Mr. GARRETT. Thank you. Just a clarification, you said there has not been a preponderance of evidence to indicate that the matricula consular cards are being used in this manner, and if it were, then maybe you wanted to have the regulators look into whether they should be accepting them or not.

Mr. ABERNATHY. Used in a fraudulent manner.

Mr. GARRETT. Right. My question then is, how can you make that statement since we do not have control over what documentation is necessary to prove who these people are? It is a foreign nation that is doing that. So how do you verify there is not illicit use of these cards, that the people really are who they are, then?

Mr. ABERNATHY. Well, based upon law enforcement processes where you have people who are trying to engage in fraudulent transactions on the basis of a fraudulent ID, the same way that we would find out whether or not someone has a fraudulent Virginia driver's license or a fraudulent Canadian driver's license. We do not see that the incidence of fraudulent use of consular ID's is any higher than it is for domestic driver's licenses or many other foreign sources of identification.

Mr. GARRETT. Okay. Thank you.

Mr. SHAYS. Thank you.

When you talk about the whole issue of immigration, it gets touchy. So you watch your words carefully and Mr. Garrett does

and all of us are trying to. But it gets more touchy when we try to deal with the issue of illegal immigration. I just want to say, I would double legal immigration, but I want us to crack down on illegal immigration. I am troubled that we have people who jump in line in front of the people I am trying to help. They range in thousands, who come to my office who are trying to get their parents here legally, their children here legally and so on.

It bugs the heck out of me that we have a government, the Department of the Treasury, that is facilitating illegal immigrants. That is why I raise these questions. It bugs me that we passed a PATRIOT Act that said you need to verify who is registering. I find it, Mr. Abernathy, extraordinarily disingenuous for you to suggest that these cards that are issued by foreign countries are valid identifications. We were trying to stop this stuff.

Now, under the rules you adopted, you said a taxpayer identification number, Social Security number, individual taxpayer identification number, employer identification number and so on. Now, is it legal for a company to hire an illegal alien?

Mr. ABERNATHY. I am no expert.

Mr. SHAYS. You don't have to be an expert.

Mr. ABERNATHY. I am not an expert on immigration laws, but I believe that there are rules governing that.

Mr. SHAYS. The answer is no.

Mr. ABERNATHY. Okay.

Mr. SHAYS. The fact that you don't know that, and you would say you are not an expert and would not answer it, I find mind-boggling. You know it is illegal to hire illegal aliens, don't you?

Mr. ABERNATHY. I don't know the total details of how and under what circumstances.

Mr. SHAYS. I am not asking the total details. Is it legal to hire an illegal alien?

Mr. ABERNATHY. As a general proposition, no.

Mr. SHAYS. Thank you.

So then you get, in your numbers you say in one of the requirements, number and country of issuance of any other government-issued document evidencing nationality or residence, and bearing a photograph or similar safeguard. Isn't it true that this will allow people who are illegal aliens to be able to make financial transactions?

Mr. ABERNATHY. It would allow financial institutions to accept identifications from people who are illegally here, yes.

Mr. SHAYS. So how can you suggest otherwise, then you are enabling financial institutions to basically assist the financial transactions of people who are here illegally?

Mr. ABERNATHY. I am not quibbling with that. I think they do. They allow people who are here illegally to engage in financial transactions.

Mr. SHAYS. Then why would we do that if we make it illegal for someone to work here illegally? Isn't the money that they earn, earned illegally if they are working illegally?

Mr. ABERNATHY. I presume that it is, but I wouldn't know. There are many people that might receive money from other sources.

Mr. SHAYS. But the bottom line is, the answer is yes again.

So we are left with the fact that our government, contrary to the PATRIOT Act, has decided to facilitate individuals who are here illegally, working illegally, and enabling them to make financial transactions. I find that a contradiction I cannot figure out.

Mr. ABERNATHY. Our regulations are not only fully compliant with the PATRIOT Act, but they carry out both the letter and the intent of the PATRIOT Act.

Mr. SHAYS. No. I am going to dispute that, because the PATRIOT Act says we want verification. And you know and I know that this is the easiest way to have fraud, the easiest way to allow people who are here illegally to not disclose their true names, the easiest way to allow for the very thing we are trying to prevent, corruption and terrorism et cetera.

Mr. ABERNATHY. I would have to disagree with that. I don't think the evidence demonstrates that.

Mr. OSE. The gentleman from Texas, Mr. Gonzalez.

Mr. GONZALEZ. Thank you very much, Mr. Chairman. I am going to try to be as quick as possible. I apologize for getting here late, Mr. Secretary, and missing your testimony. In reviewing your written submission, though, you indicate promoting competition in remittances, and what you feel are three main components of this effort, one, promoting competition in the United States for the origination of remittances. Do you have any comments, does the department have a position regarding the proposed merger of First Data and Concord EFS?

Mr. ABERNATHY. No, we do not have any particular view on that, not that I am aware of.

Mr. GONZALEZ. Do you know if that is up for consideration, that you will be expressing any kind of opinion? Because we know that there is going to be some inquiry and certain groups may be opposing it and asking the Department of Justice to look at, which I would imagine that is appropriate. What would your department in essence be doing, if anything, that you know of?

Mr. ABERNATHY. That is not something that is handled in my office, but I can certainly make inquiries with other parts of Treasury that would be dealing with that, and get back to you.

Mr. GONZALEZ. Yes, because some opinions are being expressed that it goes against what you are proposing in the way of increasing competition. That is all I am asking. I have not taken a formal position. We have discussed it with different representatives from both opposing sides to the argument. I was just wondering if anything had been done on that.

I do want to touch on a couple of issues that have been brought up by my colleagues. I think we all respect one another's opinions. We just come from different perspectives and for different reasons. But in the whole scheme of things, when we are talking about remittances and we are talking about identification, and we think of the PATRIOT Act and what we are trying to accomplish, in the big scheme of things, when you think of terrorists, when you think of how they accomplish their goals, is truly what we are talking about here at this hearing today, remittances, does it really pose that great a danger?

Everything is a danger, and we can only safeguard against some and better against others. Better against others should be we have

a priority list, like anything else. But again, the terrorists of September 11, my understanding is the way they got around was using credit cards. The night before, they were even at Wal-Mart buying the most curious items, but nevertheless purchasing them. My understanding is that there are false identifications, rather appropriate ones, used to open accounts here in the United States with financial institutions. It is my understanding that we have third-parties, basic fraud, using those accounts of legitimate third parties, organizations, foundations and so on, to finance terrorism. Isn't that the greater concern that what we are trying to accomplish here regarding a remittance by anyone here in the United States, whether legal or illegal?

Mr. ABERNATHY. The regulation squarely and clearly outlaws any fraudulent use of any form of identification, whether it is a U.S.-based form of identification or foreign-based form of identification. The question that the financial institution has to verify is, are you the person whose name and photo appears on that document. If you are not that person you are pretending to be, then that is a fraudulent use of the identification. It is not a question of, are you properly here in the United States. The question is, are you who you pretend to be. That is the question the financial institution has to ask.

Mr. GONZALEZ. But in your determination, when it comes to your responsibility under the PATRIOT Act, you feel that you are fulfilling that responsibility, both letter and the spirit. When we come to the spirit it is, what are we doing to safeguard ourselves from terrorist attacks from within, and how people get financed and how the terrorists operate and how they get their cash, their dollars, their credit and so on. But what you are proposing here does not go contrary to that mission or responsibility.

Mr. ABERNATHY. In fact, Congressman, it is our view that were we to adopt a regulation that said to eight million or more people in this country, get out of our financial system, go into the black market, we think that would be a serious security risk.

Mr. GONZALEZ. And I agree, because I think the criminal mind would welcome the opportunity to service a great segment of the population of the United States, whether they are here documented or not documented. That is another day, another committee, and it is called immigration policy in the United States.

Mr. SHAYS. Will the gentleman yield for a question?

Mr. GONZALEZ. Let me see if I can rush this last question.

Mr. SHAYS. I am not really disagreeing with you. I just would like to ask one question that was just stated, if I could.

Mr. GONZALEZ. Okay. The last thing on the GSEs. I know that was interjected in this, and we have to address it. The concern is, you are saying that Treasury should be looking at products. I think if you have a GSE that is responsible, imaginative, creative and innovative, they will remain competitive. The reason you have to do that is if you look at charter, mission, product. You start a product to allow you to accomplish your mission. You do your mission to allow you to do that which your charter dictates. If we give Treasury, which can be highly politicized, the ability to sanction or disapprove of certain products, you could accomplish changing mission and charter de facto because you really are going at the very life-

blood, and that is the product. Would you agree with that assessment?

Mr. OSE. The gentleman's time has expired. We are going to have you respond to the question.

Mr. SHAYS. Sir, I interrupted him and I would like to give him a little more time. I am sorry.

Mr. OSE. I have it under control here. Mr. Secretary, if you would respond to Mr. Gonzalez's question we would appreciate it.

Mr. ABERNATHY. Yes, thank you, Mr. Chairman.

In our view, the key issue is, if you are going to take a new agency that has responsibility for the government-sponsored enterprises, and the intention is to place that agency in the Treasury, which by the way Secretary Snow did not ask for. If you look at his testimony, he said we need to have a new agency and it needs to have all the powers to be able to do its full job. If the intention is to place that agency in Treasury, there are certain standards. We have to insist on those standards because of Treasury's main responsibility, which is with regard to the debt and the financial management of this country.

If you want to place this new agency within the Treasury, you have to allow the Secretary of the Treasury to have some say over what that agency does, or else you end up worsening the current problem, the current perception in the country that the government stands behind the financial products of those government-sponsored enterprises. We cannot reinforce that. That is all that you would achieve if you took a new agency, put it in Treasury, and the Secretary had no say over the policy, all you will have achieved is reinforced that misperception that is already in the marketplace.

Mr. OSE. The gentleman from California, Mr. Baca.

Mr. BACA. Thank you very much, Mr. Chairman.

Mr. Secretary, regulated credit unions in Mexico still do not have direct access to banks in Mexico's clearing settlement system. I believe that we need to reach out to Mexican communities that are served solely by credit unions. What can we do in Congress to ensure that safe and sound Mexican credit unions are afforded direct access to clearing and settlement systems?

Mr. ABERNATHY. I agree with you entirely, Congressman, that what we want to be able to have is the widest reach of financial service products to people not only in this country, but in Mexico as well. In many cases, particularly in low-income areas, credit unions may be the more successful financial institution to reach those people. That is the kind of conversation that we have with Mexico and other countries as well, trying to do what we can to encourage them to broaden their financial regulation to allow all of their financial institutions to be involved in the remittance business.

Mr. BACA. Thank you. The next question that I have, Mr. Secretary, remittance senders are often unaware of the full costs they are paying for money transfer. According to the Pew Hispanic Center studies, about half did not know why additional costs were being paid; less than one-fifth knew the difference between published exchange rates and the rates used in the transfer process reduced the amount delivered. More than three-quarters described themselves as lacking knowledge of the available options for send-

ing remittances. Given these statistics, how would you rate the effectiveness of existing financial literacy programs, which is question one, and what more can be done by the financial service industry or by the Treasury Department and/or by Congress?

Mr. ABERNATHY. You have identified one of the biggest problems that we have with regard to consumer financial services in this country. I would say it is probably second only to the problem of identity theft. That is the problem of educating consumers on how they can best make use of the wide variety of financial services that are available to them. The financial literacy problem is huge. I liken it really to the State of literacy in general that was in this country 100 years ago. We have that large of a problem in the area of financial literacy, of reaching out to people and helping them understand what are the basic building blocks of just day-to-day financial services. How do I manage a checking account? What can a bank do for me? What can a credit union do for me? How do I best manage my debt? Should I borrow or shouldn't I borrow? What are the different fees that are charged and where do they come from?

We have made some good progress on addressing the issue of financial literacy, but there is a lot more work that needs to be done.

Mr. BACA. Okay. Thank you. My final question would be in reference to responding to the question that Mr. Shays asked you. The responsibility of the Treasury Department or financial institutions, is clearly just to match the ID with that particular person. That is correct, right?

Mr. ABERNATHY. Yes.

Mr. BACA. It is not your responsibility to be an INS, to determine whether that person is illegal or legal. Is that correct?

Mr. ABERNATHY. The responsibility is, are you who you pretend to be?

Mr. BACA. Right. And it is normally the employer, who happens to be a non-minority normally, that ends up hiring the individual, where they are actually making the money, and the other individuals are just trying to send that money or whatever money they made by the illegal employer who actually hired him. Right? Is that correct?

Mr. ABERNATHY. I certainly would not want to address the employment issues. I am just not an expert.

Mr. BACA. I realize that, but as we were asking the question, I know that there had to be some kind of a transaction that happened before, which means that an employer happened to hire that person before the banking institution even transferred anything, and all you are doing is complying with the law.

Mr. ABERNATHY. That could have been illegal, for all I know, in terms of the employment transaction. Sure.

Mr. BACA. Thank you very much.

Mr. OSE. Does the gentleman wish to yield his remaining minute to Mr. Gutierrez?

Mr. BACA. Yes, I will yield to Mr. Gutierrez the remaining minute.

Mr. GUTIERREZ. Thank you very much.

I would like to yield to Mr. Shays.

Mr. SHAYS. I would like to just ask unanimous consent that both sides could have two minutes each.

Mr. OSE. Hearing no objection, so ordered. We will assign two minutes to you and two minutes to Mr. Gutierrez for allocation as he sees fit on the minority side. Mr. Shays?

Mr. SHAYS. Thank you.

Mr. Abernathy, I know you are a good man. My intensity is just listening to your answers, because I disagree with them and because I have worked on this issue for five years. I chair the National Security Subcommittee, and I know that these documents from other countries are a joke. We have had hearings on it. We know they are a joke.

Now, I understand the logic of you saying we do not want eight million people underground, but now you have really answered the question that I had. In order to get those eight million people who are underground, we have basically put in our rules, in my judgment, a process that is not verifiable. A bank has no way to verify the authenticity of a document given to an illegal alien. They have no way to do that.

So I want to ask you how you think you live both in the letter and the spirit of the law when you are allowing for a process that, one, is not verifiable? And I want to understand why I should have confidence in your answer when you were so reluctant to tell me something that should roll off your tongue. Is it illegal to hire illegal aliens? It is illegal to hire illegal aliens. The answer is yes, and you know that and I know it.

So why should I be comfortable when you tell me that this is verifiable, when I have five years of hearings that say they are not? Help me out.

Mr. ABERNATHY. Certainly, Congressman. You are certainly focusing on a very key problem that we have as an entire society, and it is not just the United States. It is many countries, the problem of coming up with a system of fully, rigorously reliable identification documents. The criticisms that can be made of consular IDs, I hear the same criticisms made of driver's licenses. I hear, frankly, many similar criticisms made of passports.

The ability to counterfeit identification documents has expanded tremendously, and we need to come up with measures that can get ahead of the counterfeiters. There is a lot of promising technology out there, but right now it is expensive.

Mr. SHAYS. Okay. Let me just interrupt you there. But the one problem is, the one that is the easiest to have fraud in is the very issue of number and country of issuance of any government. When you say it is illegal for someone to lie when they come before the bank, that they have broken the law, it is almost humorous because you are making it legal for an illegal alien to do that. So you are an illegal alien, but you are going to tell the truth. It just does not buy. It doesn't meet the test.

That is why I have a problem with your regulations. I thank the gentleman.

Mr. OSE. The chair recognizes the gentleman from Illinois for three minutes.

Mr. GUTIERREZ. I think that Mr. Shays is very passionate and very eloquent in stating his position, a position that has a lot of

stature in the Congress of the United States. Let me just say that we are not going to resolve it by eliminating the matricula consular. People won't stop sending money back home. People won't say, God, they cancelled the matricula consular; I guess it is time for me to cross the border once again and go back home, because I am just not going to stay in the United States of America if I do not have a matricula consular to send money back.

What is going to happen, I will go to Western Union. I will give them \$300 in cash and they will send the money back to my family members. That is what is going to happen. We are going to increase the expense to people because there are legal ways for undocumented workers, which they used prior to the matricula consular to send the money back. And that is what we are simply going to do. We are going to turn the clock back.

I think what is at the crux of Mr. Shays issue here, at least I believe it as I listen to him, and I am trying to listen to him very carefully, is that of all these undocumented workers, millions of them, some of them could pose a threat to the United States of America. Well, they haven't posed a threat as of yet. Mexico is an ally, along with the rest of Central America in our war against terrorism.

What is more, if we really want to eliminate them as a security issue for the United States, I would simply say, let's complete a process started by President Bush in the early months of his administration, to regularize or legalize their status here we must confront the issue that this country does not have a policy, nor does it have the political will, nor the requisite resources, to deport eight million people. Given that reality, isn't it better that we integrate them fully into our society because we eat from the plates that they wash. We all know it. We don't stop eating at the restaurant. We eat the fruit. We don't stop eating oranges, asking who picked this; or stop eating the chicken or stop staying in the hotel room. We all know this.

So really, we are all part of this great conspiracy, because we all know they are here. We all benefit from their services. As a matter of fact, we all take in their services every day in common life that we live here. So I say, let's get their fingerprints. Let's get them checked by the CIA. Let's get them checked by the FBI. Let's get them checked by Interpol. Let's tax them. Let's incorporate them. And then those who remain, we can focus on them, because if they did not come forward, they must have something to hide.

Thank you very much for your testimony, Mr. Secretary.

Mr. ABERNATHY. Thank you.

Mr. OSE. The chair thanks the members and the witnesses. The chair notes that some members may have additional questions for the panel, this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to this witness, so that we can place their response in the record.

Mr. Secretary, we appreciate your coming. It was a long panel. Your patience is noted.

Mr. ABERNATHY. Thank you, Mr. Chairman. It is always a pleasure to come before this committee.

Mr. OSE. Thank you.

This panel is excused. If we could have the second panel come forward, that would be Mr. Roberto Suro, Dr. Manuel Orozco, Mr. David Valenzuela, Ms. Alice Perez, Mr. John Herrera, and Mr. Ezra Levine.

Our second panel is composed of six witnesses. I am going to introduce them. Our first witness is Mr. Roberto Suro, Director of the Pew Hispanic Center. Welcome sir. We are also joined by Dr. Manuel Orozco, who is the Project Director for the Central America Inter-American Dialogue. Our third witness is Mr. David Valenzuela, who is President of the Inter-American Foundation. Welcome, sir.

Our fourth witness is Ms. Alice Perez, who is the Vice President and Hispanic Market Manager for U.S. Bank. She is here on behalf of the Consumer Bankers Association. Welcome. Our fifth witness is Mr. John Herrera, who is the Board President of the Latino Community Credit Union. He is here on behalf of the Credit Union National Association and the World Council of Credit Unions. Welcome. And our sixth witness is Mr. Ezra Levine, who is a Partner with Howrey Simon Arnold and White, appearing on behalf of the Non-Bank Funds Transmitters Group.

Welcome to all of you. Without objection, your written statements will be made a part of the record. You will each be recognized in turn for a five-minute summary of your testimony. So we are just going to go from my left to my right. So Mr. Suro, you are recognized for five minutes. Welcome.

STATEMENT OF ROBERTO SURO, DIRECTOR, PEW HISPANIC CENTER

Mr. SURO. Thank you, Mr. Chairman and members of the committee.

Roughly seven million Latino immigrants to the United States send remittances to their home countries on a regular basis. According to the 2002 national survey of Latinos conducted jointly by the Pew Hispanic Center and the Kaiser Family Foundation, two-thirds of remittance senders are employed as unskilled laborers; about an equal share have not completed high school; about an equal share earn less than \$30,000 a year. About half do not have either bank accounts or credit cards, and nearly three-quarters rent, rather than own, their homes. They are, however, both the generators of wealth in this industry and the prime consumers. Their decisions about how to manage their money will decide how the remittance flow evolves.

In order to better understand how both remittance senders and receivers view the rapid changes taking place in the money transfer industry, the Pew Hispanic Center and the Multilateral Investment Fund at the Inter-American Development Bank have collaborated on a series of studies in the United States and Latin America. I have provided the committee with copies of our November 2002 report, *Billions in Motion: Latino Immigrants Remittances and Banking*, which explores how remitters choose the means to send money home. An upcoming report to be published this November will look at the process from the remittance receiver's point of view, with studies conducted in Ecuador, Guatemala, Honduras, El Salvador and Mexico.

Through telephone surveys, focus groups and in-depth interviews, that have gathered information from some 10,000 individuals, I have tried to assess the senders' and receivers' understanding of the methods and costs involved in transferring money. Allow me to summarize a few of the key findings. First, both remittance senders and receivers are often unaware of the full cost they are paying for money transfers. Many complain that the money received is less than expected. Yet in a study of remittance senders in Miami and Los Angeles, about half said that they did not know why additional costs were being paid. This is the research that Congressman Baca referenced. Less than one-fifth, for example, knew that differences between published exchange rates and the rates used in the transfer process could reduce the amounts delivered.

It is tempting sometimes to think of this as a matter of ignorance or poor math skills, or even to assign it entirely to the realm of financial literacy. It is important to note that one of the results of a rapidly changing market is a very rapid multiplication of the types of products, and often very different types of pricing schemes. As a result, different remittance products have very different ways of packaging their fees, and it is not always transparent to somebody looking at two different vendors what the benefits are either way.

Second, it is important to recognize that remittance senders are often passive consumers. More than three-quarters of the participants in our Los Angeles-Miami study described themselves as lacking knowledge of the available options for sending remittances and indicated they had done little to explore the market. Instead, they tend to rely on word-of-mouth recommendations. Familiarity and convenience are often deciding factors in choosing a means of transferring money, even when individuals are concerned that they are paying high fees.

On the receiving end as well, our studies indicate that simple expediency and force of habit are powerful factors in determining the means for collecting remittances. To understand this better, perhaps you could all think back to that time not long ago when one went to a savings and loan or a bank in this country. There was a local institution staffed by familiar folk, and it was common enough to have a favorite teller.

One way to achieve the committee's aims of increasing competition and improving consumer access would be to promote the entry of new players, such as banks and credit unions, into the marketplace for remittance services. In this regard, it is important to consider limitations posed by infrastructure, on the receiving end especially, but also on the sending end. Many of these consumers live in areas that are underserved by financial institutions. Over the last 20 years or so, wire transfer companies have created financial conduits which previously were nonexistent between many Hispanic immigrant communities here and the urban neighborhoods and rural villages they left behind in Latin America. New players in the remittance market will have to duplicate this infrastructure and compete on the level of location and convenience, even as they compete on the basis of price.

In pursuing the committee's goals in the existing market for remittance services, our study suggests that greater transparency in pricing and simplicity in procedures could have an impact. Obviously, one cannot oblige consumers to do comparison shopping, but these studies have revealed a sufficiently high level of confusion and dissatisfaction over the extent of information now available to suggest that the information flow can be improved. If consumers can make easy apples-to-apples comparisons about the cost of transfer services, they might be more likely to shop around. To be effective, such comparisons must cover all costs, including exchange rates and any fees charged on the receiving end.

Mr. Chairman, again thank you for the opportunity to appear here. I will be happy to respond to any questions.

[The prepared statement of Roberto Suro can be found on page 119 in the appendix.]

Mr. OSE. Thank you for your testimony.

Our next witness is Dr. Manuel Orozco, who is the Project Director for the Central America Inter-American Dialogue. Welcome, sir. You are recognized for five minutes.

**STATEMENT OF MANUEL OROZCO, PROJECT DIRECTOR,
CENTRAL AMERICA INTER-AMERICAN DIALOGUE**

Mr. OROZCO. Thank you very much, Mr. Chairman and the members of the committee. And thank you to Congressman Gutierrez for sponsoring also this idea.

