

**REMITTANCES: REGULATION AND DISCLOSURE
IN A NEW ECONOMIC ENVIRONMENT**

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BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT
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REMITTANCES: REGULATION AND DISCLOSURE IN A NEW ECONOMIC ENVIRONMENT

Wednesday, June 3, 2009

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Luis Gutierrez [chairman of the subcommittee] presiding.

Members present: Representatives Gutierrez, Maloney, Watt, Sherman, Moore of Kansas, Hinojosa, McCarthy, Baca, Green, Clay, Scott, Cleaver, Klein, Meeks, Foster, Perlmutter; Hensarling, Castle, Lee, and Paulsen.

Chairman GUTIERREZ. This hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order. Good morning, and thanks to all the witnesses for agreeing to appear before the subcommittee today. Today's hearing is focused on the current state of the remittance industry in today's changing economy. We will examine consumer access to remittance transfer outlets, the cost and current levels of transparency involved with sending remittances, and the need for further regulation of the industry.

We will be limiting opening statements to 10 minutes per side, but without objection, the record will be held open for all members' opening statements to be made prior to the public record. I yield myself 5 minutes.

The volume of remittances has grown so dramatically over the past decade that these cash flows consistently rival combined foreign aid and direct investment in many countries. For 2008, the World Bank estimates that migrants sent \$305 billion to developing countries. This is more than twice the amount of all foreign aid distributed during the same year. Truly, the remittance industry knows no borders.

In 2007, Indians living abroad transferred an estimated \$27 billion back to India. China and Mexico are close behind at \$25.7 billion and \$25 billion, respectively.

In nominal dollar terms, more remittances are sent to Latin America and the Caribbean than any other region. In 2008 alone, more than \$69 billion in remittances were sent to Latin America. This is more than the combined total of official development assistance and foreign direct investment in the region. And 66 percent—

that's almost \$46 billion of the remittances—sent to Latin America originated right here in the United States.

To put this in a perspective globally, the United States distributed \$26 billion in official foreign aid in 2008. This is \$20 billion less than migrants sent back to their families in Latin America. Even with the current reports of a decline in the money transfer to Mexico over the first 4 months of 2009, migrants still sent \$1.8 billion to Mexico in April, alone.

From a consumer standpoint, one of the major issues of remittances has always been transaction costs. But the remittance industry has come a long way since the last decade in reducing transaction fees. For example, in the mid-1990's, the cost of sending \$200 to Latin America averaged \$30, or 15 percent. But by 2009, the cost of the same transaction was down to about \$6.30, or 3 percent.

The recent decline in fees can largely be attributed to increased competition in the remittance industry, especially among money transfer operators. For example, today there are more than 100 money transfer operators serving Mexico, alone. A dozen years ago, there were only five. Technology has also accelerated competition. Directo a Mexico, an automatic clearinghouse, charges U.S. banks only \$.67 per transaction to transfer money to Mexican banks.

Other companies are expanding the use of card-based services, ATMs, debit, and prepaid cards as a method for low-cost money transfers. In addition, some companies are experimenting with the use of cell phones to make remittance transfers.

And more can still be done to reduce costs and improve price transparency to assist consumers in comparison shopping. Many consumer groups support basic pre-transaction disclosures regarding exchange rates and fees with a more detailed summary of the fees and costs provided in a post-transaction receipt. However, the money remitters contend that more disclosure requirements will add to their operation cost, and make further reduced fees unlikely.

There is also the issue of who would regulate this industry. Currently, most States regulate money transfer companies in some capacity, but few States require consumer-oriented disclosure. Additionally, State regulations for money transfer companies do not apply to financial institutions.

Finally, the State regulatory regime provides a patchwork of regulation that increases compliant costs, and has to be absorbed by the industry or passed on to the consumer. Today we will explore all of these issues, focusing on whether additional consumer disclosures should be required by Federal law. The subcommittee will also examine whether a Federal regulator is needed to oversee the remittance industry. And, if so, which entity is best suited to take on the task.

This hearing is very timely, and this committee will soon take up legislation overhauling the Nation's financial regulatory structure. It seems logical to me that we extend the Federal regulatory regime to the remittances industry. We should do so as part of a larger context of regulatory reform.

To that end, later this month I plan to introduce legislation to address some of the disclosure issues surrounding remittance transfers and possibly create a Federal regulatory regime. I look

forward to hearing from our witnesses, and yield back the balance of my time.

The gentleman from Delaware, Mr. Castle, is recognized for 5 minutes.

Mr. CASTLE. Thank you, Mr. Chairman. And let me thank all of the witnesses for being here today, and sharing their good thoughts with us.

Much of our focus today will be on the challenges facing licensed money remitters and the impact of the global economic crisis. Money remittance businesses play a key role in our economy, as well as the economies of many developing nations. And I applaud the financial institutions subcommittee for holding this important hearing.

I would also like to address some of the risks posed by unlicensed remitters, and the impact of new methods for transferring money when it comes to our national security. Since the terrorist attacks of 2001, this Congress has taken significant steps to combat the international financing of terrorism. However, recent reports indicate that post-9/11 terrorist financing has become more decentralized, and that those involved are using less sophisticated means to move money, and avoid official banking systems.

These reports also note that terrorist financiers are exploiting new technology like Internet message boards, stored value cards, and M-payments to transfer money electronically.

With at least 10 different government departments and agencies involved in the effort to combat terrorist financing, I believe it is vital that Congress remain vigilant when it comes to keeping pace with these evolving trends in terrorist financing. Hopefully we will learn more today about the effectiveness of our current regulations when it comes to addressing these evolving terror financing and money laundering trends.

I also have some concerns that the current hodgepodge of State and Federal regulations of money service businesses (MSBs) does a poor job of preventing abuse of the remittance system. Some States do essentially no regulation, and the IRS, which is charged with examining MSBs for compliance with the Bank Secrecy Act, could not possibly examine the tens of thousands of MSBs known to exist. Many MSBs are not even registered, nearly a decade after the passage of the Patriot Act. This haphazard regulation hurts MSBs and the senders of money, too, because few banks want the liability of offering accounts to MSBs.

This committee has made an effort to address that issue with legislation championed by Mr. Gutierrez, Mrs. Maloney, and Ranking Member Bachus. But I believe much more needs to be done in this area.

Moving forward, it is my opinion that the Financial Services Committee should hold a comprehensive hearing on the status of our post-9/11 efforts to combat terrorist financing. I recently sent a letter to our committee's leadership requesting just such a hearing.

Thank you, Mr. Chairman, and I yield back the balance of my time.

Chairman GUTIERREZ. Congressman Hinojosa is recognized for 3 minutes.

Mr. HINOJOSA. Thank you, Mr. Chairman. Thank you for holding this hearing on an issue important to me and my constituents, and our Nation's economy.

Remittances fill an important community need for many of my low- and moderate-income constituents who maintain strong ties to their families in Latin America and other regions of the world, and who have benefitted significantly from reduced cost and increased disclosure of and from increased competition and disclosure of remittances.

Chairman Gutierrez, I was a proud co-sponsor of your legislation, the International Remittances Consumer Protection Act of 2005, in the 109th Congress. And I would be honored to be an original co-sponsor of similar legislation you plan to introduce this Congress.

I also laud you for your renewed interest in financial literacy. Mr. Orozco, I am very pleased that you acknowledge in your testimony the importance of financial literacy. I have dedicated a considerable part of my time here in Congress to finding ways to move my constituents, especially the unbanked, away from predatory lenders, payday lenders, and check cashers, and into the financial services institutions.

One of the ways I am seeking to accomplish this goal is by increasing the financial literacy rates of all those residing in the United States during all stages of their lives. To reach this goal, I co-founded and co-chair The Financial and Economic Literacy Caucus with my good friend and colleague, Congresswoman Judy Biggert of Illinois.

I am pleased, Mr. Orozco, that you and an ever increasing number of people across the United States are adopting the term "financial literacy," and are striving to improve financial literacy rates. I am also pleased that Congress and the public have incorporated that phrase in resolutions, legislation, and events held here on Capitol Hill and in Members' districts throughout the United States.

I believe that the financial literacy cause that Congresswoman Biggert and I have been working on since 2002, as well as the founding of the Caucus in 2005, have let the financial literacy genie out of the bottle.

The Caucus has done much to advance financial literacy, but we have much more to do to educate our constituents about the financial fundamentals of checking accounts, savings accounts, budgeting, and preparing for economic decline. I am pleased that you and the members of this subcommittee and the full committee have embraced the financial literacy cause. Chairman Gutierrez, I commend you for including financial literacy provisions in your legislation. And with that, I yield back.

Chairman GUTIERREZ. The gentleman yields back. Congressman Scott, you are recognized for 2 minutes.

Mr. SCOTT. Thank you, Mr. Chairman. I want to thank you for having this important hearing, because we are indeed in a global economy.

After almost a decade of sustained growth, most developing economies are stalling, as a result of the global economic crisis, and especially that of Africa. And I would like to dwell on Africa, because of the urgency of that situation there. Dwindling trade, fail-

ing commodity prices, lagging foreign investment, and dropping remittances are all contributing to the overall deterioration of strides made by many developing countries, especially in Africa.

The International Monetary Fund estimates that the continent of Africa is forecast to slip from 5.5 percent last year to 1.3 percent, according to the latest numbers. Tens of millions of Africans will fall back into poverty. It is important that we continue to encourage groups to continue their work to ensure African countries continue on the path to growth and development, while ensuring respect for the environment and natural resources.

As money sent home by migrants accounts for the second largest financial inflow, even over international aid to many developing countries, remittances are playing an increasingly large role in the economies of many countries.

Now, Mr. Chairman, when an additional 55 to 90 million people will be pushed into extreme poverty in 2009, and the number of hungry people is expected to climb past 1 billion, we must ensure that programs that deliver adequate resources are preserved. And nowhere is this crisis more dramatic than in Africa, with hunger and famine and drought rampaging the continent, not to mention the incessant and continuous and unnecessary civil wars.

For the first time in over 20 years, a decade or so, remittances to Sub-Saharan Africa are set to fall in 2009, according to the World Bank. Remittances income is set to decline by 1 percent from 2008 to 2009. I am aware of the impact remittances have made on many African countries and the impressive progress that has been made over the years.

But I worry, Mr. Chairman, with the global economic crisis, that we will lose decades of development and growth. I am interested to hear from our distinguished panel on these and other issues. I am pleased that the chairman has chosen to hold this hearing, and I look forward to the testimony.

Chairman GUTIERREZ. Thank you very much. First, we have Dr. Manuel Orozco, a senior associate and director of remittances and development at the Inter-American Dialogue. He has conducted extensive research policy analysis and advocacy on issues relating to the global remittances and migration and development worldwide. Dr. Orozco is chair of the Central America and Caribbean at the U.S. Foreign Service Institute, and is also adjunct professor at Georgetown University, where he is a senior researcher at the Institute for the Study of International Migration.

Next we have Annette LoVoi, who has been with Appleseed since 1997, first serving as founding director of Texas Appleseed, and now as national field director, a position she has held since 2003. She has a master's degree in public affairs from the Lyndon Baines Johnson School of Public Affairs, and has held positions in various State agencies in Texas.

Mark Thompson is an associate general counsel for the Western Union Company. Mr. Thompson manages the legal department for the Americas regions, and advises the company on State and Federal regulatory matters, including compliance with the Bank Secrecy Act, the USA. Patriot Act, and individual State regulatory statutes.

Scott McClain is a partner at the law firm of—is this Winne, Banta? Yes. This is a—wow, and Kahn. Serves as general—you know, I get everybody’s name, I practice everybody’s name, because everything else is usually easy. This time they got me on the law firm. I am a little embarrassed here, but it is a big law firm. We will put it in the record. I’m sorry. I didn’t practice the law firm’s name.

As deputy general counsel for Financial Service Centers of America, he is a graduate of Seton Hall Law School, and practices in the fields of anti-money laundering and financial services regulatory compliance. You are welcome, also. Please, we are happy to have you, Mr. Scott McClain, here.

We will begin with Dr. Manuel Orozco, and hear from each of you for 5 minutes.

STATEMENT OF MANUEL OROZCO, SENIOR ASSOCIATE AND DIRECTOR OF REMITTANCES AND DEVELOPMENT, INTER-AMERICAN DIALOGUE

Mr. OROZCO. Good morning, and thank you very much for inviting me to testify. This hearing is a welcome opportunity to focus on remittance transfer-related issues, particularly in light of the proposed legislation that seeks to address many of the areas and policy initiatives.

I will focus my remarks on three particular issues: the current pattern of remittances during the recession period; the state of the money transfer market and industry; and the disclosure on financial literacy. These two latter solutions, I think, present important opportunities for the future.

When we look at the current market for money transfers in light of the current recession, we see that there is a significant decline in the amount of money that immigrants are sending. We expect a 7 percent decline from \$69 billion to Latin America to \$64 billion. And the decline is going to be extensive, also, to other parts of the world, including Africa and Asia.

The main impact to countries will be those that are more heavily dependent, countries like Haiti, Honduras, El Salvador, and Nicaragua, where at least 50,000 households are still receiving remittances. The effect is going to be—it’s not going to be negligible, and requires some attention with regards to the effects on how to mitigate this reality.

When we look at the issue of the money transfer industry, we see that there is continued competition, despite the difficulties that the industry is facing today. We actually see a decline in the number of money transfer operators in the market, partly related to the current recessionary period, but also related to problems in the account closing by banks because of the issues relating to regulatory elements.

The industry continues to be competitive also with regards to the cost of remitting. The prices have declined significantly from 15 percent 10 years ago to about 5 percent this year. The decline has remained, however, relatively stable over the past 3 years.

One of the strategies that some people at the industry have proposed is to establish a Federal licensing mechanism. And I think

that's a very welcome and important idea, especially that it will promote competition at the national level.

However, social strategy needs to be accompanied with very strict criteria on how to operate nationwide and how to prevent financial losses, especially for companies that may overstretch themselves in the context of increased competition and increased volume of money transfers.

The third issue that I think is important to look at is the proposed discussion on disclosure. The proposed International Remittance Disclosure and Expansion Act offers an opportunity for a holistic approach to tackle the challenges facing the remittance market, including poor financial access for migrants and their families, and mechanisms on consumer protection and disclosure.

The provision of disclosures is definitely a most welcome strategy, and a most welcome policy change. However, I think there must be correspondence between the objectives of disclosure and the use of appropriate instruments that make disclosure successful and commensurable to what is feasible.

Demanding disclosure on foreign exchange is important, yet cumbersome. Given the nature of the significantly variable nature of the foreign currency market, it is very difficult, if not impractical and sometimes impossible, to post signs on the foreign exchange rate on a regular basis, because the exchange rate changes, basically, sometimes by the second.

There are other difficulties with regards to the signing—posting the foreign exchange, because of the different competitors on the pay-out locations in the developing countries. So, I think the key issue is how to identify effective mechanisms to develop a good disclosure proposition.

And in that light, I think, in addition to disclosure, one needs to look at the other side of the equation, which is that disclosure in itself is not enough to motivate immigrants to understand how the system works. And that is where financial literacy plays a very important role. It is—it allows for people to achieve financial independence. You know the significance of financial literacy, in terms of enabling people to understand how to budget their money, how to save it, and how to invest it and obtain credit.

The critical issue with regards to financial literacy is not only in the role that it informs people, but also in the way in which it provides as a mechanism for financial counseling, but also as a mechanism to motivate people to better invest and manage their money.

We have learned in developing countries and in the United States that when you establish a strategy on financial literacy, there is at least a 25 conversion rate of people, immigrants or families of migrants, who mobilize their savings into a financial institution.

Therefore, I find this issue of financial literacy essential to any strategy that links up to the reality of remittance transfers.

And I will stop my remarks here. Thank you very much.

[The prepared statement of Dr. Orozco can be found on page 57 of the appendix.]

Chairman GUTIERREZ. Thank you very much.

Ms. LoVoi?

**STATEMENT OF ANNETTE LoVOI, FIELD DIRECTOR,
APPLESEED**

Ms. LoVoi. Thank you, Mr. Chairman. My name is Annette LoVoi, and I serve as field director for Appleseed, a national legal advocacy organization with 16 public interest law centers across North America. On behalf of our board of directors and our staff, I thank you for your invitation to testify this morning.

The Appleseed testimony will cover three topics: the importance of disclosures to remittance consumers; the level of disclosure that Appleseed finds desirable; and designating a Federal regulator to oversee the remittance industry.

Many remittance customers live on the knife's edge, literally one step removed from poverty. We find, through our research, that they rely on remittances for basic necessities: food; medicine; and emergencies.

Appleseed conducted research in Chicago, Mr. Chairman. Our affiliate, the Chicago Appleseed Fund for Justice, partnered with the Mexican consulate to study the financial needs of Mexican immigrants coming to the consulate. We learned two important things for the purposes of this hearing this morning. Many consumers do not understand the price of remittances before making the transaction. They simply do not know how much the transaction is going to cost. And consumers value, above all, understanding the amount of money that will be delivered to their family member upon pick-up.

In completing our work in Chicago, we decided that it was important to look at the level of disclosure necessary. And we embarked on what we call the Appleseed Fair Exchange pilot. We worked with five industry partners and considered what sort of disclosure would be appropriate in the field. Our mission was to design and test a consumer disclosure template. You will see the fruits of our work to my right, and I will explain the template for you in just a moment.

Our pilot provides compelling evidence that disclosure makes good business sense: 78 percent of those who checked the remittance found it helpful; and 84 percent want to see the remittance disclosure in all business locations. Based on consumer behavior, we believe that this sort of positive consumer reaction will only increase.

We can look at the marketplace and see the implementation of food pricing scanners and nutrition labeling, and we believe that consumer behavior is such that once remittance customers become accustomed to this form of disclosure, the uptake will be even greater.

Businesses also found the disclosures to be a good business move. Businesses reported to us that costs are manageable, that disclosures build trust among their clientele, and that they, in fact, save time at the front counter by reducing consumer questions.

Let me now turn your attention to our proposed disclosure template. This is the template that we tested in the field, and it contains, Mr. Chairman and committee members, elements that we consider to be base-level and essential elements.

