

Appleseed Testimony

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 staff, I thank the Committee for inviting our testimony and extend our appreciation to you for looking into problems associated with the remittance market. Appleseed is in the fourth 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.

Appleseed first became involved in the Financial Access Project because immigrants carrying around large sums of cash, frequently on payday, have been targeted throughout the country for assaults. Targeted shootings this spring of seven immigrants in Cobb County, Georgia, which resulted in two deaths, illustrate our concern. Appleseed and other organizations had earlier realized that bank accounts for immigrants not only protect money but also protect lives. As we spoke directly to immigrants in our work to create a fair, financial playing field for all, we learned that protecting their money and understanding costs are crucial to them and their families in Mexico and Latin America. This led us to examine more closely the area of remittances. It became clear to us that improving transparency was vital.

This project emanates directly from the excellent work of several Appleseed Centers. Texas Appleseed pioneered this work with its remittance consumer protection disclosure legislation. Nebraska and Chicago Appleseed conducted meticulous work with the financial industry, regulators, and immigrants. Georgia and Alabama Appleseed recognized its relevance to the southeast United States. And Mexico Appleseed provided information on trans-border issues.

Appleseed has studied the remittance market as part of our work to create a fair financial playing field for all. Most recently, increasing transparency was the subject of a report Appleseed released last month proposing a “Fair Exchange” brand to improve pricing disclosures for consumers sending money to Latin America. Just as consumers may shop for Fair Trade coffee, knowing that such certification signifies that the producers adhere to certain wage standards for their employees, so too with the Fair Exchange remittance brand: consumers will know that they are being told the deal they’re getting.

In our view, such industry standards are long overdue. As highlighted in a 2005 Appleseed study of the U.S.-Mexico remittance market, immigrants face daunting and unnecessary challenges every day when they try to perform what should be the simple task of sending money to relatives. A major finding of the Appleseed report, in line with principles specified in a January 2007 report by the World Bank, was that

the international remittance market could benefit from consistent, accessible, and comparable pre-transaction pricing disclosures.¹

Without federal leadership on this issue, that is unlikely to happen. The 2005 Appleseed study found enormous fluctuations and inconsistencies in the cost of sending money. Within the **same company** during one two-week period, the amount consumers paid to transfer money varied from as little as \$1.52 and as much as \$13.84. The study found that exchange rate pricing varied even on the **same day**. In Georgia, for instance, a consumer could have spent as little as \$3.88 or as much as \$21.90 on the same day to send \$300 to Mexico.

For immigrants whose incomes barely rise above the poverty level, these amounts are significant. But getting the information they need to make an educated choice about money transfer services can be difficult. When Appleseed researchers sought this information they were met with mixed results. Some companies quickly offered exchange rate data, while others provided inconsistent or incomplete answers. In Nebraska, for example, calls at the same time to different agents who worked for the same companies resulted in different exchange rate information.

To help remedy this situation, Appleseed launched the Fair Exchange Project, with the support of industry, community, policy and regulatory partners in April 2006. Its mission is to explore the possibility of creating a market-based initiative for providing improved pricing disclosures in international remittance markets, similar to the Fair Trade branding of coffee. The premise of the Appleseed initiative is 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. After all, by highlighting their pricing up front, financial firms would publicly signal their interest in dealing with customers in a fair and forthright manner. It is a solution that, we believe, benefits everyone.

Appleseed worked with the Fair Exchange group to develop a disclosure template that is workable for industry and helpful to consumers. Our work was informed by the generous support of pro-bono counsel at WilmerHale and Cravath, Swaine & Moore LLP.

Our research, as detailed in our April 2007 report –“*The Fair Exchange: Improving the Market for International Remittances*” – has shown 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

¹ *Creating A Fair Playing Field for Consumers: The Need for Transparency in the U.S.-Mexico Remittance Market*. Appleseed. December 2005.

little data. These focus groups provided valuable information for developing the Appleseed Fair Exchange disclosure template.