I think the issue of family remittances has gained increased relevance in the past few years, partly because of the sheer volume of these transfers, but also by certain issues that have been raised. One of them deals with costs; the other one deals with the role of remittances potentially as a tool to bank the unbanked, and another one that reflects the market preference of a significant group of individuals in the United States that relates to other issues like transportation, telecommunication, tourism or trade.

There are several challenges that have been identified with regard to these issues. One of them is that the cost continues to be significantly in many countries expensive, despite the fact that there has been a declining cost in some countries. The other issue that I think is so important to consider as a challenge is that there is a weak link between money transfers and access to other financial services. And finally, another challenge is the poor financial location of senders.

I think in order to address these issues, we can identify several recommendations that can improve this series of challenges. One of them deals with competition. The report by Treasury expressed nicely that there has been an increase of competition and that is very important to identify and recognize. However, the quality of the competition is another matter. There is still need to improve the quality of competition at different levels.

I think it is important to identify the stumbling blocks that are preventing a more efficient money transfer system and a competitive one. So one of the stumbling blocks deals with the presence of informality that controls certain monopolies in certain money transfer corridors, as well as issues related to agent control over the pricing of the fee. There are many parts of the United States

in cities like New York where agents charge 75 percent of the commission of the fee of the transfer to be sent. That increases the cost of sending money abroad.

Within that context, I think it is important to implement some sort of a report card, which I describe very clearly in the testimony, that basically looks at the different types of practices of money transfers and the quality of them, using several indicators. I think in addition to looking at the competition in the money transfer business, we also need to think of the role of remittances to bank the unbanked. The reason is very simple. We are talking about at least 20 million people sending remittances abroad, not only to Latin America, but many other places in the world. In a way, half at least of the senders are unbanked. That is particularly the case among Latino individuals. I think a strategy that will use remittances as a way to bank the unbanked will increase the savings rate of the country, as well as the quality of life of the sender.

There are three ways to deal with this issue specifically. One is the promotion of alliances between more remittance businesses and banks. This is a very important issue because by establishing that alliance, what you do is you actually reduce the intermediary, in this case the agent that charges, that prompts the money transfer businesses to increase charges. The alliance would also facilitate the ability of people to be banked into financial institutions. I think remittance transfers should be included as an indicator of service provisions under the CRA, the Community Reinvestment Act.

And finally, I think another step in this direction with regard to money transfers deal with financial location. The financial location issue is very important at different levels. We need to educate the immigrants about the advantages of different economic opportunities that exist in this country, but we also need to inform customers about the best practices that exist in the market, and a situation that does not exist very much. I monitored somewhere around 120 money transfer businesses. I wish there was a way to make individuals aware of the different opportunities to look for different market types of services, and not be basically victims of exchange rates, for example, in many countries. I think the problem of the exchange rate is one issue that affects the sender, but there are other problems, too, that have not been addressed and I think it is important to pay attention to them by using some sort of report card.

Thank you very much.

[The prepared statement of Manuel Orozco can be found on page 85 in the appendix.]

Mr. OSE. Thank you, Dr. Orozco.

Our next witness is Mr. David Valenzuela, who is the President of the Inter-American Foundation. Welcome, sir, you are recognized for five minutes.

STATEMENT OF DAVID VALENZUELA, PRESIDENT, INTER-AMERICAN FOUNDATION

Mr. VALENZUELA. Thank you, Mr. Chairman. I am pleased to testify before this committee to share the experience and insight of the Inter-American Foundation regarding the potential impact of

remittances to help improve the social and economic conditions of many poor communities in Latin America and the Caribbean.

It is estimated that migrants from Mexico, Central America, South America and the Caribbean send approximately \$32 billion each year to family members left behind. This flow of dollars represents a critical safety net for millions of people. Increasingly, organizations of migrants in the United States are also joining forces to invest in their communities of origin to promote sustainable development through improved production and job creation.

The Inter-American Foundation, a small federal agency, was established by Congress in 1969 to support grassroots development led by local people in their own communities. Since that time, the Foundation has made over 4,400 grants throughout Latin America and the Caribbean to support the self-help efforts of poor communities to improve their productive capacity, their education, health and environment.

The Foundation was among the first agencies to recognize the importance of the remittance flow to Latin America and the Caribbean. In March 2001, we sponsored a conference in Washington with the cooperation of the World Bank and the United Nations Economic Commission for Latin America and the Caribbean. This conference explored the issue of transaction costs, but it also introduced the potential development impact of remittances based on experiences of foundation grantees in Mexico and in Haiti. Since that time, the Foundation has broadened its effort to direct some of the flow of remittances to sustainable development in home communities.

This work has led the Foundation to come into contact with organizations of migrants that have sprung up throughout the United States. Mexican migrants, for example, have over 600 hometown associations that are actively engaged in helping their home communities. Haitians, Salvadorans, Dominicans, Guatemalans, to name a few, also have similar organizations. Several recent grants awarded by the Inter-American Foundation to grassroots organizations in these countries rely on or are complemented by counterpart funds raised by these hometown associations in the United States.

Mr. Chairman, I would like to share two insights with the committee based on our experience with remittances. The first is that the resources that migrants send to family and the home communities are an important aspect. But potentially of greater significance are other non-monetary contributions. Here, I am referring to ideas, practices, know-how, values, entrepreneurial skill and business linkages that migrants acquire in the United States and transfer to their home countries.

Secondly, a large number of migrants maintain active ties with their communities of origin to such an extent that they are becoming transnational communities. Transnationalism can be defined as a process in which human, financial and social capital flows back and forth between sending and receiving communities, thus greatly impacting the process of social and economic development in both sending and receiving communities. In this manner, we can no longer look at helping poor communities in many countries of Latin America and the Caribbean without taking into consideration the

interaction between these communities and their brethren who have migrated to the United States.

The Inter-American Foundation is pleased to testify at this committee and will provide any additional information that you might need. Thank you.

[The prepared statement of David Valenzuela can be found on page 121 in the appendix.]

Ms. BROWN-WAITE. [Presiding.] Next, we will hear from Ms. Alice Perez, Vice President and Hispanic Market Manager, U.S. Bank, on behalf of the Consumer Bankers Association. Welcome, Ms. Perez.

STATEMENT OF ALICE PEREZ, VICE PRESIDENT, HISPANIC MARKET MANAGER, US BANK ON BEHALF OF THE CONSUMER BANKERS ASSOCIATION

Ms. PEREZ. Thank you. Good afternoon, members of the committee. My name is Alice Perez. I am the Hispanic Market Manager for U.S. Bank, the eighth-largest financial institution across 24 states in the U.S.

I would like to thank you for inviting us today to testify on behalf of the Consumer Bankers Association and U.S. Bank regarding expanding consumer access to mainstream financial institutions and reducing the costs and increasing the competition in remittance services.

In my role at U.S. Bank, I lead the development of programs, products and services that will benefit the Hispanic market. U.S. Bank is striving to be the best bank of choice for Hispanic consumers. U.S. Bank is testifying today on behalf of the Consumer Bankers Association, which I will refer to as CBA. CBA has been actively involved in issues of financial access for many years. In 2000, CBA began to undertake a series of annual surveys to determine the level of financial literacy efforts of its member banks. In addition, CBA is currently developing a forum on Hispanic outreach to be held in the spring of 2004.

Banks are increasingly offering low-cost alternatives to traditional wire transfers. Bank remittance services have proven to be of tremendous value to bank customers and non-customers, particularly in immigrant populations where many people send money to relatives in their country of origin and do not traditionally have a relationship with financial institutions.

At U.S. Bank, our vision is to become the best bank in America to Hispanics. To deliver on our commitment, we are providing product, services and support to the Hispanic market and we focus our strategy in four key areas. Those areas include: (1) staffing, we mirror the markets in which we do business; (2) Marketing, ensuring that our materials are available in a language that individuals can understand; (3) Products, ensuring that the products are the proper products to target the segment; and (4) community involvement, which means two-fold, providing financial literacy, education to different individuals on products and services that financial institutions offer in the U.S., as well as providing for and sponsoring different organizations.

As part of this effort, in partnering with community organizations for financial literacy, we have developed a program to serve

the needs of individuals that need access to remittance services. We refer to this as our secured money transfer service. What this does is offer low transfer fees and competitive foreign exchange rates that enable consumers to get more money into the hands of their family member. The program provides consumers the choice of how the beneficiary receives the funds, either cash at an ATM, cash at a bank branch, or funds deposited directly into a savings account.

The first program available across our 24-state footprint enables individuals to send funds within the United States and to Mexico via an ATM Visa-plus network system. Through the recommendation of the Mexican consul, as well as other entities in the U.S., they have encouraged us to provide this type of service to individuals through the use of an ATM card. The beneficiary can use this card to withdraw funds in any of the network ATMs in the U.S., as well as the 20,000 ATMs in Mexico. Not all funds need to be withdrawn at one time, providing an added level of safety for the sender and recipient. Remittance funds are immediately available to the beneficiary each time the money is spent.

Realizing that alternatives need to be offered to individuals to receive funds, we decided to take on another venture, which is our partnership with L@Red de la Gente, which is currently being piloted in San Diego, Los Angeles and Chicago. This enables individuals to send money to any branch of the L@Red de la Gente network. It focuses not just on the remittance, but on providing access to financial services on both sides of the border, enabling consumers to build upon their economic status by utilizing financial services.

The partnership was created to provide low-cost remittances and to encourage more people to become bank accountholders and savers on both sides of the border. This service is priced at \$6 when the transfer is directed to an account at the L@Red de la Gente network, and \$8 when the funds are picked up in cash. On our ATM product, the service is available for a transfer fee of \$8 for accountholders, and if it is a non-acountholder, it is a \$10 fee.

Combined, the U.S. Bank remittance services allow individuals to reach friends or family in both metropolitan areas of Mexico, where many ATM networks are located, and in rural areas of Mexico where many of the L@Red de la Gente branches are located. Individuals who do not have a banking relationship are of high importance to us. U.S. Bank offers a variety of safe and convenient stored value cards for consumers who do not have a banking relationship. We have also created credit products to individuals without established credit. With our Secured Visa card and our Credit Builder secured loan, consumers enjoy the benefits of a credit card or an installment loan to begin building a credit history with a financial institution.

In conclusion, low-cost competitive alternatives to wire transfers are offered by many financial services institutions. Banks are increasingly recognizing that offering low-cost solutions for money transfers saves consumers money up front, and encourages them to begin other mainstream banking relationships that provide benefits in the long run. Providing safe, efficient and affordable money transfer service is the goal of U.S. Bank and our peers in the finan-

cial services industry. Our customers tell us that it is assuring to them to walk into one of our financial institutions, deposit funds with a secure money transfer, walk out the door, call their loved ones, and know that the money is already there, safely, quickly and affordable.

On behalf of U.S. Bank and the Consumer Bankers Association, thank you for the opportunity to present our initiatives and our progress to date.

[The prepared statement of Alice Perez can be found on page 100 in the appendix.]

Ms. BROWN-WAITE. Thank you very much.

Next, we will hear from John Herrera, Board President, Latino Community Credit Union, on behalf of the Credit Union National Association and the World Council of Credit Unions. Welcome, Mr. Herrera.

STATEMENT OF JOHN HERRERA, BOARD PRESIDENT, LATINO COMMUNITY CREDIT UNION ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION AND THE WORLD COUNCIL OF CREDIT UNIONS

Mr. HERRERA. Thank you and good afternoon, Madam Chair and distinguished members of this committee, and my congressman from North Carolina, Mr. Miller. Thank you, Congressman Gutierrez, for your leadership on putting this issue on the table.

And thank you for the opportunity to provide comments on the developments of the remittance industry. My name is John Herrera. I am Vice President of Latino Hispanic affairs for Self-Help Credit Union. Also, I am a founding member and the current board chair of the Latino Community Credit Union based in Durham, North Carolina.

I appear before you today on behalf of the Credit Union National Association and the World Council of Credit Unions. We represent more than 10,000 state and federal credit unions and their 83 million credit union members in the United States and over 100 countries around the world.

I would like to provide the committee with an overview of credit unions' efforts to reduce costs of remittances in the financial services market. First, a little bit about the Latino Community Credit Union. We started in 2000, because Latino immigrants did not have a safe place to bank and they were being robbed as they walked out of their check-cashing stores. When we started, we hoped to have 500 members in our first year. Today, three years later, we have 14,000 members, and 40 bilingual and bicultural branches.

Remittances have been important for our growth. Today, CUNA and the World Council of Credit Unions have joined efforts to expand the credit union participation in the international remittances network, IRnet, partnering with both Vigo remittance and Travelex, the world's largest retail foreign exchange provider. IRnet has transferred millions of dollars and reduced rates to over 40 countries throughout our 850 credit union points of service throughout the United States.

It is easy to understand why any Friday afternoon unbanked immigrants who have just received their paychecks, cash them at an

informal finance company at a cost of 1 to 3 percent of the face value. Latino immigrants send home an average of \$300 transferred to their families at a cost of about \$15 plus the check-cashing fee and the remittance fee and the exchange rate difference, resulting in an average of about \$42. The total cost of these transactions from the credit union IRnet service is \$14, or one-third to one-half of the cost of the competitors. But there are many benefits to the consumer and to the U.S. economy.

Once we get these folks into our credit union, we can help them learn what is available to them financially. They might start with a savings account, move to a checking account, a car loan, develop credit history, and eventually apply for a home mortgage and a small business loan. Fifty percent of all Mexicans in the United States are unbanked today. This is unacceptable. We offer these services to introduce them to having a banking account which is one of the most important factors in helping people accumulate assets to climb the ladder of financial security.

I believe strongly in bringing the power of market forces into all communities to benefit consumers. As is the case with most markets that credit unions enter, as competition increases, prices decrease. In fact, prices have dropped approximately 37 percent for transfers to Mexico since credit unions got involved with remittances in mid-2000. I recently spent several weeks in Mexico as an Eisenhower Fellow, studying economic development and migration, where I saw entire communities that had been developed by the money that the relatives in the United States had sent to them.

Through our partnership with Mexican credit unions, we want to help these families save part of their remittances to start a small business and develop Mexico's economy, which would reduce the need for migration. A recent survey by the Inter-American Development Bank shows that the single largest reason many Latino immigrants do not have a bank account is because of the lack of awareness of the benefits of having an account. One program providing help in this area is the Treasury Department's First Accounts program from which my credit union received significant help to bring the unbanked people into the financial system. There are \$4 million of appropriated funds for this program left unspent because the authorizing legislation to release this funding has not been passed by Congress. I urge the members of this committee to take action to release the funding.

Credit union average efforts in this area could also be greatly helped by a policy change. Credit unions, as you know, may only serve in the regions of the members, and we applaud the efforts of this committee in including in the regulatory relief bill, the provision that will permit credit unions to provide check-cashing and remittance services to nonmembers within their field of membership.

In closing, we would like to commend the Treasury's evenhandedness in its review of section 326 of the U.S. PATRIOT Act regarding account-opening procedures. We believe that providing financial institutions with the guidelines for the types of ID that can be accepted establishes the proper balance between national security and access to financial security.

Thank you for holding this important hearing.

[The prepared statement of John A. Herrera can be found on page 67 in the appendix.]

Ms. BROWN-WAITE. Thank you very much for being with us.

Next, we will hear from Mr. Ezra Levine, who is a Partner in Howrey Simon Arnold and White. He is here on behalf of Non-Bank Funds Transmitters Group. Welcome

STATEMENT OF EZRA LEVINE, PARTNER, HOWREY SIMON ARNOLD AND WHITE, ON BEHALF OF NON-BANK FUNDS TRANSMITTERS GROUP

Mr. LEVINE. Thank you, Madam Chairman.

My name is Ezra Levine. I am a partner at Howrey Simon Arnold and White here in DC. I am counsel to the Non-Bank Funds Transmitters Group. The group has been in existence since 1989 and it is comprised of the leading national money transmitters. Travelex Americas, which was just mentioned, is one of the members. Western Union, American Express, MoneyGram, Comdata, and RIA Financial Services are the members. Each of these companies is licensed by the 45 largest states, the District of Columbia and Puerto Rico, to transmit funds and issue payment instruments such as money orders, travelers checks and drafts.

Commonly-held perceptions are incorrect. The non-bank funds transmission industry is highly regulated. Traditionally, however, the States have regulated non-bank money transmitters for safety and soundness through comprehensive licensing laws. The laws impose a high degree of regulation. They are intended to assure safety and soundness. States conduct periodic on-site exams, require the filing of extensive reports, and the maintenance of 100 percent financial reserves. In fact, the State regulators are very often the very same individuals who regulate state-chartered credit unions, as well as state-chartered banks.

In addition to the State laws, these non-bank money transmitters, the group members are subject to the federal anti-money laundering laws, including the preexisting Bank Secrecy Act, as well as the relatively new U.S. PATRIOT Act. The group members have developed and implemented comprehensive BSA anti-money laundering compliance programs for themselves, and importantly for their sales outlets. As somebody commented earlier, there are approximately, depending who you listen to, 150,000 or more sales outlets in the United States. They are independent businesses. One of the things the companies do as part of the compliance program, particularly with regard to remittances, is to check both the name of the sender and the recipient against the OFAC list. Of course, that is for anti-terrorism and blocked individuals.

The Wall Street Journal reported in November 2002 that approximately \$14 billion of funds are remitted from the U.S. to Mexico and Central America. This represents a 28 percent increase from 2000 to 2001. It is expected to grow by at least 10 percent. I saw something in the papers the other day that it is something like 20 percent already in 2003. While the bulk of funds are sent to Mexico and Latin America, funds are also sent to locations throughout the world. We cited that.

In the past several years, this high transaction volume has attracted both big and small entities which are eager to capture some

of the funds transmission business by offering new service, new features, and different prices. For example, looking only at the traditional money transmission arena of non-bank funds transmitters, there are now over 50 licensed money transmitters in such states as California. Some years ago, there were only 12 or 13 in California. There are over 50 in Illinois; over 60 in Texas and New York; over 100 in Florida, just as an example. Each of these, of course, has thousands of independent sales outlets in every one of the States. These agent locations, these independent businesses like convenience stores, have the face-to-face contact with the customers. They are small businesses and they are located in the communities that they serve, particularly inner-cities.

As I mentioned, these licensed non-bank entities range from small niche companies to the larger multi-state corporations. Some licensees focus on transmissions to only one or a select group of countries. Some provide only limited services. The extensive networks of the large companies, however, often reach areas that many banks, credit unions or other remittance providers do not serve. The large companies pioneered transmission services to the world, and the large ones now serve over 160 countries.

The domestic market for remittance services is dynamic and competitive. I think we heard that from the Treasury Assistant Secretary. I think we have heard that from members of this panel. As an example of the positive effects of competition in the remittance arena, it has been estimated that the average cost of remittances to Mexico has decreased by over 60 percent since 1999. That is only a few years. The bottom line is that competition is alive and well in the transmission business. There has been a veritable explosion in the number of service providers. This explosion has presented consumers with an unprecedented array of choices. Again, we have heard some of them from this panel. The prices are reducing. The prices are continuing to fall. And who are the beneficiaries? The beneficiaries are the consumers of this explosion of competing service.

Some of the new competition comes from banks. They have been attracted to the growing market. Credit unions and the U.S. Postal Service provide remittance services aimed at Mexico. Competition also exists from courier services, which physically transport currency and payment instruments on behalf of consumers.

I am about to wrap up. To sum up, customers are the winners as additional funds transmission services are offered. Customers reap the rewards of competition. The trend is continuing.

Thank you.

[The prepared statement of Ezra Levine can be found on page 76 in the appendix.]

Ms. BROWN-WAITE. Thank you very much. I want to thank all the members of the panel.

Mr. Levine, you indicated that the average cost of the remittances to Mexico have decreased by some 60 percent since 1999. Has the decrease in price led to an increase in remittances? Do you anticipate that with increased competition, the market price of sending remittances will continue to fall?

Mr. LEVINE. I think it will continue to fall. I think from one of the individuals on this panel, and it may have been U.S. Bank, in-

icated that for certain of their customers, for example, the price, I do not want to misstate her testimony, was significantly lower than the \$9.99 amount. The volume of transaction is going up and obviously I think that reflects immigration patterns. But there is transmission to all over the world. Mexico is clearly the single most competitive segment. I believe the trend will continue. It is continuing.

Ms. BROWN-WAITE. Thank you.

Ms. Perez, do you believe that greater government regulation would help or hinder competition? And how would the consumer ultimately be affected?

Ms. PEREZ. On behalf of U.S. Bank, I can state that we disclose to our customer, at the time that we offer them a product, what exchange rates and what the actual costs of the product are. I think in today's environment we do a very good job at that. My recommendation would be to allow us to continue to do it the way that we do it, because we are disclosing to the customer all fees associated with the service that we are providing.

Ms. BROWN-WAITE. Thank you very much.

Mr. Gutierrez?

Mr. GUTIERREZ. I want to thank the panelists for their information, starting with Mr. Suro who explained to us that the people need more information. They need more information about the products. I think Dr. Orozco was very eloquent when he said, just because we have more people in the marketplace providing the service, that the quantity of people does not belie the fact that the quality has not improved. That is to say, if I have 10 grocery stores and they are all selling bad milk and eggs, and all of a sudden there are 20 and they are also selling bad eggs and milk, I have more grocery stores, but it does not mean I am getting better groceries because of the number of grocery stores in my neighborhood.

I think that it is very clear from Mr. Valenzuela's testimony that we need to bring some diplomacy to the issues, not only Treasury, but the State Department, so that we can engage in the kind of conversations that have been conducted, dispassionate conversations about the growth of our hemisphere, the American hemisphere and Africa.

Ms. Perez, I agree with you totally. I like the way banks do it, because that is the way I do my money transfers when I travel around the world. I like the security and the confidence that I have when I take out my ATM card and I travel across the world. I take it and I put it in and I know exactly what I am going to get, and I know it is a reliable service. So I can understand why, if you are meeting certain thresholds of openness and transparency, why you would say, why do we need to be regulated, we are going a good job.

To Mr. Herrera, thank you so much for all of the great work that you have done in North Carolina, in taking from 500 to 14,000 members you have now, and taking the un-banked and making them banked in a very sensitive manner. I know that many other institutions are following your lead, because you bring competition to the market. You make sure that the Bank of America and the others say, well, you know, there is somebody out there fighting for the dollars and the investments and the deposits of the people who

are there. So I want to thank you for all of the great work that has come before, and we look forward to you coming again in the future and helping me, as I know you have helped many other members of this panel on both sides of the aisle, get better educated about the issues that we have before us.

In terms of the industry, Mr. Levine, the fact is that the industry that you represent is the most costly industry that exists in the United States of America. That is just evident by all of the testimony that we have received today. Indeed, if there were a segment of the community that my legislation focuses on, I understand how you might feel targeted by it which is your industry targets my constituents by bombarding them with ads on Univision and Telemundo, telling them what a kinder and gentler institution you are. The fact remains that you are the institutions that have been sued in federal court and have received settlement issues in federal court. It is Western Union and MoneyGram that shelled out the \$5 million in the settlement, along with Orlando Volute. If the plaintiffs in California had their way, I think we might have done better, and I say this with much chagrin, given the fact that it was the plaintiffs and the lawyers for the plaintiffs in Chicago that succeeded in settling the case, a case that I never really felt should have been settled at that point. It should not have been settled at that point.

I know Mr. Levine is going to say, that they did not admit any culpability in this issue. But the issues were clear; they were transferring money and what disclosure is. All I ask, Mr. Levine, is that you go back to this industry. I want this industry to grow. I want it to do well. All I want them to do is this: when I walk into Western Union or MoneyGram, I just want them to say that it is \$14.94, Mr. Gutierrez, to wire \$300, and Mr. Gutierrez, here is how many pesos today the recipients back in Mexico are going to get, and write that on the receipt each and every time you do it. I know you are shaking your head because as part of the settlement in the lawsuit, as you are very well aware, those were part of the conditions of the lawsuit.