The elements include a fee for sending, the current exchange rate, the day and the time available for pick-up of the remittance—

this is very important to customers who are traveling to pick up their remittances—the type of transaction, whether it is bank account to bank account, or whether it involves cash or cards, and then what sort of pick-up fee our consumers might expect on the back end.

There is another element to our disclosure template that we believe is terribly important, and that is a sample of remittance cost, so that consumers can see the effect of seemingly small differences in fees and exchange rates, and what that means for the ultimate amount that could be picked up upon delivery.

We think that this technique will address some of Dr. Orozco's concerns, in that this would be suitable for downloading, and could be delivered to providers, such that they could insert their own financial and costing information and make the information readily available to their customer base.

In addition to this template, we have five recommendations that are corollary to use of the document:

We believe that disclosure should occur visually before the transaction.

We believe that there should be a mechanism for error resolution in those cases when a transaction goes awry.

We believe that foreign language disclosures are important, and that the three markets to which a provider sends most of the business should be covered with foreign language translation.

And we recognize, as the chairman did in his opening remarks, that there are emerging technologies. We see more use of cell phones, Internet transfers, and prepaid cards as mechanisms used by this population. And so we recommend that those sorts of consumer disclosures that we're talking about today extend to these new emerging technologies and techniques.

Appleseed recommends that Federal regulators be granted rule-making authority to delineate posting requirements. We, too, recognize the varying and inconsistent standards among States, and we believe that developing disclosures under regulators' direction should be done in concert with community organizations, industry, and other regulatory agencies.

We recommend that this regulator consider consumer protections in emerging technologies, study these for a year, and then report back to the public, and that the regulator also take in hand the importance of financial literacy, as Congressman Hinojosa referenced.

We believe that the consumer base does not understand—

Chairman GUTIERREZ. The time of the lady has expired.

Ms. LOVOI. —in all cases, the difference between very, very small changes in fees and exchange rates. And understanding the impact that this can have on the money delivered at the back end is very, very important.

Mr. Chairman, members, thank you again for the opportunity to testify this morning. Appleseed stands ready to assist you in taking our base-level suggestions to the next level, and the 12 centers that we have in the United States and Mexico want to bring their knowledge to the table to help you in any way we can. Thank you very much.

[The prepared statement of Ms. LoVoi can be found on page 43 of the appendix.]

Chairman GUTIERREZ. Thank you.
Next, we have Mr. Mark Thompson, please, for 5 minutes.

**STATEMENT OF MARK A. THOMPSON, ASSOCIATE GENERAL
COUNSEL, THE WESTERN UNION COMPANY**

Mr. THOMPSON. Thank you, Mr. Chairman. Good morning. My name is Mark Thompson, and I am an associate general counsel of The Western Union Company. I appreciate the opportunity to provide testimony at today's hearing.

Western Union is a leader in the global remittance market, and is the leading non-bank money transfer provider. With over 365,000 agent locations worldwide, Western Union provides a convenient, fast, and reliable way to transfer money in over 200 countries and territories. Western Union enables millions of immigrants to send money back home to their families.

Competition in the remittance market has increased steadily over the last decade. And, as a result, cost of remittances has dropped significantly. As Dr. Orozco reported in his May 2006 paper for the Inter-American Dialogue, the cost of remittances has dropped dramatically from above 10 percent of the remittance amount to lower than 5 percent.

The current global recession has resulted in a decrease in the amount of remittances. That decline in the amount of remittances has further stimulated competition, as participants in the market compete to survive in a shrinking market.

The topic of this hearing includes both consumer disclosures and regulation of remittances. The committee staff has shared draft legislation regarding disclosure, and I will share our thoughts on the proposed language. But first I would like to share our thoughts on regulation of money transmitters in this new economic environment.

Money transmitters like Western Union are currently licensed by the State. We are subject to Federal laws, such as the Bank Secrecy Act, the USA Patriot Act, and other relevant statutes, but our licensing and regulatory oversight, such as examinations, are done by the States. In most instances, that regulation is performed by a State's banking department, in a similar fashion to its regulation of State banks.

Given the growth of the remittance industry over the last decade, the increased importance of remittances to the global economy, and the increasing number of Federal issues related to remittances, such as anti-terrorism, anti-money laundering, and border security, we believe the time has come for Congress to establish a Federal license and a Federal regulator for money transmitters. This would grant the Federal Government greater oversight over the industry and its related issues, and would provide the industry with more consistent guidance and regulation than it currently receives.

Turning to the issue of consumer disclosures, Western Union continues to support transparency with respect to fees and foreign exchange rates. We agree that consumers should have adequate information to make an informed decision, as they choose among providers. And we agree that remittance transfer providers should disclose this information to potential customers. Several States, including California, Texas, Washington, Alaska, and Hawaii man-

date specific disclosures prior to consummating a transaction. Western Union would support similar disclosure requirements under a Federal regulatory regime.

We do have concerns about some of the specific disclosure requirements in the draft legislation, which are set forth in my written testimony. I would like to note that the current draft does address some of the issues we have raised in the past, and we appreciate the committee's efforts to balance the competing interest related to these issues.

Thank you again for the opportunity to appear before you today on behalf of the Western Union Company. We look forward to working with the subcommittee, as you continue to examine this issue.

[The prepared statement of Mr. Thompson can be found on page 64 of the appendix.]

Chairman GUTIERREZ. Thank you very much, Mr. Thompson.

And now, Mr. Scott McClain from Winne—I'm sorry? I want to get the name into the record: Winne, Banta, Hetherington, Basralian & Kahn. Okay.

STATEMENT OF SCOTT K. McCLAIN, DEPUTY GENERAL COUNSEL, FINANCIAL SERVICE CENTERS OF AMERICA (FISCA)

Mr. McCLAIN. Thank you very much, Mr. Chairman. Chairman Gutierrez, Ranking Member Hensarling, and esteemed members of the subcommittee, I am Scott McClain. I serve as deputy general counsel to Financial Service Centers of America, also known as FISCA. I am grateful for the opportunity to appear here today to discuss issues affecting the industry, including the need for appropriate regulation to ensure the continued availability of affordable remittance services.

FISCA is the trade association representing nearly 7,000 neighborhood financial service providers in the United States. Our membership is comprised of community-based financial service providers, which serve customers from all walks of life, including those with bank accounts, as well as the unbanked.

Our members, which we call financial service centers, or FSCs, provide a wide range of services, including check cashing, remittances, money order sales, and utility bill payments. The FSC industry conducts more than 350 million transactions each year, providing over \$100 billion in services to over 30 million customers.

FSCs act as agents of licensed money transmitters. We are involved in the delivery of remittances with customers at the point of sale. Although remittances are also provided by banks and other financial institutions, due to our convenient locations, extended hours, and competitive pricing, the great majority of transactions are generated at agent locations.

FISCA advocates transparency in consumer transactions. We understand that low- and moderate-income consumers need to manage tight budgets, and should not be hit with surprise fees and incomprehensible charges. In sharp contrast with credit card providers and other financial institutions, our members post fees on easy-to-understand signs, so that customers can know how much a transaction will cost before it begins.

We agree that consumers should have access to pricing and exchange rate information to help them make informed decisions on remittances. The majority of FISCA's membership act as agents for either Western Union or MoneyGram, who make transaction fees and conversion rate information—which fluctuates daily—available through—including toll free numbers and the Internet.

We applaud the subcommittee's goal in ensuring that remittances remain accessible and affordable. In ensuring access, however, it is critical that the regulatory environment also allow those who provide remittances to remain in business.

Our members are dependent on access to depository and banking service for their very survival. It is well known that over the last several years, our industry has experienced an epidemic of bank account closures. Banks that service our industry are faced with significant regulatory burdens, and are required to expend ever-greater resources in maintaining our accounts.

As a result, a growing number of banks are terminating their FSCs, or refusing new accounts, which is placing onerous requirements on the accounts they maintain. Banks refer to regulatory pressure as the primary reason driving these actions. The pool of banks that service FSCs is growing dangerously small.

Turning to the northeast regional market, in the past FISCA warned Congress that 90 percent of the New York industry was served by only 2 major banks. Two weeks ago, one of those banks, Banco Popular, announced that it, too, was terminating FSC accounts, due to regulatory concerns. Businesses in that area are now scrambling to find new banks. Other regions are affected, as well.

It seems almost absurd that the licensed regulated business that serves an important need to its community would be driven out of business because no bank could serve it. That, however, is the current situation. This trend imperils a regulated industry and its ability to deliver remittances and other basic financial services. It also threatens to drive remittances underground to unregulated, illegal channels, including cash smuggling.

It is critical to the interests of national security and consumer protection that transparency of transactions be maintained, and that our institutions have access to depository services.

FISCA supports the introduction of a legislative solution designed to relieve banks of excess regulatory burdens in serving our industry. On July 22, 2008, the Money Service Businesses Act of 2008, H.R. 4049, sponsored by Representative Carolyn Maloney, Chairman Barney Frank, Ranking Member Spencer Bachus, and Representative Judy Biggert, was passed in the House of Representatives.

While the financial crisis last fall prevented the Senate from taking up that bill, the legislation had broad bipartisan support and the support of the banking industry. It is critical that consumer protections remain in place for the millions who send money to their home countries. Ensuring affordable access to remittances, it is also critical that businesses that provide remittances have access to banking services to ensure their survival.

We ask that the members of the subcommittee support our efforts to protect remittance customers, and the businesses that serve them.

Again, we thank you for the opportunity to present these views. Thank you.

[The prepared statement of Mr. McClain can be found on page 53 of the appendix.]

Chairman GUTIERREZ. Thank you, Mr. McClain. Dr. Orozco, in your testimony, you touched on some of your concerns about a Federal licensing regime for money remitters. Can you please expand on these comments?

What specific problems do you see associated with such a system, in terms of safety and soundness and consumer protections?

Mr. OROZCO. Thank you. I think the main problem that a Federal license mechanism poses is when a small money transmitter thinks that it can operate nationwide, but it doesn't have the sufficient cash flow liquidity to do so. And on a—especially when we see today where there are lots of agents that are facing problems with their debts, they are using often remittances to pay off the debts and they delay the payment of the transaction.

The money transfer operator has to cover those costs, and if it happens on a nationwide context, they are going to suffer a lot of losses, and they are going to go into default.

So, the main problem is that there is a danger of financial default if you allow for a Federal license mechanism if there are not specific criteria on how to control the potential for financial default. And it is very likely to happen. A small money transmitter may feel that he may be able to compete nationwide, and he will try to apply contracts in different States. And when he operates, but doesn't have enough capital to back up transactions, he is going to face financial default.

So, that is, to me, the critical issue.

Chairman GUTIERREZ. Ms. LoVoi, as an alternative to displaying exchange rates in each location, Western Union suggests providing the fee and exchange rate information to consumers prior to the consummation of the transaction.

In your view, would this be an acceptable compromise? Ms. LoVoi?

Ms. LOVOI. Mr. Chairman, let me answer that question in general terms.

We find that there are times when the fee is understandable, but the exchange rate is not understandable. And as all of us who deal with financial transactions that have two moving parts understand, a change in a fee can have an effect on the ultimate amount of money transmitted, as can a change in the exchange rate.

We would like to see both disclosed in advance of a transaction, which I believe is your position. And then we would like the consumer to have some understanding of the interaction of the two.

And I would say that's a point that I would like to make clearly this morning. They can be disclosed separately, but what's missing sometimes for the consumer is an understanding of the interplay of those two items. That is why we suggested sample transactions in our disclosure format. And that would be our preference, Mr. Chairman.

Chairman GUTIERREZ. Thank you. I want to go to Mr. Thompson next.

In your testimony, you expressed concern about the provision in my draft legislation that would require remitters to display the daily exchange rates for the five highest volume countries for that location. In her testimony, Ms. LoVoi suggested each location should post the exchange rates for the top three volume countries.

Would this be preferable to Western Union, or do you just oppose the idea of displaying exchange rates?

Mr. THOMPSON. Our main concern is the practical difficulty of having an employee at each of the agent locations post a rate poster like this, or a rate sheet.

Western Union changes the rates 3 times a day, potentially, and we have 40,000 locations. So, if we have a posting requirement, what that means is somehow we have to coordinate 120,000 changes of posters every single day. That is 40 million posters every year. And we need to do it in a way that ensures that what is posted is what is given to the consumer. And, practically, we just don't think we presently have the ability to do that.

We are fine with handing a receipt to the customer prior to finishing the transaction that shows all the information on it. And you know, in addition to giving the fee and the exchange rate, it shows the total amount that the customer has to provide us in dollars, and then it shows the total amount that will be paid out in the foreign currency.

And with those elements there, we think that is an adequate way for the consumer to make their choices. And I think that, you know, the studies that have occurred on prices indicate that there is a robust competition on prices. And—

Chairman GUTIERREZ. Thank you.

Mr. THOMPSON. —this is getting to consumers.

Chairman GUTIERREZ. I agree, it is getting better. Mr. Castle, you are recognized for 5 minutes.

Mr. CASTLE. Thank you, Mr. Chairman. And let me just preface my comments by saying a couple of things. One is I want to talk about what I spoke of in my opening, which is the funding of terrorism, to a degree. And, secondly, I basically have not used these different remittance methods, either to remit money or to receive money. I can barely operate an ATM machine, much less do some of this. So if I misstate the question, please straighten that out.

But let me just start with this. The U.S. State Department recently issued a report warning that terrorist financiers could use mobile payments, or M-payments, to move money electronically through a cell phone account and avoid regulation. Do you share the State Department's concerns about M-payments being abused by terror financiers?

McClain, do you—can you answer that?

Mr. McCLAIN. Thank you, Mr. Congressman. Yes, we are certainly concerned about any potential avenue of terrorist financing. Our industry is on heightened alert with respect to this area, and we make every effort to ensure that our members have access to the information that allows them to be able to spot these transactions, prevent them, and certainly report them via suspicious activity reports.

With respect to mobile payment devices, we haven't seen that product being offered at any level through our locations. So I can't

speak to that issue directly, as we have not seen it yet. As I understand, it is an emerging technology, it is something we are certainly keeping an eye on. But at this point, it does not seem to be a significant issue, again, just because the product is not out there, in terms of our specific membership location.

Mr. CASTLE. Thank you. A report by the Treasury Department warned that the increased use of stored value cards like remittance cards and gift cards could be used to anonymously smuggle cash. Is there currently adequate regulation of stored value cards to regulate the amounts that could be put on these cards and taken out of the country?

[no response]

Mr. CASTLE. Anybody? Mr. Thompson?

Mr. THOMPSON. We have been piloting a couple of programs involving stored value cards. When we have rolled out those programs, we have done some pretty intensive screening with our anti-money laundering folks to make sure that the kinds of limits that we place on card balances and card loans and card transactions are ones that we feel comfortable with.

And, you know, it's regulation that we are imposing on ourselves in order to comply with what we think are the requirements of the Bank Secrecy Act.

I do support consideration of regulation of stored value providers, as part of our proposed Federal regulatory scheme over money transmitters. There are a number of States who have adopted the model act. The model act includes stored value as one of the items that is regulated at the State level. And I think it would be appropriate to look at including that in the new Federal licensing bill.

Mr. CASTLE. Any other comments on that? Dr. Orozco?

Mr. OROZCO. Yes. Any technology base, a stored value instrument, payment instrument, is actually more secure than the current mechanism or cash transfers, because it has a much more flexible space to introduce differing alternatives to increase security, especially to prevent financial crimes. You actually have more room through a software platform to introduce different mechanisms to prevent financial crimes than using cash-to-cash transfer. So, a mobile phone or a stored value card will be actually more secure.

The critical issue is that you don't start backwards from the prevailing standards that exist today on financial crime prevention. The first one is know your customer. If you can validate the customer who sends and receives, then you can introduce other failsafe mechanisms and ensure that the transfer is secure. So I actually disagree with the State Department's statement.

Mr. CASTLE. My time is almost up. Let me quickly ask another question. Saudi Arabia, obviously, has been very involved in terror financing, at least allegedly so.

Does Saudi Arabia, to your knowledge, have in place adequate safeguards to prevent remittances from being used to finance terrorism, or is this beyond the knowledge of any of you?

Mr. OROZCO. Not Saudi Arabia. I know of companies—what are called third countries companies—that basically have implemented stored value cards that do not require identification. They are the perfect instrument for money laundering and financial crimes, ter-

rorism, you name it. And if it arrives into the United States, you can, within 10 seconds, be able to perform any financial transaction, and immediately cause any damage.

But I don't think the issue is in the country itself, but where the company is trying to operate this type of instrument. And it is not identified by the regulators in a given place.

Chairman GUTIERREZ. Your time has expired.

Mr. CASTLE. Thank you.

Chairman GUTIERREZ. Mr. Moore, you are recognized for 5 minutes.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman. Ms. LoVoi, I appreciate your testimony on the importance of consumer disclosure. Something I do worry about, though, is when we discuss the need for greater disclosures, that we might be going too far and create so many disclosure requirements that we actually end up confusing consumers.

So, I wanted to ask you and any other witnesses who might have a comment on that, do you have suggestions as to how we can make sure the consumer is fully aware of the—what the fees and exchange rates are, but will not serve to confuse them? And that is—I know you have addressed some of that, but I hope you understand—I practiced law for 28 years before I came here, and I don't read the disclosure agreements I get from my credit card, you know, because they're so long.

And I am just wondering if we can simplify that in some way, to make sure that people have the information they need without this horribly long disclosure form.

Ms. LOVOI. Well, let me assure you, Congressman, I understand your perspective. We are looking for simplicity and plain language in all financial disclosures. And I am willing to make that general statement about the moment in which we find ourselves. I think that fair and understandable disclosure is important.

Let me speak specifically to remittance disclosure. What we found in the four major bodies of research that Appleaseed has conducted is that remittance disclosure is an outlier, and that when compared to other commonly used forms of financial transactions, less information was being provided about these transactions than many other transactions used by similar customers.

And so, we find ourselves needing to gain ground here, and needing to come up to par, you might say. We are not looking for anything that is cumbersome, which is why we recommended that the new regulator work with the parties involved: the communities; industry; and other regulatory agencies with a great deal of knowledge in this arena. We are looking for something that is workable, something that is practical, and, most important, something that occurs pre-transaction.

