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

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

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

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

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

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

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

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

Domestic Efforts on Reducing the Cost and Banking the Unbanked

On Friday afternoons, many immigrants receive paychecks from their employers. Imagine a typical immigrant worker, earning $8.00 per hour. Every two weeks, they file into an ethnic grocery store or check casher on a Friday evening or Saturday afternoon, after work. They cash their paychecks at a cost of 1 to 3 percent of the face value, which on average equates to a $13.50 fee. Next, like 60 percent of Latino immigrants, these workers step over to the next window to send home $300 to their family members through a money transfer service. For this service, the individual is charged at least $11 (based on an average of 23 companies in the Mexican market; major wire transfer companies charge $15). Because of the general lack of trust of the providers and the large relative share of their salary being sent, individuals prefer the funds to be available to their families within hours of originating the transactions; therefore, they will often purchase a calling card to inform families the money was sent and to say a brief hello. The cost of this phone call is roughly $3 to the worker. When the family receives the money abroad in local currency, the money transmitter also takes a cut on the foreign exchange rate and the family member will receive the dollar equivalent of $294 (based on an average of 23 companies in the Mexican market, but with the major companies, the family will only receive the equivalent of $290). The total cost of this transaction for this hard-working immigrant, excluding shoe leather transaction costs, is $33.50 on average, or $41.50 with a major sender – five-to-six percent of their hard-earned pay, lost in fees. The total cost of this exact sequence of a transaction from a credit union offering the International Remittance Network (IRnet®) service is $14, or one-third of the cost of the market leader. The savings provided by IRnet can put, literally, millions of dollars back into the pockets of hard-working people, so that they can feed, clothe and house their families, both here and in their home countries.

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

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

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

Credit unions in the U.S. are trying to gain confidence of immigrants by forging new relationships with immigrant community outreach centers, disclosing the actual exchange rate at the point of sale and refunding a member's money and the fee paid if a problem occurs. These practices deliver on the promise of building trust between the provider and the user.

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

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

International Efforts on Reducing Transaction Costs and Banking the Unbanked

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

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

As a result of locally owned credit unions distributing these funds, this process is encouraging low-income individuals in developing countries to enter into the financial system and begin saving. To date, approximately 28 percent of all receivers of remittances in El Salvador are opening financial accounts for the first time in their lives and we are increasing the propensity that these funds will be used for productive purposes to spur development in these countries. We hope to see similar results in Mexico.

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

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

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

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

Barriers to Reaching Immigrants: Infrastructure, Financial Education and Regulatory

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

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

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

Philippines Remittance Market – Its time has come

Although most of these comments have focused on the large Latin American money transfer market, this represents only one segment of our country's diverse immigrant community. After Mexico, the Philippines is likely the second largest recipient of money transfers from the United States, receiving and estimated $4 billion annually from Filipino immigrants in the United States. As you know, the Philippines government has been a great ally of the United States' war on terrorism and earlier this year the Filipino and United States governments signed a memorandum of understanding to cooperate on creating a more secure and efficient money transfer mechanism.

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

Wire Transfer Guidelines for Credit Unions

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

The seven principles are as follows:

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

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

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

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

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

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

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

Conclusion

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

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

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