Mr. LEVINE. Not quite.

Mr. GUTIERREZ. Then we are going to beg to disagree on that issue. That is what we want. We want transparency in the market. I do not quite understand why we cannot secure transparency in the market.

Thank you very much, Madam Chairman.

Ms. BROWN-WAITE. The gentleman's time has expired.

Mr. Levine, would you like to respond to that?

Mr. LEVINE. Sure I would. Thank you very much.

Mr. Gutierrez, you were talking before about security and confidence. One of the reasons that immigrant populations use Western Union, MoneyGram, RIA, and Travelex is because they are secure, they are safe, and they do what they say. Even before the class action, and I have a view of the class action, but I will only repeat what the Seventh Circuit said about the class action. Even before the class action suit, each of the companies was giving out a receipt, and the receipt clearly states the amount of U.S. dollars paid by the sender, the foreign exchange rate applicable if it is a

fixed-rate transaction, and the amount of fees, and the amount to be received in pesos by the recipient.

You are absolutely correct, there were additional disclosures mandated as part of the settlement. Let me say one thing about the settlement. The whole lawsuit was not so clear. I did not defend the companies and I was not a lawyer for the companies in any of that litigation. However, I did read the Seventh Circuit opinion written by Judge Frank Estabrook, one of the most respected circuit court judges in the United States, with regard to the approval from the challenge of some class action lawyers of the settlement. What Judge Estabrook and the full panel of the Seventh Circuit said was that the case was frivolous; that the case amounted to commercial extortion, and these are not my words, these are the words of the Seventh Circuit, but that he understood the necessity from a public relations standpoint of companies needing to settle this class action, and with great reluctance the Seventh Circuit approved the settlement. That is in the opinion.

Mr. GUTIERREZ. Let me just respond, if I could have a unanimous consent for one additional minute since Mr. Levine went over and was given the additional time. I ask unanimous consent.

Ms. BROWN-WAITE. Without objection, for one minute, Mr. Gutierrez.

Mr. GUTIERREZ. Let me just say, they do provide the sender with the transaction dealing with the countries. Now, here is a fact, Mr. Levine. I saw the actual transmittal. I went to a Western Union and a MoneyGram. One of us is wrong. I don't know if you actually went personally to a Western Union, MoneyGram office at a currency exchange anywhere in a metropolitan area. Had you done that, I am going to tell you what you would have found. You would have found that they did not disclose those fees; that they were unaware of the exchange rate because it was nowhere on the form, Mr. Levine. I saw it personally before I ever engaged in this matter.

Secondly, the fact is, Mr. Levine, it is curious process when only Mexico and Latin America are targeted, because although Mexico is the closest country to us, it is cheaper on the exchange rate to send money to Poland or the Philippines, thousands of miles away, than it is to send money across the Rio Grande.

Thank you very much, Madam Chairman.

Ms. BROWN-WAITE. The gentleman from Arizona, Mr. Shadegg, is recognized.

Mr. SHADEGG. Thank you, Madam Chairman.

Let me begin, Ms. Perez, with you. Does U.S. Bank do most of its business, did I hear you testify, with Mexico? Is that right? Most of the remittances?

Ms. PEREZ. Currently, our remittance products are with Mexico.

Mr. SHADEGG. And you do remittance products with other countries?

Ms. PEREZ. At this time, no. Both of our initiatives are very new as of this year.

Mr. SHADEGG. I was not here, but I believe Dr. Orozco made the point that competition in fact exists in the market, but that does not necessarily mean there aren't people abusing the process in that competition. I think that makes sense.

My question of you is, with regard to Mexico, do you believe there has been an increase in competition? Do you see abuse occurring or do you see the competition as assisting people who need to transfer money to Mexico?

Ms. PEREZ. I see the competition increasing. I think it is positive competition because as a result of the competition, the pricing structure has decreased, which benefits the consumer.

Mr. SHADEGG. Does U.S. Bank disclose the exchange rate when it does a transfer to Mexico?

Ms. PEREZ. Yes, we do.

Mr. SHADEGG. I think the gentleman who is the sponsor of the legislation, I guess he left the room. I think that is a valid request, at least when the exchange rate is known. One of the reasons I was interested in whether you do business in other countries is that I understand the very established market in the exchange rate between the United States dollar and the peso. We do not necessarily have the same established market for other currencies. So you do disclose the exchange rate when you do a transaction for a remittance to Mexico, is that right?

Ms. PEREZ. At the time of the transaction, we disclose fully to the consumer.

Mr. SHADEGG. And that goes in writing?

Ms. PEREZ. Yes, it does.

Mr. SHADEGG. Do you know, is there also a disclosure in Spanish as well?

Ms. PEREZ. Yes, we disclose in both.

Mr. SHADEGG. I want to compliment you and Mr. Herrera for the education. I think at the end of the day, what we are really talking about here is education. We need to make sure that the consumers of these products are educated and we need to be sure that the industry is clean, not only that the big players are playing by the rules and fair, but small players do not come in and abuse people. Competition is one way to clarify that problem and to make sure that it does not occur.

Mr. Levine, let's go to this point about countries where there is not an established exchange rate. First of all, let me begin by saying that the major players that you represent, they disclose the currency exchange rate when they have an established market. Is that correct?

Mr. LEVINE. Yes, indeed. In fact, we would be pleased to provide to the committee subsequent to the hearing copies of the actual receipt forms that are used in every single state in the United States, which have a blank stop for the entry of the FX rate when in fact there is one. But Mr. Congressman, in certain countries there is no exchange rate. For example, Brazil is one of those countries where you can't quote an exchange rate because the Brazilian government bars it. They set the exchange rate at the time of receipt. You cannot know ahead, sir.

Mr. SHADEGG. I read that in your testimony, and I was a little shocked. I had understood that in some countries that is not an established market, so you might not know it until you transmit it. But you are saying that in other countries, the government itself establishes the exchange rate after you send the money.

Mr. LEVINE. Exactly. In some, the number of transactions is so small overall that in fact there really isn't an established exchange rate. You certainly will not see it published anywhere or even on the Internet.

Mr. SHADEGG. With regard to those countries where there is an established exchange rate, you would disclose that information, and that would include countries other than Mexico, I take it.

Mr. LEVINE. Absolutely.

Mr. SHADEGG. So for Poland or Russia or someplace like that, you would disclose the rate?

Mr. LEVINE. Yes, and the companies also offer, Mr. Congressman, a floating rate option. So a consumer who decides, look, it may be that the dollar is going to go down or the foreign exchange is going to go down, we offer them the floating rate option, and that is disclosed, if they want that. Or a customer could say, it is called will-call, I am going to send money to my son or daughter who is traveling in Europe, but I don't know where they are going to pick it up. It might be France, it might be Germany, well, of course, they are euro countries, but it might be England, still on the pound. So you cannot quote an exchange rate when it is a will-call transaction.

All I am saying is, there are many different kinds of services and one size does not fit all, basically.

Mr. SHADEGG. So the large national players offer a service under which I have a child who is traveling in Europe; I put some money in, but I do not know where they are going to pick that up?

Mr. LEVINE. Absolutely. They can go pick it up at any one of the recipient location outlets in any country of the 140 or 160 where the large companies maintain a presence.

Mr. SHADEGG. That would create a problem both for the issue of disclosing exchange rate, and for the issue of what language in which to disclose that. Is that right?

Mr. LEVINE. Absolutely.

Mr. SHADEGG. What is your sense, of course, as your testimony has indicated, the price of these remittances is coming down. Do they notice or are they concerned about somebody in the market who is playing with the exchange rate, the example that was given earlier where somebody says, well, we will waive our fee, but then they have an exchange rate that they don't disclose?

Mr. LEVINE. Yes. Obviously, we want a level regulatory playing field, but we are also very, very sensitive to the competitive pressures. In fact, both companies now, I think it is Western Union will send to Mexico for \$9.99 overnight, \$300. I think MoneyGram, if my memory serves me, is \$500 instantly at \$9.99. These prices are way down from where they were before, and everybody is sensitive, and they are also sensitive about reducing the FX spread where they can. Again, some of that depends on which country you are sending it to. We really only here talk about Mexico. In fact, you are talking about the world.

Mr. SHADEGG. My time has expired, but in light of the absence of other questioners over here, could I ask one last question?

Ms. BROWN-WAITE. Without objection.

Mr. SHADEGG. Is there any effort within the industry to set an internal set of standards? That is, for the players, U.S. Bank is

now apparently becoming a big player, Mr. Herrera is representing the credit unions, to set an internal set of standards saying, well, all of us will voluntarily subscribe to this set of principles when we engage in a transaction? Has that been discussed or does that exist?

Mr. LEVINE. No, it hasn't. On the non-bank money transmitter front, I cannot really speak to the banks, a number of the States have imposed, California for example; Illinois most recently, and we supported the Illinois effort; Texas; State of Washington; there are a couple of others I cannot remember, which have imposed, in fact, receipt requirements, requiring disclosure of FX rates, et cetera, and fees. So in fact, that is happening at the State level, even without industry agreement.

Mr. SHADEGG. I thank all the witnesses for their testimony and for their efforts in this area.

Ms. BROWN-WAITE. Thank you very much.

I would remind the members that we are supposed to be out of the room about 1:00 p.m., so we are going to have to closely adhere to the five-minute rule.

Next, the gentleman from North Carolina, Mr. Watt, you are recognized.

Mr. WATT. Thank you, Madam Chair. I will try not to take the full five minutes. I first want to welcome my friend John Herrera from North Carolina, and compliment him on the outstanding work that he and the credit unions have done there to make a major outreach into the Latino community, and to do what it is doing and what the banking community is now doing, to put a slightly different spin than Mr. Gutierrez has, which is push to provide a service that in some locations we have just not been able to take for granted. So you have had other providers step into the community to provide check-cashing and transmittal services. Sometimes they have not always lived up to the code of conduct or to the regulatory scheme that applies to credit unions and banks.

That is kind of a back-handed compliment to Mr. Levine's industry, because some of those institutions that he represents were there providing a service, not necessarily at the standard that we would have wanted them to be providing the service, but pushing the banks and credit unions to be more responsive to the community. I think this evolution is taking place.

Let me pick up on something Mr. Levine said, which is that there are a number of different providers coming into the marketplace now. There is more money out there that is being transmitted. There is more service to be provided, more profit to be made, more apparent need. That leads me to the question that I would like to pose to Mr. Levine and to Mr. Herrera and Ms. Perez, in particular, of whether in light of the proliferation of providers in the market, whether we might not need a more uniform set of standards, or some best practices guidelines. I do not have the sense that necessarily Western Union or maybe even all of the providers that members of your industry group, but some of these people who are proliferating out there are not necessarily looking at the same standards in this industry as we would want to have applied.

My question is, in light of the proliferation, in light of the increased use of these kind of services, is there a need for a more uniform regulatory structure, either at the State or Federal level, and since this is international stuff we are dealing with, whether that regulatory structure ought to be done more at the Federal level than at the State level. I would like to get the response at least from the three people on this end of the panel.

Mr. LEVINE. I think that in fact the market is regulating things quite well right now. I think consumers are voting with their feet. They are voting with their feet by going to the credit unions. They are going to the money remitters. They are going to the U.S. Banks and the other banks like Bank of America, Wells Fargo. They are comparing products. They are looking at fees. They are looking at exchange rates. The migration among the folks, whether those people are Hispanics; whether those people, for example in Illinois there is a huge Polish community that wires money; there are people that wire money to Southeast Asia. They are looking, they are comparing. They are savvy. Maybe they are not savvy in the very first transaction they do, but when these folks are sending money week after week or month after month, they are comparing. They are talking to their friends. They are shopping. Often in these areas, particularly for example on the east side of L.A., other areas of Chicago and Texas, Arizona, and now in North Carolina.

Mr. WATT. So you think the market is regulating.

Mr. LEVINE. Yes, the market.

Mr. WATT. I don't mean to rush you, but the red light is on.

Mr. LEVINE. Go ahead.

Mr. WATT. I am not asking another question. I am just trying to get a response to this question.

Mr. HERRERA. Congressman Watt, I would say on behalf of CUNA and the World Council of Credit Unions that we need regulation relief rather than more regulation, to stimulate competition. For the chairman of a small community development credit union, you know credit unions are not-for-profit financial institutions, and we come in all kinds of size, shape and flavors. We are state regulated and federally regulated. So more regulation to force different standards, especially for community development credit unions, will really put an extra burden. I can see in community development credit unions, small size, are really struggling to comply with the current regulations.

We already have as a matter today the board of the Credit Union National Association is adopting a guideline of best practices for wire transfers. We want for our members, we are not-for-profit full service financial institutions, and we want for our members the same thing I want for myself. I want to know, if I am sending money, how much it is going to cost; how many pesos my family is going to get on the other side. You know, full disclosure. We have adopted and it is in the written testimony, the seven principles that all credit unions voluntarily will adopt and are already practicing.

Ms. BROWN-WAITE. Ms. Perez, if you would submit your response in writing, that would be very helpful, or we are going to be running over here.

Next, I will recognize the gentleman from Texas, Mr. Gonzalez.

Mr. GONZALEZ. Thank you very much, Madam Chair.

Quickly, I do not want to gloss over the situation we are trying to correct and improve on. We know people have been victimized, and we should not kid ourselves. If you come from San Antonio as I do, and from Texas, you would know exactly what I am talking about. I think many of you probably have had personal experiences. I know Congressman Gutierrez has witnessed it himself.

Those are the sins of the past and everyone seeks redemption. Let's just make sure it is complete and total redemption, with a little help from the government. That is what we really would try to achieve here. Everyone says prices have come down because of competition and such, and only as long as those competitors are allowed to compete equally, then prices do come down and the market is a wonderful place in the final analysis.

My question is going to go to the merger of First Data and Concord EFS, and if anyone has an opinion on how that would impact not just the non-bankers, but the banking part and the credit union part of transmitters. I am going to start with Mr. Suro, and again thank you for all the hard work that you are doing over there at Pew.

Ms. BROWN-WAITE. Mr. Suro, you are recognized.

Mr. SURO. Yes, congressman. I just do not know enough about that proposed merger and the companies involved to really have an opinion on what impact it would have on the market.

Mr. GONZALEZ. Dr. Orozco?

Mr. OROZCO. Thank you. I think the proposed merger actually poses a threat to competition because of what it means to merge to major giant non-bank financial institutions. It will drive out a lot of small competitors that are coming just now, like the credit unions and the community banks. I think it is very threatening.

I also think that we might face problems with foreign exchange issues again, because there are differences in the companies that are doing this business, and some of that Ezra represents, not all, provide the same level of transparency. In some countries, there is a very serious problem of foreign exchange speculation, and that needs to be addressed. That is why we need to adhere to certain standards.

I do not think punitive regulation is necessary, but we need to have some sort of oversight that is missing at this point. The situation that might occur with the merger between First Data and Concord might be an illustration of where prices might go up instead of go down.

Mr. GONZALEZ. Okay. Thank you.

Mr. Valenzuela?

Mr. VALENZUELA. I do not have anything meaningful to say on this subject.

Mr. GONZALEZ. Okay. Thank you.

Ms. Perez?

Ms. PEREZ. Unfortunately, I do not know enough about the merger to comment at this time.

Mr. GONZALEZ. Thank you.

Mr. Herrera?

Mr. HERRERA. Likewise.

Mr. GONZALEZ. Okay.

Mr. Levine?

Mr. LEVINE. I do not represent Western Union with regard to their antitrust issues.

Mr. GONZALEZ. You do not have an opinion from the non-bank side of transmitters as to whether this is potentially harmful to competition, or not, it does not pose any threat?

Mr. LEVINE. I am not aware of any adverse consequences with regard to that. This is my own personal statement, with regard to that proposed merger.

Mr. GONZALEZ. Okay. Thank you very much.

I yield back the balance of my time.

Ms. BROWN-WAITE. Thank you very much.

Ms. Waters, the gentlelady from California is recognized.

Ms. WATERS. Thank you very much.

Let me ask, first, Mr. Suro, in the fourth paragraph of your testimony, you mention that for example about half said, when you were talking about the remittance senders and receivers, they are often unaware of the full cost. You said that less than one-fifth, for example, knew the difference between published exchange rates and the rates used in the transfer process. What do you mean by that?

Mr. SURO. In this survey, less than one-fifth of the senders were aware of the differences between the published costs and the actual foreign exchange costs. It was an important factor in the difference between what they thought was going to be received and what was actually received by their families. Often the pricing comes in a kind of packaging where there is a flat fee for sending. There is the actual rate of exchange. Sometimes there is a foreign exchange cost as well. And there is often a lack of understanding of all the different elements of that pricing package which can affect what is actually paid for the transmission.

Ms. WATERS. So what you are describing is, there could be something advertised that says send \$300, it costs \$9.99, but it does not talk about it costs more if you send \$500 and other things apply and that kind of description of the cost.

Mr. SURO. Right. A transmitter or even a bank or anybody engaged in this business might say the fee for transmitting \$200 is \$5 per transmission, but there may be additional costs that come up when the transmission is being completed. There is not a uniform system of totaling up these costs or even using the same names for them in different venues.

Ms. WATERS. Okay.

Ms. Perez, how many of your non-banked customers, your remittance senders, become banked customers of the bank once you have dealt with them?

Ms. PEREZ. Based on our products so far, most of the customers that we do business with do eventually end up becoming customers because it is a lower rate to send it as a customer.

Ms. WATERS. Do you have any statistics or data on that?

Ms. PEREZ. I would say about 80 percent.

Ms. WATERS. Would you get to me some documentation of that?

Ms. PEREZ. Yes, sure.

Ms. WATERS. Let me just wrap this up by saying, of course I am from Los Angeles and I am very familiar with the class action law-

suit. I do not believe that there would have been a settlement unless there was some basis for the class action lawsuit. The settlement, to me, was kind of a joke. As I remember it, the settlement included or basically gave coupons to the remittance senders to do more business with Western Union at a little bitty discount of some kind. So it was actually a great advertisement, recruitment, and probably expanded the business even more, with a little bit of a discount.

I am very interested in this issue for a lot of reasons. I do believe that the poorest people in our society are the most vulnerable, and that they are the most abused in the financial services industry. I just believe that. As a matter of fact, when I look at some of the organizations, such as MoneyGram and Western Union, they seem to be coupled with payday loan operations where you get a check cashed for an amount, you get a payday loan for 1,000 percent interest, and I guess you can do a remittance if you can figure out the cost, and get charged for that, too.

So it seems to me there is a consolidation of that part of the financial services community that is convenient for poor people, for people who do not speak English very well, for people who do not understand the game. It seems that these services are concentrated more and more, which makes them even more vulnerable. I really like the idea of the credit union because people sign up; they become a part of an organization; they have access to all of the products of the credit union. It treats them as a real person, rather than payday loan operations, check-cashing operations, and transmitting remittance operations all in one.

So I do not know where all of this is going, except to say I would like to do whatever is possible to keep people from being exploited or ripped off. I will work closely with Mr. Gutierrez and others. I think expanding competition may have some value, particularly if the ownership of that competition is by the very people who have helped to make the industry as strong as it is. I don't see Western Union or MoneyGram talking about any joint ventures with any Latinos or Latin Americans.

Ms. BROWN-WAITE. The gentlelady's time has expired.

Ms. WATERS. And when I begin to see that kind of involvement, then I will have a lot more respect for the industry.

Thank you very much.

Ms. BROWN-WAITE. The chair notes that some members may have additional questions for this panel which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Ladies and gentlemen of the panel, thank you very much for being here. We appreciate it. You are dismissed.

This hearing is officially adjourned.

[Whereupon, at 1:03 p.m., the subcommittee was adjourned.]

A P P E N D I X

October 1, 2003

The Honorable Rahm Emanuel
Committee on Financial Services
October 1, 2003

Re: Statement for hearing on "Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market"

Mr. Chairman,

Thank you for holding this important hearing on the cost and competition issues surrounding remittances. I would also like to acknowledge our colleague and my fellow Illinoisan, Representative Luis Gutierrez, for his leadership on this issue and for his efforts to make the remittance process fairer and more transparent. I look forward to hearing today from our distinguished panel of witnesses.

I have a keen interest in this issue, as my home state of Illinois is one of the U.S. centers for the foreign remittance industry. In Chicago, the city government enacted an ordinance in 1998 requiring money transmitters operating in the city to disclose official exchange rates and the exchange rates charged by the remitting company. The Chicago ordinance also bars companies from charging rates that exceed the official rate by more than five percent. At the Federal level, however, there is little regulation, and existing laws, such as the Bank Secrecy Act and the PATRIOT Act, target money laundering, not consumer abuses.

Although the industry is becoming more competitive nationwide, it is still dominated by non-bank financial institutions such as Western Union and MoneyGram, and these institutions have traditionally charged higher fees than credit unions and banks. Moreover, although banks and credit unions are often less expensive, immigrants are at times reluctant to open bank accounts. There are many reasons for this reticence, including lack of knowledge, fear of the Immigration & Naturalization Service, and a mistrust of large, bank-like institutions.

I am pleased that our Committee has taken the initiative to closely examine this industry. Our task is to determine whether the appropriate regulators have the existing authority to more closely monitor disclosures and fees, and whether existing states laws provide sufficient protections to consumers. If sales practices are not covered effectively by these entities, Congress should act to protect these millions of consumers.

October 1, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Full Committee Hearing on "Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market"

Thank you, Mr. Chairman, for holding this important hearing and allowing the members of this committee the opportunity to become further informed on the growing remittance market.

I am pleased to see that the Department of Treasury has supported banks and other financial institutions activities to gain access to this approximately \$28 billion dollar market in the United States. Increased market competition has resulted in a 6% decrease in the cost of funds transfers specifically between the United States and Mexico. By allowing credit unions to offer remittances and check-cashing services to non-members in the Financial Services Regulatory Relief Act (HR 1375), this Committee has also done its part to foster competition.

However, excessive fees for such remittance services are not the only problem to be combated in the industry. I look forward to learning more, this morning, regarding the other areas of concern the Treasury Department has identified within this state regulated industry.

Given our current climate of increased security concerns and the possibility that remittance payments could be a means of terrorist financing, the lack of complete disclosure requirements for all remitters, especially those informal remitting agencies such as grocery stores and small businesses, presents significant risk.

Again, I would like to thank you, Mr. Chairman, for bringing our attention to this important issue and I look forward to being further educated on this industry.

OPENING STATEMENT OF
LUIS V. GUTIERREZ
COMMITTEE ON FINANCIAL SERVICES
“REMITTANCES: REDUCING COSTS, INCREASING COMPETITION,
AND BROADENING ACCESS TO THE MARKET”
OCTOBER 1, 2003

Good morning, Chairman Oxley. It is a great pleasure to be here today to talk about an issue of great importance to me and to the people I represent.

I'd like to start by thanking you for holding this hearing. And I'd also like to thank Ranking Member Frank, who has been a steadfast supporter of my remittance legislation throughout the years, for his leadership on this issue. In addition, I'd like to thank his staff for helping organize this hearing.

During the past 20 years, remittances to Latin American countries have increased not only in volume, but also as a share of national income and total imports.

Last week, President Fox announced that remittances sent from Mexican workers in the United States to their families back home reached a record \$12 billion this year, representing Mexico's largest source of income, more than oil, tourism or foreign investment.

However, such transfers can be unnecessarily costly for consumers in the U.S. due to a range of fees, many of which are often hidden.

Wire transfer companies aggressively target audiences in immigrant communities with ads promising low rates for international transfers.

However, such promises are often grossly misleading because companies do not always clearly disclose extra fees charged for converting dollars into local currency.

This is why I, along with Rep. Frank introduced H.R. 2074, the International Money Transfer Disclosure Act.