We have tried to help you by laying out what we consider to be the essential elements.

Mr. MOORE OF KANSAS. Right.

Ms. LOVOI. And the elements that we have laid out are not what I would call esoteric, or terribly complicated. We understand the points being raised about numbers of outlets and these sorts of things. And both Dr. Orozco and we have considered how technology can be used to make this easier.

We are at a moment in time when use of technology can simplify these disclosures, whether it's the sort of switchboard that Dr. Orozco has recommended, or the sort of downloadable technology that we recommended in our testimony this morning.

We believe the answer is there, and we believe that, with a new regulator as the focal point, we can produce something that is what I might call elegantly simple, something that is useful, straightforward, and helpful to both businesses and consumers. And thank you for your questions.

Mr. MOORE OF KANSAS. Thank you. Do any other witnesses have comments? Mr. Thompson?

Mr. THOMPSON. At Western Union, we try to provide the consumer with a number of ways to get the information. We continually update our Web site. And on that Web site are calculators that will show how much it costs to send to a particular location at a certain amount, and what the exchange rate would be.

We also provide a 24-hour 800 number that consumers can call to obtain that same type of information. And then, at the agent locations themselves, the agent has the capability to look up any fee or rate for the consumer, as they are inquiring about the transaction.

So—and then, as I said before, we do provide this written statement prior to the consummation of the transaction to each consumer who is doing a transaction with us.

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman. I see my time is up, so I yield back. Thank you.

Chairman GUTIERREZ. The gentleman yields back. Mr. Paulsen, you are recognized for 5 minutes.

Mr. PAULSEN. Thank you, Mr. Chairman. Mr. Thompson, I heard in the past that the OCC has been pressuring small and regional banks to basically act as a de facto regulator regarding anti-money laundering regulations for small money service outlets and small local stores. Is this still an issue that we need to be concerned about, or aware about, or watching for?

Mr. THOMPSON. Yes, it is still an issue. I think Mr. McClain has focused quite a bit of attention on that. But we have found that it's still very much an issue. I think the last number that I received from our financial folks showed that we were providing approximately 4,000 local bank accounts to our agents, who were unable to obtain their own accounts in their own local regions to use in the conduct of our business. So, it is—yes, it is still very much a problem.

Mr. PAULSEN. Mr. McClain, do you have any comments on that?

Mr. MCCLAIN. Just briefly. Thank you, Congressman Paulsen.

It does continue to be a problem. And it—there has been an atmosphere created over the last several years. And I don't want to pin it on any particular one bank regulatory agency, but it is a pervasive atmosphere that somehow these accounts are high risk. And I think, if you look at the statistics and the numbers and the frequency of regulatory actions against MSBs, you will actually find them very low. So we don't think that high-risk moniker is justified.

As I had pointed out earlier in my testimony, it continues to be a significant, and a serious, and, unfortunately, as a result, I think,

of some of the recent focus on banks, a growing problem. Thank you.

Mr. PAULSEN. Okay, Mr. Chairman, I yield back.

Chairman GUTIERREZ. The gentleman yields back. Mr. Hinojosa is recognized for 5 minutes.

Mr. HINOJOSA. Thank you, Mr. Chairman. I am very interested in posing a question to Mr. Mark Thompson.

You spoke about Western Union having to post 3 times a day the exchange rate. And what I have found, in talking to people who are in the remittance business, and those individuals who send money to their families, is that oftentimes they feel—the senders of the money to the families—that they are being gouged by some of the companies that they have used.

So, I would ask you this question. As a businessman, I went to the bank to borrow money. And oftentimes, I could borrow it at Wall Street-printed prime rate plus one percent. You negotiate that. It could be 2 percent, it could be at New York prime less one. The point is this. They make money lending us money in business. And you make money, as being number one in the remittance business.

Why couldn't you set the rate printed the previous day, appearing in today's Wall Street Journal, and let that be fixed? That is the exchange rate that is going to be applied on money being sent to a family abroad. Could you live with that?

Mr. THOMPSON. In our industry, the traditional transaction consists of two different components. One is the actual transfer of the money, and the other one is conducting a currency exchange.

Now, not all transactions that we do involve that second component. But when we're dealing with international transactions, most of them do. And as a profit-making business, we do earn money on both components, and we think it is fair—

Mr. HINOJOSA. Excuse me for interrupting you, because my time is going to run out.

Fees and lowest exchange rate are the two things that have been discussed here, and, of course, disclosure. So I want to ask Dr. Orozco, being that you seem to be very knowledgeable of the different nationalities and folks sending money to their families, do you think that Congress setting that as the exchange rate of the previous day that appears in—will be printed in today's—it closes yesterday, and is printed in today's Wall Street exchange rate.

Could they live with that exchange rate fixed for the whole day, business day?

Mr. OROZCO. It's a question that I can answer, depending on the company we talk about.

Mr. HINOJOSA. No. Congress would set it. We would say, "This is the way that it is going to be done."

Mr. OROZCO. I think many companies will struggle with that.

Mr. HINOJOSA. Companies would struggle.

Mr. OROZCO. Yes, because the exchange rate may be favorable one day but not the other for the company. So, at the end of the month, for example, they may have an actual loss of money from the buying of foreign currency. Because, basically, that's how they make their money. They are constantly buying foreign currency on a daily basis.

Mr. HINOJOSA. Ms. LoVoi?

Ms. LOVOI. Yes.

Mr. HINOJOSA. How do you feel about having a fixed rate?

Ms. LOVOI. We haven't studied your particular proposal, and I would want to study it. As I mentioned in my testimony, our approach has been disclosure just immediately prior to the transaction. And what you're presenting, Congressman, would be a disclosure that would be, you might say, a 24-hour window, such that the fee would be static for a certain period of time.

It's something I would like to think about. I don't have comments for you on that today, but I will think about that.

Mr. HINOJOSA. Thank you. Then the last question that I would have—and I am running out of time—is I am interested in the proposal to transmit remittances via cell phone. How could that be done?

Mr. THOMPSON. We have a couple of pilots currently running in that area. I think the most active one is in the Philippines. And what we have done there is worked with the financial regulator in the Philippines and a local mobile operator to come up with a cooperative agreement on, essentially, creating a stored value account on the mobile phone, itself.

And then, presently, the involvement of Western Union is from a location in Hawaii. We enable people to go into a Western Union agent location and send money to that mobile operator's account for the consumer. And then the holder—

Mr. HINOJOSA. Time has run out, and I just want to say that I would also be interested in seeing the success of Finland, because they have been using this system now for 10 years. And you are talking about the Philippines as a demonstration project. I would rather see actual proof of how they have worked it on the cell phone.

And with that, I yield back, Mr. Chairman.

Chairman GUTIERREZ. The gentleman yields back. Mr. Lee is recognized for 5 minutes.

Mr. LEE. Thank you, Mr. Chairman. Not to pick on Mr. Thompson, but I am trying to get a little more educated on the fee structure here. And maybe it would help shed some light if you can give me an example.

On a \$100 transaction, what would be the base fee cost? And then, from a percentage on the currency, you're saying that you make a profit, both off of the fee structure, which I understand, but what—off the currency do you make one percent, 2 percent? What is the—is there a set formula, in terms of what you make from the currency?

Mr. THOMPSON. I didn't come today prepared with those kind of numbers. I can speak generally to it.

Mr. LEE. Sure.

Mr. THOMPSON. You know, in Mexico transactions, U.S.-to-Mexico, to send up to \$300 in what we call our Money in Minutes service, which is available almost immediately, I think the current transfer fee is \$15, \$14.99 probably.

And then I think what you're after is kind of the margin that we build into on—

Mr. LEE. On the currency.

Mr. THOMPSON. —the foreign exchange rate.

Mr. LEE. Correct.

Mr. THOMPSON. And I am not sure exactly what today's margin is, but I think it's around one percent. So that would be, on a \$300 transaction, \$3.

Mr. LEE. That is—

Mr. THOMPSON. That would be the margin on that.

Mr. LEE. That is typically one percent of what that—whatever the—

Mr. THOMPSON. I think the margins, you know, a decade ago, were much, much larger. And competition has really pushed those margins to a much smaller range. And Dr. Orozco maybe has better numbers than I do, but it is—I think that, you know, below 2 percent is probably where most people are today.

Mr. LEE. I mean, from a clarity standpoint, when you are—as a consumer, you are now having to weigh two different numbers, not only the fee structure, but then you're also going to have to calculate what the—depending on how many dollars and what that margin rate is.

It seems if you are—I'm assuming the majority of the people who are involved in these transactions are probably working class, they may not be as educated on some of these issues.

Do any of these firms just do a flat fee, and they do not also take a cut on the currency? Is there anybody who does that in the industry?

Mr. THOMPSON. I think that the common practice is to have both. And I mean, from the standpoint of a consumer comparing, the easiest way to do it is to—if the consumer says, "I want to send \$300, how much is my relative in Mexico going to get in Mexican pesos," and just compare those numbers. And we tell them that.

Mr. LEE. I understand. But wouldn't the simplest form just be to have a flat rate, regardless of whatever the actual currency rate is at that time that is transferred, but regardless, you just have a flat fee based on the number—if it's \$100, it's \$15 or \$20, and if it's \$200—you have some—I'm just trying to understand.

Is there a simpler way to enact a fee, versus doing these two—where you're charging off of two different venues?

Mr. THOMPSON. Well, I mean, one of the problems with having everybody have the same exchange rate is that not all companies can acquire the currency at the same exchange rate.

So Western Union, being one of the largest, is probably the most likely to be able to meet, like, a Wall Street rate. But the little company that may only have five locations, they may not be able to acquire currency at that rate. And is the expectation that they then lose money on the currency conversion? I don't think they want to do that.

Mr. LEE. Just one other question. Again, just trying to understand.

In terms of the margin, is there any limit, in terms of what margin you can charge off—on the currency? Can you charge 3 percent? Four percent? Five percent? Six percent?

Mr. THOMPSON. None of the regulators that we have today have capped prices or spreads. And we certainly hope that we don't get

to that point. I think competition has addressed the issue adequately.

Mr. LEE. Good. Thank you. I yield back.

Chairman GUTIERREZ. Thank you. And I think that's an area that we want to make sure, as we look—both Mr. Hinojosa and yourself are looking at what the exchange rate—but it used to be sometimes 2 or 3 times higher. They would make 2 or 3 times more money on the exchange rate than they did on the actual fee.

So, when a company said, "Send money for free," and you said, "What? They're not going to charge me \$14.99? It's for free?" It wasn't free, because it was actually—and that's the way we really got involved in this, because somebody, a husband, called his wife and said, "I need this amount of money." He was in the country, and he had seen the exchange rate at the hotel. So he called his wife and said, "What's wrong? Don't you have the money? I told you to send me this amount of money." And she said, "I did."

Well, it got gobbled up in the exchange rate. It wasn't that the husband and the wife had a problem communicating, it was a whole other system. And, anyway, long story short, we have improved since then, but we have much further to go.

Mr. Sherman, you are recognized for 5 minutes.

Mr. SHERMAN. Thank you. Before I focus on consumer protection, let me focus on something that will be useful to policy makers, and that is statistics on how much money is being sent where.

I wonder whether Mr. Orozco or anyone else can comment on whether we are getting all the statistics that the industry could generate, and what additional statistics we would ask them to provide, or reports.

Mr. OROZCO. Statistics is always an issue when it comes for money transfers. The main reason is that you don't know how many immigrants are in the country. So the main sources that you use to identify the flow of money comes from central banks on the receiving side. In the United States, there is still no centralized unit that actually collects information on outbound money transfers.

Mr. SHERMAN. Why don't I ask Mr. Thompson? How difficult would it be for the industry if we required statistical reports so that we would be getting this information on the sending side, and not just from the central banks?

And sometimes these remittances are even going to countries where we don't particularly get along well with the government, and we would like statistics on those transactions, too. How difficult would it be?

Mr. THOMPSON. A number of our State regulators are collecting the information on the volumes of transactions that we are doing. And then I know California, in particular, has—

Mr. SHERMAN. Are they focusing on which countries the money is going to, or just the volume of transactions?

Mr. THOMPSON. California, in the last year or so, has required us to report on, like, the top 20 or 25 countries that we are sending to.

Mr. SHERMAN. So, if you can do it for California, you could do it nationwide, and in addition to the top 20 countries, if we identified 5 or 10 countries of concern—I doubt you are sending a whole lot

of money to North Korea, but if you ever did, we would sure like to know about it.

Mr. THOMPSON. We don't do North Korean transactions.

Mr. SHERMAN. I suspected that. Now, let me focus on consumer protection.

It is my understanding, Mr. Thompson, from your testimony—and perhaps Mr. McClain can comment on this, as well—that if I show up at the window and say, “Here is my \$300, I know how many pesos my relative is going to get,” is that clearly disclosed to me before you touch my \$300?

Mr. THOMPSON. It is discussed, or it is disclosed, before the transaction is finalized. We do require payment before we provide the receipt that the disclosure is on. But the actual transaction—

Mr. SHERMAN. If I just show up at your office and say, “I am thinking of sending \$300 to my uncle, how many pesos will he get,” will you tell me?

Mr. THOMPSON. Oh, for sure. And, as I said, the agent will tell you, or you can call us and we will tell you, or you can look it up on the Internet.

Mr. SHERMAN. So I can do it before I show up at your office? Because once I show up at your office, if you're going to charge me \$4 more than anybody else, I am still going to give you the business.

So, Mr. Moore was talking about how you needed something understandable, and the one thing that is understandable is I put in \$300, this is how many pesos my relative gets.

Mr. THOMPSON. No, we will tell you ahead of time.

Mr. SHERMAN. And the other thing that is understandable is I can see you charge \$14.95 for up to \$300. What is less understandable is the exchange rate.

And what would be the advantage or disadvantage if Congress were to let you charge your own fee, because that's something understandable, but impose a requirement that you never have an exchange rate that is more than 2 percent worse than the Wall Street rate? How would that affect you? And perhaps Mr. McClain could comment on behalf of the industry, as well.

Mr. THOMPSON. Well, we are strong believers in a free market. And we don't think, historically, price controls have worked very well.

Mr. SHERMAN. But this wouldn't be real price controls, because you could charge whatever fee you wanted. It's just the part of your price that is least understandable would be controlled, and then you would set your own price for the stuff that—for the fee that is understandable by your consumers.

Mr. THOMPSON. Yes, I mean, that would limit competition in exchange rates.

Mr. SHERMAN. Limit in the sense that if somebody wanted to charge a really high exchange rate and hope the consumer didn't know about it, they couldn't get away with it.

Mr. McClain, where would you be on regulation as to the amount of fee, but a requirement that the exchange rate be within 2 percent of what Wall Street is providing?

Mr. McCLAIN. Thank you, Congressman. Our members act as agents of Western Union, and Moneygram, and the other remitters.

We—our agents, as agents, they are simply third-party processors. They don't make anything on the spread. They charge a rather, you know, modest transaction fee—

Mr. SHERMAN. So your people don't benefit from the exchange rate piece of the profit. Would it hurt your—do you think it would hurt the industry if we regulated that?

Mr. MCCLAIN. I think we would have to defer to our money transmitter processors. But again, we just receive a nominal—or marginal, small processing fee. So that issue really doesn't affect us, individually.

Mr. SHERMAN. Do any of the other witnesses have a comment on some maximum amount that could be charge on the exchange rate?

[no response]

Mr. SHERMAN. I see no other witnesses; my time has expired. I yield back.

Mr. SCOTT. [presiding] Thank you very much. The Chair will now recognize the gentleman from Texas, Mr. Hensarling, for 5 minutes.

Mr. HENSARLING. Thank you, Mr. Chairman. First, my apology to the panel. I missed your earlier testimony. So this may be covering some other ground, as I try to split myself between a budget hearing and this hearing.

But I am a firm believer that the best consumer protection is a competitive marketplace, an educated consumer, and effective disclosure. Certainly, I think there have been at least 200 years, if not several thousand years in world history, that price controls do not work for the consumer, and ultimately leads to rationing.

But I haven't looked at this market recently. So for those—and I believe, Mr. Thompson, you were certainly pushing back on the idea of some type of price control—what would you point to as evidence that there is a robust, competitive market in remittances?

Mr. THOMPSON. Well, there are a number of studies that Dr. Orozco has done that indicate that it's an extremely competitive market, and the competition has resulted in a significant decrease in fees and more favorable exchange rates over the last decade.

Mr. HENSARLING. Well, and in fact, I recall attending several of these hearings over the years. I believe the first one I might have attended was in 2003, and I think I have seen data come across my desk showing that fees have dropped considerably—I don't know what magnitude that would be—over the course of the last 5 or 6 years.

Dr. Orozco, since Mr. Thompson mentioned your name, do you care to comment on this question?

Mr. OROZCO. Yes. The cost has dropped significantly. In 2001, it was 9 percent, and now it's about 5 percent. So it's a drop of about 50 percent in relationship to 8 years ago. It hasn't changed very much, but that's one measure of competition.

Another measure is the number of players in the market, and another measure is the interest in the investor community to put money into this industry. And in the three cases you see that there is significant dynamism.

Mr. HENSARLING. I know that Chairman Gutierrez has been quite passionate about this issue over the years, and I have heard him speak before of consumer-oriented disclosure. And again, you

may have testified about this previously, forgive me, but I just arrived.

Could you comment on what—Mr. Thompson, you in particular—what do you believe that Western Union could do, or other industry participants, to make disclosure more consumer-oriented?

Mr. THOMPSON. Well, as I mentioned in my earlier testimony, you know, there are a number of States that currently mandate disclosures. And, essentially, what you do is you provide a written disclosure to the consumer of the principal amount they have given you, what the amount of the fee will be, the total amount that they need to pay you in cash, what the exchange rate is, and then what the pay-out in the foreign currency is.

Those disclosures are required prior to consummation of the transactions. We comply with that, and we think those are adequate disclosures.

