Hearings before the Subcommittee on Financial Institutions and Consumer Credit "Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"

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Chairman Bachus, Cong. Sanders, and members of the Subcommittee. Thank you for inviting me to testify this morning on initiatives to broaden access to the financial mainstream among traditionally underserved populations. Last fall, the Inter-American Development Bank asked the University of Massachusetts to undertake a research project on ways to improve Latin American immigrants' access to the U.S. banking system. The request was precipitated by the IDB's strong interest in finding ways to lower the cost of sending remittances to Latin America. Research previously sponsored by the IDB showed that while banks and credit unions can offer a significantly cheaper alternative to traditional wire transfer[1], most Latin American immigrants continue to use wire transfer services, not depository institutions, to send money home. This research also identified a number of factors that discouraged Latino immigrants from opening accounts, the most frequently cited being documentation requirements, but also, fears about minimum balance requirements, high fees, and a general distrust of banks.[2]

In developing our report, we conducted extensive interviews with bank and credit union officials, community advocacy groups, bank regulatory and enforcement officials, and others. We conducted field interviews in El Paso, Chicago and North Carolina, and prepared case studies of ten institutions that were actively marketing to Latino immigrants. The resulting report covered a range of issues dealing with anti-money laundering and terrorist financing requirements, as well as customer service issues, including marketing, bilingual services, product design, financial education, and physical access. This morning I will highlight the report's key findings.

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[1] See, Manuel Orozco, Worker Remittances in an International Scope (March 2003) finding that remittance costs to Latin America are higher than in other parts of the world because they are primarily sent through more expensive money transfer services. A February 11, 2003 analysis by the Greenling Institute shows Western Union charging from $22.02 to $36.70 for a $300 remittance, as compared to $14.76 to $20.20 for banks. In addition, many banks and credit unions have simply started offering dual ATM cards with accounts opened in the U.S., one of which can be sent to the beneficiary in Latin America to access funds in the U.S. account. Thus funds can be accessed for the cost of the network fee.

[2] Billions in Motion: Latino Immigrants, Remittances and Banking (Pew Hispanic Center and the MIF) Nov. 2002)

Promoting Latino Immigrant Access to Banks and Credit Unions

Previously sponsored IDB survey data show lack of documentation of legal status to be the most frequently cited reason recent Latino immigrants don't use banks to remit money. Consistent with that data, our own survey and interviews revealed widespread consensus that banks and credit unions must be able to accept foreign government issued documentation to successfully reach the "unbanked" Latino immigrant community. There was also widespread support for the approach taken in the Treasury Department's recently finalized Section 326 regulations to allow banks and credit unions to accept foreign-government issued documentation if the institution determines that such documentation provides a reasonable basis to know a customer's true identity. The approach under the Section 326 regulations has allowed depository institutions to continue their long standing practice of accepting reliable forms of foreign government documentation to open accounts and provide other services to foreign nationals. A large number of financial institutions are accepting Mexico's Matricula Consular to open accounts for Mexican immigrants.

Our research showed that mainstream financial institution's acceptance of the Matricula Consular and comparable forms of foreign government issued identification appeared to remove a major impediment to bringing unbanked Latin American immigrants into "banked" status. For instance, Wells Fargo estimated that it had opened 60,000 new accounts since it began accepting the Matricula in November 2001. The FDIC's Chicago office recently began surveying banks accepting the Matricula. Of the 8 banks they had surveyed so far, 12,978 new bank accounts had been opened, representing $50 million in deposits. The FDIC is in the process of collecting data from an additional 26 institutions.

The provision of bilingual services was the second most important access issue identified by those we interviewed. Virtually all our surveyed institutions provided bilingual account opening documents, product information, financial education, and bilingual assistance at their call centers and on their website. All also placed a high priority on hiring and training bilingual staff.

The provision of products and services for individuals with little or no credit history was also deemed important. All surveyed institutions offered secured credit products and counseling programs for customers with no or impaired credit histories. Some made small, unsecured loans based on alternative criteria, such as regular timely payment of rent, to let new customers build a credit history.