The bill requires any financial institution or money transmitting business which initiates an international money transfer on behalf of a consumer to make a good faith effort to provide the following disclosures to the consumer before the transaction takes place:

- Any fees to be charged to the recipient, including any exchange rate or currency conversion fees;

- A final itemization of all costs to the consumer, which would include all fees charged, for the remittance;
- The exact amount of foreign currency to be received by the recipient in the foreign country;
- Finally, my bill requires that the disclosed information be made in English and in the same language, if other than English, as the language principally used by the financial institution or money transmitting business to advertise, solicit, or negotiate the transaction.

Similar legislation has been introduced in the Senate by Senators Corzine, Schumer, Akaka and Boxer.

Over three-quarters of all remittances that come from Latin America--approximately \$25 billion--originate in the United States. Almost 70 percent of Latin-American immigrants to the U.S. send remittances back home on a regular basis.

That means that approximately 12 million workers are sending money to their families in Latin American countries eight or more times a year, resulting in about 90 million separate financial transactions. In some of these countries, remittances represent more than 10 percent of their GDP.

The money sent out to the families abroad was money earned upon hours of hard-work. It was saved with a great deal of sacrifice by mostly low-income, taxpayers of the U.S. For those living abroad, this money is vital to help pay for food, housing, education, starting businesses and saving for the future. This helps enrich communities in other countries, creating a steady income and jobs for those who might otherwise migrate to the U.S. to find work.

But a sizeable portion of these savings never make it from the U.S. to these countries. Instead, it is claimed as fees, most in the form of punishing exchange rates, that remittance services levy on immigrants who wire money.

The fees accompanying remittances made through wire transfer companies can sometimes reach as high as 20 percent, including the amount lost through the exchange rates.

Money transfers have grown significantly since the increased acceptance of the Matricula Consular by financial institutions. Because transfer costs for remittances are lowest when sent through regulated financial institutions, such as banks and credit unions, the increased number of people opening bank accounts is helping them send more money to their families and loved ones abroad and at the same time these individuals are building their credit record and are able to save more money for the future.

Given the fact that 42 percent of Latin American immigrants in the United States do not have a basic bank account, allowing the acceptance of the Matricula is a fundamental step in trying to help the unbanked who up until recently had no other choice but to keep their hard-earned money tucked in their mattresses.

I want to take this opportunity to commend the Department of the Treasury for their recently released rules on Section 326 of the Patriot Act and for their decision to keep the rules unchanged.

Allowing financial institutions to accept the use of the Matricula Consular represents an important step in reducing the number of unbanked individuals in our country as well as a strong sense of security for those individuals who can now put their money safely in a financial institution.

A study recently conducted by the Pew Hispanic Center indicates that reducing the cost to five percent of the amount remitted would free up more than one billion dollars for some of the poorest households in the United States, Mexico and Central America.

The report also revealed that participants in the study said they had often been surprised that the amount of money delivered to their relatives was less than they had expected and that they were unaware of the total costs prior to the transaction.

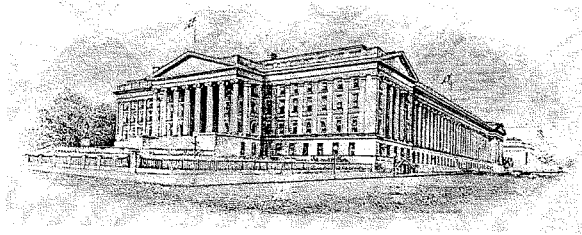
In conclusion, I hope that you would agree with me, Mr. Chairman, that offering basic transparency for these services would provide consumers the ability to make more informed and educated decisions regarding the services they choose.

Money transfers play a crucial role in the daily lives of migrant families and some rely almost exclusively on remittances for their survival.

As such, we should make sure that transparency in the pricing and simplicity in the procedures are put in place to help protect consumers around the country.

Thank you again for holding this very important hearing.

I look forward to the testimonies.



**DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS**

**Embargoed Until 10:00 am EDT
October 1, 2003**

**Contact: Betsy Holahan
202-622-2960**

**Testimony of
Wayne A. Abernathy
Assistant Secretary of the Treasury for Financial Institutions
Before the Committee on Financial Services
United States House of Representatives
Washington, DC**

Thank you, Chairman Oxley and Ranking Member Frank and members of the Committee for this opportunity to testify today on the issue of financial remittances from the United States to people abroad. This is an extremely important issue, one on which the Department of the Treasury has focused for some time. It is an area in which government can be of great assistance. But it is also an area where well-intentioned, but ill-advised, interventions in the marketplace could do much harm.

The Importance of Remittances

For the most part, remittances are simply money sent back home. Migrants to the United States, and elsewhere, have been sending money back home for generations. These financial flows have grown as the world has become more inter-connected, in part because more people are working in countries other than their native country. In part, this is also true because it is easier to stay in touch and send money to family back home.

As Secretary Snow noted on September 22, 2003, “[t]hese flows reduce poverty and help achieve other development goals in education and health. Actual flows are believed to be significantly higher given that remittances often flow through informal channels. The use of informal channels indicates that there is room for improvement in our formal financial systems and that we can reduce the cost of remittances thereby increasing the flows significantly.”

Both the Administration and the private sector realize just how important these flows have become. According to some estimates, in 2001, people all around the world sent \$72 billion back to their homelands in developing countries. This is just what is reported formally. The

total amount is likely larger and exceeds the total amount of official development assistance that is provided to poor countries.

The single largest bilateral remittance market is the U.S.-Mexico market. Last year, Mexican-Americans sent an estimated \$10 billion to their families back in Mexico. Current projections are that this figure will rise to somewhere around \$13 billion this year.

For many countries, remittances are a substantial share of national income. In Latin America and the Caribbean, for example, remittances in 2001 equaled 7.9% of the gross domestic product (GDP) of Ecuador, 8.5% of the GDP of Honduras, 9.3% of the GDP of the Dominican Republic, 13.5% of the GDP of Jamaica, 13.8% of the GDP of El Salvador, and 16.2% of the GDP of Nicaragua.

Remittances have important consequences for the families that receive them. Although firm data is difficult to come by, most estimates are that the average remittance is between \$200 and \$300 and that the average remitter sends money home 8 to 10 times per year. Amounts between \$1,600 and \$3,000 can be a significant addition to a family's income, especially in poorer countries. Families use this money for a variety of purposes, from buying food to buying consumer durables to investing in education to investing in housing to investing in small businesses. This is an important point.

There is a rather paternalistic view that remittances are used for so-called non-productive purposes. This idea is wrong. Remittances are used for the same variety of purposes that people here in this country use income, first and foremost, in improving the living standards of their own family. Just as in the United States, families devote a large share of that income for investment in physical and human capital. For example, one large bank that is active in this market told us that they estimate that 17% of remittances in the Mexican market are used to finance home improvement and construction. As another example, one study has shown that families in El Salvador that receive remittances keep their children in school longer than families that do not receive remittances.

The Cost of Remittances

Perhaps the most talked about aspect of remittances is cost. In my view, such a discussion can be incomplete.

First, remittance providers compete for business in many ways. Cost is one factor. Other factors are speed, reliability, security, and convenience. Some distribution services have a higher price than others. But they may differ in other ways. They may be offering more services. For example, some non-bank services charge more than banks, but they may be more convenient to use, especially for the recipients. In some countries, banks simply do not have branches in rural communities. Using a bank might cost the sender less, but it might require the recipient to walk several miles to the nearest bank, rather than to the nearest distribution agent of the non-bank. Which costs more? Hard to say just by looking at the price of the transmission in isolation.

Second, although many factors determine price, the government should not be one of them. It is common to lump remittances together into one category, one type of financial service. But remittances to one country may be a very different service than remittances to another country. Remitting money to Mexico is considerably easier than remitting money to a country with which we have more limited commercial and geographical relationships. Even within a particular country, remitting money to a major city is a different proposition from remitting money to a remote, rural village.

Whatever the physical barrier, however, our experience has shown that market forces are remarkably adept at surmounting them. More stubborn to surmount are governmental barriers. A significant element in the progressive improvement in service and cost of remittances to Mexico has been the removal of barriers to financial commerce under the North American Free Trade Agreement (NAFTA). Fundamentally, as long as there are no barriers to competition and an adequate financial infrastructure exists, competition will drive remittances costs down, toward a level of costs that reflects value rendered for service provided and one that takes into account the specific costs and benefits associated with a specific remittance market.

Promoting Competition in Remittances

Therefore, our focus has been on promoting competition in remittances as the most effective means of reducing costs while improving services. There are three main components to this effort: (1) promoting competition in the United States for the origination of remittances; (2) promoting competition in the recipient countries for the receipt and distribution of remittances; (3) where appropriate, improving the links between the U.S. financial system and the financial system in recipient countries. In addition, we encourage investments in financial infrastructure – both the physical and regulatory infrastructure – to support all three of these efforts. Finally, overlaying all our efforts with remittances is a constant effort to ensure that effective anti-money laundering and anti-terrorist financing safeguards are in place to prevent the abuse of remittance services for criminal or terrorist ends.

Promoting Competition in the United States

Promoting competition in the United States may be the easiest of the three. The fact is that there are few domestic, artificial barriers to competition in remittances. Workers can send cash through the mail, they can send a money order, they can use a money transfer business, they can use a bank or other financial institution.

We should not, however, take this competition for granted. It would be easy for well-intentioned, but ill-advised, government initiatives in this area to hurt competition. It is important that we do not raise the costs of providing remittances services to the point where suppliers drop out of the market. Many providers offer remittance services as one of many products. For example, grocery stores and convenience stores offer the services. We must avoid raising compliance costs to the point where these providers decide to discontinue the service.

Promoting Competition in the Recipient Countries

Our assessment is that while there are relatively few artificial barriers to competition in remittances in the United States, there are often many such barriers in recipient markets. Artificial barriers to competition come in many forms and vary from country to country. To cite one example, a country in South America forbids credit unions from receiving remittances, forcing credit unions in that country to organize into a bank just for the purpose of receiving remittances. As another example, another country requires any entity offering currency exchange to register with the country's central bank, and money transmitters are defined as providing currency exchange services. Yet the central bank only allows banks and traditional currency exchangers to register, not money transmitters. This limits competition, preventing money transmitters from legally offering their services in that country. We are working to identify such barriers and to persuade foreign governments to remove them.

It is also important to underscore the importance of good banking policy in the recipient countries. For example, Mexico's prompt action to resolve failed banks, Mexico's openness to foreign ownership of banks, and other pro-competition policies in Mexico are widely credited for the low cost of remittances to Mexico, in comparison with the cost of remitting money from the United States to most other countries in Latin America and the Caribbean.

Improving Linkages Between Financial Systems

To create strong, reliable and safe channels through which remittances can flow, the linkages between the U.S. financial system and the financial systems of recipient countries must improve. For example, the Federal Reserve has been working on extending the international automated clearing house ("ACH") services to several countries, including Mexico. The work being done in Mexico will be piloted in November of 2003. When the extension enters full production in 2004, it will make available a channel for every bank to send remittances and other payments at a very low cost from banks in the United States to banks in Mexico. The Federal Reserve is working on similar extensions of international ACH services to other countries with well-developed and well-supervised banking systems. The Department of the Treasury has supported and encouraged these efforts.

As another example of our efforts to improve linkages, the Treasury Department has financial advisors in several countries throughout Africa who work to assist reform-minded Finance Ministers and Central Bank Governors on the means to strengthen financial regulatory and supervisory practices. A goal of theirs is to help ensure that the flow of remittances is handled in a trustworthy and transparent manner, and thereby help boost the confidence in the banking system and help protect against fraud, money-laundering and the flow of funds into the hands of terrorists. In addition, such transparency efforts should have a positive affect on encouraging a more competitive environment for financial institutions in these countries.

I would parenthetically note that our advisors in Iraq are taking initial steps with Iraqi commercial banks to help facilitate remittance flows from Iraq's diaspora that want to contribute to their families as they help build new lives for themselves in Iraq.

Encouraging Investment in Infrastructure

To support all three of these areas, we encourage investments in the physical and regulatory infrastructure that is so integral to effective competition in financial services. For example, we work both in the United States and in developing countries to promote safe and sound bank regulatory practices. This is important to ensure that remitters and recipients trust banks and credit unions with their money. As another example, some countries have worked with the Inter-American Development Bank to expand the bank ATM infrastructure to underserved rural areas to help increase access to financial services. As a third example some countries have worked with the Agency for International Development and the World Council of Credit Unions to expand the reach of credit unions into rural areas and to integrate local credit unions into a wider international network to help facilitate the flow of remittances. Efforts like these increase the distribution channels for remittances and facilitate competition.

Progress

Our experience has been that promoting competition works. In December of 2001, the Department of the Treasury and the Department of State began working collaboratively with the Government of Mexico under the auspices of the Partnership for Prosperity to promote competition in the U.S.-Mexico remittances market. In the months since, we have seen several major banks enter the remittances market, expand their product offerings in the market, and reduce their fees.

In May 2003, the Department of the Treasury and the Philippines Government reached a similar agreement to collaborate jointly on improving the efficiency of sending remittances back to the Philippines. This effort has just commenced, but it has already seen an increase in private sector interest in extending remittances services to Philippine-American communities in the United States.

Also, we are encouraged by actions of foreign governments to remove artificial barriers to competition. For example, in June the Government of Singapore announced that in order to facilitate the provision of remittance services, it will allow banks (i.e., foreign banks) which are otherwise prohibited from opening branches to open outlets to provide remittance and foreign exchange services.

On the multilateral front, with our encouragement, the World Bank, the Inter-American Development Bank, and the Asian Development Bank have been actively examining remittances around the world. We believe that their efforts are helping to increase understanding of the role and importance of remittances and is an important step toward increasing competition.

Conclusion

Remittances are quickly becoming the central source of new foreign capital for many countries. It is funding that almost by definition gets into the hands of those who need it most, the families of those whose hard work earned the money. We are working with the private sector and the governments of recipient countries to promote competition in financial services, especially

remittances, to increase the amount of that money that reaches the recipient families. We will continue to work, as appropriate, to improve the payment systems that link our economies together. It is important to continue to promote such competition and linkages. It is just as important, however, not to kill remittances with kindness. Well-intentioned, but ill-advised, mandates and regulation in this area risk raising costs and forcing suppliers out of the market. That, in turn, would likely reduce remittance flows, not increase them. Let us build upon our success in making it easier for families to build financial security at home and abroad.

Thank you again for providing me with the opportunity to discuss this important issue with the Committee today.



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STATEMENT OF JOHN HERRERA
CHAIRMAN, LATINO COMMUNITY CREDIT UNION
AND
VICE PRESIDENT, SELF-HELP CREDIT UNION
ON BEHALF OF
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
AND
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE

"Developments in the International Remittance Industry"

OCTOBER 1, 2003

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“Developments in the International Remittance Industry”

OCTOBER 1, 2003

Thank you for the opportunity to provide comments on developments in the remittance industry before the Financial Services Committee. My name is John Herrera. I am Vice President of Self-Help Credit Union and one of the founding members and current Chairman of the Latino Community Credit Union. Chairman Oxley, and members of the Committee, I appear before you today on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU).

Representing more than 10,000 state and federal credit unions and their 83 million member owners in the United States, we would like to provide the Committee with an overview of why we have a market failure condition in the area of international remittances, how the system operates today, what credit unions are doing in this area to bring market forces to bear on the international remittance market and what the Committee can do in this area to effect change. As you may know, credit unions are not-for-profit cooperatively owned financial institutions operating in over 100 countries around the world.

The United States is facing its highest level of immigration since the Depression era with over 28.4 million foreign-born individuals residing in the United States who send home an estimated \$50 billion per year, \$32 billion of which goes to Latin America and the Caribbean and an estimated record \$12 billion will be sent in 2003 from the U.S. to Mexico. However, our nation's financial infrastructure has failed to modernize and offer efficient services needed by this immigrant population. As a result, there is a growing population of unbanked individuals, especially immigrants, and a costly and inefficient money transfer process that has been created.

Beginning in 1997, the World Council of Credit Unions (WOCCU) began working with its member credit unions in both the United States and abroad to facilitate remittance transfers among credit unions. In July 2000, the project became formalized and

WOCCU's IRnet service was launched in partnership with Vigo Remittance. In June 2003 the IRnet service was expanded through a partnership with CUNA and Travelex, the world's largest retail foreign exchange provider. IRnet has subsequently transferred millions of dollars for thousands of low-income immigrants in the U.S. to over 40 countries at much lower costs than traditional wire services charge. There are currently nearly 200 credit unions with 850 points of service in 37 states offering the service.

As discussed above, credit unions both here and abroad offer wire transfers for similar reasons. The service enables credit unions to leverage their existing infrastructures to offer money transfers and thereby develop new relationships. Much like how checking accounts are offered at or below costs to build relationships for financial institutions, credit unions are able to offer remittance services as a relationship product with the expectation that income will be generated from such members on newly formed relationships that encompass savings, credit and/or insurance products. This positioning of the product and the non-profit status of credit unions, enable us to out-compete money transfer companies and generate revenue on the relationships that can be built. Our non-profit mission requires us to focus on the benefits our prices provide for our members, the consumer. In contrast, the major money transfer companies are publicly traded firms that must maximize their profits solely from the fees. The only way to maximize profits in the wire remittance business is to charge the consumer, usually hard-working immigrants living on limited budgets.

We also believe that immigrants who participate fully in our market economy contribute to national and economic security. We all know that vibrant, market-based economies foster social and political stability. A competitive wire remittance and banking sector, utilized by all people, on both sides of our borders, plays a growing part in economic growth. For example, wire remittances to Mexico is the second highest source of foreign currency in Mexico, generating jobs, building homes, fueling small business creation and putting food on the plates of families. The people who open a bank account abroad with money sent to them by their relatives in the United States become full participants in their own countries' economic destiny. A developed banking sector is a fundamental backbone of economic and political stability. Countries without this backbone simply cannot grow economically and provide opportunities for their growing populations.

Domestic Efforts on Reducing the Cost and Banking the Unbanked

On Friday afternoons, many immigrants receive paychecks from their employers. Imagine a typical immigrant worker, earning \$8.00 per hour. Every two weeks, they file into an ethnic grocery store or check casher on a Friday evening or Saturday afternoon, after work. They cash their paychecks at a cost of 1 to 3 percent of the face value, which on average equates to a \$13.50 fee. Next, like 60 percent of Latino immigrants, these workers step over to the next window to send home \$300 to their family members through a money transfer service. For this service, the individual is charged at least \$11 (based on an average of 23 companies in the Mexican market; major wire transfer companies charge \$15). Because of the general lack of trust of the providers and the large relative share of their salary being sent, individuals prefer the funds to be available

to their families within hours of originating the transactions; therefore, they will often purchase a calling card to inform families the money was sent and to say a brief hello. The cost of this phone call is roughly \$3 to the worker. When the family receives the money abroad in local currency, the money transmitter also takes a cut on the foreign exchange rate and the family member will receive the dollar equivalent of \$294 (based on an average of 23 companies in the Mexican market, but with the major companies, the family will only receive the equivalent of \$290). The total cost of this transaction for this hard-working immigrant, excluding shoe leather transaction costs, is \$33.50 on average, or \$41.50 with a major sender – five-to-six percent of their hard-earned pay, lost in fees. The total cost of this exact sequence of a transaction from a credit union offering the International Remittance Network (IRnet[®]) service is \$14, or one-third of the cost of the market leader. The savings provided by IRnet can put, literally, millions of dollars back into the pockets of hard-working people, so that they can feed, clothe and house their families, both here and in their home countries.

However, the most significant impact that the provision of remittance services by credit unions can have is the opening of depository transaction accounts for unbanked senders and receivers. This does not diminish the need to decrease costs in the money transfer market, but rather recognizes that even if credit unions were to offer free remittances while 50 percent of Mexican originators still kept their savings in the mattress, and are forced to pay 1-3 percent to cash paychecks and utilize predatory lenders for short term credit, immigrant communities would not be better off economically.

Although the impact of remittances on developing economies that are dependent on these flows of funds for a large portion of their exports is significant, the impact of including the originators of transactions in financial institutions should not be ignored because the presence of an account is a significant determinant of the ability to accumulate basic individual financial assets in the U.S. and should be a public goal. For example, relative to the rest of the United States, immigrants, and particularly Latino immigrants, have lower incomes, are less educated, and are at least four times as likely to be unbanked compared to the general population. The young, poor and non-citizens are those Latino immigrants most frequently sending money home and also those immigrants that are most likely to be unbanked -- reaching recent immigrants and the unbanked are inextricably linked. The growth of the immigrant market and the estimated 9 million unbanked immigrants in the U.S. makes the service attractive to credit unions and banks.

The Federal Reserve Board's *1998 Survey of Consumer Finances* indicated that 9.5 percent of all families were unbanked. Disaggregated and unpublished data from the survey also showed that 36 percent of Latino and 38 percent of Asian families were unbanked. Subsequent studies indicate that 44 percent of all Latino immigrants are unbanked today. Immigrants, more than any other group in the United States, are disproportionately unbanked.

Credit unions in the U.S. are trying to gain confidence of immigrants by forging new relationships with immigrant community outreach centers, disclosing the actual exchange rate at the point of sale and refunding a member's money and the fee paid if a problem

occurs. These practices deliver on the promise of building trust between the provider and the user.

Credit unions' relatively early entrance in the remittance market has brought pressure to bear on the market. In 2000 credit unions began offering remittances to Mexico at a flat fee of \$10 for sending \$1,000. Six months later a major bank in the U.S., located in a market where the new credit union offering was attracting significant press, began offering remittance services with the exact same pricing structure but a worse exchange rate. Three months following this, the largest retail-oriented bank in the U.S. began offering a card-based remittance solution with the same pricing structure but with additional fees and four months subsequent to this the largest bank in the U.S. announced a remittance program to Mexico, again with similar pricing structure as an introductory offer.

At the same time that U.S. financial institutions were entering the market, Wall Street analysts considered the impact they would have on money transmitters' future profits and U.S. credit unions were meeting with U.S. Congressional representatives and the Fox administration of Mexico to highlight new alternatives. In the meantime, while it is unclear why, the major money transmitting companies began to lower their prices and exchange rates.

International Efforts on Reducing Transaction Costs and Banking the Unbanked

As is the case with most markets that credit unions enter, since our involvement in mid-2000 the market has become more competitive and prices have dropped approximately 37 percent for transfers to Mexico. We have included credit unions in Jamaica, El Salvador, Guatemala, Honduras and Nicaragua as distribution points for remittances in these countries. By including these credit unions on the distribution end, we are offering the lowest cost service in the industry, transferring up to \$1,500 for a flat fee of \$10 to Central America, with limited or zero differential on the exchange rate provided.

In addition, this past Tuesday we announced in Dallas that Mexico's largest credit union, Caja Popular Mexicana, is now able to distribute remittances through its national network of 330 offices as a result of a \$500,000 grant from the United States Agency for International Development (USAID). The entrance of Caja Popular Mexicana in the remittance market provides receivers in Mexico access in over 80 rural cities in 15 states that are not currently being served by any of the major banks. In conjunction with nearly 200 credit unions in the United States offering remittances services, this new initiative will encourage both the senders and receivers of remittances to enter the banking system.

As a result of locally owned credit unions distributing these funds, this process is encouraging low-income individuals in developing countries to enter into the financial system and begin saving. To date, approximately 28 percent of all receivers of remittances in El Salvador are opening financial accounts for the first time in their lives

and we are increasing the propensity that these funds will be used for productive purposes to spur development in these countries. We hope to see similar results in Mexico.