I also mentioned that the fees and the exchange rates are available from a number of sources. They—we have a Web site that has a price calculator on it, that people can look it up on. We have 24-hour toll-free telephone operators who can be called. They can provide that same information. And then the agents are able, through our system, to look up a rate, an exchange rate, for any particular transfer for any customer who makes an inquiry.

Mr. HENSARLING. Do any other panel members wish to comment upon this question of things that might be done to make disclosure more effective for the consumer? Ms. LoVoi?

Ms. LOVOI. Yes, Congressman Hensarling. Thank you very much. I bring you greetings from the great State.

Mr. HENSARLING. How wonderful.

Ms. LOVOI. I will not repeat my testimony this morning, but I would like to give you an excerpt or two.

Just a moment ago, Congressman Lee asked a question that I believe gets to the heart of our testimony, which is that the interplay between fees and exchange rates is very, very complicated. I believe it would be complicated not only for the users of the services, but for all of us in this room, and I would include myself in that category. That is what makes this pricing particularly difficult, that we are dealing with two variables, the fee and the exchange rate.

We presented today a proposed disclosure template, which is the final page in my testimony on your desk this morning. And we believe that that presents what we would consider to be baseline disclosures that ought to be made.

One of the problems in the marketplace today is that sometimes the disclosures are made verbally, and sometimes they are in writing. Sometimes they are pre-transaction, sometimes they are post-transaction. It depends upon the marketplace player, how these are delivered.

And what we are looking for is bringing what you might call rationality to the system, such that there are consistent disclosures across businesses that a consumer can learn about and can come to understand. We made the comparison this morning in our testimony to price scanners in grocery stores and to nutrition labeling. We are looking for something that is simple, elegant, consistent,

and understandable. And we believe that would be the best form of consumer literacy.

Mr. HENSARLING. Thank you. I see my time has expired.

Mr. SCOTT. Thank you. The Chair now recognizes the gentleman from California, Mr. Baca, for 5 minutes.

Mr. BACA. Thank you, Mr. Chairman. Dr. Orozco, I have a question for you. I am curious as to what your thoughts are of the practices of the institutions like Bank of America, Wells Fargo, Citibank, and their use of credit card and debt card for low-cost money transfers.

And do you know of any current problems, or can you foresee any problems that may arise with these practices, as it relates to the industry, transparency, or possible industry abuse?

Mr. OROZCO. Thank you. What we have seen is actually that the banking industry is becoming increasingly a matter of choice by migrants, because it offers them greater value added in the use of different financial services offered by the bank.

So, using a card, for example, is increasingly being adopted. It has more failsafe mechanisms for the consumers, as well as for regulation, and it allows migrants, basically, to use the card at different locations. Also, the recipient can take advantage of a card, if possible. We haven't found any problems of abuse, of misuse of the card, especially in these particular banks. In fact, there has been greater popularity among them.

Mr. BACA. Okay. And this one is for Annette LoVoi. In your testimony, you talked about the need to make the market more predictable and more secure, in order to better service the customers. You go over the results of the pilot program that you organized and engaged in, and you emphasize the increased disclosure in the market.

I am curious, though, of all the suggestions you mentioned, which do you think meets the most resistance by the industry's participant, and why? And what can be done to overcome this resistance?

Ms. LOVOI. I think that's a very, very interesting question.

I would like to refer back to a recommendation in our testimony, and that is that a new regulatory body would be in an excellent position to work with various elements of the industry and understand what legitimate concerns might be set forward, and how these concerns could be dealt with.

We think that perhaps some focus groups of industry and consumers could shed some light on this subject because, again, the industry is not a monolith. It is bifurcated in many ways. There are many different sorts of players, large and small players that work in certain corridors and players that work in all corridors. And so I think your question is interesting because it goes to the heart of what individual businesses would need to contend with.

I would hearken back to a comment that we made earlier. What matters here is the ability for the consumer to have pre-transaction information for the consumer to be able to walk away from a transaction if it's too costly, or doesn't do what the consumer wants, and then an ability to compare costs among providers.

Our template is workable. We tested it with five different market players, very, very large to very, very small. And we were ex-

tremely gratified to find that there were positive results across the network of five testers. So that may go to the heart of your question, which is could this be workable among different types of players, and we believe the answer is yes.

Mr. BACA. Okay. Thank you. Mr. Thompson, in your testimony you state while you are in favor of increased disclosure on Federal regulations, you do not favor the proposed requirement to display the daily exchange rate.

In Dr. Orozco's testimony, he offered an alternative that would alleviate the administrative headaches that you believe the proposal creates. He suggests that the institutions may want to utilize some sort of switchboard telecommunications device that would allow for real-time update exchange rates. This proposal seems like it would take away the responsibility from individual franchise managers to provide updates throughout the day.

How do you feel about this proposal, and do you think it is a viable solution or a compromise, in light of your concerns? Or, do you think it would be a waste of multiple updates that are not needed throughout the day?

Mr. THOMPSON. I am not sure I am totally familiar with his proposal. But at our agent locations, the vast majority of them are hooked into our central computer system, so that the agent can do a real-time inquiry to find out what the present fees and rates are. And for those that don't have that ability, they call into our customer service center.

Mr. BACA. Okay. I am going to cut you short on here, because my time has expired, but I want to ask the final question to get that in.

What impact, if we do not allow the 12 million to 14 million immigrants right now—because we're trying to deal with comprehensive immigration—what impact would it have on the industry if they were not allowed to have remittals or transfers, the 12 million to 14 million undocumented? And that is a variety of different people. What impact would it have on the industry?

[no response]

Mr. BACA. Any one of you can answer this.

Mr. OROZCO. Well, the impact will be many-fold. The first one is that you will have increased informality. That is, money will go underground. And that will have severe implications, in terms of security.

The other one is that any decline in flows going to developing countries will have also an economic impact on these countries and, in turn, create a vicious cycle of more migration.

Ms. LOVOI. I would like to answer the question as well. When we began our work 6 years ago, we studied the markets and we found that money was going through many informal channels, as well as formal channels. We believe, Congressman, the money will continue to move. It might not move in the volume in which it is moving today, but immigrants will continue to find ways to send money home.

Mr. BACA. So we wouldn't have the accountability, the oversight that would be there to regulate that process, so it would be more or less through a black market than it would done—right?

Ms. LOVOI. That's right. And let me mention there are ancillary consumer dangers in that kind of system. There are different consumer dangers. Individuals are subject to personal threats if they are carrying large sums of cash. So I just want to point out that there would be many threats in that system, as well.

Mr. BACA. Does anybody else want to answer that? If not, I know that my time has run out.

[no response]

Mr. BACA. If not, I guess what you are all saying is that we need comprehensive immigration. Thank you.

Mr. SCOTT. Thank you, Mr. Baca. The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. And I thank the witnesses for appearing today. I would like to ask you to kindly look through the vista of time, and tell me if you envision a world wherein, in the not too distant future, we will have international transfers from computer to computer, cell phone to computer, computer to cell phone, cell phone to cell phone, literally without going into any office, without leaving your home, or wherever you happen to be.

Will we have transfers that can take place instantly by way of cell phones and computers on an international basis? Assuming that the technology currently exists—the necessary agreements and accords may not be in place, but is that a world that we will have in the immediate future, or is that world already here? Yes, sir?

Mr. OROZCO. In the immediate future, no. Unfortunately, the technology is not the challenge, it's the financial payment infrastructure that is missing in many developing countries. The technology may enable you to use a device of any sort, whether it is a mobile phone or a card. But if you don't have a location where that can be honored, that transaction can be honored through electronic financial transfers, it's not going to happen.

And in order to build that financial transferring structure, you have to focus on developing countries. If you look at Africa, for example, you have many—

Mr. GREEN. Well, excuse me for interceding. I want to follow up on this.

Mr. OROZCO. Yes.

Mr. GREEN. The technology does exist. Is that what I heard you say? So it now is a matter of infrastructure with the technology. Assuming we accomplish technological infrastructure, is the next question do we have any agreements and accords that have to be developed between nations so that this transfer can take place? Anyone? Yes, sir?

Mr. THOMPSON. When we have looked into this, the main issue that you have to deal with in the developed country is what entity is going to hold the money that is on the account that is having transfers made in and out of on the—

Mr. GREEN. Did you—if I may interrupt for just a moment, did you say in a developing country?

Mr. THOMPSON. In the developing country—

Mr. GREEN. Okay, let me intercede for just a moment.

Mr. THOMPSON. Yes, yes.

Mr. GREEN. Let's remove developing countries from the paradigm, and let's just talk about developed countries now. From one developed country to another developed country, does the paradigm currently exist?

Mr. THOMPSON. It is a regulatory regime that is so rigid in that generally you have to have a bank-to-bank transfers, that the dollar cost of the transfer isn't one that—

Mr. GREEN. Permit me to ask this question.

Mr. THOMPSON. —is currently usable for mobile phones.

Mr. GREEN. Are we moving in that direction?

Mr. THOMPSON. It is moving very slowly. People, there are a lot of people—

Mr. GREEN. Regardless as to the rate of speed—

Mr. THOMPSON. —around the world working on it.

Mr. GREEN. —are we moving in that direction?

[no response]

Mr. GREEN. I see others nodding yes. I see you are a bit reluctant. So, let me go to someone nodding yes. Mr. Orozco?

Mr. OROZCO. Well, the technology exists, and I can, for example, make a transaction right now with my cell phone to a bank in the UK. That is feasible. And we are going in that direction. The process is very slow, however, and uneven, depending on the countries that you are looking into, the corridors where the transaction is going to take—

Mr. GREEN. Well, permit me to ask this. We currently have laws that circumvent the transfer of dollars if I am moving from one country to another. I think our standard is \$10,000, is that correct, when I have to account for the money as I am taking it out of the country or bringing it into the country?

Mr. OROZCO. Yes. But for banking—for wire transfers, actually, sometimes the transaction is limited to \$1,000.

Mr. GREEN. Okay. Then my question is, will this new technology allow this to be circumvented, and do we need to regulate some regulation, so as not to permit persons who want to do dastardly things, engage in money laundering, move money for criminal activity purposes?

Are we—do we have the regulations in place to deal with this? And I will allow—I think Mr. McClain, I have noticed that you seem to want to have a response, and then others who may want to respond. Yes, sir?

Mr. MCCLAIN. Thank you, Congressman. I am not really entirely studied on the question of the mobile payment system. I am familiar with it. But as I understand it, there, you know, obviously would need to be a regulatory structure in place to ensure that the system would not create a conduit for those types of transfers.

It is my understanding that in other countries, they have addressed this. But again, this is not something I am entirely studied in. So it is an emerging technology, companies are looking at it, but I don't think we are there yet, in terms of—

Mr. GREEN. Ms. LoVoi?

Ms. LOVOI. Yes. Mr. McClain is not the only one who is not studied on the subject. I think, in general, this arena is understudied. It is coming. I think it is a debatable question how quickly it is coming, and even the panelists might disagree about that.

But I think the point is that under the regulatory framework that we seem to be agreeing to this morning, this would be a priority for a remittance regulator, to look at the emerging technologies, to understand them, and to understand the conflicts in jurisdictional laws that might govern these sorts of transactions.

And we testified this morning that these new emerging technologies ought to be held to the same standard of disclosure as that we laid out in our testimony. So that would be our number one concern, that as there are emerging technologies, that they not be a way to skirt the standards, and they not be a way to avoid consumer disclosure.

Mr. GREEN. Thank you. My time is up. Thank you, Mr. Chairman.

Mr. SCOTT. Let me have my time at the horn for a few questions before we move to Mr. Cleaver. Very briefly, let me ask, first, Dr. Orozco.

In your testimony, you brought up the idea of a remittance clearinghouse switchboard that would provide fee and exchange rate information to the consumers. What I want to ask you is what you didn't mention. Who would pay for this? Who would pay to set it up? Who would operate the clearinghouse? And where would the clearinghouse get the information?

Mr. OROZCO. Thank you. The industry will pay for it. Basically, right now, the large majority of the money transfer operators have their call centers operational. And they service the customers, they provide information about the fee and the exchange rate.

What I am proposing is that, for the benefit of the consumer, that you centralize all those call centers through a software platform that allows people to dial a number, and they can check and compare different transactions from different companies at the same time. So, the cost is very effective, because you have to basically have a couple of people just directing and redirecting the lines and controlling the flow of the traffic of the calls.

But the calls go directly to the existing money transfer company, and you can go on the spot to an agent location and call the company and say, "How much does it cost to send 'X' to this country, to this location," and they give you the amount right on the spot. And if the agent doesn't comply with that information, then there is a problem. Or, if it does, then you are confirming your transaction.

Mr. SCOTT. So, quickly, the answer to that question, who pays for it, is who, again? The remitter? Who pays for it?

Mr. OROZCO. Yes, the remitter, or the industry. I mean, whichever way you want to look at it. It is already—the infrastructure exists already there. Every company already has the 800 line where you can call. So what I am suggesting is that you get a switchboard that picks up on those lines, and then the consumer can call this number, and then it directs you and redirects you to the different existing lines that are already paid for by the companies.

Mr. SCOTT. Right. Let me ask this. Ten years ago, the average cost for sending \$200 to Latin America was \$3, which is 15 percent. What is it today?

Mr. OROZCO. To Latin America, it is 5 percent. To Africa, it is still higher, it is about 8 percent.

Mr. SCOTT. And why is that? That was my next question. The major areas are India and China, Africa, Latin America, and the Carribean. What is it about the different—is there something about the different areas, geographical areas, as to why that price differential and the cost differential is taken into consideration? What are those considerations? Why is one cost higher than the other?

Mr. OROZCO. There are at least five reasons. One is volume. A country that has a larger market is going to have economies of scales. So the prices are likely to be lower.

The second one is in formality. If you are competing with informal networks, usually the cost of remitting is higher. And informality is often informed by poor regulation in developing countries.

The third one has to do with competition. There is very limited competition, for example, in the African continent. So when there are only two competitors in the market, your costs remain high.

Mr. SCOTT. Okay. Thank you very much. As we move forward with some of the regulations that we would be offering, in terms of legislation—dealing with pricing, dealing with costs, transparency, disclosure, all of the things we have gone over—is there a legitimate argument from the industry standpoint that these costs will be overly burdensome to them?

Is there a legitimate—we have some of the industry here. Is that a concern?

Mr. THOMPSON. Our concern about a posting requirement is the practical implementation of that kind of proposal, and the—

Mr. SCOTT. Excuse me a minute. The what concern? The posting?

Mr. THOMPSON. The posting requirement in the—as I said earlier, we would have to produce and post approximately 40 million of those posters, and ensure that they are kept up-to-date at each of our 40,000 locations on a daily basis. That is a very great burden, and would be quite costly.

Mr. SCOTT. Okay. What would the estimate cost on that be?

Mr. THOMPSON. I haven't done an estimate on the cost, sir.

Mr. SCOTT. All right. My time has expired. Let me turn to my colleague from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you, Mr. Chairman. I am one of the seven individuals who became a Communist by visiting Cuba about 7 weeks ago in a United States Air Force jet with the approval of the State Department, the Speaker of the House, and the Administration.

So, I realize that the remittances is a big issue with Cuba. And, frankly, I guess it's a big issue everywhere. But one of the questions that I want to raise is—well, two questions that may be political, but they're still in the realm of what the four of you have talked about.

One, do you believe that this should be a foreign policy tool? Should this be one of the tools in our foreign policy tool box that we use? For example, Daniel Ortega, the Sandinistas elect someone or put someone in office, and then we respond to that with a hold on remittances, or we do the same thing with Kim Jong Il in North Korea. I am interested in your feelings or position, maybe, about remittances as a foreign policy tool. Anyone?

Mr. THOMPSON. Well, we have been providing remittances to Cuba for a number of years, under an OFAC license. It has been a very limited program, and some steps that the Cuban government took to restrict the use of the U.S. dollar in Cuba really caused a negative impact to our customer transaction volumes, etc.

But we have certainly favored opening up Cuba to more and more remittances for a very long time. And right now we are asking that we be able to do pay-out in the Cuban peso, for example, because the government there charges 10 percent—

Mr. CLEAVER. Right.

Mr. THOMPSON. —to convert the U.S. dollars that we pay out into Cuban pesos, and that's a problem.

And, you know, we also would like the dollar limits that have been set on remittances to be raised.

So our customers are sending money to their families. And using that as a foreign policy tool has an adverse effect on real people.

Mr. CLEAVER. Of course a positive effect might be that, in Cuba in particular, even with the high remittance fee, that it would cause people there to depend less on the government for daily survival, if their family members were able to get money to them.

Is that—the other kind of foreign policy question on this is we have the purchasing power of immigrants in the United States, around \$200 billion or so. Is that about right?

Mr. OROZCO. I think it's about \$600 billion.

Mr. CLEAVER. Six hundred? Oh, my goodness. Then that makes this even more important.

Would it be of some value to U.S. banks if they had the opportunity to enter into this largely untapped market? Because many of the immigrants are unbanked for a lot of reasons, cultural reasons and so forth. Do you think that would be a positive benefit to the banking industry in the United States? Both you and McClain, both.

Mr. OROZCO. It would be significantly beneficial. Let me put it this way. Immigrants not only are unbanked, but have a higher capacity to save than the average American population. The average amount that an immigrant has saved under conditions of normalcy—that is, no recession—is \$4,500. The average amount saved by an American, an average American, is \$200.

But the 60 percent of immigrants are not banked. So the revenue proposition for a financial institution to attract immigrants is quite profitable, more profitable than offering money transfers, for example.

Mr. CLEAVER. Mr. McClain?

Mr. MCCLAIN. Just briefly, I just want to point out that we view our industry as a stepping stone for immigrants. You know, there isn't a shortage of account availability. But all too often, people who are living paycheck-to-paycheck don't have the ability to maintain the levels of minimum deposit requirements to have banking relationships.

So, we don't think it is necessarily a question of access. We think it is a question of perhaps ability. And, again, our membership provides a stepping stone for those individuals. We provide a conduit into the legitimate and regulated financial system.

FISCA itself, for example, has created a stored value card with a deposit function, whereby an individual can cash a check and place a portion of their earnings onto a deposit stored value card with a depository account, whereby they earn interest on that account.