In addition, appropriate product offerings were considered crucial in establishing successful, long term banking relationships within this community. Most institutions offered low minimum balance savings accounts on an introductory basis, and used caution in introducing checking accounts with overdraft features, credit cards, or other products that could entail high fees if inappropriately used. Community groups in particular were concerned that the precipitous introduction of inappropriate products could quickly lead to high transaction costs which could in turn force these new customers to close their accounts.

Financial education was heavily utilized by all surveyed institutions, to help customers understand bank products and also, as an outreach tool. School-based programs were particularly effective at outreach, since in a high percentage of Latino families, the parents are "unbanked." School banking programs introduced Latino children to bank accounts, which they in turn, would share with their families.

Surveyed institutions also made efforts to provide services in easily accessible locations and during nontraditional hours. Given many Latino immigrants' distrust of banks, surveyed financial institutions had found that personal-interaction and being a present, visible force in Latino neighborhoods was necessary to successfully serve this community. Many institutions had also entered into partnerships with major employers of Latino immigrants, providing job-site banking services and ATMs, as well as financial education.

Finally, all surveyed institutions offered remittance services, identifying that as a top product need of their Latino immigrant customers. All also said that providing low cost remittance services was major marketing tool, a key to getting Latino immigrant customers "in the door."

Competition as a Key to Lowering Remittance Costs

A key benefit of banks and credit unions interest in marketing to the Latino community has been their entry into the remittance market, which has had a positive impact on lowering remittance costs. Last year, approximately 32 billion dollars were remitted to Latin America from the US. Total costs associated with sending these remittances were $4 billion, or 12.5%.

Though still unacceptably high, the cost of sending remittances to Latin America has come down considerably with the entry of banks and credit unions into this market. Most surveys show bank fees/exchange rates to be significantly lower than that provided by major wire transfer services. Presumably because of this competition, the major wire transfer companies have reduced fees by over 40% since 1999. The typical fee charged by major banks for remitting money to Mexico, excluding the exchange rate spread, is $10, compared to $15 for the major wire transfer services. One major bank has lowered its remittance fee to $5 for certain bank-to-bank transfers. Many community banks and credit unions simply offer dual debit card accounts whereby remittances can be accomplished for the cost of the network fees. Moreover, the Federal Reserve Board plans to extend its international automated clearinghouse (ACH) to Latin America, which should have a dramatic impact on reducing the cost of bank-to-bank transfers. The FRB begins testing transfers to Mexico in the third quarter of this year.

According to recent IDB sponsored research, the average costs for sending remittances to Latin American countries are on average 50% higher than average costs for remitting money to other major recipient countries. Remittance costs to other countries are lower because banks are predominantly used. More progress can be made in lowering remittance costs to Latin America through competition brought about by greater entry of banks and credit unions into this market. To encourage this trend, however, it is imperative that banks and credit unions have the discretion to accept reliable foreign government issued identification to open accounts.

The Section 326 Regulations and Facilitating Latino Immigrant Access to Banks

As previously mentioned, the final Section 326 regulations give financial institutions the latitude to determine for themselves what types of documentation are sufficiently reliable for a customer to open an account. Many banks and credit unions have determined Mexico's Matricula Consular to be an acceptable form of identification. Unfortunately, their acceptance of Matricula Consular, and other forms foreign government issued-ID, has become embroiled in the larger debate over immigration control policy.

Bank and federal regulatory officials interviewed for our report, while not condoning illegal immigration, expressed strong opposition to requiring banks to check and verify the immigration status of foreign account holders. The Treasury Department examined this issue in its report to Congress on Section 326. The report explained that banks could not currently verify the identity of foreign nationals by comparing the names against government databases because no such comprehensive databases exist or are available to banks. The Report concluded "Any system requiring further verification of the identity of foreign nationals by consulting with appropriate government agencies would be inappropriate given the current situation." The Treasury Report also recognized the need to balance issues associated with the use of foreign government –issued identification with the benefits of bringing "unbanked" immigrants into the financial mainstream. [3]