In fact, I recently returned from two months in Mexico, where I was an Eisenhower Fellow. I saw first-hand the impact remittances from the United States has on our strategic neighbor to the south. I visited the homes of some of my North Carolina-based friends in Mexico, where I saw homes, restaurants, tractors and wells paid for by remittances from their family members in the United States. Sadly, in many of the rural areas where most immigrants originate from, there are no banks. It is not that they do not have money – they simply do not have a place to save their money or borrow to grow their businesses. On the other hand, many of these communities are served by credit unions.

International ACH

Last year in testimony before the Senate Banking Committee we urged swift action by the Federal Reserve System and the Bank of Mexico to create a connection between the American and Mexican Automated Clearing House payment systems to further enable greater participation in international transfers by financial institutions. We are happy to see this progressing and U.S. credit unions in the United States have stepped forward to coordinate with the Federal Reserve to be included in the initial limited production stages of the system. However, while this may encourage Mexican immigrants in the United States to open accounts with depository financial institutions (a step we strongly support), we fear it will have limited impact on banking the 65 percent of Mexicans in Mexico that are unbanked.

Unfortunately, regulated credit unions in Mexico still do not have direct access to the Bank of Mexico's clearing and settlement systems. Roughly 42 percent of the \$12 billion flowing to Mexico is destined for towns of less than 2,500 people – communities that are usually served solely by a credit union. We urge further cooperation among the two nations' central banks to ensure that safe and sound Mexican credit unions are afforded direct access to clearing and settlement systems, so that more of these funds can flow into financial institutions in rural communities. As these institutions grow, they will be able to provide millions of unbanked Mexicans with the products that will bring the unbanked into the "formal" financial sector, and provide them with the type of products that consumers demand.

We believe that part of the reason for not allowing access to clearing and settlement systems results from foreign governments stereotyping their credit unions without clear assessments of capabilities. For example, in May of this year, Treasury Secretary Snow made comments encouraging remittances to flow through formal financial institutions. While we fully agree with this philosophy, Guatemalan newspapers picked up the story and credit unions in Guatemala became concerned that their capability to offer remittances would now be threatened since credit unions through Latin America, unlike those in the United States, are generally perceived as part of the "informal," as opposed to "formal," financial system.

Barriers to Reaching Immigrants: Infrastructure, Financial Education and Regulatory

Even with favorable pricing and the added value of being able to offer immigrant-associated depository and financial services, unfortunately, to date credit unions and banks have had limited success in penetrating the immigrant market with money transmission services. This difficulty is due to: 1) infrastructure issues; 2) a lack of awareness and benefits of maintaining accounts by immigrants; 3) and regulatory obstacles. The infrastructure issues are related to items such as lack of bilingual staff, limited hours of operations for a segment that conducts business in person, and inconvenient branch locations. These are largely obstacles we must change ourselves.

According to a recent survey by the Inter-American Development Bank, the single largest reason unbanked Latino immigrants identify for being unbanked is the lack of awareness of the benefits of having an account. Credit unions, including the one I helped establish, Latino Community Credit Union headquartered in Durham, North Carolina, are attempting to change these attitudes. One program providing help in this area is the Treasury Department's First Accounts program, from which my credit union has received a significant grant to help provide greater awareness of the benefits of financial education. We would like to see these efforts replicated in other parts of the country and an analysis of the effectiveness of this initial funding completed. We understand that there remain \$4 million of appropriated funds for this program, but the corresponding legislation to release this funding has not occurred. We urge members of this Committee to take this action to release the funding.

Lastly, credit union outreach efforts in this area could be significantly enhanced by a policy change. Credit unions, as you know, may only serve individuals who are their members. In an effort to greatly increase outreach to low-income and unbanked individuals such as those in the immigrant community, we applaud this committee for including in its regulatory relief bill a provision that would permit credit unions to provide check cashing and remittance services to non-members, such as those within the field of membership. Such a change would provide individuals with a low-cost, viable alternative to predatory and payday lenders. We also are grateful for a recently issued legal opinion from the NCUA that will allow federal credit unions some additional opportunities to provide wire transfer services for those who otherwise would be at the mercy of exorbitant money exchanges. However, this opinion would not provide as much flexibility as the proposed legislative change. We therefore ask the Committee to work with the House leadership to pass the regulatory relief bill as soon as possible.

Philippines Remittance Market – Its time has come

Although most of these comments have focused on the large Latin American money transfer market, this represents only one segment of our country's diverse immigrant

community. After Mexico, the Philippines is likely the second largest recipient of money transfers from the United States, receiving and estimated \$4 billion annually from Filipino immigrants in the United States. As you know, the Philippines government has been a great ally of the United States' war on terrorism and earlier this year the Filipino and United States governments signed a memorandum of understanding to cooperate on creating a more secure and efficient money transfer mechanism.

We would like to replicate in the Philippines our success in Central America of including credit unions as distributors of transactions. In a letter to Secretary Snow last month, the concept of including Philippine credit unions in the money transfer market has received bi-partisan support from four members of the Foreign Operations Subcommittee of the House Appropriations Committee. We believe that inclusion of Philippine credit unions in the distribution of remittances will both lower prices and ensure the integrity of the payments to this turbulent part of the world.

Wire Transfer Guidelines for Credit Unions

Just today, in recognition of a need for financial institutions to provide full disclosure and fair pricing to immigrants using remittance services, the CUNA Board of Directors adopted guidelines, the *Seven Principles for Conducting Wire Transfers*, for credit unions providing these services. While it is believed that most, if not all, credit unions currently engage in similar practices, the CUNA Board chose to formalize these guidelines as an example for all financial institutions to follow.

The seven principles are as follows:

This Credit Union provides current exchange rate information on both the sending and receiving ends before conducting a transaction.

This Credit Union discloses any fees associated with conducting the transaction before the transaction occurs.

This Credit Union verifies and discloses the exact amount of foreign currency to be received by the recipient in the foreign country.

This Credit Union discloses at the time of transaction when the funds will be available to the recipient.

This Credit Union provides examples of fees associated with wire transfer transactions to specific countries, either as part of an advertising campaign or flyers available at the credit union.

This Credit Union encourages consumers to compare rates, fees and practices with other wire transfer providers.

This Credit Union provides consumers a brochure outlining the remittance process, average fees to select countries, and a list of the countries covered under the wire transfer service.

Conclusion

In closing, we would like to commend the Treasury Department's evenhandedness in its review of section 326 of the Patriot Act regarding account-opening procedures. We believe that providing financial institutions with the guidelines for the types of ID that can be accepted, including *matricula consular*, establishes the proper balance between the importance of national security and access to financial security for many new immigrants.

Credit unions throughout the country are leading the way in ensuring that immigrants have access to affordable remittance and financial services. We want to work with Congress and the Administration to further these efforts through the development of more efficient, international consumer-oriented payment mechanisms that would encourage financial institutions to reach out to this market and ensure that the Federal Credit Union Act permits credit unions to provide check cashing and remittance services to non-members, such as those within the field of membership.

Thank you for holding this very important hearing. We would welcome the opportunity to continue meeting with the Committee to explore ways to improve the delivery of international remittances.



October 1, 2003

**U.S. House of Representatives
Committee on Financial Services
Testimony of Ezra C. Levine on Behalf of the
Non-Bank Funds Transmitters Group**

**“Remittances: Reducing Costs, Increasing Competition,
and Broadening Access to the Market”**

My name is Ezra Levine and I am a partner at Howrey Simon Arnold & White and am counsel to The Non-Bank Funds Transmitters Group (“Group”). The Group is composed of the leading national providers of funds transmission services. These companies include: Travelex Americas; Travelers Express/MoneyGram Payment Systems, Inc.; RIA Financial Services; Western Union Financial Services, Inc.; American Express Travel Related Services Company, Inc.; and Comdata Network, Inc. Each of these companies is licensed by the 45 largest states and the District of Columbia and Puerto Rico to transmit funds and/or issue payment instruments such as money orders, travelers checks and drafts.

I. Non-Bank Money Transmission is a Highly Regulated Business

- **Comprehensive State Licensing Laws**

Contrary to commonly held perception, the non-bank funds transmission industry is highly regulated. Traditionally the states have regulated for safety and

soundness non-bank money transmitters through comprehensive licensing laws. These laws impose a high degree of regulation and are intended to assure the safety and soundness of licensees. For example, they provide for periodic on-site examinations, often by teams of examiners, filing of extensive financial and other reports and the maintenance of financial reserves. In fact, unlike banks which must maintain reserves only at a specified ratio, licensed money transmitters must have reserves equal to 100% of outstanding money transmission obligations to customers. Typically, the state regulators are the state banking departments or the state department of financial institutions. For companies such as Group members, which are licensed in all states, the costs of compliance with differing state laws are significant. The quality of the regulatory oversight in most states is equivalent to that for state chartered banks and credit unions.

- **Federal Anti-Money Laundering Laws**

In addition to the state laws, non-bank transmitters are subject to the federal anti-money laundering laws, including recordkeeping and reporting requirements of the federal anti-money laundering laws such as the U.S. Bank Secrecy Act and the U.S. Patriot Act. Group members have developed and implemented comprehensive BSA compliance programs for themselves and their sales outlets. One of the key features of these programs is the OFAC review of the names of

each sender and recipient of money transmissions. Because of the large volume of transactions to Latin America and the similarity of many names, there are many false “hits” which the companies spend significant resources to verify. These compliance programs are examined by the Internal Revenue Service and the government can impose civil and criminal penalties for non-compliance.

II. Competition in the Funds Transmission Market is Growing and Prices are Falling.

The *Wall Street Journal* reported in November, 2002 that approximately \$14 billion of funds are remitted from the United States to Mexico and Central America – this represents a 28% increase from 2000 to 2001, and it is expected to grow another 10% in 2003. While the bulk of funds are sent to Mexico and Latin America, funds are also sent to locations throughout the world.

- **The Number of Licensed Money Transmitters is Growing**

In the past several years, this high transaction volume has attracted big and small entities which are eager to capture some of the funds transmission business by offering new services, new features and different prices. For example, in the traditional money transmission arena, there are now over 50 licensed money transmitters in such states as California and Illinois, over 60 in Texas and New

York and over 100 in Florida, with thousands of “agent” sales locations in each state. These agent locations, rather than the licensed transmitters, have the face-to-face contact with customers. Most of these sales locations are small independently owned businesses, such as convenience stores, located in the communities that they serve, including inner cities. In fact, non-bank money transmitters provide important retail financial services to communities which are not adequately served by other financial institutions. In addition, many of these sales locations are culturally sensitive to the needs of the immigrant communities that they serve; they are open for business at non-traditional hours and offer multi-lingual service to accommodate customer needs. Likewise the large transmitters are responsive to the needs of their customers. They have a long-term interest in repeat business.

- **The Large Transmitters Pioneered Transmission Service to the World**

These licensed non-bank entities range from small niche companies to larger multi-state corporations. Some licensees focus on transmission to only one or a select group of countries. Some provide only limited services. Niche entities sometimes can provide transmission services at lower cost since they specialize in only one or a few country destinations. The larger transmitters, which often serve

over 160 countries, typically have higher costs resulting from compliance with diverse regulatory regimes in numerous countries, higher risk of fraud, significant telecommunication costs and the maintenance of world-wide remittance infrastructures. This includes 24/7 call centers staffed with multi-lingual personnel to assist customers. This service is particularly useful to provide customers with information about services relating to countries where few transmissions are sent. In short, since the large transmitters attempt to cover the globe, they provide a customer response mechanism to insure that customers can obtain accurate information about all aspects of the service.

The larger non-bank money transmitters have served diverse international markets for many years and have over 200,000 locations worldwide. They have invested capital in telecommunications equipment, established distribution networks and engaged in extensive marketing efforts to develop the remittance business worldwide. These companies pioneered the transmission business which many others are now attempting to emulate. Their extensive networks often reach areas that many banks, credit unions or other remittance providers do not serve. It should be noted in this regard that enactment of inflexible point of sale disclosure requirements could make it impossible for large remitters to serve some countries

because information such as the precise rate of exchange is not available at the time of the send transaction.

- **Lower Prices Have Resulted From Increased Competition**

The domestic market for remittance services is dynamic and competitive. As an example of the positive effects of competition in the remittance arena, it has been estimated that the average cost of remittances to Mexico has decreased by over 60% since 1999. Competition is alive and well in the transmission business – the veritable explosion in the number of service providers has presented consumers with an unprecedented array of choices. Overall accessibility has increased, while prices have been reduced and are continuing to fall. The beneficiaries of this explosion of competing services are consumers.

Some of the new competition has come from banks which have been attracted to this growing market and have been aggressively advertising their remittance services and competitive pricing. Banks such as Citigroup and Bank of America are investing in Mexican banks in order to capture more of the fast-growing transmission market. Consistent with this trend, in April, 2003, U.S. Bank announced that it had instituted remittance services to Mexico, following the lead of Bank of America, Wells Fargo and others. Bank remittance business,

however, is not subject to the requirements of the state licensing laws. Therefore, banks can implement new transmission technologies without regulatory impediment. Also, the new bank remittance services are only focused on Mexico and Latin America.

Customers are the winners as a result of this increased competition. As additional funds transmission services are offered, whether through ATMs or otherwise, customers reap the rewards of additional choices – not only price choices, but choices of different types of services (i.e., features and functionality).

In addition, credit unions and the United States Postal Service provide remittance services aimed at Mexico and other Latin countries. Significant competition also exists from courier services which conduct funds transmissions by physically transporting currency and payment instruments on behalf of consumers. This is a different level of service and it is accordingly priced.

- **The Future – More Transmission Providers, Additional Services and Even Lower Prices**

The competitive money transmission landscape is vibrant -- consumers can choose based on an evaluation of each service provider's price, as well as the

features and functionality of the service. The current trend for consumers is clear – they can expect even more remittance features and functionality at highly competitive prices. Customers are aware of these vendors and the services and prices offered – if they were not, these new services and providers would not be flourishing.

III. Adequate Customer Disclosure Exists

Increasingly, state licensing laws have been amended to include required customer disclosures at the point of sale. For example, California has a disclosure law and recently, Washington, Illinois and Texas, with the support of the Group, enacted laws to provide for disclosure at the point of sale of terms and conditions of the money transmission.

- **The Major Transmitters Provide Point of Sale Consumer Disclosures**

The national transmitters, at all of their agent locations, inform customers of the amount of the service fees and provide them with information regarding foreign exchange in writing when that information is available. Consumers sending money to Mexico are provided with a receipt in English and Spanish that shows the amount of money sent in US currency, the total amount of the service

fee, the exchange rate and the total amount of the payout in Mexican pesos. Of course, the disclosures which can be made with regard to transmissions to Mexico cannot be made for transmissions to all countries because many currencies are not commonly traded. Moreover, in some transactions, such as those to a traveler, the sender does not know in which country the recipient will pick up the funds (“will call” transactions), so it is impossible to specify a rate of exchange at the point of sale. In short, inflexible disclosure requirements are unrealistic, impractical and could have the anti-consumer effect of forcing remitters to cease providing certain services or serving certain international markets.

IV. The Vibrant, Competitive Transmission Market is Benefiting Consumers

In short, the remittance market is highly competitive; consumers are benefiting from lower prices and more available remittance options. The Group appreciates this opportunity to submit these comments to the committee.

**Worker Remittances:
Issues and Best Practices**

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**Testimony presented to the U.S. House Committee on Financial Services
hearing entitled "Remittances: Reducing Costs, Increasing Competition,
and Broadening Access to the Market"**

October 1st 2003.

This testimony points to key policy issues linking remittances to banking. Specifically, it addresses issues of competition, transparency, information and value to the money people send. There is growing recognition of the importance of remittance transfers as a financial service. Of the \$32 billion in remittances sent to Latin American and the Caribbean in 2002, \$25 billion came from Latinos in the United States.

Immigrants invest time and labor to send economic assistance to their home country relatives and households. Among immigrants, issues surrounding remittances relate to the costs and mechanisms of sending.

However, a policy and social advocacy approach requires paying attention to several aspects, including costs, transparency of service, knowledge about diversity of services, and service value-added. This testimony will address best practices in these areas. It is essential to identify immigrant market preferences, which are defined in a transnational and low-income context.

More importantly, the testimony stresses that linking remittances to banking services benefits businesses, governments, and society as a whole. This issue goes beyond financial benefits, and brings to attention security in money transfers and the importance of addressing remittances in a global context, beyond Latin America.

a) *Transparency, information, and value added*

Although significant attention has been paid to reducing transaction costs in money transfers, it is important to consider other issues, including transparency in services offered, access to information, and the value added to remittances through banking.

Government policies could play a facilitating role in the transfer process so that costs are dropped and money gains greater value through savings and credit institutions. Governments can help expand the choices available to the senders and receivers of remittances in various ways:

- a. by educating senders and recipients about financial matters;
- b. by facilitating competition among banks and other money transfer businesses organizations that serve remitting and receiving communities (i.e., addressing legal and policy barriers to competition);
- c. by informing publics about best practices;
- d. by motivating banks to adopt money transfers as a strategy to bank the unbanked

a. *Financial education*

Financial education is a key factor in enabling individuals to expand their economic opportunities. Governments, philanthropic foundations, nonprofits, and banks, all play a role. Banks can take a lead by publishing their materials in Spanish, and by organizing outreach programs at Hispanic high schools and with hometown associations.

Financial education is a central aspect to the link between remittances and financial services, particularly among those without access to a banking institution. Many groups

already offer classes on financial literacy, and could become a permanent community resource for financial education. Hometown associations, because of their links with the immigrant community, would be another other logical candidate for further promotion of financial literacy.

b. Promoting competition

Promoting competition is an important way to reduce costs. Immigrants send money through small businesses, large corporations, and even individual entrepreneurs. The costs of sending depend on the presence of informal networks, market concentration or level of competition, technology, and the presence or absence of banking institutions.

One of the most significant changes in the remittance market has been the decline in transfer costs, partly influenced by competition. Four years ago the cost of sending remittances to different Latin American countries averaged about 15 percent of the amount. Those transfer costs have declined. In 1999, for example, Western Union charged \$22.00 for transferring up to \$200.00. By 2001 that charge dropped to \$15 and in 2003, fell again to \$10 (Orozco 2003).

These changes signal an increase in the number of companies in the remittance market and reflect more price competition resulting from businesses searching for new customers, including from among their competitors' clientele. The drop in Western Union prices shows that the company has had to reduce its transaction costs and adjust to increasing competition as well as pressure from clients, social groups, and legal demands.

Mexico experiences a high level of competitiveness among large and small businesses. At least six corporations – Western Union, Dolex, Vigo Corporation, Ria Envía, MoneyGram, and Mexico Express – compete and may hold at least 60 percent of the remittance market share. Four years ago, no more than three companies held that share of the market.

Competition is also present in El Salvador and Guatemala. In both countries, most of the remittance flows are handled by fewer than ten companies. In El Salvador, for example, four Salvadoran banks compete with Western Union and Gigante Express. In Guatemala, three banks compete with King Express and Western Union.

Table 1: Market competition and prices

	Number of money transfer companies holding 50% or more of market share		Cost of sending money to selected countries (as percent of principal sent)	
	1990s	2002	1990s	2003
Mexico	3	8	15	5
El Salvador	3	6	15	5
Dominican Republic	6	8	15	8
Guatemala	3	6	15	6
Jamaica	2	3	15	9

Source: Orozco, Manuel, various publications and data compiled by the author.

In other countries, however, competition is controlled by a few companies, as is the case in Jamaica, Nicaragua and Guyana, where prices are higher than average. Governments and private sector officials can explore ways to increase competition. On the side of governments, it is important to find ways to reduce the presence of monopolies or small oligopolies that tend to increase prices because they have no real competition. Transfers to the Dominican Republic are expensive, due not only to the presence of oligopolies, but also to the control of agents in the United States that charge exorbitant commissions for each transfer.

Competition is thus hindered by commercial agents that exchange their customer stock for high commission rates. A solution to this problem is for private sector businesses can find ways to enter in the market by forging alliances with foreign companies and financial institutions in order to increase capital and market their products to sending and receiving households. Moreover, government oversight is another important step to address the problem of agent commissions.

c. Facilitating innovation

Sending and receiving households have different market than the average U.S. citizen or middle-class Latin American household. Therefore, innovative forms of money transfer can be essential for price reduction.

One innovative alternative is the use of new technologies in money transfers, such as debit cards, store value cards and smart cards. (see section on best practices).

A second innovation is to help enable alternative savings and credit institutions in Latin America and the United States to participate in the market as money transfer agents. In some countries, savings and credit cooperatives and microfinance institutions are restricted in the kind of financial operation they can perform. Reviewing legislation and strengthening these alternative institutions will be an important innovation.

A third innovation is internet technology. One emerging technology, Wi-Fi (Wireless Fidelity) allows the rural sector to place telephone calls through low-cost wireless Internet telephony, using low cost computer servers and terminals. Wi-Fi enabled computers send and receive data securely, reliably, and quickly, through radio technology – indoors and out, anywhere within the range of a base station. A Wi-Fi network can be used to connect computers to each other, to the Internet, and to wired networks.

This system has a strong potential to be used for money transfer managed by microfinance institutions. Linking Wi-Fi technology to remittances and microfinance institutions offers an advantage to local businesses and more importantly, opens financial windows for new markets. This innovation would connect microfinance institutions to the global economy, thus modernizing this sector.

d. Informing publics about best practices

Currently there are few non-governmental or governmental organizations helping inform individuals about the best market practices in money transfer services (see examples in section B of this testimony).

e. Adding value to remittances: Banking and Latinos

Most remittance transfers are still outside of the services provided by mainstream financial institutions. Instead, money transfer businesses serve as intermediaries between the remitter and the recipient. Without these intermediaries, credit and savings institutions would be able to directly attract unbanked immigrants and their families. Given that four out of ten Latin American immigrants, and more than eight out of ten people in Latin America, lack bank accounts, transferring remittances through financial institutions would insert unbanked Latinos into the financial stream and improve their lot in the economy.

The participation of banks in the remittance market is still very small. As the table below shows, the market structure still has room for banks. There are fewer than 100 banks offering money transfers. However, as interest grows, their penetration will deepen. The examples of Wells Fargo and Bank of America provide illustrations. In the case of WF, in the first three years of these operations, the bank has made nearly half a million transactions to Mexico, representing at least \$100 million a year. Although its share of the market is very small, it is at least one-tenth that of major competitors like MoneyGram, which has been in the market for over ten years.

Remitting through savings and credit institutions offers an important substantive benefit to immigrants beyond low transaction costs, because these individuals demand a range of financial services. To reduce remittance transaction costs, in important part by banking the unbanked, the following issues can be addressed:

1. Promote banks becoming more "user-friendly" and accessible to immigrants.
2. Expand financial services banks offer immigrants.
3. Enhance the role of the Community Reinvestment Act (CRA) and include a report card on remittance transfers in assessing bank compliance CRA service criteria.
4. Promote strategic alliances among U.S. and Latin American banks and money transfer businesses.

Friendlier approach to Hispanic immigrants and market preferences

One major obstacle to banking Latino immigrants in the United States is a broad mistrust of banking institutions, which are perceived and often are unfriendly and inaccessible. Banks can change this by increasing the number of bilingual staff, printing materials in Spanish, and researching Hispanic market preferences. By offering services that are tailored to the Hispanic market, financial institutions improve their relationship with that community and increase the likelihood that customers will return to use other services.

Expanding opportunities to attract remittance senders

Financial institutions – including credit unions and banks, both commercial and community – have a clear interest in attracting immigrants. There are five ways that banks can reach out to unbanked immigrants. First, banks should offer fee-based check-cashing services at friendlier operating hours. Banks need to open conveniently-located “outlets,” open early evenings and on Saturdays, that offer check-cashing services at competitive rates as well as other banking services. This system is advantageous because it provides a direct link between the community and the bank, which may serve as a first step to incorporating them into other financial services. Caskey notes “banks cannot help the unbanked if they do not get them in the door” (Caskey 2002).