So, again, I don't think it's a question of necessarily access to accounts. I think it is a question of our membership providing another alternative, a more realistic alternative, I think, for many individuals who are living paycheck-to-paycheck.

Mr. CLEAVER. My time is probably running out. But, Ms. LoVoi, you were going to respond?

Ms. LOVOI. Yes. I will be brief. Appleseed has worked with banks and financial institutions over the last 6 years to help modify products and services such that they are more attractive to immigrants. And we agree with Dr. Orozco, that this is a tremendously unbanked population who could do asset building if admitted into the formal banking system. Thank you for your question.

Mr. CLEAVER. Thank you. I yield back the balance of my time.

Mrs. MALONEY. [presiding] The gentleman's time has expired, and the Chair recognizes Congressman Meeks from the great City of New York, and applauds his outstanding leadership in this committee, and for our City and State, and the Chair grants him 5 minutes. And thank you for being here.

Mr. MEEKS. Thank you, Madam Chairwoman. Let me tell my brother reverend, "You are not a Communist."

Let me ask a question of somewhat of a different sort. The world is so interconnected today, and to a large degree dependent upon credit. And we know that many of these developing countries are working to implement credit bureaus to bring greater transparency to local credit markets.

So, I was wondering if remittances data could be incorporated into these systems to strengthen the credit worthiness of local borrowers, particularly in the area of microfinancing. And, similarly, can the sender's remittances data be incorporated into domestic credit bureaus to strengthen their credit information?

You know, because today's world credit is everything, and so this is—income can—any one of you. Yes?

Ms. LOVOI. I will take that one. Thank you for your question. We are extremely interested in recognizing that the roughly average \$200 per month that might be sent from a family in this country to a family member abroad represents a form of savings and represents the sort of savings potential that Dr. Orozco mentioned a moment ago.

We are very interested in seeing this information used for credit building purposes, perhaps for the sender in this country, and perhaps for the recipient in another country. We also recognize that this money is a great source of income for other countries, and can be used to leverage economic development activities in those countries.

So, the short answer to your question is yes, yes, and yes. There is potential on all of the fronts that you mentioned.

Mr. MEEKS. Yes?

Mr. MCCLAIN. If I may just add quickly, these individuals, the customers that we serve, they are responsible, bill-paying individ-

uals. They are paying rent, they are paying credit card balances, they are paying everything else that normal people do. However, they have not yet established credit, and they are not able to reflect that on credit reports.

FISCA is looking for a partner at this point, with respect to a credit agency, whereby our members would be able to report those types of credit events and bill payments, etc. So we are actively looking for a partner, and we have been. Thus far we haven't been successful in finding a credit reporting bureau that would work with us.

Mr. MEEKS. Now, that's something that maybe we should follow up on, then, because I think that helps get individuals into a working class or middle class, and in a lot of these developing countries, that's what they need. They need to have the opportunity, especially when you deal with the areas of microfinancing.

Further, you know, when you talk about developing countries, we look at—I was wondering whether the transparency issues in remittances can be used to leverage—you know, especially internationally—development initiatives, because that is one of the big problems. You know, these countries need to be developed.

And, in particular, how can we change the dynamics so that a greater share of remittances received are used to invest in a productive capacity, as opposed to just an immediate consumption capacity, which then leaves these undeveloped countries undeveloped. The ideas begin to move, and I think that would be better for all. Is there a way that we can do that? Doctor?

Mr. OROZCO. Basically, what we have proposed is to link remittances through financial access. And one of the steps that has been done is to increase the capacity of microfinance institutions to be payers of remittances in developing countries and, in doing so, provide financial services. And it has been very successful. Once you motivate people to mobilize their resources into savings at the financial institution, there is an increased impact in their quality of life.

And so, in different countries, in Africa, in Latin America, and Asia, we have had different experiments. Now it is more than experimentation. There is a strategy, a development strategy linking remittances through microfinance and through banking access, in order to precisely increase the savings mobility into the formal financial system, which, in turn, has an effect on development.

Just to give you an illustration, a poor country, for example, like Cape Verde, where it has basically 50 percent of the population is abroad, the average amount saved by a remittance received is about \$1,000. Mobilizing those by 30,000 people in a very poor country like that will have a significant impact in increasing the opportunities to mobilize savings for investment.

Mr. MEEKS. I am just about out of time. I just want to say how important—I just came back from Colombia, and I have seen communities there where if, in fact—and a lot of remittances are coming in—but if some of those could be utilized, it could change—for development—it can change the living conditions, because many of those are horrible, especially in those areas where African Colombians are living. It could change their living conditions overnight almost, if we could move in that direction.

And I see that I am out of time. I have one more question, Madam Chairwoman. It is a quick question.

Mrs. MALONEY. The Chair yields to the gentleman as much time as he may consume.

Mr. MEEKS. I just wanted to note that in communities where formal banking has gotten involved, has that changed savings in investment behavior at all in some of these developing—you know, I don't know whether—but has it changed? Could you just give me a quick response to that? And I thank the chairwoman.

Mr. OROZCO. Yes, yes. We have cases of Mexico, Colombia, El Salvador—just the case of Bank Colombia, for example. It's a bank that introduced a strategy to bring remittance receiving into the banking system. Their conversion is about 40 percent. For every person receiving remittances, they have been able to capture the deposit of 40 percent of these people. And that is a significant impact.

Mr. MEEKS. Thank you, Madam Chairwoman. Thank you very much.

Mrs. MALONEY. Thank you. The Chair recognizes herself for 5 minutes. And I would like to ask Mr. McClain and Mr. Thompson to respond to a bill that I have put forward called the Money Services Business Act. This piece of legislation passed unanimously out of this committee last year, moved to the Floor of Congress, and, in a strong bipartisan vote, passed. My question is really in relationship to the testimony of Mr. Thompson.

In your testimony you assert that a Federal licensing and regulatory regime would help the money remitter industry deal with the BSA compliance issue. And I—after going through the aspects of the bill, I want to know, would you think that this licensing system would be in addition to the MSB legislation that I have put forward, an alternative, or should it be put together?

But I would like—the MSB—meaning the Money Servicing Business Act—really addresses a critical industry for the unbanked. It addresses a critical problem of the money services business that are called MSBs. Many of them are denied access to the banking system. Many money service businesses have experienced—and I think in a very unfair way—blanket terminations of their commercial accounts over the past several years, due in part to banks responding to unclear guidance from regulators.

Now, I tried to get clear guidance from the regulators unsuccessfully, so I put forward a bill which establishes a mechanism that would allow MSBs to self-certify their compliance with the Bank Secrecy Act, and anti-money laundering requirements, while allowing banks to make risk-based decisions about banking particular MSBs.

MSBs include check cashers, money transmitters, money order issuers, and these services have really served our Nation's communities for, literally, years. If this issue is left unaddressed, the viability of MSBs will be compromised, potentially pushing many of their transactions underground, and potentially untraceable to law enforcement, which was the whole reason for all of this oversight. But if they can't have access to the institutions, they have no other way but to go underground.

And many banks, reacting to regulatory fears, have terminated MSB accounts in a blanket fashion. I am most concerned about the steps that have been taken by Banco Popular, who was processing this business, but they have now indicated they no longer will be. It appears to be an attempt to minimize exposure to high-risk businesses by these banks.

But without a banking relationship, MSBs are unable to provide financial services to communities, making it difficult for millions of Americans to pay their bills, send money, or cash checks. And Federal regulatory agencies, recognizing the problem facing MSBs, have sought to address this issue through agency guidance and regulatory changes, but they haven't really had any success.

This legislation that I put forward addresses this problem by enabling the MSBs to self-certify their compliance with the Bank Secrecy Act, and anti-money laundering requirements. This approach is not novel. We basically built it on another project or proposal that is similar to that used for international correspondent banking. It would not relieve banks of their due diligence responsibilities with regard to their MSB customers. Rather, it would permit appropriate reliance on self-certification to relieve banks of being the de facto regulators only of MSBs, Bank Secrecy Act, and anti-money laundering compliance.

The mechanics of this self-certification will be handled by regulations set forth by the Secretary of the Treasury, and the certification will be filed with the financial institutions where the MSBs have a commercial account.

To ensure there is appropriate access to these self-certifications, it has been requested—and we implemented this in the bill—that the Secretary of the Treasury, while coming forward with these regulations, would require a duplicate copy of the self-certification to be filed with the Financial Crimes Enforcement Network, FinCEN, and the Department of Justice have access to these files.

And I am fully in support of the suggestion—in fact, we incorporated it in our legislation—and it would allow even greater transparency.

The Chair recognizes additional—as much time as she may consume.

And I do want to mention that even with the implementation of the self-certification, MSBs would continue to be responsible for complying with all other existing provisions of the Bank Secrecy Act, and will continue to be the subject of rigorous on-site examinations of the IRS. And MSBs are also State-regulated in many jurisdictions. In fact, 28 States and the District of Columbia require MSBs now to be licensed, and are regulated by State banking agencies.

So, there is a lot of regulation on them already. And both MSBs and the financial institutions banking them will still be required to fully comply with all aspects of the Bank Secrecy Act, including the filing of suspicious activity reports and the currency transaction reports. And any violation of their certification would render the same civil and criminal penalties provided for by the Bank Secrecy Act and the Anti-Money Laundering Act.

So, I feel that this is a well-crafted bill that has passed not only the subcommittee, but the full committee, passed the full House. The House voted for it in the last Congress.

And my first question, really to Mr. Thompson and Mr. McCain, is, given the fact that we have the regulation on the State level, and that 28 States have licensing, do you still believe that we should have a Federal licensing component for the BSA issue?

I would like to begin first with Mr. McClain, and then go to Mr. Thompson.

Mr. McCLAIN. Thank you, Madam Chairwoman. I want to also thank you immensely for your work on the MSB—Money Service Businesses Act. You certainly are very, very well versed on the issue, and the critical nature of the problem.

And you were right to point out that the problem has gained, at least in the northeast and in some other regions, a higher level of importance, as a result of recent termination by Banco Popular. It is immensely frustrating for me, as a practitioner, and as a representative of FISCA, to speak with many, many of our membership who are wonderful people who have legitimate regulated businesses, who are being threatened with going out of business, literally, because they cannot find a bank that will service them.

With respect to the question of a Federal regulator for the money transmitter industry, we certainly support consistency throughout. We are aware of certain problems that have arisen because of inconsistent State regulation of money transmitters, and, to a lesser degree, check cashers.

We feel, however, that to tie that provision into the MSB bill may complicate the issue. Again, we support a Federal regulator for money transmitters, but money transmitters are only one piece of the MSB pie. There are check cashers, money order remitters, there is a stored value industry.

So, I think we are very far along with the BSA issue, and the question of a Federal regulator, I think, is something that obviously needs to be addressed. We support it, but I don't think it would be advantageous to link it with this particular issue.

Mrs. MALONEY. Thank you. Mr. Thompson?

Mr. THOMPSON. We certainly thank you for your help in dealing with the bank account closure issue. And your bill is extremely helpful in that regard.

The concept of a Federal regulator, I think, goes beyond what you are trying to accomplish with that particular bill. We are presently regulated by—it's 48 States plus the District and a couple of the territories. I am told that in the last 18 months, we had 30 examinations—

Mrs. MALONEY. When you say "we," are you talking about—

Mr. THOMPSON. Western Union.

Mrs. MALONEY. So you are regulated in 48 States?

Mr. THOMPSON. Yes. And we had 30 exams over the last 18 months. And we think that, given the global importance of remittances, and the issues related to anti-terrorist activities, and anti-money laundering activities, that it's time for there to be a central consistent Federal regulatory scheme to not only regulate activities under the Bank Secrecy Act, but also regulate the safety and soundness of the industry, and also regulate consumer disclosures.

Mrs. MALONEY. Well, do you think a Federal regulator would then be of such a nature that banks such as Banco Popular would not be closing access to BSAs?

Mr. THOMPSON. We are hoping that the Federal regulator would be one of the current Federal banking agencies. So we think it would go a long way in convincing that banking agency, anyway—

Mrs. MALONEY. Oh, I see.

Mr. THOMPSON. —we are adequately regulated.

Mrs. MALONEY. So where would you put it? Would you put it in the OCC? Or where would you put this regulation?

Mr. THOMPSON. It's being debated. I think in our small industry group, we favor the Federal Reserve. But we can see benefits to having the OCC to do it, or even the OTS, as things develop.

With the Federal Reserve, the Fed is currently active in the regulation of electronic transfers. The Fed acts as a clearing vehicle for our hundreds of millions of dollars of money orders. They act as a settlement vehicle for the wire transfers that we do through the banking system to settle with our agents. They act as an ACH clearinghouse for some of our domestic activities. So they are already active in our industry.

Mrs. MALONEY. Well, there has been sort of a feeling that you want a lot of regulators involved. And, in fact, in this regulation that we are moving forward with, in the future there is a feeling of a council of regulators. I don't know if you have read about that idea that is out there, that there would be at a table a council of regulators who would look at systemic risk.

And you would favor it under one regulator, as opposed to putting it in a council of regulators, is that correct?

Mr. THOMPSON. Well, I mean, the Federal scheme, obviously, is currently in flux. What we are looking for, at least, is that the Federal—whatever Federal scheme is developed replaces this State regulatory scheme.

Mrs. MALONEY. Okay. And would you—would this licensing system be in addition to the MSB legislation that I outlined that self-certifies, or would it be in addition to it, or build on top of it, or should it be separate, or how do you feel about it?

Mr. THOMPSON. I think you're—it is important to move your bill ahead separately from the Federal licensing issue, because I think it's a problem that we currently face and don't have another solution to. And the other one, I think, will take a lot longer to solve.

Mrs. MALONEY. Okay. Well, I am pleased to report that Chairman Gutierrez and I will be sending a letter to Chairman Frank to move forward and mark-up the MSB legislation, and try to get that forward so that that banking service can continue to operate and help my constituents and others.

But I would be willing to work with you on this idea of a Federal regulator down the street at another time, and will certainly commit to writing the Federal Reserve and asking for their input on how we should move forward.

But I see this as a separate issue, and it's—it should not in any way impede the MSB fix that we have been talking about. It's not an alternative; it's an additional challenge that we have.

Mr. THOMPSON. I agree with that, and I thank you for your efforts.

Mrs. MALONEY. I think it is all very important. We really need to help the unbanked in many ways. The way we help them is by having other services there for them. And the MSBs are there, the remittances, there are many, many different services that we need to work on to keep our financial system moving forward.

I want to thank all the panelists for their testimony today. And I would like to ask unanimous consent that a letter from the National Association of Federal Credit Unions, and a statement from the Credit Union National Association regarding the issue of regulation of remittances, be entered into the record. Without objection, it is so ordered.

The Chair notes that some members may have additional questions for the witnesses, which they may wish to submit in writing. Therefore, without objection, the hearing record will remain open for 30 days for members to submit written questions to the witnesses, and to place their responses in the record.

This hearing is now adjourned.

[Whereupon, at 12:13 p.m., the hearing was adjourned.]

A P P E N D I X

June 3, 2009

Opening Statement

Representative Maxine Waters

Financial Services Committee, Subcommittee on Financial

Institutions and Consumer Credit Hearing On

***“Remittances: Regulation and Disclosure in a New Economic
Environment,”***

June 3, 2009

10:00 AM

Room 2128 Rayburn House Office Building

Thank you, Mr. Chairman. I would like to begin by thanking you for facilitating this hearing this morning. Remittance transfers involve issues that affect all of our communities, especially those with larger immigrant populations such as my district in California. For example, a 2004 study from the Inter-American Development Bank found that California accounts for one third of all remittances sent from the United States.

Remittance transfers are important for two main reasons. First, they are an important source of income for families in developing nations. Studies by the National Council of La Raza have found that approximately 73 percent of Latinos send funds to their families and friends abroad. This amount averages between \$250 and \$300 per month, and in 2008 amounted to \$69 billion being transferred from families in the U.S. to those in Latin America and the Caribbean. That money is used to cover the basic cost of supplies such as food, housing and clean water.

The second reason remittance transfers are important is that they can work to acquaint the unbanked and under-banked with financial services. As someone who represents constituents with limited access to banking services, I am fully aware of the need to provide outreach to this group about safe banking services. Recently, several commercial banks have entered the remittance arena. With their entrance, these banks have brought access to traditional savings accounts and loan products while displacing predatory lending. To the extent we can move consumers

away from predatory loan products, we succeed in improving their quality of life.

To this end, remittances can serve as a gateway to wealth building, but we must ensure they are safe and offer fair terms. One of the major issues with remittances is the fluctuation in fees, which ends up serving as a de facto hidden charge. In addition to a flat transfer fee, those sending remittances are also subject to an exchange rate fee, and a margin fee from the money transfer organization. Because exchange rates frequently fluctuate, it is almost impossible for a consumer to know the true cost of transferring funds at the point of purchase.

We must make sure that any remittance legislation includes clear industry standards on disclosure and fair terms to better protect the consumer.

Thank you, Mr. Chairman. I yield back the balance of my time.



Appleseed Testimony
Subcommittee on Financial Institutions and Consumer Credit

**Hearing Entitled "Remittances: Regulation and
 Disclosure in a New Economic Environment"**

June 3, 2009

My name is Annette LoVoi, and I serve as field director for Appleseed, a national legal advocacy organization with 16 public interest law centers across North America. On behalf of Appleseed's Board of Directors and staff, I thank the Committee for inviting our testimony. Appleseed's testimony today will address three topics: 1) the importance of disclosures to remittance consumers; 2) the level of disclosure Appleseed believes is necessary for consumers to make informed decisions in the marketplace; and 3) the feasibility of designating a federal regulator to oversee the remittance industry.

Appleseed appreciated the opportunity to work with you two years ago when we provided testimony at your invitation to the Subcommittee on Domestic and International Monetary Policy, Trade, and Technology at its May 17, 2009, hearing entitled, "Remittances: Access, Transparency, and Market Efficiency: A Progress Report."