These benefits are many. Having a bank account provides immigrants with a safe, low-cost place to deposit their paychecks and build their savings. It eliminates the need for them to carry around and store large amounts of cash. News articles have described how criminals target unbanked immigrants for robbery as they leave check cashing outlets. Others have cited cases of immigrants losing their life savings in fires because they kept it hidden in their homes in cash.[4] By using banks, immigrants can keep their money safe, while their deposits can support their bank or credit union's lending activities in their communities. The lower remittance costs provided by banks and credit unions also means that immigrants can remit more money back home. This in turn can have a significant positive influence on local economies in Latin America, and -- over the long run -- improved local economic conditions in Latin America will ameliorate incentives to immigrate to the U.S.

Being able to have a bank account will not materially influence an individual's decision to immigrate or remain in this country illegally. As a consequence, denying banks or credit unions the ability to accept reliable foreign issued documents to open accounts will

[3] Treasury's Section 326 Report at p. 14-15, 25.

[4] See, e.g., *Credit Unions Testify Provisions of the Patriot Act could Harm Immigrants* (Credit Union Journal (Feb. 25, 2002); *Money in the Bank: Accounts Helping Wary Immigrants Park Cash Safely, Send it Home,* (Dallas Morning News Aug. 19, 2001).

do nothing to accomplish immigration control objectives. It will, however, force undocumented workers to rely on higher-cost, less-regulated financial service providers, with the resultant loss in regulatory oversight and transparency. Regulated depository institutions have long experience in combating money laundering and illicit financing under the Bank Secrecy Act, and are subject to stringent, independent oversight by highly trained bank regulatory staff. Consistent with recommendations made in our report, many banks and credit unions establish parameters and dollar limits on remittance activity and institute monitoring procedures for unusual patterns or other suspicious activity. It is unlikely that less regulated financial service providers would devote the same level of expertise or resources against money laundering and terrorist financing. Thus inhibiting the ability of banks and credit unions to provide remittance services could run counter to our enforcement objectives.

Prohibiting acceptance of foreign government identification might also prompt retaliatory measures against U.S. government-issued identification in foreign jurisdictions. And it could imperil the billions of dollars deposited in U.S. financial institutions by foreign nationals attracted by the safety and security of our U.S. banking system. Our ability to attract foreign investment is a key strength of our economy. We should not tamper with it by trying to make financial institutions enforcers of immigration policy, particularly at a time when we have already asked them to assume significant new regulatory responsibilities to aid in the fight against terrorist financing.

Conclusion

Our report found that banks and credit unions are making intense efforts to include Latin American immigrants and other "unbanked" populations as an important and permanent part of their customer base. Community-based advocacy groups are actively helping them insofar as they offer a cheaper alternative to higher-cost providers. In addition, the Treasury Department and the Bush Administration should be commended for encouraging many of these efforts through initiatives such as the Partnership for Prosperity, and support for programs such as First Accounts and Electronic Transfer Accounts.

Senator Richard Lugar eloquently stated in a recent op-ed defending the Matricula Consular, "Throughout American history, our nation has succeeded in integrating immigrants into the economic fabric of the country." For millions of immigrants, having access to a low-cost, federally insured depository account is a necessary part of achieving that integration. All of us – Republicans and Democrats, conservatives and liberals – can and should embrace the notion of removing government impediments to allowing people to work and contribute to this great nation. Banks and credit unions should be allowed to do what they are chartered to do – provide a safe place for people to deposit their money and provide a means by which those deposits can be translated into productive lending. The federal government should not try to micromanage these institutions' customer relationships, nor should it try to undertake the impractical task of dictating among thousands of different types of identification, which are acceptable and which are not.

To be sure, there have been failings in our immigration policy, but intrusive interference with the ability of banks and credit unions to serve their communities is not the answer. There is near universal support for improved border security, reformed visa issuance procedures, coherent tracking systems, and a rationalization of the patchwork of laws that make up the immigration code. That is where the focus of our immigration control efforts should be.

Again, thank you Mr. Chairman for the opportunity to be here this morning. I will be happy to answer any questions the Subcommittee might have.