Banks should offer basic “starter” savings accounts that have low minimum-balance requirements. In addition, because many of the individuals who would open such accounts lack checking accounts yet need to pay bills, the bank branches should offer low cost money orders for long distance payments. Many check-cashing outlets like the US Postal Service already provide such services for less than 50 cents each, compared to much higher costs offered by check cashing businesses.

Deposit accounts designed to help accumulate savings are another way of attracting and maintaining traditionally unbanked individuals in the financial system. Specifically, such accounts would require the holder to make small but consistent deposits from each bi-weekly paycheck.

Banks can also aid those immigrants who face emergencies yet lack a credit history by offering deposit-secured emergency loans. Foundations often help to secure these loans in collaboration with a community-based organization and a bank. The community-based organization could raise funds from a foundation, and deposit the money in a bank to be used as collateral. An applicant could then apply directly to the community-based organization for the loan and while at the same time being incorporated into the institution.

Remittances as a community service and a report card

The Community Reinvestment Act (CRA), enacted in 1977, is designed to encourage banks to provide depository and lending services to low- and moderate-income neighborhoods. The legislation requires that banks serve the needs of the communities in which they are based. CRA regulations require evaluation of banks’ performance in three areas: lending, investment, and service. By providing remittance transfers in communities with large immigrant populations, banks could improve their CRA ratings because they are directly serving a community need.

Further outreach to the community may also improve a bank’s performance on the investment and service tests. Many community-based nonprofit organizations focusing on economic development – specifically, by providing home-mortgage and small business loans – have emerged in urban areas. Banks in many cases have developed relationships with these community groups, and can similarly work with immigrant nonprofit organizations to promote economic development.

In addition to the CRA, Latino nonprofits and other groups' immigrant-focused groups could make a contribution by evaluating savings and credit institutions' service to immigrant communities, and making their conclusions public and disseminated in Spanish. The criteria would include: availability of remittance transfers, fees, exchange rates, breadth of coverage, acceptance of the matricula consular, transparency, hours of operation, presence of bilingual staff, and level of involvement with the local community.

Strategic alliances with banks and money transfer businesses

a) Corresponding relationships between U.S. and Latin American banks

Latin American and US banks should establish money transfer agreements to help reduce transaction costs. Currently, several agreements exist among U.S. and Mexican banks. They include Harris Bank, Bank of America, Wells Fargo, and Citibank, all of which have agreements with Bancomer or Banamex to transfer remittances. As these banks increase the volume of remittances, costs per transfer will tend to decline.

b) U.S. banks operating in Latin America

U.S. banks operating in Latin America can offer debit cards for use at ATMs in Mexico to withdraw funds deposited by relatives in the United States. Citibank and Bank of America already offer this service, though it is not widespread.

Linking U.S. and Latin American credit unions through IRNet (Orozco 2000) is becoming more common. These partnerships have multiplying effects; the business relationships expand beyond the money transfer business into other activities such as borrowing and investment. Moreover, more communities are benefiting from the participation of credit unions in low income areas.

c) Alliances between banks and money transfer operators

Alliances between U.S. banks and money transfer businesses are another way to reduce costs, while at the same time banking individuals. Such alliances reduce costs in at least two areas: technological infrastructure and commissions to agents. By linking with an MTO that has the technology and infrastructure to transfer remittances, a community bank can enter the remittance market without large startup costs. Currently, MTOs work through agents (such as convenience stores) who charge high commissions (often representing as much as 75 percent of the total fee). The advantage to an MTO is that the bank can better advertise the remittance transfer service, reducing the need for agents. Finally, such a relationship has the potential to bring a larger number of customers into the formal financial system. Remitters who otherwise would have had contact solely with an MTO will now have a relationship with a bank as well.

Remittance costs can be lowered by having Latin American banks join US money transfer operators. For example, King Express, an MTO sending money to Guatemala, has allied with a Guatemalan bank, Banco Industrial. King Express offers a preferential exchange rate, and relatives in Guatemala receive the remittances immediately at any Banco Industrial branch. Once they begin to use Banco Industrial, recipients will be encouraged to open savings accounts and seek housing or mortgage loans. Guatemalans living in the United States can use a debit card to access their accounts at ATMs.

Visa Giro presents a cost effective alternative to banks and businesses. Visa Giro is a Visa debit card that is accepted in most places that accept Visa in Latin America. Remitters add value to the card at an MTO in the United States. An allied bank in Latin America distributes a card, which contains the money credited, to the recipient. Because the transfer is electronic, sending costs are reduced substantially. Visa Giro is currently working in alliances between Latin American banks and money transfer businesses. Examples include Banco Uno and Gigante Express and Banco Cuscatlan and its MTO, Corfinje, in Central America. In Mexico, Banco Bital has an alliance with Quisqueyana, and in the Dominican Republic Quisqueyana has an alliance with Banco Mercantil, using a product known as Cashpin.

b) Best Practices to transfer remittances¹

The costs companies incur in transferring remittances are generally reflected in the fees charged by companies. These fees are based on a number of factors including operation costs, the exchange rate used in the transaction, the transfer mechanism employed by the company (and whether it is more labor or capital intensive), the level of market competition existing in both the sending and receiving areas, and the profit the company wishes to achieve. Therefore, a criteria to measure the price of transactions involves identifying and analyzing the a) fees charged, b) level of market competition, c) transaction type (whether the remittance is changed into local currency or not), and d) transfer mechanism.

In addition to these criteria, other practices are explored to understand the efficiency of the business. Examples are a company's transparency, its outreach in support of the community's development, its relationship with the clientele, and any additional financial services offered by the company. These latter issues are also important as they have a developmental impact on the household and a community. The use of a particular institution can motivate both senders and recipients to improve their personal stock.

The understanding of which are companies best practices is based on whether they offer lower than average fees and exchange rates and their services generate incentives for customers to add value to their money, such as providing other financial services in the same location. Some of these criteria are presented in the table below:

Table 2. Best Practices of Remittance Transfers: What works to the customer's benefit.

Criteria	Indicators
1. Transfer fee	Lowered fees for customers may indicate lowered costs for remittance companies.

¹ This is a compilation of information from three reports: *Attracting Remittances: Market, Money and Reduced Costs*. Manuel Orozco, January 2002. *Costs, economic identity and banking the unbanked* Manuel Orozco, Testimony presented before the Congressional Hispanic Caucus on remittances and consular identification. March 26, 2003; *Changes in the Atmosphere? Increase in Remittances, Price Decline and New Challenges* Manuel Orozco, March 2003.

2. Exchange rate used	If there is no exchange rate, no currency purchase costs are incurred by sender and recipients. Fees may be higher, however.
3. Transfer mechanism (hand delivery, money order, electronic transfer: debit card, bank to bank, internet, courier agency transfer, etc.)	More capital intensive the transactions mean lower costs for the company, but not necessarily lower fees for the consumer.
4. Marketplace competition (supply side)	The higher number the number of companies in any market, the lower the transfer costs. The exception is when companies are formed in monopolies, oligopolies or remittance 'cartels'.
5. Business location and geographic coverage	Companies located within areas with a better economic infrastructure exhibit lower transaction costs
6. Development support	Support to the local community adds value to the product and loyalty to the company
7. Financial Services	Offering services such as banking or bill payment increases interest in the company
8. Transparency	A company that advertises its exchange rates cultivates or promotes more trust from the customer.
9. Compliance to regulations	A company that meets all the requirements operate as a remitter.

Money is transferred from bank to bank, from money transfer agency to bank, from credit union to credit union, agency to agency, and so on, and charges vary depending on these combinations. No company, banks or money remitters, meets all the criteria for best practice. Some companies like Western Union may offer the best access to sending and receiving money, but at very high prices. Others may have low fees but offer limited geographic coverage.

When searching for best practices on remittance transfers, of the nine points, four issues are of particular importance in identifying the best company methods and approaches: below average prices and mark-up, services that add value to the money sent and received, transparency in reporting the real nature of prices and services to the customers, and developmental support to the community. Given the current environment that prevails in the money transfer business with various players in place and different transfer methods and charges, identifying the best practices is an important but difficult task. Some best practices can be presented here that meet some of the criteria highlighted at the beginning of this section.

Credit Unions

Credit Unions offer some of the best practices in money transfer opportunities to migrants. First, where credit unions are available, their costs are among the lowest. Some credit unions charge less than \$7 in some cases, no credit union surveyed charges more than \$10. Second, in addition to the low charges, credit unions seek to offer significant benefits to the sender as well as to the recipient. One important benefit offered to senders is the incentive to enroll them in the banking system. Moreover, the

credit unions have also invested used the fees charged to provide various plans to its members. Finally, credit unions tend to be transparent in the charges they make as well as in delivery of the money. They usually arrange the money transfer transaction either through an already existing company such as Vigo International Corporation or participate in the Innet system of transferring money from credit union to credit union (Orozo 2000). In this latter case, money transfers are among the least expensive, charging \$6.50 for anything under \$5,000.

Examples of credit unions that are active in transferring remittances and working with Latino immigrants are Comunidades in Los Angeles, transferring to El Salvador and Guatemala at \$6.50 and serving mostly low-income Salvadorans; Bethex Federal Credit Union in New York, which uses Vigo, and Government Employees Credit Union (GECU) in El Paso, which also uses the Vigo system. GECU is unusually large with \$700 million in revenues. Its participation in the remittance market, to immigrants from Mexico, is relatively recent (from about 2000), and has been very profitable as is reflected in the expanded revenues from GECU's branch that does most of the transfers.

Another credit union that started to offer money transfers is the Latino Community Credit Union (LCCU) in North Carolina, which offers transfers to Mexico and Central America. The LCCU not only offers low remittance charges but also provides important services to the Latino immigrant community. Latinos generally are low income and not all have bank accounts. According to the IADB 2001 Latino immigrants survey, only 60 percent of Latino immigrants have bank accounts. The credit union thus provides an alternative to the community by inviting them to opening checking accounts with low deposits of \$25 (as opposed to \$500 or \$1,500 in most banks). Moreover, this particular credit union uses the remittance fee charges to provide other free services and lending opportunities to their members. Because many low-income migrants regularly cash checks with third party institutions (rather than depositing these into their individuals accounts), as with remittances, they incur high fees to pay for that service (at very similar rates to current average money transfer fees). The Latino Credit Union, like Comunidades, does not charge for this service or for the use of ATMs. Moreover, migrants are able to send up to \$5,000 for \$10. LCCU too uses Vigo as their money transfer interface and manages to keep \$8 of the \$10 charge which it uses to offer community development programs and pay for its overhead costs. Vigo retains \$2 and the exchange rate markup.

Despite the benefits they offer, credit unions continue to remain among the least involved in money transfer services, which is their primary limitation. Two major difficulties they experience deal with outreach. First, there are only a few credit unions offering services to migrants to send money. Except for Comunidades and Government Employers Credit Union, most credit unions do not offer remittances transfers or are not based in areas where there is a high concentration of migrants. Second, remittances transferred to the receiving country are mostly sent through a money transfer company. Although this method is relatively low cost, it would be even cheaper with the involvement (and often existence) of credit unions in the recipient side. In most countries, however, credit unions are still seeking strategies to offer money transfers. In El Salvador, money

transfers to savings and loans cooperatives are beginning to attract customers although their participation is very limited.

Community and Commercial Banks

Despite the fact that remittance transfers occur on a daily basis and at high volumes, the participation of U.S. banks has been limited. Traditionally, banks have used conventional wiring mechanisms that are extremely expensive for individuals and more suited to corporations transferring large sums of money. This has left money transfer institutions to take care of workers' remittances. Recently, however, U.S. banks have begun to realize the significance of remittance transfers. Furthermore, they have recognized that a large number of senders could be potential clients of their institutions, either because they are "unbanked" or because banks could better serve them.

Except for money transfer agencies, like MoneyGram and Western Union, ethnic stores like Gigante Express and Quisqueyana, or money order companies like Raza Express, traditionally there were no banks involved in transfers. Banks from the Dominican Republic, El Salvador, Guatemala, and Honduras, among other countries, have opened branches in the United States, but they have operated only as money transfer agents and not as banks.

In the past year, however, a growing number of U.S. banks (commercial and community) have entered the remittance market through various types of money transfer technologies, often based on the use of "smart cards." So far, these new players are primarily concentrating on the Mexican market and maintain a small market share (probably less than 5 percent). Remitting through banks offers an important substantive benefit to immigrants. According to Bendixen and Associates, 44 percent of Latino immigrants lack bank accounts. Miami-based Strategy Research Corp stresses that 54 percent of Hispanics have no banking relationship of any kind. In contrast, 68 percent of African-Americans and 93 percent of non-Hispanic whites have accounts. Providing a banking relationship to Hispanics also helps establish credit history and increase lending for housing, health and other investments.

An analysis of thirty banks remitting to Mexico in the past 18 months, particularly from Chicago and California, showed four methods by which banks send remittances²: a) the offer of debit cards which can be used by the recipient in ATMs in Mexico, b) U.S. banks operating as money transfer agents through arrangements with Mexican banks (generally, *Bancomer* and *Banamex*), c) traditional wire transfer (SWIFT), and d) alliance between banks and money transfer operators. Their charges have varied; Table 4 offers the average charges according to these transfer methods. Debit cards offer the lowest cost. Through this service, some companies offer a very low fee and profit instead from the exchange rate. In the majority of cases, however, those with access to debit cards are usually required to have a bank account with the institution in the United States.

Table 3. Charges made by banks to transfer remittances (by method employed)

Method employed	Charge	Percent	of
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² Orozco, Manuel. *Changes in the Environment*, Washington, DC: Inter-American Dialogue, March 2003.

	(fee and exchange rate diff.)	amount sent*
Debit Card withdrawal at ATM (Community banks)	7.4	1.51%
US Bank as MT, pick up at Mexican Bank/Agency	16.2	3.36%
Traditional wire transfer (SWIFT)	38.3	9.94%
Credit Unions	21.4	5.3%

Source: Orozco, Manuel. Changes in the Environment, Washington, DC: Inter-American Dialogue, 2003. * Average amount sent to Mexico is \$400.

Commercial banks. Recently, Bank of America and Citibank introduced new programs utilizing ATM technology to transfer remittances. Bank of America's *SafeSend* program and Citibank's Money Card each issue debit cards to a designated person in Mexico upon enrolment of a person in the United States. *SafeSend* charges \$10 per transfer while Money Card charges \$7.95, plus a \$5 monthly maintenance fee.

Some of the costs reported here, however, do not include certain additional fees charged by some of the banks. For example, some banks charge extra fees for withdrawing money via ATMs when a) a sender or recipient contacts a person in the bank for inquiries regarding the remittance, b) a recipient withdraws money more than once from the card during a time period upon receiving the money, c) a sender is not affiliated with the bank, d) a sender opens an account. Finally, some programs also charge monthly maintenance fees. In some cases, the added costs are significant and make this option less competitive.

Money transfer operators such as Cofia and Uniteller have begun operating within banks that offer their remittance services. For example, both Cofia and Uniteller operate within Chicago-based Second Federal Savings, while only Uniteller operates within Park Federal Savings and Mid-America Bank. Cofia has independent offices throughout the United States and also in Puebla, Veracruz and Oaxaca, Mexico. As of late November (2002), Cofia announced that the company expects to formalize a joint agreement with Cibao (another well-known MTO that overwhelmingly serves the Dominican population), to operate in New York at the beginning of 2003.

Several new banking options have also emerged recently, particularly in the Chicago area. For example, Second Federal Savings currently offers an "amigo card" option, which allows the account holder to receive an additional ATM card to send to a family member in Mexico. Another Chicago area bank, Elgin State Bank, implemented in late November 2002 another option for customers who remit to their home countries on a regular basis. It is similar to the "amigo card" in that it issues two ATM cards, but Elgin issues one card to the individual in the US and one directly to the person in Mexico. Unlike other financial institutions, Elgin State Bank formally registers both ATM cardholders with the bank.

The most widely publicized case of a bank entering the remittance business is *Wells Fargo*.³ Although *Wells Fargo* initiated a program in 1996 targeting the transfer of remittances to Mexico, in 2001 it fully released its product, *Intercuenta Express*, charging \$10 for amounts under \$500. Since then, more than thirty banks have become involved in remittance transfers, including *First Bank of the Americas*, *Banco Popular*, *Citibank*, *Elgin State Bank*, *Bank of America*, and *Harris Bank*.⁴

Banks have come to accept alternative forms of personal identification in order to attract migrants to open new accounts. Specifically, a growing number of banks are accepting the identification card issued by the Mexican consulates, known as *matricula consular*.

Community banks. Community banks have also been keen on targeting ethnic minorities and Latino migrants in particular. In North Carolina, the *Southern Community Bank and Trust* has sought to attract Latinos by offering a range of financial services, including remittance transfers. The bank has four branches staffed with bilingual employees and has been able to attract 1,022 Hispanic customers in Winston-Salem in less than two years. Hispanic accounts represent 5 percent of the total in the bank and show rapid growth. The bank offers checking and savings accounts, certificates of deposit, low-cost wire-transfer services, and home and car loans.⁵

In Atlanta, the United Americas Bank is also targeting the Latino community and is becoming a competitor of mainstream commercial banks like Citibank and Bank of America. Jorge Forment, President of the United Americas Bank, argues that if banks want to grow, "they better try to get a foothold into the Hispanic market." His bank has focused on the Latino community by offering money transfers and other traditional banking services. The bank started with \$12 million in capital, and now has assets worth \$71 million. United Americas Bank financed a mall called Plaza El Bigote, worth \$1.4 million.⁶

In Milwaukee, Mitchell Bank has introduced an innovative approach to attract traditionally unbanked migrant groups into the institution. CEO James Maloney opened a branch called Cardinal Bank at a predominantly Hispanic high school. The bank is managed by students and offers a range of opportunities to students and their parents. The immediate effect of this outreach strategy has been an increase in the number of Mexican immigrants opening bank accounts, resulting in a higher demand for local goods in the area.

One of the main motivations for banks' involvement in the remittance market is to attract Hispanic customers. According to Bloomberg, Wells Fargo, Bank of America Corp., Citigroup Inc. and other U.S. banks "plan to spend at least \$8.5 billion through 2005 to

³ *The Tampa Tribune*, May 22, 2002; *Associated Press*, May 22, 2002; *Business Wire*, October 27, 1997, July 11, 1996.

⁴ *Business Wire*, July 30, 2002, April 23, 2002; *The American Banker*, May 9, 2002, April 24, 2002; *PR Newswire*, May 9, 2002; *The Financial Times*, May 28, 2002, April 29, 2002;

⁵ Sturiale, Jeanne, "Opening Doors" *Winston-Salem Journal*, November 25, 2002

⁶ Chapman, Dan, "A boom in banks: Financial institutions catering to immigrants are giving U.S. chains a run for their money" *The Atlanta Journal-Constitution*, October 22, 2002. p.1F

attract Hispanic customers as revenue from investment banking and corporate lending lag."⁷

Money Transfer Operators

There are few MTOs that offer transactions below the average cost. These lower-fee businesses are mostly small money transfer companies that concentrate in particular cities where there is a significant migrant population sending remittances. They offer an alternative to other money transfer businesses that charge above average, such as Western Union and MoneyGram, and have a very small market share in the business, yet remain competitive.

One illustration of a company in this category is RapidMoney. It sends remittances to Mexico and El Salvador for a \$10 fee and offers a card to the recipient to use it to withdraw the money. The sender also gets a receipt that reports the amount charged and the exchange rate applied for that transaction. In addition to this transparency and low charge, the company works with more than one distribution network to facilitate the transfer. One key feature of this company is its liaison with El Salvador's cooperative savings and loan system. Transfers made to El Salvador are done through the Federation of Cooperatives of El Salvador. The advantage of this arrangement has been that the Federation has been able to transfer remittances to low income Salvadorans and seek to attract them to join the cooperatives. As with banks and credit unions, however, the disadvantage of this company is that it does not have nationwide locations and operates only in Texas and Arizona. Moreover, its services, unlike banks and credit unions, are limited to money transfers.

One significant constraint to improving best practices in money remittances is the end point. Companies often find themselves constrained by high costs imposed by their Latin American counterparts, especially banks. Unless banks have a significant participation in the money transfer, they tend to charge high commissions for the transmission. In particular, the smaller the remittance company, and therefore the lower its volume of transferred funds, the higher the bank's commission charges are likely to be. In addition, Latin American banks and financial institutions are often not oriented to serve small customers like the remittance recipients and senders.

⁷ Scott Silvestri, "Citigroup, Wells Fargo Buy and Build to Attract Hispanic Savers", *Bloomberg*, January 15, 2003.

Table 4. Structure of the remittance market in Latin America (market share)

	Type	Mexico	El Salvador	D.R.	Jamaica	Cuba	Haiti	Colombia	Ecuador	Guatemala
Unlicensed (informal)	Mala viajero, encomendero, travel agent	15-20%	15%	15%	20%	65%	70%			
Licensed	NMTO	Western Union, MG, Dolex, Ria, USPO, Vigo, OV, 60%	Western Union, Gigante Express, 40%	WU, MG (15-20%)	Western Union/ Grace K, 65%	WU, 10%	Western Union, 20%	Western Union	Western Union, 20%	Western Union, MG, Vigo 30%
	Ethnic store	Mexico Express, IFEX 15-20%	B Agrícola, Bancomercio, BanSal, Corfinje, 45%	Quiesqueyana, Remesa Agil, Ria, La Nacional, BHD, Pronto Envio, (60%)	National Jamaica Building Society 10%	10%	Uni Transfer, Bobby Express Caribbean Air Mail	Delgado, GiroSol, La Nacional, Americana de Servicios	Delgado Express, Ecuagiros, Dolex, Envios, Abreu, Giro Express, GiroSol	G&T, Gigante Express, Banco Metropolitan, Banco Occidente, King Express (50%)
	Small business operator	MyLana, RapidMoney 10-15%	< 3%	Viamericas	< 5%					Viamericas < 3%
	Credit Union	< 3%	< 1%		< 1%	0	< 1%			
	US Banks	< 3%	0	0	0	0	0			

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Testimony of

Alice Perez,

Vice-President, Hispanic Market Manager, U.S. Bank

on behalf of the Consumer Bankers Association

on

“Remittances: Reducing Costs, Increasing Competition, and
Broadening Access to the Market”

before the Committee on Financial Services

of the

United States House of Representatives

October 1, 2003

Testimony of Alice Perez on behalf of US Bank and CBA

I. Introduction

Chairman Oxley, Ranking Member Frank and members of the Committee, my name is Alice Perez. I am a Vice President, Hispanic Market Manager, with U.S. Bank. On behalf of the Consumer Bankers Association and U.S. Bank, thank you for the invitation to testify today on expanding consumer access to mainstream financial institutions and reducing the costs and increasing the competition in remittance services. I look forward to sharing with you information about the Consumer Bankers Association's action in this area and U.S. Bank's perspective and efforts as we continue to meet our customers' needs.

A. U.S. Bank

U.S. Bancorp, with assets of \$195 billion, is the eighth largest financial services holding company in the United States. The company operates 2,199 banking offices and 4,575 ATMs, and provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses and institutions. U.S. Bancorp is the parent company of U.S. Bank. The retail banking area of U.S. Bank includes 24 states, extending from Ohio and the Midwest to the West Coast. U.S. Bancorp is home of the Five Star Service Guarantee which assures customers of certain key banking benefits and services or customers will be paid for their inconvenience. In my role at U.S. Bank, I lead the development of programs, products, and services that will benefit the Hispanic market. U.S. Bank is striving to be the bank of choice for Hispanic consumers.