Appleseed reaffirms our commitment to your efforts to improve transparency, efficiency, and consumer protections for remittance markets, and we are eager to work with you as you introduce an expanded version of your 2007 legislation. In our view, such industry standards are long overdue. Appleseed believes that requiring the pre-transaction disclosure of remittance cost and service information preserves one of the basic principles of the free market – full information for consumers – that will consequently lower the cost of remittances as we have been observing, encourage competition and enhance consumer confidence in financial services.

The Importance of Disclosures to Remittance Consumers

Appleseed is now in the sixth year of a project to bring Latin American immigrants into the mainstream financial system, helping them to avoid predatory and other high-cost financial services and enabling them to build credit and assets. Based on this wealth of experience with immigrant financial access and in response to the current economic environment, Appleseed is expanding its client focus to address the financial access needs of the working poor and the general low-income population.

Appleseed is motivated in our work by recognition that remittances are perhaps the preeminent tool – and sometimes the only tool - for lifting families out of poverty. Many remittance recipients live on the knife's edge, facing economic and attendant personal devastation if monies are not received on time, in an accessible manner, in the full amount promised by a relative working far away. The families we contacted in Chicago say that the most common reason for sending remittances is to cover daily family expenses; other purposes include medical expenses and emergencies. A mother receiving remittances needs money for food, milk and medicines – cost items that cannot wait. Consumer confidence is undermined by unexpected and unexplained pick-up and other fees, incomprehensible exchange rate calculations, and unknown final delivery amounts.

Remittances are both a form of human aid and wealth transmission. International consumer remittances, money sent by family members working abroad to relatives in the developing world, reached an estimated \$283 billion in 2008.¹ Remittances have surpassed foreign aid to many countries.² Despite recent reports of volume decreases in certain remittance corridors due to economic and political issues, remittances continue to be a major global economic development force.

But the markets do not consistently work to provide the predictability – on time, accessible, full amount received – that senders and receivers alike find desirable.

As highlighted in an Appleseed study of the U.S.-Mexico remittance market, *Creating a Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market* (2005), remittance transactions do not meet the same pre-transaction disclosure standards as many other financial transactions. Three key challenges in comparing available remittance products are: inconsistent foreign exchange rates that make it cumbersome for consumers to compare prices and find the best deal; inconsistent access to pricing information prior to initiating a transaction, with some service providers refusing to provide cost and exchange rate information over the telephone; and differing disclosure requirements from state to state.

This market is dynamic and has continued to evolve since our 2005 study, as colleagues on the panel have documented; research has indicated that competition has improved pricing in this market. We have also seen an expansion of remittance options to include

¹ Dilip Ratha, Sanket Mohapatra, Zhimei Xu. "Outlook for Remittance Flows 2008-2010: Growth Expected to Moderate Significantly, but Flows to Remain Resilient." Development Prospects Group. Migration and Remittances Team, Nov. 11, 2008.

² *Sending Money Home: Worldwide Remittance Flows to Developing and Transition Countries*. IFAD, 2007. p.6.

card based, online, and mobile banking services. But it is important to note that the success of competition does not negate the importance of universal disclosures; in fact the many and diverse options make it that much more important to provide consumers with consistent and comparable options.

To better understand effective and meaningful disclosures in the remittance context, Appleseed launched the Fair Exchange Project, with the support of industry, community, policy and regulatory partners in April 2006. Its mission was to design and test a disclosure template that was compatible with the market environment. One premise of the Appleseed initiative was that offering clear pre-transaction disclosures for remittance transactions could increase the market share for financial institutions committed to providing full, up front disclosure to consumers—benefiting both consumers and the bottom-line.

Our research, as detailed in our April 2007 report, *The Fair Exchange: Improving the Market for International Remittances*, shows that consumers want information about the total cost of remitting money. Consumer focus groups conducted by Appleseed found that when participants were shown various pre-transaction posted disclosures, they chose a disclosure with more information over those that offered little data. These focus groups provided valuable information for developing the Appleseed Fair Exchange disclosure template.

Through the focus groups, we strived to understand the immigrants' remittance practices and priorities and to test their reactions to the new pricing disclosure template. Participants were asked to rank a variety of factors affecting remittance transactions on a scale from most important to least important. Of the factors presented, the top three were **security, reliability, and cost**.

Notwithstanding their previous sense of comfort with the transaction information, when participants viewed the disclosure templates, they found them extremely beneficial. The discussions revealed that participant expectations of the marketplace were quite low. When presented with higher standards of disclosure, they quickly embraced them.

As one participant shared, "I would not like just one business to use this [disclosure template.] I would like all businesses to use this!" Among the other focus group findings:

- Participants in each of the focus groups stated that they would prefer to use a business that **posted a pre-transaction pricing and service disclosure** over one that did not.

- All of the participants liked the idea of a **clear, uniform, pre-transaction disclosure**.
- Participants chose **more detailed transaction information** rather than the simplest version.
- Participants focused on the **actual value of the funds received** by their family member in local currency.
- **Predictability of the transfer** is a high priority for the participants. Having an official disclosure helps them not only compare services, but also feel secure that the service they choose is providing a guarantee to meet their expectations. As one participant commented, "Inevitably tellers make mistakes regarding the information they are conveying. Having a disclosure table would prevent those human errors."
- Participants felt that confusion over remittance fees would be alleviated with **pre-transaction disclosures**.
- Better disclosures would also make the process of comparing prices **less cumbersome for consumers**. A group participant explained, "You have to go everywhere to get information...Stores don't often give information over the phone -- they say come on into the store and they'll give you the information."

Appleseed's Fair Exchange pilot report, *Remittance Transparency: Strengthening Business, Building Community - Pilot Results from the "Fair Exchange" Effort to Improve Pricing and Service Disclosures for International Remittance Transactions* (January 2008), presents the results of the pilot of its international remittance disclosure template with five industry partners. The pilot provides compelling evidence that making remittance pricing and service information more readily available to customers is a good business move and that consumers find the information useful and want to see it at multiple locations:

- 78 percent of those who checked the disclosure found it helpful.
- 84 percent wanted to see the disclosure in all store locations.

Making remittance pricing and service information more readily available to customers is not only fair and consistent with federal financial services disclosure standards, but also relevant to consumer use and demand of services. The piloting businesses saw merits in establishing disclosure standards. Costs to implement the pilot were manageable. Businesses finding the disclosure information helpful cited benefits of building trust and saving time by having fewer customer questions. The findings

provide compelling evidence that disclosures make good business sense. Offering improved pre-transaction remittance disclosures meets a consumer need, supports competition and benefits positive market players.

The Level of Disclosure Necessary for Informed Consumer Decision-Making in the Marketplace

The work of Appleseed's affiliate Chicago Appleseed Fund for Justice has demonstrated that there is a market-based incentive for businesses to adopt consistent and complete pre-transaction disclosures for international remittance transactions. As a contributing affiliate to Appleseed's report *The Fair Exchange: Improving the Market for International Remittances* (April 2007), Chicago Appleseed's focus group demonstrated the importance of remittance transactions to immigrant consumers and the multiple priorities that affect decisions to use one service over another. The disclosure templates presented to focus group participants address many of those priority issues, including information on fees, the exchange rate, date of availability, and a subset of locations for pick up of the funds. Consumers in the groups wanted the information and expressed a preference for businesses that would provide it.

Furthermore, in Appleseed's *Immigrant Use of Financial Services and Unmet Needs: A Survey of Mexican Immigrants at the Mexican Consulate in Chicago* (December 2008), gauged the financial services used and unmet financial needs of the Mexican community in the Chicago area to better determine their access to and use of financial institutions in the United States and Mexico. The survey was distributed to the Mexican community at the Mexican Consulate in Chicago last year. The survey results show that many consumers do not truly understand the pricing structure of their remittance service prior to using it. Therefore, it is important that the remittance options available to consumers have transparent pricing, not only stating the fee, but also the spread between the current exchange rate and the actual rate used for the transaction. Ideally, of course, consumers seek to know the amount that will actually be available for pick-up. Clear and transparent consumer information will foster trust between consumers and the financial services and money transfer industries.

Essential Elements of Disclosure

The Appleseed Fair Exchange pilot program designed and tested a disclosure format that could be used as a potentially workable disclosure model. The Appleseed Fair Exchange disclosure, which was developed with industry, community and regulatory input, provides an example of how transaction information could be posted (See Appendix A for Appleseed format). The disclosure fields should include at least a sample of locations where the money can be received if pricing varies by location and

the corresponding fee, exchange rate, when funds are available for pick-up, type of transaction (in other words cash to cash, cash to account, card to card, etc.), fees to receive the money (including fees charged by financial institutions or local agents), and sample transaction amounts to illustrate the amount of foreign currency to be received. The locations for pick-up are important, as pricing can vary based on the place the money is picked up. We suggest that the legislation could identify essential elements and direct the Federal Reserve Board (Board) or appropriate federal agency to promulgate disclosure templates easily downloaded and customized by providers.

Remedies Process

The work of Chicago Appleseed has demonstrated that many low-income immigrant financial services consumers lack not only understanding of remedies but lack remedies themselves in many cases, and are therefore reticent to address problems. Lack of remedies can lead to complicated escheat situations where property lost to a low-income immigrant consumer is never claimed by a remittance sender or recipient. Appleseed is alerting the Committee that there are not clearly explicated federal standards, understood both by institutions and consumers, in this arena, and state law inconsistencies and procedural hurdles further confuse the situation. When transactions go awry, consumers need recourse that is clear and understandable.

Disclosures Must be Provided Visually

Appleseed believes that whether access is via traditional wire transfer or emerging technologies discussed below, disclosures must be visual. In our work, we have identified the major ways to provide visual accessibility: 1) physical posting via signage or other of top three markets; 2) provision of an electronic portal that a customer can access at point of sale or via internet; and 3) transmission via cell phone.

Level of Disclosure

Our suggestions for the level of disclosure are:

- **Require Disclosure Prior to Transaction.** Consumer disclosures should be posted at agent or branch locations and be available to consumers prior to initiating a remittance transaction. In instances when a transaction is initiated outside of a branch location, disclosure should be provided electronically or via the technology used to initiate the transaction.

- **Include Top Three Countries to which Remittances are Sent.** In branch or agent locations we recommend requiring posting of disclosure information for the top three countries to which remittances are sent.
- **Provide for Error Resolution.** Disclosure standards should also include provisions for error resolution, such as when the designated recipient in the foreign country does not pick-up transferred funds.
- **Include Pickup Time in Disclosure.** SEC. 918. REMITTANCE TRANSFERS (a) DISCLOSURES REQUIRED FOR REMITTANCE TRANSFERS (2) (C) (i) (II) Recent versions of proposed legislation require disclosure of the expected date of delivery of funds; Appleseed recommends the addition of **time** of expected delivery of funds as we have found that the date and time are vital for consumers who face difficult transportation logistics and expense to collect their funds. Funds may not be available until late in the day or on a subsequent day, important information for recipients traveling long distances to pick up the funds.
- **Provide Foreign Language Remittance Disclosures.** The legislation should modify SEC. 918 REMITTANCE TRANSFERS (b) FOREIGN LANGUAGE DISCLOSURES to require remittance transfer agents to offer remittance disclosures in the languages of the top three countries to which remittances are sent and require the Board to develop remittance disclosure templates in foreign languages to assist providers in accommodating minority-language customers. Many successful agents already cater to dominant language customers, but customers speaking non-dominant languages can remain uninformed about fees, exchange rates and other important decision criteria.
- **Delete Optional Compliance.** The “if possible” phrase in SEC. 918. REMITTANCE TRANSFERS (a) DISCLOSURES REQUIRED FOR REMITTANCE TRANSFERS (2) (B) (ii) is a loophole that may in some cases be necessary, but in others, could excuse non-disclosure inappropriately.

As an example of genuine impossibility, we understand that the central banks of some countries may not publish exchange rates until funds arrive in that country, and thus it may not be possible to disclose to the consumer how much money will be delivered. Yet, we fear that the “if possible” phrase could be misused if providers cite it as an excuse to avoid checking the current rate or establishing rates at the beginning of the day.

Electronic Considerations

We recognize the following electronic considerations related to disclosures:

- **Provide for Electronic Disclosures.** In the case of on-line transactions that are not conducted through an agent or branch location, there should be a provision that the disclosure could be made electronically.
- **Address Emerging Technologies.** Newly-emerging technologies with increasing remittance volume have the potential to bolster remittance market competition through services that extend far beyond those available at traditional bricks and mortar financial institutions or MSBs. Your legislation should clarify that remittance transmissions originating in the U.S. or U.S. territories via cell phones, prepaid cards, the internet and other emerging technologies must meet the same disclosure and other requirements as traditional wire transfer remittances. Based on our work, regulation of these vehicles demands legislative consideration, as they are understudied and somewhat unregulated, with complex conflicts of laws and jurisdictional issues. In general, consumers lack information about how to pursue a remedy when international transactions go awry, and it is all the more complicated when transactions are conducted via the web or cell phone.
- **Direct Development of Disclosure Templates Available via Internet Download.** Consistent with our point above urging required visual disclosure, we envision a system whereby agents could download disclosure templates via the internet that are then customized by the provider.

The Feasibility of Designating a Federal Regulator to Oversee the Remittance Industry

Appleseed recommends that the Board or the appropriate federal agency be granted rule-making authority to delineate posting requirements and define the format of the posting. Appleseed has found that state regulation of consumer disclosure produces varying and inconsistent standards that confuse both the industry and consumers. Developing consumer disclosures should be a collaborative process to ensure that the final posted disclosure format addresses concerns of consumer and immigrant organizations and banking, credit union and remittance industry representatives.

- **Direct Development of Regulatory Requirements.** Add a new subsection (a) (4) to SEC. 5. EXPANSION OF FINANCIAL INSTITUTION PROVISION OF REMITTANCE TRANSFERS (a) PROVISION OF GUIDELINES TO INSTITUTIONS to direct that regulators provide clear, non-ambiguous guidance about regulatory requirements.
- **Consider Bank Secrecy Act Implications.** Some providers serving immigrants are unclear about the provisions of the Bank Secrecy Act (BSA) or anti-money-

laundering rules. The providers may interpret identification or records maintenance requirements in an overly-broad way that creates deterrents to serving immigrant markets. Lack of knowledge about how to apply the rules may have the inadvertent effect of discriminating on the basis of race or ethnicity in ways that financial institutions may not take into account. The simple provision of regulatory guidance could lead to more fluid, accessible markets and reduce the potential for discriminatory effects.

- **Study Consumer Protections and Disclosure, Particularly Among Emerging Remittance Vehicles.** Appleseed recommends adding a provision requiring the Board or the appropriate federal agency to undertake a study and report back to Congress by one year after the date of passage on how to implement consumer protections and disclosures, focusing in particular on emerging remittance vehicles.
- **Provide Consumer Disclosure Education.** We applaud the consumer information focus of SEC. 5. EXPANSION OF FINANCIAL INSTITUTION PROVISION OF REMITTANCE TRANSFERS (c) ASSISTANCE TO FINANCIAL LITERACY COMMISSION. The language should be clarified to require that the Board, U.S. Treasury Department, National Credit Union Association (NCUA), and the federal banking and financial agencies educate consumers about the disclosures and the effect of seemingly small differences of exchange rates and fees on the amounts available for pickup. Most importantly, consumer education should be required regarding the importance of exchange rates in affecting the overall cost of the transaction and the sum of money remitted to the recipient. We encourage you to broaden the legislation to authorize the Board to contract with non-governmental organizations (NGOs) working in communities around the country to conduct education about the disclosure template as part of consumer financial education initiatives.

Thank you for your time and consideration. I, and other staff at Appleseed, as well as the twelve Centers in the U.S. and Mexico working on our financial access project, stand ready to assist the Committee as you move forward in creating a competitive free market for remittances predicated on full disclosure of information.

Appendix: Sample Disclosure Template

Fair Exchange Pilot Sample Disclosure Template

COUNTRY: Mexico

SERVICE: Name of Remittance Service

TELEPHONE: 1-800-736-3669

Pick Up Location	Description					Sending \$300 with fees included		Sending \$200 with fees included		Sending \$100 with fees included	
	Cost to Send \$1-\$500	Exchange Rate (pesos)	Available for Pick Up	Type of Transaction	Fee to Receive Money	Pesos Received	Pesos Received	Pesos Received	Pesos Received	Pesos Received	
Pick Up Location 1	\$10	10.96	Same Day	Bank Account*	0	3178.40	2082.40	986.40			
Pick Up Location 2	\$9	10.90	Next Business Day	Cash	0	3171.90	2081.90	991.90			
Pick Up Location 3	\$8	10.95	One Hour	Cash	25.00 pesos	3172.40	2077.40	982.40			

* Note: A monthly fee may apply. A United States bank account is required to use this service. A monthly fee of \$5.99 includes free checks, direct deposit bill-pay and a savings account.



FINANCIAL SERVICE CENTERS OF AMERICA, INC.
A NATIONAL TRADE ASSOCIATION

Statement of

SCOTT K. McCLAIN
Deputy General Counsel

Financial Service Centers of America

Before the
U. S. House of Representatives
Committee on Financial Services
Subcommittee on Financial Institutions and Consumer Credit

Regarding
Remittances: Regulation and Disclosure
in a New Economic Environment

Washington, D.C.

June 3, 2009

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Chairman Gutierrez, Ranking Member Hensarling, and Members of the Subcommittee, my name is Scott McClain. I am a partner in the law firm of Winne, Banta, Hetherington, Basralian & Kahn, and serve as Deputy General Counsel to the Financial Service Centers of America, also known as FiSCA. On behalf of the FiSCA membership, I am grateful for the opportunity to appear today to discuss issues affecting the industry, including the need for appropriate regulations to ensure the continued availability of affordable remittance services.

FiSCA is a national trade association representing nearly 7,000 neighborhood financial service providers operating throughout the United States. Our membership is comprised of community-based financial service providers, which serve millions of customers from all walks of life, including those with bank accounts as well as the "unbanked."

Our members, which we call "Financial Service Centers" or "FSCs," provide a range of financial services and products, including check cashing, remittances, money order sales, and utility bill payment services, to name a few. FSCs make up an economically significant industry that conducts more than 350 million transactions each year, providing over \$100 billion in various products and services to over 30 million customers. A recent industry survey showed that 95% of customers rated our services as "good to excellent," and 92% rated the overall value of our services as "good to excellent."