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 is currently piloting the international remittance disclosure template with five industry partners with the hope of rolling it out nationally. The Appleseed Fair Exchange collaboration also discussed problems with access to bank accounts for money service businesses, including non-bank money transfer businesses and is considering creative collaborations among banks, non-bank money transfer businesses and consumer organizations to improve the financial inclusion of immigrant communities.

As a result of our work in the remittance arena, Appleseed strongly supports standardizing disclosures for remittance transactions. We also believe disclosure

standards should be developed collaboratively, with industry, consumer, and regulatory input. This approach would best accommodate the variety of business models and regulatory frameworks that currently apply to remittance providers, while serving the best interests of consumers.

Appleseed has found that state regulation of consumer disclosure produces varying and inconsistent standards. Improving disclosures in the remittance marketplace will encourage competition, help to drive down costs and enhance consumer confidence in financial institutions. If they are confident that they are getting a fair deal, they will be less likely to carry around large sums of money or stash such sums at home, tempting criminals.

It's only fair. Imagine someone who works hard to save \$200 to send to his mother in Mexico so that she can receive a \$180 medical procedure, figuring that the family will lose ten percent on the exchange rate and the initial transaction fee. Only \$175 actually arrives because of an undisclosed pick-up fee. Her care is delayed while she and her son struggle to arrange a second remittance. He will be charged more transaction fees, lose more money on the exchange and must decide between using the same remitter and paying another pick-up fee or attempting to find another agent who may or may not charge even more fees, all the while delaying his mother's medical care. Why not just specify all the fees and total cost up front, as is the standard across many other financial services?

Appleseed was asked to provide suggestions for changes to HR 928 from the 109th Congress. Our suggestions are:

- Under Sec. 6: Expansion of Financial Institution Provision of Remittance Transfers, add a new section, section (e), to require the Secretary of the Treasury to conduct a study regarding the use of alternative credit scoring measures, including data on remittances, for immigrant populations in the United States. In conducting this study, the Secretary should consult with consumer and immigrant organizations and banking, credit union, and remittance industry representatives, as well as with credit information organizations and government-sponsored enterprises.
- Under Chapter 13: Social Investment and Economic Development for the Americas, add a new section, section 9(b)(7), to require, as part of the study to be conducted by the Comptroller General of the United States, an assessment of how the private sector could match remittance funds or otherwise leverage remittance relationships to benefit economic development in sending and receiving communities.
- Consumer disclosures should be posted at agent or branch locations and be available to consumers prior to initiating a remittance transaction.

- As a general standard of disclosure we recommend requiring posting of disclosure information for the top three markets served by a particular branch or agent location.
- The Applesed Fair Exchange disclosure, which was developed through industry, community and regulator input, provides an example of how transaction information could be posted.
- The disclosure fields should include at least a sample of locations where the money can be received and the corresponding fee, exchange rate, availability of funds, type of transaction, pick-up fees, 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. For services that offer uniform pricing, locations are less significant, but can still be helpful as a way to let customers know some of their options.
- With regard to exchange rate information, a provision should be added to accommodate the special structure of the Federal Reserve international ACH system to Mexico, marketed as Directo a México. In its 2005 report, Applesed highlighted Directo a México as a model of transparency and low-cost in the US-Mexico money transfer market.
- 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.
- 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. To this end, Applesed recommends that the Federal Reserve Board be granted rule-making authority to delineate posting requirements and define the format of the posting, in collaboration with the parties mentioned above.
- The Federal Reserve Board should also be granted enforcement authority under this new provision.
- 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.
- Also under Sec. 6, which addressed the expansion of financial institution provision of remittance transfers, we recommend the addition of a new section, section (f), which would require the Secretary of the Treasury to conduct a study

regarding the ability of remittance transfer providers to obtain necessary banking services to support their remittance provision. A number of non-bank international remittance businesses have lost access to bank accounts in recent years. This loss of access diminishes competition in the marketplace. The study should include an assessment of the impact of federal and state regulation on the availability of such banking services and a recommendation for how the problem of access to banking services for remittance providers can be remedied.

Thank you for your time and consideration. I, and other staff at Appleseed, as well as the six centers 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.