B. Consumer Bankers Association

U.S. Bank is testifying today on behalf of the Consumer Bankers Association (CBA), the recognized voice in retail banking issues in the nation's capital. CBA member institutions are the leaders in consumer financial services and include most of the nation's largest bank holding companies as well as regional and super community banks that collectively hold two-thirds of the industry's total assets.

II. Consumer Bankers Association: Dedicated to Reaching Under-served Communities and Populations

CBA has been actively involved in issues of financial access for many years. In 1997, the CBA partnered with the Office of the Comptroller of the Currency to cosponsor a forum entitled "Financial Access in the 21st Century," a conference to explore ways to improve access to financial services for the millions of "unbanked" households in the U.S. "Unbanked" is a description used for consumers who have not been involved with traditional retail banking institutions. The forum was an opportunity for academics, industry, and consumers to share ideas for expanding access to mainstream financial services. The forum suggested the need for improved financial literacy among all

Testimony of Alice Perez on behalf of US Bank and CBA

populations, but most critically among low and moderate-income consumers and minority and immigrant populations.

A. Financial Access, Education, and Literacy

In 2000, CBA began to undertake a series of annual surveys to determine the level of financial literacy efforts of its member banks. Over the years, the findings demonstrated that banks have dramatically stepped up programs aimed at expanding access to the unbanked and combating predatory lending through financial education programs.

Bankers who responded to the 2003 survey reported that 98 percent offer financial literacy programs or work with partners that support such efforts. In addition, many institutions have introduced Spanish speaking tellers, Spanish language web sites and ATMs, marketing materials in languages other than English, and other means of reaching out to Hispanic, Latino and other immigrant communities. Indeed, 70% of the respondents provided financial literacy materials in one or more foreign languages.

B. Forum on Hispanic Outreach: Spring 2004

Financial illiteracy is but one barrier to expanded access. In order to better understand other obstacles that may exist, and to share innovative programs and services being developed to serve the Hispanic and Latino marketplace, CBA is developing a conference for the spring of 2004, to be devoted to financial outreach in Hispanic communities.

The purpose of the conference will be to provide a forum for sharing ideas that are proving successful. CBA expects to highlight newly developing remittance programs. In addition, the forum will include discussions about marketing and educational issues that arise when banks reach out to Hispanic communities.

III. Remittance Services: Valuable to Financial Institutions as a Way to Meet Customers' Needs and Attract New Customers

Financial institutions are committed to providing services to consumers who need to transfer funds to relatives in their country of origin. The benefits to institutions include the ability to serve their customers' needs and the opportunity to turn an unbanked consumer into a customer of the bank – providing the consumer the benefits of the financial system. Many banks offer very cost-effective alternatives to the traditional money transfer agents, and are pleased to fully inform a consumer of the costs and benefits of their services.

A. Low-cost Bank Remittance Services

Banks are increasingly offering low-cost alternatives to traditional wire transfers. Bank remittance services have proved to be of tremendous value to bank customers and non-customers, particularly in immigrant populations, where many people send money to

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relatives in their country of origin. Remittance services meet the needs of Mexicans and other Hispanics in particular, who often wire money on a regular basis.

B. Characteristics of the Remittance Market

The Inter-American Development Bank estimates that U.S. remittances to all of Latin America totaled \$25 billion in 2002. Mexicans and Mexican Americans alone reportedly send as much as \$10 billion to Mexico annually. According to the U.S. Treasury, the average amount sent in a remittance is between \$200 and \$250 and the cost of the traditional wire transfer can be as high as 20% of the value of the remittance (i.e., between \$40 and \$50).

C. Serving the Needs of the Unbanked Populations

At the same time, many consumers in immigrant communities do not have mainstream relationships with banks in the United States. According to the Inter-American Development Bank, despite the enormous purchasing power of Latin Americans in the U.S., nearly half have no formal account relationships with mainstream financial institutions.

Cultural barriers may be obstacles, as many come from countries where the population lacks the trust in the banking system that is commonly found in the United States. Banks have been seeking ways to overcome these obstacles and to encourage unbanked consumers to enter and benefit from the banking system. The results benefit the consumers by 1) encouraging greater savings and wealth-creation, 2) reducing risk of theft, and 3) providing alternatives to the higher-cost fringe banking system, including check cashers and payday lenders. Banks are increasingly recognizing that offering low-cost solutions for money transfer saves consumers money up front and encourages them to begin other mainstream banking transactions that will provide benefits in the long run.

IV. U.S. Bank Provides Remittance Services and Programs Designed To Successfully Attract and Retain Customers in the Growing and Important Hispanic Market

At U.S. Bank, our vision is to become the best bank in America for Hispanics. To deliver on our commitment of providing unparalleled products, service, and support to the Hispanic market, we focus our strategies on four areas: staffing, marketing, products, and community involvement. The following is a description of our remittance programs and our programs for the unbanked and under-served.

A. U.S. Bank Remittance Programs

U.S. Bank developed two remittance programs to provide consumers with safe, low-cost alternatives to traditional wire transfers. Our "Secure Money Transfer" services offer low transfer fees and competitive foreign exchange rates, enabling consumers to get more money into the hands of their family members. The programs provide consumers a

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choice in how the beneficiary receives the funds: cash at an ATM, cash at a bank branch, or funds deposited directly into a savings account.

The first program, available in all 24 U.S. Bank retail branch banking states, enables individuals to send funds within the United States and to Mexico via the Visa/PLUS ATM network. The sender brings funds to any U.S. Bank branch and an ATM card is sent directly to the beneficiary. The beneficiary can use the card to withdraw funds at any of the 364,000 Visa/PLUS network ATMs in the U.S. or the 20,000 Visa/PLUS ATMs in Mexico. Not all funds need to be withdrawn at one time, providing an added level of safety for the sender and recipient. Remitted funds are immediately available to the beneficiary each time money is sent. The program is available to both U.S. Bank account holders and non-account holders. The transfer fee is \$8 for account holders and \$10 for non-account holders. We provide consumers with an extremely competitive foreign exchange rate. Each transfer provides the recipient with one free withdrawal and one free balance inquiry at the ATM.

Our second program, which is being piloted in San Diego, Los Angeles, and Chicago, enables individuals to send money directly to any branch of L@Red de la Gente (The People's Network) in Mexico. L@Red de la Gente is a commercial banking alliance developed by the Mexican savings bank BANSEFI and 17 other entities of the Mexican Popular Banking Sector. The service gives consumers the option to have remitted funds directed to savings accounts or picked up as currency at any branch of L@Red de la Gente. The partnership was created to provide low-cost remittances and to encourage more people to become bank account holders and savers on both sides of the border. The service is priced at \$6 when the transfer is directed to an account at the L@Red de la Gente and \$8 when the funds are picked up in cash. We provide consumers with an extremely competitive foreign exchange rate.

Combined, the U.S. Bank remittance services allow individuals to reach family or friends in both metropolitan areas of Mexico where many ATMs are located and in rural areas of Mexico where many of the L@Red de la Gente branches are located. U.S. Bank continues to investigate other money transfer partnerships and expansion opportunities to ensure our services provide consumers with the best pricing, safety and convenience.

B. U.S. Bank Programs for the Unbanked and Under-served

Individuals who do not have a banking relationship are of high importance to U.S. Bank in a number of customer segments. U.S. Bank is among many financial institutions that have made opening a checking or savings account extremely easy and often free. Even individuals with negative banking history have options for deposit accounts.

U.S. Bank offers a variety of safe and convenient stored value cards for consumers who do not have a banking relationship. Through partnerships with state governments and private companies, U.S. Bank has a series of stored value cards on which regular payments such as child support payments, unemployment disbursements, or weekly payroll are automatically deposited. The individual can use the stored value card to make

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purchases or to withdraw cash from an ATM. It is an alternative that saves time and money for the consumer and the business or government entity because the process of cutting, mailing and cashing a paper check is eliminated.

U.S. Bank also offers credit products to individuals without an established credit history. With our Secured Visa Card and Credit Builder Secured Loan, customers enjoy the benefits of a credit card or an installment loan and begin building a credit history with a financial institution. Once credit has been established, customers can qualify for our traditional credit products.

V. Conclusion

Low-cost, competitive alternatives to wire transfers are offered by many financial services institutions. Banks are increasingly recognizing that offering low-cost solutions for money transfers saves consumers money up front and encourages them to begin other mainstream banking relationships that will provide benefits in the long run.

Providing safe, efficient, and affordable money transfer services is the goal of U.S. Bank and our peers in the financial services industry. Our customers validate our programs every day. They tell us how assuring it is to be able to walk into the bank, deposit funds with "Secure Money Transfer," walk out the door, call their loved ones in Mexico, and know that the money is already there - safely, quickly, and affordably. We have heard the needs of our customers and we have answered their call.

On behalf of U.S. Bank and the Consumer Bankers Association, thank you for the opportunity to present our initiatives and our progress to date.

Please refer to the CBA website www.cbaret.org for:

Multilateral Investment Fund of Inter-American Development Bank Study of Remittances to Latin American and the Caribbean. Feb. 2003

Multilateral Investment Fund of Inter-American Development Bank Paper: "Improving Access to the U.S. Banking System Among Recent Latin American Immigrants", Sheila C. Bair, Center for Public Policy and Administration, U. of Mass. - Amherst

Consumer Bankers Association Financial Literacy Survey of 2003.

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Send up to \$1,000^A
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As if it went directly from your hands to theirs.

U.S. Bank[®] is proud to offer safe, fast and easy options for sending money for as little as \$6^A. You decide which service works best for you and your loved ones.

Secure Money Transfer – ATM option

Make your deposit at U.S. Bank and we'll send your loved ones a Secure Money Transfer card which they can use to withdraw the funds at one of over 20,000 ATMs[™] in Mexico. They will have instant access to the money 24 hours a day, 7 days a week. For extra safety, they can withdraw only the amount they need, eliminating the need to carry large sums of cash. And, it's easy to send additional funds. Simply stop by any U.S. Bank branch or call our 24-hour bilingual Customer Service number and reload the card. This option provides the convenience of numerous ATM locations with 24-hour access and the safety of withdrawing only the funds they need.

Secure Money Transfer – People's Network option

Make your deposit at U.S. Bank and choose to have the funds deposited into an account within the People's Network in Mexico or picked up by the recipient in cash. If your loved one is an account holder within the People's Network, the funds can be deposited directly into a high-interest savings account to help them save for the future. Or, they can simply pick up the funds in cash at any of the over 750 convenient People's Network locations. They do not need to be an account holder to pick up the funds in cash. To send additional funds, simply stop by your U.S. Bank branch. This option provides a great opportunity to contribute to your loved one's savings while still providing easy access to funds at any branch within the People's Network.


Both options are safe and reliable. Each transfer is protected by a secure identification number. You will communicate this number to your loved ones in Mexico and funds can only be withdrawn upon confirmation of this number.

Sign up today!

You'll just need valid I.D. like a driver's license, Matricula Consular I.D. or state issued I.D. Plus, if you are a U.S. Bank account holder, you'll enjoy the best pricing on money transfers. Visit U.S. Bank today and ask for details on checking or savings accounts and how U.S. Bank can best serve your financial needs.



^A When sending funds to a branch of the People's Network, a \$6 transfer fee applies when funds are directed to an account. \$8 fee applies when funds are picked up in cash. When sending funds via ATM card, fees start at \$8. See the "U.S. Bank Secure Money Transfer Cardholder Agreement" for applicable fees and product information.

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<p>Es muy sencillo inscribirse. ¡Comienza a enviar ya! Habla con uno de nuestros representantes.</p>		<p>It's easy to sign up. Ask a U.S. Bank representative how to get started now!</p>
<p><small>* Aplica un cargo de \$6 por transferencia al enviar fondos a sucursales dentro de L@Red de la Gente, cuando los fondos sean depositados a una cuenta. Aplica un cargo de \$8 cuando los fondos sean retirados en efectivo. En el "Contrato para Titular de la Tarjeta de Transferencia Segura de Dinero de U.S. Bank" encontrarás las cláusulas que determinan los cargos que se aplican e información detallada sobre el producto.</small></p>	<p><small>* When sending funds to a branch of the People's Network, a \$6 transfer fee applies when funds are directed to an account, \$8 fee applies when funds are picked up in cash. When sending funds via ATM card, fees start at \$8. See the "U.S. Bank Secure Money Transfer Cardholder Agreement" for applicable fees and product information.</small></p>	

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Deposita el dinero en U.S. Bank y nosotros enviaremos una tarjeta de Transferencia Segura de Dinero a tus seres queridos, que podrán usar para retirar los fondos en más de 20,000 cajeros automáticos** en México. Además, cuentan con acceso inmediato al dinero las 24 horas del día, los 7 de la semana. Y para mayor seguridad, tus seres queridos tienen la opción de retirar sólo la cantidad que necesitan, eliminando la necesidad de llevar grandes sumas en efectivo. Es fácil enviar fondos adicionales. Sólo visita una de las sucursales de U.S. Bank o llama a nuestro número de servicio bilingüe al cliente las 24 horas, y fondea la tarjeta nuevamente. Con esta opción, tendrás la conveniencia de los múltiples cajeros automáticos, el acceso a los fondos las 24 horas del día y la seguridad de retirar sólo los fondos que necesitas.



Transferencia Segura de Dinero – Opción de L@Red de la Gente

Deposita el dinero en U.S. Bank y selecciona la cuenta, dentro de L@Red de la Gente, en la que quieres que se depositen tus fondos. O si así lo deseas, los fondos pueden ser retirados por el destinatario en efectivo. Si tu ser querido tiene cuenta dentro de L@Red de la Gente, los fondos pueden ser depositados directamente dentro de una cuenta de ahorros con alto rendimiento para ayudarles a ahorrar para el futuro. O simplemente pueden recoger los fondos en efectivo en cualquiera de las más de 750 sucursales de L@Red de la Gente. No necesitan una cuenta para poder retirar los fondos en efectivo. Si deseas enviar fondos adicionales, sólo visita una de las sucursales de U.S. Bank. Con esta opción tendrás la oportunidad de contribuir con los ahorros de tus seres queridos, mientras les facilitas el acceso a los fondos en cualquier sucursal de L@Red de la Gente.

Ambas opciones son seguras y confiables, ya que cada transferencia cuenta con la protección de un número de identificación segura. Es importante que comuniques este número a tus seres queridos, ya que los fondos sólo podrán ser retirados al confirmar este número.

¡Inscríbete hoy mismo!

Todo lo que necesitas es una identificación válida como licencia de manejo, Matricula Consular o alguna identificación emitida por el Estado. Además, si tienes cuenta con U.S. Bank, disfrutarás de los mejores precios en transferencias de dinero. Visita U.S. Bank hoy y pregunta por más detalles sobre las cuentas de cheques o ahorros y sobre la forma en que U.S. Bank puede ayudarte a alcanzar tus metas financieras.



* Aplica un cargo de \$6 por transferencia cuando los fondos sean depositados a una cuenta. Aplica un cargo de \$8 cuando los fondos sean retirados en efectivo. Al enviar los fondos por medio de la tarjeta de cajeros automáticos, aplican cuotas desde \$8. En el "Contrato para Titular de la Tarjeta de Transferencia Segura de Dinero de U.S. Bank" encontrarás las cláusulas que determinan los cargos que se aplican e información detallada sobre el producto.

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What you need to enroll

- A Social Security number. If you don't have a Social Security number, you can still enroll by calling 1.866.723.3736 (1.866.SAFESEND).
- A valid e-mail address.
- Any check card or credit card that carries a Visa or MasterCard logo. If you don't have one, you can apply for a [Bank of America Check Card](#) or [apply for a Bank of America credit card](#).

Why use SafeSend?

- **Reliable.** Send money from any phone or computer 24 hours a day, 7 days a week. Your family member can also withdraw cash 24 hours a day, 7 days a week. And because sending money with SafeSend is an automated process, you deal with fewer intermediaries.
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- **Peace of mind.** You can rest easy with the security that comes with a Bank of America transaction and the knowledge that you'll receive a fair exchange rate.
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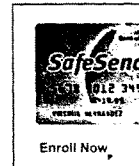
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For immediate release
Citigroup Inc. (NYSE symbol: C)
April 29, 2003

**Citibank Announces Unique, Affordable Account-to-Account Global Funds
Transfer Service for Consumers**

***\$5.00 Transfer Fee Within U.S. or to Mexico; \$10.00 to Other Countries
Waived During May Promotion***

New York, April 29 – Citibank announced today the introduction of Citibank® Global Transfers, a unique, affordable, account-to-account real-time international and domestic funds transfer service for its consumer customers. Citibank North America banking customers using the Citibank® Online banking service or at most Citibank ATMs will be able to transfer funds between two Citibank accounts in the U.S., or between a Citibank account in the U.S. and a Banamex account in Mexico or a Citibank account abroad in over a dozen countries. Banamex, the leading bank in Mexico, and Citibank are both members of Citigroup.

During an introductory, promotional period through the end of May, 2003, there will be no transfer fee for Citibank Global Transfers originating in the U.S. Foreign exchange rates, attractively priced at approximately 2% commission over wholesale bank foreign exchange rates, will apply. Following the promotional period, the transaction fee for each transfer domestically and to Mexico will be \$5.00. Transfer fees to other countries will be a low \$10.00. Transfer fees are the same regardless of the amount being sent. The same foreign exchange rates will apply.

Citibank Global Transfers is especially appealing to people of Mexican descent living in the U.S. who wish to remit funds to friends or family members in Mexico. Funds may be transferred to a Banamex account where they will be instantly available. If the recipient does not have a Banamex account, he or she will soon be able to collect the funds in cash at any of the more than 1400 Banamex branches in Mexico. For added convenience, Citibank accepts the Mexican Consular ID when opening accounts in the U.S.

"Citibank is the only bank in the U.S. to offer a service like Citibank Global Transfers," said Maura Markus, President of Citibank North America's Retail Distribution Group. "It's offered both domestically and internationally and it's done in real time. Consumers will appreciate the convenience and affordability of this service when they realize parents with a Citibank account in the U.S. can transfer money to the account of their

child or relative in California, Spain or even India – instantly. People of Mexican descent working in this country can transfer money safely and securely from their U.S. account to their relatives' and friends' Banamex accounts in Mexico," Ms. Markus added.

The service is available to all Citibank banking account customers through the award-winning Citibank Online. The Citibank Global Transfer service is also available at most Citibank ATMs. At this time, the service is not available at ATMs located in former California Federal Bank (Cal Fed) or European-American Bank (EAB) locations, both of which were recently acquired by Citibank. The service will be introduced at those locations later this year.

At either a Citibank ATM or Citibank Online, customers select the "Transfer or Payment" option on the screen, choose the location where they want to send the money from a list of participating Citibank locations, input the amount to be sent and the account number of the receiving account. The funds are then instantly transferred to the receiving account.

When sending money internationally via Citibank Global Transfers, the customer will know exactly how much will be credited to the receiving account before finalizing the transaction. Customers have the option of entering the U.S. dollar amount to be sent or the foreign currency amount to be received. They also have the option of sending a typed message with the transfer.

At this time, transfers from the U.S. are available to Citibank accounts in Mexico (Banamex), Belgium, Germany, Spain, France, the United Kingdom, Greece, Jersey, Monaco, Switzerland, Italy, Luxembourg and India.

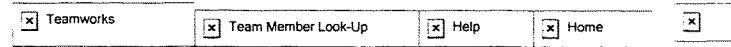
Citibank consumer customers, including CitiGold® and International Personal Banking customers may transfer up to \$3,500.00 per calendar day up to \$10,500.00 per calendar week. Citigroup Private Banking customers may transfer up to \$5,000.00 per calendar day up to \$25,000.00 per calendar week.

For more information, visit www.citibank.com or call 1-866-801-4705 toll-free.

Citigroup (NYSE: C), the preeminent global financial services company with some 200 million customer accounts in more than 100 countries, provides consumers, corporations, governments and institutions with a broad range of financial products and services, including consumer banking and credit, corporate and investment banking, insurance, securities brokerage, and asset management. Major brand names under Citigroup's trademark red umbrella include Citibank, CitiFinancial, Primerica, Smith Barney, Banamex, and Travelers Life and Annuity. Additional information may be found at: www.citigroup.com.

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Media Contact: Mark Rodgers (212) 559-1719



News & Announcements > Monthly Archive > Feature

July 16, 2002

New bank accepts Intercuenta Express® Mexican wire transfer service

Wells Fargo and the Consulate General of Mexico in Santa Ana, Calif., recently announced that Bancomer, Mexico's largest bank, will be the new receiving bank for Wells Fargo's *Intercuenta Express*® Mexican wire transfer service. Customers who open an account with Wells Fargo in the United States can send up to \$1,000 daily directly to their beneficiary's bank account at Bancomer for only \$10.

"Wells Fargo has been providing this secure, affordable service since 1995," says **Jane Hennessy**, Intercuenta business manager for the International Group. "Our new association with Bancomer gives beneficiaries in Mexico the same service but at more bank branches and ATMs than ever before."

Bancomer has more than 1,600 branches and 3,700 ATMs in Mexico, more than any other Mexican bank.

"There is a great need in the U.S. Hispanic community for a cost-effective, safe and convenient way to wire money to Mexico," says Miguel Angel Isidro-Rodriguez, Consul General of Mexico in Santa Ana. "By expanding *Intercuenta Express* service by creating a relationship with the largest bank in Mexico, Wells Fargo is providing a much-needed service to help its customers take care of families and friends in Mexico."

Customers can deposit funds in their *Intercuenta Express* account at Wells Fargo by visiting their nearest branch or by telephone, ATM or online transfer. The transfer requires the beneficiary to have a debit card account at Bancomer to receive the transfer. The money is available to the beneficiary in Mexican pesos the following business day at any of Bancomer's branches or 24 hours a day at any ATM in Mexico.

Intercuenta Express account requires an annual fee of \$10, but has no balance, initial deposit or monthly fee requirements. Customers can find the competitive exchange rate by calling 800-556-0605 option 3.

"The Mexican population of the United States has a buying power similar in size to that of Mexico itself," says Moises Jaimes, Bancomer Transfer Services director. "Bancomer is already present in the U.S. through Bancomer Transfer Services and this association with Wells Fargo shows our commitment to develop opportunities in this market with new

products and services. With this alliance we'll reinforce our leading role in the money transfer industry, serving the Hispanic population in the U.S. with the most advanced technological platform, the highest security standards and the highest quality in service."

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Statement of Roberto Suro
Director of the
Pew Hispanic Center
Before the U.S. House Committee on Financial Services
October 1, 2003

Chairman Oxley, Congressman Frank and members of the committee, thank you for the opportunity to testify today on the research the Pew Hispanic Center has conducted on remittance sending to Latin America.

Roughly 7 million Latino immigrants in the United States send remittances to their home countries on a regular basis. According to the 2002 National Survey of Latinos, conducted jointly by the Pew Hispanic Center and the Kaiser Family Foundation, two-thirds of remittance senders are employed as unskilled laborers and about an equal share have not completed high school and earn less than \$30,000 a year. About half do not have either bank accounts or credit cards and nearly three-quarters rent, rather than own, their homes. They are, however, both the generators of wealth in this industry and the prime consumers. Their decisions about how to manage their money will decide how the remittance flow evolves.

In order to better understand how both remittance senders and receivers view the rapid changes taking place in the money transfer industry, the Pew Hispanic Center and the Multilateral Investment Fund of the Inter-American Development Bank have collaborated on a series of studies in the United States and Latin America. I have provided the committee with copies of our November, 2002 report: "Billions in Motion: Latino Immigrants, Remittances and Banking," which explores how remitters choose the means to send money home. An upcoming report to be published this November will look at the process from the remittance receivers' point of view with studies conducted in Ecuador, Guatemala, Honduras, El Salvador and Mexico. Through telephone surveys, focus groups and in-depth interviews that have gathered information from some 10,000 individuals, we have tried to assess the senders' and receivers' understanding of the methods and costs involved in transferring money, their attitudes towards the existing vehicles and their willingness to use new methods. Allow me to summarize the key findings.