With respect to remittances, FSCs serve as the agents of licensed money transmitters and are involved in the remittance industry at the point of sale with the customer. While remittances are available directly at banks and other financial institutions, the majority of remittance transactions are generated at neighborhood money transmitter agents due to our convenient locations, extended hours of operation and competitive pricing.

As an organization, FiSCA advocates transparency in all consumer transactions. We understand that our low and moderate-income customers need to manage tight budgets and cannot be subject to surprise fees and incomprehensible charges. In sharp contrast with other financial institutions and credit card companies, fees are listed in easy-to-understand menu-style signs posted in the lobbies of member stores. That way, consumers know exactly what each transaction will cost before the transaction begins.

We agree that consumers should be given information to make informed decisions, and that the costs of remittance services should be made available to them. We believe that our industry has a good track record in this regard. The majority of FiSCA members act as agents for either Western Union or MoneyGram, both of whom make transaction fee and conversion rate information (which fluctuates daily) available through toll-free phone numbers and via the Internet. As remittance agents, FiSCA members charge processing fees on a per-transaction basis, and have no ability to set or benefit from currency exchange rates. Generally, depending on the amount remitted

and the contractual arrangement with the money transmitter, agents receive a couple dollars on the average transaction.

We applaud the policy goal of ensuring that remittances remain available and affordable to consumers. In ensuring access to remittances, however, it is also critical that the regulatory environment allow those who provide these services to remain in business.

Check cashers, money transmitters and other "money service businesses" are dependent on access to depository and banking services for their very survival. It is well known that for the past several years, the FSC and money transmitter industry has experienced an epidemic of bank account closures resulting from undue regulatory pressure on the banks that serve the industry.

Depositories that service our industry are faced with significant regulatory burdens, and are required to expend ever greater resources in maintaining customer compliance and monitoring systems. As a result, an increasing number of banks are terminating their FSCs, refusing new accounts, or are placing onerous requirements on the accounts they maintain. Banks refer to undue regulatory pressure as the primary reason driving these actions. In short, there is a clearly diminishing pool of banks willing or able to provide services to FSCs. This trend endangers the legitimate, regulated industry and its ability to deliver remittances and other financial services.

In the past FiSCA warned Congress that only two major banks remained serving 90% of the industry in New York - the state sending the second-highest number of remittances in the U.S. Less than two weeks ago, one of those banks, Banco Popular, announced that it, too, was terminating its money service business accounts due to regulatory concerns, leaving numerous businesses scrambling to find new banks. It seems absurd that a licensed, regulated business that serves an important need to its community would be driven out of business because no bank could serve it. That, however, is the situation of many FSCs and providers of remittance services.

With the increasingly limited number of banks serving the industry, a tenuous situation exists in which another termination by any one of the few remaining banks could create chaos and directly impact access to remittances. I would also stress that the loss of bank accounts threatens to drive remittances and other customer transactions underground through unregulated channels, including cash smuggling and other means. It is critical to the interests of national security and consumer protection that transparency of transactions be maintained by ensuring that FSCs and money transmitters remain part of the regulated financial community and continue to have access to depository services.

FiSCA supports the introduction, and passage in this Congress, of a legislative solution designed to relieve banks of excessive regulatory burdens in serving our industry. On July 22, 2008, the "Money Service Business Act of 2008," H.R. 4049, sponsored by Rep. Carolyn Maloney, Chairman Barney Frank, Ranking Member

Spencer Bachus, and Rep. Judy Biggert, passed the U.S. House of Representatives by a unanimous voice vote. While the financial crisis last fall prevented the Senate from taking up the bill, the legislation, which is the result of years of efforts by FiSCA and other industry leaders, has broad bi-partisan political support as well as the support of the banking industries.

It is critical that consumer protections remain in place for the millions who send money overseas each year. Their transactions are currently afforded all the protections of their state regulations when they use a licensed FSC to send money. The only way to ensure that appropriate consumer protections remain in place is to ensure that these FSCs have the banking services needed to remain open for business. FiSCA is committed to achieving this goal. We ask that the members of this subcommittee support our efforts to protect remittance customers and the businesses that serve them.

Again, we thank you for the opportunity to present these views.

**Testimony presented before the House of Representatives Financial Services
Committee Subcommittee on Financial Institutions at the hearing titled
"Remittances: Regulation and Disclosure in a New Economic Environment"**

**Manuel Orozco, Inter-American Dialogue
June 3, 2009**

Dear members of Congress, the significance of international migrant transfers continues to pose important considerations for policy and the law in various respects. This hearing is a welcomed opportunity to focus on these issues, particularly in light of proposed legislation that seeks to address many of the areas needing policy reform. Despite the current global crisis, migrants continue to remit as much as they can, though their transfers will decline by 7% in 2009 from the previous year. Parallel to this trend is an industry for remittance payments that continues to strive to remain competitive while facing the hurdles of survival. Solutions to these challenges can be found in proposed "International Remittance Disclosure and Expansion Act of 2007". This piece is critically important as it highlights key issues such as disclosure, credit union participation, financial literacy for migrants, and financial access for families of migrants.

I will focus my remarks on three particular issues, namely, the current patterns of remitting during a recessionary period, the state of the money transfer market and industry, and the roles of disclosure and financial literacy. These issues are of grave significance, and articulating them into policy solutions will bring much relief and benefit to millions of people and thousands of businesses.

1. Current patterns in remittance transfers: declines in times of recession

As the global economic recession continues to affect people worldwide, it is no surprise that in the United States, both native and foreign born people are suffering from its consequences. Immigrants from Latin America and the Caribbean will be able to remit **US\$64 billion in 2009, down from US\$69 billion in 2008, thus suggesting a decline in the flows.**

The relevance of remittances in the development and economic policy contexts has been underscored by the large volumes of money going to Latin America and the Caribbean. This flow of money emerges in particular as a function of greater labor mobility on a global scale. Remittance flows have grown dramatically over the past ten years, as shown in the table below.

Table 1: Remittances to Latin America and the Caribbean, 2001 – 2008 (selected countries, annual data in \$ millions)

Countries	2001	2002	2003	2004	2005	2006	2007	2008	Migrants (#)	(% GDP)	Avg. remitted
Argentina	100	184	225	270	780	850	920	955	318,333	0.34	250
Belize			73	77	81	93	100	110	45,833	8.30	200
Bolivia	103	104.2	340	421.6	860	989	1050	1097	507,417	8.06	180
Brazil	2600	4600	5200	5624	5793	7373	7166	7200	750,000	2.29	800
Colombia	1756	2431	3067	3857.30	4126	4200	4521	4842	1,513,095	2.31	267
Costa Rica	80.25	134.82	306	320	400	520	582	624	186,298	2.34	279
Cuba	930	1138.5	1194	1194	1100	1000	1000	1200	583,333	2.29	200
Chile								800	333,333	0.52	220
D. Republic	1807	2111.5	2216.55	2438.20	2560	2747	3120	3148	1,204,375	7.47	218
Ecuador	1430	1575	1657	1740	1827	2893	3118	2822	682,030	5.87	345
El Salvador	1911	220	2316.3	2548	2830	3316	3695	3788	878,748	18.35	359
Guatemala	584.3	1690	2106	2680.7	2993	3610	4128	4315	919,578	12.75	391
Guyana	90	119	137	143	260	270	423	415	206,834	36.73	167
Haiti	810	931.5	978	1026	1077	1100	1650	1870	1,277,626	30.01	122
Honduras	460	770	862	1134	1763	2359	2561	2707	930,874	21.60	242
Jamaica	967.5	1229	1426	1497	1651	1770	1860	2034	1,227,754	17.95	138
Mexico	8895	10502	13266	16613	20034	23053	26075	25145	5,646,015	2.47	371
Nicaragua	660	759	787.5	809.55	901	950	960	1056	691,253	18.13	127
Panama			220	231	254	292	340	325	108,333	1.55	250
Paraguay				506	550	650	750	700	191,538	5.68	305
Peru	930	1265	1295	1360	2495	2869	2900	2960	1,469,662	2.56	168
Suriname				50	55	102.3	115	120	40,000	6.16	250
T. & Tobago	40.9	58.5	88	93	97	110	125	130	43,333	0.64	250
Uruguay			42	105	110	115	115	130	43,333	0.51	250
Venezuela	136	235	247	259	272	300	331	832	424,119	0.35	163
LAC	24290	32045	38048	44997	52868	61531	68405	69605	20,223,049	0.34	280
R. Growth		32%	19%	18%	17%	16%	11%	2%			
# Countries	19	19	22	24	24	24	24	25			

Source: Central Banks, and IADB. GDP: ECLAC, Migrants: global migration database; Remittances: survey data and ECO, 2008.

However, a remittance decline is expected to apply to most migrant nationalities in the United States resulting from the recession. Specifically, as the crisis worsens, **migrants will reduce their flows by as much as 7 percent** due to job losses, lower earnings, and slower migration (including continued deportations). This decline is far less damaging than what is expected from diminished exports, yet it is not negligible.

We find that migrants have so far relied on their savings in order to maintain a sustained rhythm in sending money to their families, as was the case in 2008. However, in 2009, **nearly one million migrants who previously remitted will not remit. Specifically, only 40 percent of those unemployed will continue to remit, and 25 percent of those employed will remit 10 percent less than in 2008.** The implications of the crisis for Latin American economies are manifold. First, **about one million households who previously received remittances will not receive money in 2009, and another four million will receive 10 percent less.** This means that, overall these households will lose a significant source of their earnings, ranging from 7 percent to 65 percent of all income. Those countries that are more remittance-dependent will be the most affected. In turn, these

countries are also typically those with greater economic challenges, such as Haiti, Honduras and El Salvador.

Although the impact of the crisis is felt predominantly among those who will not receive money this year, the effect is also severe among those receiving a smaller amount of remittances. Thus, the effect of the crisis on remittance-sending patterns is manifested among nearly all remittance recipients.

Table 2: Households affected as percent of all remittance recipient households

	Total Households	Recipient Households	Affected Households	Percent affected
Nicaragua	1,158,545	650,000	32,723	5%
Honduras	2,563,591	833,167	39,212	5%
Dom. Rep.	2,477,294	941,372	73,650	8%
Guatemala	3,800,000	1,100,000	56,925	5%
Paraguay	1,432,276	458,328	30,000	7%
Haiti	2,408,716	891,257	49,208	6%

Source: author's estimates.

We put forth a policy and program analysis that aims to mitigate the effects of the downturn on declining remittances in remittance receiving countries. Despite continued policy recommendations and initiatives on leveraging the flow of family remittances to expand financial access, these efforts have not been enough. However, policy changes can still be made to mitigate the negative effects of a decline in flows. These include motivating migrants to invest back home, increasing financial literacy among migrants and relatives, offering greater financial services to remittance senders and recipients, and taking migration patterns more seriously.

2. Trends in remittance markets: the U.S. - Latin American and Caribbean corridor

Within this context, the market for remittance intermediation between the U.S. and Latin America and Caribbean countries continues to show significant dynamism, even in times of crisis. For example, market consolidation continues to be a feature of competition. Currently, there are just over ten remittance service providers in each given corridor, which for the most part are money transfer operators. Nevertheless, compared to previous years the number of companies has declined, reflecting in part the consolidation in the industry and problems of liquidity among companies, as well as lower access to credit during the recession.¹ Some country corridors have suffered more from this decline than others, such as the U.S.- Mexico money transfer corridor. Another reason that many remittance service providers give to explain the drop in the number of companies is that many MTOs suffered from the closure of bank accounts, which affected their operations.

¹ Orozco 2006.

Table 3: Number of remittance service providers

	2001	2002	2003	2004	2005	2009
Bolivia			18	18	14	
Colombia	4	16	37	37	29	13
Cuba	2	12	10	9	5	
Dominican Republic	30	36	34	31	25	15
Ecuador		13	34	18	19	12
El Salvador	21	26	24	29	15	11
Guatemala	22	30	32	30	14	7
Haiti	5	10	18	14	7	
Honduras		16	20	20	12	11
Jamaica	7	7	8	13	6	9
Mexico	25	49	69	51	56	19
Nicaragua	13	14	16	11	6	
Peru			23	24	13	11
Venezuela			18	10	8	

Source: Orozco, Manuel. Data compiled by the author.

Another important trend is the continuing price competition in the industry for the benefit of consumers. The cost of sending money to Latin America and Caribbean countries has dropped over time, but the magnitude has slowed significantly over the past three years. These costs have remained relatively stable, partly because the current business-agent based model of remitting has reached equilibrium between operating costs and revenue needs.

Table 4: Cost of remitting US\$200 to selected Latin American and Caribbean countries

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Bolivia			10.1	6.7	5.6	6.1	4.3		
Colombia	10.1	8.7	6	5.9	5	6.8	4.4	5.2	4.4
Cuba	13	12.9	12.4	12.4	12	12.4	12.8		17
Dominican Rep.	9.4	8.4	7.2	7.1	6.4	8.2	8.4	5.9	6
Ecuador		5.7	5.1	4.4	3.9	3.8	3.8	4.2	3.7
El Salvador	6.7	6.2	5.8	5	5.2	4.8	5.2	4.3	4.5
Guatemala	7.4	7.3	7.8	6.3	5.6		6.2	5.8	5.6
Haiti	9	8.1	10.4	7.9	6.7	7.2	7.3	5.2	7
Honduras		6.9	6.9	6.2	5.8	5.8	3.6	4.84	5.7
Jamaica	9.8	10	12.7	8.8	8.2	7.1	7.8	6.4	6.7
LAC	9	8.6	8.2	7.1	6.3	6.5	6.1	5.2	5.3
LAC with out Cuba	8.6	7.8	7.7	6.4	5.6				
Mexico	8.8	9.3	7.5	6.2	6	6.2	5.7	6.6	5.6
Nicaragua	7.5	7.5	7	6.7	5.2	5.2	4.7		
Peru			6.2	6.1	4.6	4.4	3.6	3.8	4
Venezuela			7.4	6.5	5.2		8.2		

Note: cost includes fee and commission.

Federal licensing as a mechanism to promote competition

When looking at the current market, we find that while competition continues to maintain its rhythm of operation, the number of competitors has declined. The problems caused by regulations have raised questions by some businesses about the feasibility of introducing a federal licensing mechanism. This mechanism would promote greater competition among small and large companies who would face less cumbersome processes associated with license application on a state-by-state basis. Indeed a federal license would benefit small businesses. This change in turn will increase competition nationwide. To bring about greater impact, these benefits must be accompanied with strong regulatory criteria on how to operate nationwide in order to prevent financial losses. These criteria must consider measures that control and prevent cases where business may overstretch their service capacity and face payment liquidity problems. Thus, criteria about uniform methods of operation are essential, not only on compliance, but also on financial and consumer protection.

3. On disclosures for consumer protection for remittance transfers

The decline of remittances and the current market trends pose opportunities for policy change and improvements that can mitigate the negative effects of the recession and the urgency of remittance-related changes. Policy initiatives on remittances should be geared toward addressing challenges faced by migrants, recipient families, the money transfer industry and governments at large.

The proposed “International Remittance Disclosure and Expansion Act of 2007” offers an opportunity for a holistic approach to tackle the challenges faced in the remittance market, including poor financial access for migrants and their families and uneven mechanisms on consumer protection or disclosure.

The provision of disclosures to remittance senders is an effective way to inform and protect consumers while encouraging competition among remittance service providers. The importance of disclosures cannot be emphasized enough, as they bring transparency and democratic tenets to a largely unregulated industry. Remittance service providers cater to the immigrant population in the United States, a particularly vulnerable community. Specifically, uniform disclosures among remittance service providers would educate consumers and allow them to make informed decisions when comparing the options available to them. As a result, remittance service providers will have to compete for their clients with transparent marketing strategies and competitive pricing.

Along those lines, there must be correspondence between the objectives of disclosure and the use of appropriate instruments that make disclosure successful and commensurable to what is feasible. Demanding disclosure on the foreign exchange is important yet cumbersome. Presenting information on exchange rates is technically difficult if the requirement includes printed signage. Because foreign exchange rates change at any time in a given day or hour, an agent entrusted with the change will have

to constantly be attentive to the fluctuations. Another challenge is that foreign exchange also varies not only within a corridor but among the paying partners of a given remittance service provider. In some corridors where agents are in charge of a busy activity in their trade, changes in foreign exchange are not feasible because of the level of effort entailed in keeping track and the costs of regularly printing this information. For example, a midsize company may pay money transfers through four different businesses in the remittance country of destination, and the foreign exchange will vary similarly.

Thus, an alternative to the proposed legislation should be explored and offered. For example, issues of disclosure can be addressed through the implementation of low cost technology initiatives. Such an alternative may include the adoption of an interactive switchboard telecommunication platform that provides the information to the consumer on a real-time basis. Introducing a "*remittance clearinghouse and switchboard*" is a mechanism to inform consumers about the cost of sending among different competitors, using telecommunications as the mechanism. The clearinghouse would function as a telecommunication switchboard that, through one free phone call, can identify any remittance transfer provider; guarantee that the information is exhaustive, up to date, and true; and service a particular neighborhood in a particular country to offer information about the fee and the foreign exchange offered. The consumer can thus better decide, before going to one particular outlet, which service provider is the most appropriate to her or him.

The end goal of disclosure is to improve knowledge and information about options in order to contribute to the use of lower cost methods and/or businesses when sending money. Disclosure is thus important, as it constitutes a feature that ensures fair access to financial services. A recent survey conducted by the Inter-American Dialogue² shows that cost plays an important factor in a consumer's decision in choosing a remittance-sending mechanism. Although migrants do not see cost as a key issue constraining their choices, they are price sensitive and pricing disclosure will help them make more informed decisions.