First, both remittance senders and receivers are often unaware of the full costs they are paying for money transfers. Many complain that the money received is less than expected, and yet in a study of remittance senders in Miami and Los Angeles about half said they did not know why additional costs were being paid. Less than a fifth, for example, knew that differences between published exchange rates and the rates used in the transfer process could reduce the amounts delivered.

Second, it is important to recognize that remittance senders are often passive consumers. More than three-quarters of the participants in our Los Angeles/Miami study described themselves as lacking knowledge of the available options for sending remittances and indicated they had done little to explore the market. Instead, they tend to

rely on word-of-mouth recommendations. Familiarity and convenience are often deciding factors in choosing a means of transferring money even when individuals are concerned that they are paying high fees. On the receiving end as well, our studies indicate that simple expediency and force of habit are powerful factors in determining the means for collecting remittances. To understand this better, perhaps we can all think back to that time not long ago when one went to a savings and loan or a bank that was a local institution, staffed by familiar folk and it was common enough to have a favorite teller.

However, our studies also consistently reveal an openness, even an eagerness, to consider new means of transferring remittances and have found no reluctance to utilize Automatic Teller Machines (ATM's) and other forms of new technology. But, such services have to be readily available at both ends of the transaction, and currently that is not always the case.

One way to achieve the Committee's aims of increasing competition and improving consumer access would be to promote the entry of new players, such as banks and credit unions, into the marketplace for remittance services. In this regard it is important to consider limitations posed by infrastructure. On the receiving end, especially, but also on the sending end, many of these consumers live in areas that are under-served by financial institutions. Over the last 20 years or so, wire transfer companies have created financial conduits, where none existed, between many Hispanic immigrant communities here and the urban neighborhoods and rural villages they left behind in Latin America. New players in the remittance market will have to duplicate this infrastructure and compete on the level of location and convenience even as they compete on the basis of price.

In pursuing the committee's goals in the existing market for remittance services, our studies suggest that greater transparency in pricing and simplicity in procedures could have an impact. Obviously, one can not oblige consumers to do comparison shopping. But these studies have revealed a sufficiently high level of confusion and dissatisfaction over the extent of information now available to suggest that the information flow can be improved. If consumers can make easy apples-to-apples comparisons about the costs of transfer services, they might be more likely to shop around. To be effective, such comparisons must cover all costs, including exchange rates and any fees charged on the receiving end.

Mr. Chairman, again thank you for the opportunity to appear here today. I'll be happy to respond to any questions.



Inter-American Foundation

An Independent Agency of the U.S. Government

Transnational Communities and Grassroots Development: From Remittances to Co-Community Development

Statement by David Valenzuela
 President, Inter-American Foundation
 Subcommittee on Domestic and International
 Monetary Policy, Trade and Technology
 House Committee on Financial Services
 October 1, 2003

The Inter-American Foundation, an independent government agency, makes grants to non-profit, non-governmental organizations in Latin America and the Caribbean to support grassroots development led by local people in their own communities. In some of these communities, grassroots development has become increasingly tied to financial remittances – money sent home by migrants living in the United States. In fact, financial remittances are now a critical factor in the economies of a number of Latin American countries. For example, in 2002, an estimated \$2 billion in remittances represented roughly 13 percent of El Salvador's economy.

In response to the growing awareness of the importance of remittances and migrant communities in Latin America and the Caribbean, the Inter-American Foundation has co-sponsored several important meetings on the topic. In March, 2001, the IAF organized a conference in Washington with the United Nations Economic Commission for Latin America and the Caribbean and the World Bank on "Approaches to Increasing the Productive Value of Remittances." The IAF and the Centre pour le Libre Entreprise et la Démocratie (CLEDE) sponsored a conference in Port-au-Prince, Haiti on "The Role of the

Diaspora in the Development of Haiti” in May, 2002, and co-sponsored a conference in Puebla, Mexico on the Latin America diaspora in January, 2003. The IAF has also collaborated with the Inter-American Dialogue, which has hosted a number of discussions on the topic of remittances.

We have learned that remittances are not just financial transfers but include “remittances” of new ideas and practices (for instance, citizen participation or the role of women) and “remittances” of new skills and experiences (for instance, construction techniques or computer applications) that can also be transferred to the “home-town” communities. It is clear that migrants in the U.S. have become an important resource for their communities of origin in Latin America. Many of these communities are supported by the IAF through grants for economic and social development – and we have come to see that development is often linked to the interest and efforts of migrant businesses and “home town associations.” The IAF has begun to reach out to and incorporate diaspora and migrant communities in the development process, guided by these questions:

- Who are the actors within diaspora and beyond diaspora and immigrant communities with whom development organizations can work, and what are their priorities and needs?
- Who are the actors in communities of origin, and what is their capacity for effectively carrying out development activities in collaboration with diaspora groups?
- How can these various actors form and maintain effective alliances?
- What specific measures can be taken to support emerging alliances and initiatives?
- How do actors whose traditional focus has been outside of the U.S. and actors whose traditional focus has been domestic work together on transnational issues?

The IAF’s experience in these issues has led to the recognition that while remittances play a critical role in the region, the development impact of the various linkages between migrant communities and their communities of origin extends far beyond. The Foundation has begun working on a framework for understanding these transnational dynamics and their role in grassroots development. At the heart of this approach is the concept of ‘co-community development.’ As used by the IAF, this term refocuses

development thinking to concentrate on the pathways and linkages that are created by transnational migration. Transnational migration is a process in which human, financial, and social capital flows back and forth between sending and receiving communities, thus greatly impacting the process of social and economic development in both sending and receiving communities and at points along the way. The co-community development approach seeks to harness and leverage the flow of human, financial, and social capital for the purposes of grassroots development at all points in the process. Some main features, therefore, of the 'co-community development' concept are:

- that migration and development can be linked;
- that migrants and organizations working with migrants are natural partners in grassroots development;
- that there are transnational dynamics and other potential actors that must be considered beyond the current focus on financial remittances and HTAs;
- that the truly transformative grassroots development impact of transnational relationships is often not strictly financial in nature;
- that the process of engaging in grassroots development benefits both migrant communities and communities of origin.

The IAF is embarking on a new path to understand how to better incorporate these concepts. We are continuing to make grants to support grassroots development in Latin America, including several ongoing projects that support migrants' programs to build economic development in their communities of origin through remittances. In fiscal year 2003, we received more than a dozen proposals from several countries for projects that aim to strengthen Latin American communities through cooperation with U.S.-based home town associations, businesses, municipal and national governments, and individual families. Financial remittances are important components of some projects, while others will emphasize other types

of transfers, such as contributions of skills, ideas, experience and volunteer labor. The IAF will support selected research activities to document current practices and identify potential proponents.

In the process of getting to know the U.S.-based organizations involved in new proposals and in reconsidering ongoing grants in light of a transnational perspective, we have come to recognize that the IAF needs to work with our grantmaker counterparts in the U.S. to more effectively support these transnational initiatives. Community co-development implies not only collaboration by the communities at both ends of the transnational "highway;" it also begs for collaboration by grantmakers supporting those communities. The IAF is beginning to contact our counterparts in the U.S. to learn about their programs with Latino communities here and to explore how we might work together. U.S.-based foundations have played an important role in supporting legal services, social services, education, and health care for Latino communities as part of nurturing those communities within U.S. society. Like the IAF, some are also beginning to recognize the importance of organizations coming out of those communities that are not service providers, not focused only on the health of the communities here, but rather (or in addition) focused on the well-being of the "home" communities. Such organizations are engaged with home community organizations in economic and social transactions, and sometimes in the creation of productive projects, that benefit both communities – the transnational perspective.

In the last few months, as part of our on-going responsiveness to critically important processes in Latin America and the Caribbean, the IAF helped to organize a series of roundtable discussions in several U.S. cities to share this broader conceptualization of transnational linkages and grassroots development. The events provided a forum for sharing experiences among local and national foundations and Latino actors and encouraged the development and exchange of innovative ideas in grassroots development. In moving beyond a focus on financial remittances, we hope the roundtable series will encourage partnership between international and local funders and promote imaginative engagement with the issue of transnational migration and grassroots development.

Response to Congressional Inquiries on "Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market."

Question: Information was requested on the nature of the remittance industry in Cuba, Haiti and Africa, specifically Ethiopia. Information was also requested on what is being done to improve remittance services to Africa and the Caribbean.

Answer:

Africa: Africa's remittance industry has, to date, received little attention, given the scarcity of data. Based on what is publicly known, remittance flows to Africa are relatively low compared to flows to other regions, and heavily underreported (note that IMF remittance data is only available for about one-third of all Africa countries). This may be attributed to the limited migration patterns from Africa to other regions and to the limited development of the financial sector, which suggests that a significant amount of remittances may in fact flow through informal channels. Research has shown that informal channels tend to be used more where the financial sector is less developed (as in conflict countries), weak, or mistrusted.

Based on World Bank data, total remittances to Africa over the last ten years peaked in 1992 (US\$10.7 billion) and hit the lowest level in 2000 (US\$7.8 billion). Sub-Saharan Africa's share of global remittances fell from 8% in 1980 to 5% in 2002. Of the total amount of remittances that flow to Africa, North Africa receives 72%, East Africa receives 3%, Southern and West Africa received around 7 and 5% respectively, and Central Africa receives less than 1%. On Ethiopia, there is limited information on the specific nature of the remittance industry but several government and non government agencies are considering conducting a study on this issue in the near future.

Caribbean: The Caribbean region has also been an important source and recipient of remittances. Based on 2001 data for only four countries for which data is available (Haiti, the Dominican Republic, Cuba and Jamaica), remittances reached over \$4.5 billion. The Multilateral Investment Fund at the Inter-American Development Bank has actively funded several projects aimed to strengthen the delivery of remittances through improving financial infrastructure and awareness of financial services. The United States Government has been supportive of these efforts and is exploring ways to expand its remittance work to the Caribbean region.

Financial sector development: Treasury's efforts to promote financial sector development in developing countries both bilaterally through technical assistance and multilaterally through the International Financial Institutions (IFIs) are a useful step towards improving financial sector linkages among service providers and clients. Treasury's financial advisors in several countries throughout Africa work to assist reform-minded Finance Ministers and Central Bank Governors on the means to strengthen financial regulatory and supervisory practices. A goal of theirs is to help ensure that the flow of remittances is handled in a trustworthy and transparent manner, and thereby help boost the confidence in the banking system and protect against fraud, money-laundering and the flow of funds into the hands of terrorists. In addition, such transparency efforts should have a positive affect on encouraging a more competitive environment for financial institutions in these countries.

Question: Information was requested on which countries are doing a good job in creating an environment conducive to remittances?

Answer:

To create an environment conducive to remittances, countries need to focus on

- deepening the financial system and encouraging the emergence of a range of service providers
- expanding access to financial services, particularly in the underserved areas
- promoting financial education to reduce any reluctance in using the formal system
- removing inappropriate barriers to would-be entrants to the remittance industry

Particularly noteworthy progress has been made with regard to Mexico, and the Philippines.

Question: What types of regulatory barriers exist in countries that may impede the market for remittances?

Answer:

- **Demand for remittance services**, like any financial service, can be met in an environment where the supply of such services is not restricted by regulatory policies. In some cases, government policies can restrict the types of services offered.
- **Access to payment systems** is a key component of providing financial service across a wide geographical region. In some developing markets, payment systems provide limited coverage due to restrictions on access or because of inadequate financial infrastructure. In these cases, improving infrastructure to allow for wider provision of financial services and allowing better access to such payment systems, including for remittance activities, are important steps.
- **Licensing restrictions** on the types of financial services that can be offered can also restrict financial institutions from providing remittance services. In some countries, certain licenses forbid the provision of remittance services, which can stifle competition.
- **Restrictions on capital flows** – such as taxes on incoming remittances – reduce incentives to send remittances through formal channels. While remittances can provide a steady reliable source of capital, a revision of policies that stifle this flow should be undertaken.
- **Restrictions on foreign exchange transactions** may prevent certain institutions from engaging in cross-border remittance transactions. For example, a requirement that individual approval be obtained from the government for each individual remittance inevitably slows the process of formal remittances and pushes remittances into the informal sector.

Question: Does the Department of the Treasury support legislation to authorize the use of the \$4 million previously appropriated for the "First Accounts" program?

Answer:

The Department would appreciate the enactment of legislation that would authorize the Department of the Treasury to spend the money previously appropriated by Congress for the "First Accounts" program. Without such legislation, the funds appropriated in FY 2002 and FY 2003 cannot be spent.

Question: Please respond to the idea that the Federal government needs program oversight in order to provide for safety and soundness.

Answer:

Providing a financial institution regulator with the authority for program oversight (i.e., the ability to say "no" to new activities that are inconsistent with the charter of regulated financial institutions, inconsistent with their prudential operation, or inconsistent with the public interest) is an important component of regulatory oversight. Such oversight contributes to enhancing safety and soundness directly by monitoring the financial soundness of a financial institution's activities, and indirectly by ensuring that such activities do not pose risk to a financial institution's reputation. In addition, program oversight is important for ensuring that a financial institution's activities are within the bounds of a financial institution's charter, and that such activities are meeting any specific requirements set forth by Congress.

Questions for the Remittance Hearing from Congressman Brad Sherman

Question for Assistant Secretary Wayne Abernathy:

As you know, the Department of Treasury's "First Accounts" program provides financial resources to develop and implement programs to expand access to financial services for low- and moderate-income individuals who currently do not have an account with an insured depository institution or an insured credit union.

In 2002, the Department awarded 15 grant awards, totaling over \$8 million. This money assisted 35,445 "unbanked" low- and moderate-income individuals in opening accounts at insured depository institutions. From all accounts, this has been a successful program. And, I understand that Mr. Herrera from the Latino Community Credit Union will discuss his experience with this program during the second panel.

My question is this: I understand that there is \$4 million that has been appropriated for this program subject to authorization. Would the department be supportive of legislation to authorize the use of this \$4 million for the "First Accounts" program?



October 31, 2003

Chairman Michael Oxley
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Re: Response to Questions House Financial Services Committee Hearing:
"Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the
Market"

Dear Chairman Oxley:

Thank you for giving U.S. Bank the opportunity to respond to questions posed by Committee members during and following the hearing. First, please find attached the pages of the official transcript on which changes were made. Second, we attached our answers to two questions submitted by Congressman Gutierrez in written form after the hearing. Third, we provided statistical information as requested by Congresswoman Waters. Fourth, we addressed a question posed by Congressman Watt.

Congressman Gutierrez submitted the following:

Question: "Mr. Levine mentioned in his testimony that banks can implement new transmission technologies without regulatory impediment because their money transmitting business isn't subject to the requirements of the state licensing laws. Can you comment on this?"

Answer: U.S. Bank is a national bank. States' money transmission laws include specific exemptions from licensing requirements for national banks. These state exemptions do not relieve banks from federal regulatory requirements. On the contrary, a bank venturing into the remittance business by implementing new transmission technologies is far more regulated than a money services business operating under the various state laws of the 28 states that do regulate or license money services businesses. State remittance laws generally address licensing requirements, not substantive consumer protections.

Banks are subject to a vast body of national laws as well as regulation by numerous federal agencies. A bank is not relieved of any of the numerous laws and regulations that govern its operations and relationships with customers when it implements new transmission technologies in order to enter the remittance business. It is required to adhere to all laws regarding consumer protection and disclosure, customer privacy, Electronic Funds Transfer Act requirements, and non-discrimination, as well as laws in many other areas.

Question: "You mentioned in your testimony that many banks offer very cost-effective alternatives to the traditional money transfer agents. Can you mention some of these alternatives?"

Answer: As described in our October 1, 2003, testimony, U.S. Bank offers the following remittance services to Mexico: 1) sending funds to Mexico via the Visa/PLUS ATM network, and 2) sending funds to any branch of L@Red de la Gente (The People's Network) in Mexico. Other members of the Consumer Bankers Association also provide remittance services. Please find additional documentation attached.

- Bank of America has the SafeSend card, an ATM card that gives consumers fast, easy access to money.
- Citibank has Citibank Global Transfers, a unique, affordable, account-to-account real-time international and domestic funds transfer service for its customers.
- Wells Fargo has *InterCuentaExpress* Mexican wire transfer service, where customers who open an account with Wells Fargo in the U.S. can send up to \$1,000 daily directly to their beneficiary's bank account at Bancomer for only \$10.

In order to foster the development of more innovative programs for the Hispanic market, the Consumer Bankers Association will host a forum to address these issues in Spring 2004.

During the hearing, Congresswoman Waters asked for information about the remittance service consumers becoming traditional banking customers.

Question: "How many of your non-banked customers, your remittance senders, become banked customers of the bank once you have dealt with them? Would you get to me some documentation of that?"

Answer: At U.S. Bank, our goal is to become the bank of choice for the Hispanic market. Providing remittance services and introducing retail-banking services to the Hispanic consumer advances our pursuit of this goal.

From May 2003 through August 2003, our card-based remittance service (the Visa/PLUS ATM network) was offered in a pilot stage. It was tested in limited markets (Sacramento and Denver) to individuals with and without a U.S. Bank relationship. Because the pilot project was successful, the card-based program was implemented in all 24 states of the U.S. Bank footprint on September 1, 2003.

Our remittance service to L@Red de la Gente began its pilot project on July 15, 2003, in limited markets (Los Angeles, San Diego and Chicago). Because this program was designed to promote banking on both sides of the border through account-to-account transfers, users of the service must be a U.S. Bank account holder. This program remains in a test phase and will likely be rolled out to all 24 states of the U.S. Bank footprint early next year.

Based on this recent experience, we have seen encouraging and positive consumer behavior. Eighty-seven percent (87%) of the users of our remittance programs are U.S. Bank account holders. We are converting about 50% of all non-account holders into account holders as a result of offering remittance products. U.S. Bank looks forward to building upon these promising results by continuing to offer innovative services to the Hispanic market. Promotional bilingual materials describing our current programs are attached for your information. We also invite you to visit our web site, www.usbank.com, for more information about our services.

During the hearing, Congressman Melvin Watt asked the following:

Question: "Do we need uniform standards for disclosures; and do we need "best practices" guidelines for this particular industry?"

Answer: Consumer needs drive product development for the various remittance providers. Mandating uniform standards for disclosures and best practice guidelines could prevent innovative competitive product development to meet consumer needs. Mandating standards for disclosures could increase the cost of developing disclosure materials to remittance providers, ultimately increasing the cost to consumers.

In conclusion, U.S. Bank, on behalf of the Consumer Bankers Association, thanks the Committee for focusing on innovative remittance services available to the consumer. We look forward to a continuing dialogue on this important issue. If we can provide more information, please contact us.

Sincerely,



Alice Perez
Vice President, Hispanic Market Manager
U.S. Bank

cc: The Honorable Barney Frank, Ranking Member
The Honorable Luis V. Gutierrez
The Honorable Maxine Waters
The Honorable Melvin Watt

To:
The Hon. Luis V. Gutierrez
Committee on Financial Services
U.S. House of Representatives
Washington, DC

From:
Roberto Suro
Director
Pew Hispanic Center
1919 M St. NW
Washington, DC 20036

Re.: Responses to questions for the hearing record of Oct 1, 2003

1) There are many different kinds of firms that provide remittance transfers with many different levels of disclosures. Some are more complete and/or comprehensible than others. Mr. Levine described a fairly recent development among the national transmitters when he described the delivery of a receipt that states the total payout at the receiving end, and he noted that this practice only applies uniformly to transfers to Mexico by the transmitters he represents. Our research indicates that transfers to Mexico by national transmitters account for about one-tenth of the total flow of remittances from the United States to Latin American and the Caribbean. The Inter-American Development Bank (IADB) estimates those flows at \$25 billion for 2002 of which \$10.5 billion or 42 percent goes to Mexico. A recent survey we conducted with the IADB in Mexico indicates that perhaps a quarter of those transfers arrive there come by way of national transmitters.

2) The disclosure practices described by Mr. Levine suggest a possible minimum standard: At the time of the transaction the sender is advised of the total payout in the local currency at the point of receipt. That would simply ensure that senders know what they are getting for the money they are paying the transmitters. Another level of disclosure would involve rendering the form and amounts of various costs associated with the transfers as well as the exchange rate in a manner that simplifies comparison shopping. This would involve a far greater regulatory effort that would have to begin with establishing uniform definitions for various costs. Currently, pricing schemes vary significantly across the industry as a wider range of firms offer a greater array of services. This is a measure of the newness and the competitive vigor that now characterizes the industry. This stands in contrast to other financial services such as personal checking, credit cards, and home or auto purchases where pricing schemes have developed a level of uniformity that facilitates both comparison shopping and disclosure regulation.



NATIONAL ASSOCIATION OF FEDERAL CREDIT UNIONS
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October 1, 2003

The Honorable Mike Oxley
Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman Oxley:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only national trade association that exclusively represents the interests of our nation's federal credit unions, we commend you on examining the important issue of international money remittances in today's hearing: "Remittances: Reducing Costs, Increasing Competition, and Broadening Access to the Market." We thank you for this opportunity to share our thoughts with you and the Committee for the record on this important issue.

The high cost of international money transfers has been an ongoing subject of concern for NAFCU. Oftentimes, the cost associated with sending such remittances are unnecessarily excessive due to undisclosed fees and poor exchange rates. Historically, the main reason foreign remittance customers use money transfer companies rather than traditional financial institutions is because they are most likely unbanked and do not have access to a financial institution. Other factors may be attributed to poor English skills, lack of education, or a general distrust of banks due to the high cost of banking services.

The House Financial Services Committee has recognized this problem and has responded to the situation by including a NAFCU-backed provision in the *Financial Services Regulatory Relief Act*, H.R. 1375, that allows all federal credit unions to offer check cashing and wire funds to anyone eligible to join that credit union. We believe that this provision is an important step to aiding those who could be victims of predatory practices in the remittance industry. Credit unions have always been at the forefront of combating these predatory lending practices through the emphasis of financial education. Currently, numerous NAFCU member credit unions are already offering these services to their members at a low cost. Due to the inclusion of the aforementioned provision in H.R. 1375, credit unions would be able to be a viable alternative to the unbanked population. NAFCU applauds you for your leadership and thanks the Committee for their work in this effort.

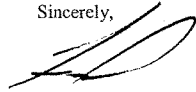
On June 26, 2003, the Subcommittee on Financial Institutions and Consumer Credit held a hearing on financial literacy and the unbanked. At that hearing, Dennis Dollar,

The Honorable Mike Oxley
 October 1, 2003
 Page 2

Chairman of the National Credit Union Administration (NCUA) testified that NCUA has initiated numerous programs targeting the underserved and that credit unions have always "provided lower cost financial services to more underserved individuals through member-owned, not-for-profit financial cooperatives versus the vicious pawn shop/payday lender cycle. Credit unions break this cycle by offering a lower cost and user-friendly alternative provided by traditional financial institutions." We could not agree more. NAFCU believes that credit unions can continue to pave the way in educating those who are wary of the traditional financial institutions due to bank failures in their native land or currency devaluations.

Again, NAFCU would like to applaud the Committee's effort to examine the issue of remittances and the high cost that is associated with this service. Thank you for giving us the opportunity to share our thoughts for the record at today's hearing. Please do not hesitate to contact me or NAFCU's Director of Legislative and Political Affairs, Brad Thaler at (703) 522-4770 if we may provide you with any further information. NAFCU looks forward to working with you and the Committee on this most important issue.

Sincerely,



Fred R. Becker, Jr.
 President and CEO

*Mr. Chairman -
 As always, thanks for
 your leadership on this issue!*

cc: The Honorable Barney Frank