We find that although the market share among MTOs is relatively stable, there is an increasing willingness among migrants to shift from current transfer methods, such as the wire transfer model, to new methods such account-to-account transfers via banks or the internet. These shifts are related to pricing. Thus, standards on price disclosure and effective financial education are two mechanisms to inform migrants about their remitting choices. In 2007, 49 percent of immigrants were satisfied with the mechanism they used to send remittances. In 2008, that percentage dropped to 23.6 percent. The amount of money paid by immigrants who were satisfied with their remittance-sending mechanism in 2008 (\$5.72) is substantially less than the amount of money paid by

² IAD. Survey of migrants 2007; Supplemental survey 2008; Survey of migrants during the crisis 2009. (<http://www.thedialogue.org/page.cfm?pageID=32&pubID=1390>).

immigrants who were unsatisfied with their remittance-sending mechanism (\$7.32). The same trend was found in 2007.

Table 5: Sending method

	2007	2008	2009
Remittance market share of money transfer operators (%)	88	87	86
Cost of remitting (\$)	9.82	7.32	10

Source: Orozco, Manuel. Survey of migrants in the United States, 2007, 2008, 2009.

Table 6: Relationship between willingness to take on a different transferring method and sending cost

	2007		2008	
	Fee paid (\$)	(%)	Fee paid (\$)	(%)
Would not change transfer method	9.00	49.0%	5.72	23.6%
Would change from current transfer method	9.82	51.0%	7.32	76.4%

Source: Orozco, Manuel. Survey of migrants in the United States, 2007, 2008, 2009.

With increased transparency brought about by uniform disclosures, immigrants will be able to choose the most cost-effective options. This will increase competition among remittance service providers and create the incentive to lower prices across the board.

Detailing complicated pricing such as foreign exchange fees, price scales, fixed prices or fixed percentages allows immigrants to understand their financial transactions before agreeing to pay the remittance service provider. Disclosures work toward a broader understanding of the costs and benefits of different remittance-sending mechanisms, which factors into the expansion of remittance literacy. Once remitters can make informed decisions about the products and mechanisms they choose, general financial literacy can follow.

In this sense, making financial literacy a priority is among my policy recommendations. Financial literacy reaches beyond an understanding of the costs and benefits of remittance products to the ability to comprehend and apply the instruments of budget, savings, credit, insurance, and remittances. These tools help individuals create wealth and become informed participants in the financial system, thus gaining financial independence.

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Testimony of

Mr. Mark Thompson

On Behalf of

The Western Union Company

To The

United States House of Representatives

Financial Services Subcommittee on Financial Institutions and Consumer Credit

Hearing on

Remittances: Regulation and Disclosure in a New Economic Environment

June 3, 2009

Mr. Chairman, Members of the Committee:

Good Morning. My name is Mark Thompson and I am an Associate General Counsel of The Western Union Company. I appreciate the opportunity to provide testimony at today's hearing.

Western Union is a leader in the global remittance market and is the leading nonbank money transfer provider. With over 365,000 agent locations worldwide, Western Union provides a convenient, fast and reliable way to transfer money in over 200 countries and territories. Western Union enables millions of immigrants to send money back home to their families.

Competition in the remittance market has increased steadily over the last decade and, as a result, cost of remittances has dropped significantly. As Dr. Manuel Orozco reported in his May 2006 paper for the Inter-American Dialogue on international remittance flows, the cost of remittances has dropped dramatically from above 10% of the remittance amount to lower than 5%. The current global recession has resulted in a decrease in the amount of remittances. That decline in the amount of remittances has further stimulated competition as participants in the market compete to survive in a shrinking market.

Federal Regulation and Licensing of Money Transmitters

The topic of this hearing includes both consumer disclosures and regulation of remittances. The committee staff has shared draft legislation regarding disclosure, and I will share our comments on the proposed language. But first, I would like to share our thoughts on regulation of money transmitters in this new economic environment.

Money transmitters like Western Union are currently licensed by the states. We are subject to federal laws such as the Bank Secrecy Act, Patriot Act and other relevant statutes, but our licensing and our day-to-day regulatory supervision oversight such as examinations are done by the states. We are regulated by 48 states, the District of Columbia and several of the United States territories. In most instances, that regulation is performed by a state's banking department in a similar fashion to its regulation of state banks.

Over the past decade, the remittance industry has grown dramatically. As a result of this growth, remittances have become a significant economic factor not only in the United States but in the global economy. The decline in remittances over the last 18 months due to the global recession has highlighted the importance of remittances to many countries' economies. Issues related to remittances, such as anti-terrorism, anti-money laundering, and border security, also have national and international implications.

Given the growth of the remittance industry over the past decade, the increased importance of remittances to the global economy, and the increasing number of federal

issues related to remittances, we believe the time has come for Congress to establish a federal license—and a federal regulator—for money transmitters.

This would grant the federal government greater oversight over the industry and its related issues, and would provide the industry with more consistent guidance and regulation than it currently receives. It would also be consistent with the current efforts related to the economic crisis to establish a more structured regulatory framework for financial entities. Furthermore, federal rather than state oversight of compliance with the Bank Secrecy Act and anti-money laundering laws will better serve the interests of the United States and the industry in the battles against terrorism, illegal drugs and illegal immigration. These are not issues that should be left for each state to address.

Consumer Disclosures

Turning to the issue of consumer disclosures, Western Union continues to support transparency with respect to fees and foreign exchange rates. We currently provide our customers with the information they need to make an informed decision when choosing remittance providers. For example, with limited exceptions, at the time of each transaction that originates in the United States, Western Union provides our customers with a written receipt that clearly states the following information: 1) the amount (stated in U.S. dollars) that the customer has presented for transfer; 2) the fee (stated in U.S. dollars) that Western Union charges for the transfer; 3) the total amount (stated in U.S. dollars) that that customer has provided to Western Union (this is the sum of the first two items); 4) the retail currency exchange rate that Western Union will apply to the transfer; 5) the amount (stated in the currency of the payout country) that Western Union will provide to the recipient of the transfer; and 6) a statement advising the consumer that Western Union generates revenue from currency conversion.

We agree that consumers should have adequate information to make an informed decision as they choose among providers, and we agree that remittance transfer providers should disclose this information to potential customers. However, we have some concerns about some of the specific disclosure requirements in the draft legislation. Before setting forth those concerns, I would like to note that the current draft does address some of the issues we have raised in the past, and we appreciate the Committee's efforts to balance the competing interests relating to these issues. We look forward to continuing to work together.

We have particular concerns about the requirement of a display of the daily exchange rate offered by the remittance transfer provider for the five countries with the highest volume of remittances over the previous two month period transferred from that particular remittance transfer provider location.

Our initial concern is that, from a practical standpoint, that requirement would be nearly impossible to administer. In the United States, Western Union has over 40,000 locations. Western Union's currency exchange rates change up to three times per day, based on the close of the major markets (New York, London, and Hong Kong). Determining the top five countries for each of those locations, providing a current exchange rate poster to each

location, updating the poster three times a day and ensuring that the manager of each location changes the poster throughout the day would be an administrative burden.

The proposed provision also assumes that a single exchange rate will be offered for transfers to a particular country. It ignores the fact that competition is often fierce in particular corridors within a country and fees and exchange rates may vary from corridor to corridor. Some providers also vary fees and exchange rates by payers to generate competition between paying agents within a country. Furthermore, different money transfer services may be provided at different fees and exchange rates to the same country. For example, Western Union provides money in minutes service and a next day delivery service from the United States to Mexico. The fees and exchange rates for those two services may vary. We are also testing services involving payment into bank accounts, payment to stored value cards and payment to mobile phones, all of which may be provided at different fees and exchange rates.

We believe that the draft's requirements of providing a display, a written disclosure prior to the consumer making a payment, a receipt at the time the consumer makes his or her payment, as well as separate notice containing information on error resolution and appropriate contact information to 48 state licensing authorities would be duplicative, potentially confusing to consumers and wasteful. A better alternative, in our view, would be to require disclosure of the fee and the exchange rate prior to the consummation of the transaction. These are factors most relevant to consumers when selecting a provider.

Our experience is that senders are extremely knowledgeable about the fees and exchange rates applicable to their transactions. They monitor the exchange rates and will shift providers if a provider charges too high a fee or offers an unfavorable exchange rate. In addition, price is not the sole factor considered by consumers--in fact, for some consumers price falls behind other factors, such as security, reliability, speed and convenience. Although we agree that consumers should have the ability to discern the costs of products as they shop, we also believe that too often remittances are viewed by policymakers as a commodity, with consumer decisions driven only by price. Our experience is that, in addition to the fees and exchange rate, our customers will often ask questions such as: "When will I be able to send money? Are you open on weekends? Will my money get there? How long will it take to get there? Can my family members pick the money up in their village or town? Will my relatives have to open a bank account to get their money?"

We also have concerns about having a regulator augment the disclosure requirements set forth in the statute. Our experience, based in part on model legislation adopted by four states, is that clearly defined disclosure requirements set forth in the statute itself provides greater clarity and direction to money transmitters and more protection to consumers.

Conclusion

Thank you for the opportunity to appear before you today on behalf of The Western Union Company. We look forward to working with the Subcommittee as you continue to examine this issue.

Mark Thompson is an Associate General Counsel for The Western Union Company. Mr. Thompson manages the legal department for the Americas region and advises the company on federal and state regulatory matters, including compliance with the Bank Secrecy Act, the USA PATRIOT Act and individual state regulatory statutes. In May 2007, Mr. Thompson testified at a hearing before the United States House of Representatives Financial Services Subcommittee on Domestic and International Monetary Policy, Trade and Technology on "Remittances: Access, Transparency, and Market Efficiency - A Progress Report." Mr. Thompson received his Juris Doctor from the University of Michigan Law School.



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STATEMENT OF THE
WORLD COUNCIL OF CREDIT UNIONS (WOCU)
AND
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
CONSUMER CREDIT

"Remittances: Regulation and Disclosures in a New Economic Environment"

June 3, 2009

**STATEMENT OF THE
WORLD COUNCIL OF CREDIT UNIONS (WOCCU)
AND
CREDIT UNION NATIONAL ASSOCIATION (CUNA)
BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND
CONSUMER CREDIT**

“Remittances: Regulation and Disclosures in a New Economic Environment”

June 3, 2009

Chairman Gutierrez and members of the Subcommittee, thank you for the opportunity to provide a written statement on the issue of remittances on behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU). CUNA is the largest credit union advocacy organization, representing over 87 percent of our nation's 7,969 federal and state chartered credit unions and their nearly 90 million members. WOCCU is the global trade association and development agency for the international credit union movement and represents over 49,000 credit unions in 96 countries.

In the last decade, the cost of international money transfers has dropped significantly due to an increased number of lower-cost market entrants, improved pricing disclosure at the point of sale, and the global dispersal of improved telecommunication technologies, among other causes.

The resulting efficiencies have had a tremendous impact internationally. Lower costs not only put more money in the hands of consumers, many of whom rank among the world's poor, they also positively contribute to real economic growth in many of the world's emerging economies. As these markets mature and grow, they represent new opportunities for U.S. business and provide support for stable political regimes.

In the United States and internationally, CUNA and WOCCU have put pressure on these remittance prices in two ways. We promote quality, low-cost money transmitter organizations to our member credit unions and have developed accessible complimentary financial products. By encouraging the remittance market to view credit unions as its financial institution of choice, our aim is to not only add value for our members but also fulfill our unique social mission.

Today we believe that exclusivity clauses and other troubling negotiation techniques employed internationally by some money transmitter firms reduces competition and greatly impedes credit unions and other micro finance institutions from providing lower-cost remittances. We believe it is appropriate for Congress to investigate this issue as most money transmitter firms are U.S.-based and because of the pervasiveness of these competition-limiting practices.

Credit Unions in Remittances Continue to Provide Quality Financial Services to the Unbanked.

In 2001 WOCCU launched its IRnet service to facilitate the sending and receiving of remittances through credit unions. We work with MoneyGram and Vigo Remittance to facilitate transactions through approximately 330 credit union locations throughout the United States and 800 rural and urban credit union locations in Mexico, El Salvador, Guatemala, Bolivia, Ecuador, Nicaragua, Peru, and Kenya as distributors of remittances. We believe that these activities and the \$2.6 billion that has been transmitted through the IRnet program since its inception makes it one of, if not the largest, remittance program of any microfinance network.

Today a significant number of U.S. credit unions also offer check-cashing services, alternative loan products, and tax preparation services for free or at reduced rates to members and the unbanked within their fields of membership. Through the Real Solutions program at the National Credit Union Foundation, credit unions nationwide are taking significant strides to continue their outreach to the unbanked in the U.S.

Internationally, WOCCU is working to improve upon existing remittance programs in order to bring added value to the rural poor and to multiply the wealth-effect potential of remittances. 62% of the receivers of remittances in Guatemala would be living on less than \$1 per day if they did not receive remittances. In Guatemala and El Salvador, for example, credit unions now offer remittance-backed home loans and remittance insurance policies to protect families in case a family member loses a job or dies while working abroad. In Mexico, credit unions offer a matched savings program to encourage remittance beneficiaries and others to build wealth through saving rather than solely consume. Finally, WOCCU continues to instruct and promote micro credit methodologies to its member credit unions internationally and is experimenting worldwide with different telecommunication technologies to better deliver remittances and other financial services to previously inaccessible rural areas around the globe.

U.S. Credit Unions in Remittances Maintain the Highest Standards for Transparency.

While U.S. credit unions have increased their services for the unbanked they also continue to meet the highest standards for transparency. As member-owned financial cooperatives, credit unions are by their nature consumer-oriented. Since beginning to offer remittances in the IRnet program, U.S. credit unions have ensured that each sender is provided a written and signed receipt disclosing the exchange rate for the transaction, the fee and instructions on the recourse process. These disclosures are in English and Spanish (as it's the principal other language of senders).

Since 2003, CUNA has had and promoted a set of best practices for wire transfers among U.S. credit unions. Credit unions remain committed to being leaders in transparency and consumer protection practices in this market and all the markets we are involved in.

Reducing the Cost of Remittances

We believe the greatest scope for improvement within the remittance market is not through additional consumer disclosures, where much has already been accomplished, but rather in the structure of the market itself. While there are many providers of remittances in some large remittance corridors such as US-Mexico and US-El Salvador, in many corridors the market is still dominated by a small number of money transmitter organizations (MTO) that enforce exclusive and competition-limiting contract arrangements.

When negotiating with credit unions, micro finance institutions, and other new market entrants, some money transmitter organizations' contracts contain one-way exclusivity requirements which limit competition amongst remittance firms and future lost earnings clauses which act as penalty clauses for early termination. Lost future earnings clauses effectively function as penalty clauses in that foreign correspondents must pay a fee to US-based MTOs in order to exit a contract. Combined with exclusivity, and non-compete clauses, this practice strongly discourages credit unions, micro finance institutions, and other foreign correspondents from choosing lower cost remittances for their members because they cannot easily exit a pre-existing exclusive arrangement to work with additional firms. Furthermore, these contracts are presented in highly technical English legalese and avoid the U.S. court system for dispute resolution where practices might be more effectively monitored and regulated.

While we support the legal presumption of arm's length negotiations, MTO contracts can require a degree of sophistication not widely found internationally even when independent legal counsel is sought. To be fully competent, the correspondent's lawyer must be highly fluent in English legalese, possess an understanding of international and U.S. law, and have knowledge of the remittances market. While multinational banks may possess this level of sophistication, credit unions and micro finance institutions that directly serve the poor frequently do not. As a result, international correspondents end up relying on money transmitter organizations themselves to understand the terms of their mutual contract. This ultimately has the impact of limiting the scope of remittance distribution networks and access to financial services by financial institutions in developing countries.

Because many of these money transmitter organizations are U.S.-based companies engaged in competition-limiting practices, we believe it is both appropriate and necessary for Congress to inquire on these issues. The specific issues to be reviewed include:

- The extent to which one-way exclusivity clauses are used by US-based MTOs in contracts with foreign correspondents? If yes, in which countries or regions?
- The extent to which lost future earnings clauses or other clauses that assign monetary damages for early termination are used by US-based MTOs with foreign correspondents? If yes, in which countries or regions?

- The extent to which pricing differences occur between countries where exclusive MTO contracts are prohibited by law and countries where they are not prohibited?

Our intention of raising these issues is not to encourage Congress to become directly involved in setting terms for contracts in the financial services industry, but rather to inquire on these items and potentially raise them with the Department of Justice as competition-limiting activities.

Conclusion

Credit unions throughout the world are leading the way in ensuring that immigrants have access to affordable remittance and financial services. We want to work with Congress to encourage competition in the market and limit these troubling negotiation techniques employed internationally by a select number of money transmitter firms. These monopolistic techniques not only prevent credit unions and other micro finance institutes from better serving their members, they also impede remittance pricing from falling further.

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



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Fred R. Becker, Jr.
President and CEO

June 2, 2009

The Honorable Luis V. Gutierrez
Chairman
Subcommittee on Financial Institutions
and Consumer Credit
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Jeb Hensarling
Ranking Member
Subcommittee on Financial Institutions
and Consumer Credit
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Gutierrez and Ranking Member Hensarling:

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, I am writing to you regarding tomorrow's Subcommittee hearing entitled "Remittances: Regulation and Disclosure in Today's New Economic Environment." NAFCU commends you for taking the initiative to examine the important issue of international money remittances.

We are pleased that a number of NAFCU member credit unions currently offer remittance services to their customers, as this is one way credit unions help combat abuses by non-traditional financial institutions that prey on our nation's immigrants and others who live and work in underserved communities. Continued examination of international money remittances is critical, since immigrants oftentimes rely on these remittances to send money to family members and others in their country of origin. Unfortunately, many money transfer companies impose poor exchange rates and charge exorbitant fees to those sending remittances.

Credit unions provide a lower-cost and better alternative to the predatory practices of non-traditional financial institutions that make international money remittances. We believe it is imperative that any legislative approach to the remittance issue not discourage credit unions from continuing to offer these services and developing payment systems that can communicate across borders. We look forward to working with the Subcommittee in this regard.

Thank you for the opportunity to share NAFCU's views on this important issue. If you have any questions, or if we can be of further assistance to you or your colleagues in the consideration of matters related to international money remittances, please do not hesitate to contact me or NAFCU's Director of Legislative Affairs Brad Thaler at (703) 522-4770.

Sincerely,

Fred R. Becker, Jr.
President and CEO

cc: Members of the Subcommittee on Financial Institutions and Consumer Credit

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