# SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM

## HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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# SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM

**Thursday, June 26, 2003**

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

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

Present: Representatives Bachus, Gillmor, Hensarling, Barrett, Maloney, Sherman, Waters, Velazquez, Hinojosa, Lucas of Kentucky and Davis. Also present were Representatives Baca and Scott.

Chairman BACHUS. [Presiding.] Good morning. The subcommittee will come to order.

Today, we are holding a hearing entitled Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream. This hearing was requested by Mr. Hinojosa to address issues relating to the un-banked, including the use of international remittances and the acceptance of Consular identification cards. I applaud him for requesting this hearing. I think it is going to be an exciting hearing, a hearing that has tremendous potential to improve both citizens' abilities to benefit from financial prosperity from the banking system and also be of great benefit to our economy when all our citizens are given the opportunity to contribute.

The witnesses on the first panel will include Mr. Wayne Abernathy from the Treasury Department, and Mr. Dennis Dollar.

Our second panel is going to be made up of representatives from some of our minority-owned banks, representatives from the academic world. Those witnesses, as well as our witnesses from the first panel, will talk about innovative ways that we are now attracting the un-banked. There are as many as 10 million households or 60 million Americans who for one reason or another do not avail themselves of banking services. When they either do not have an opportunity to use Federal Deposit Insurance institutions or because of suspicions that they may have, choose not to avail themselves of these institutions, we find that they are prejudiced and handicapped financially. They normally end up paying more for remittances, check cashing privileges, than they would if they chose to avail themselves of a credit union or a bank.

We also find the importance of educational programs, of financial literacy programs. When citizens avail themselves of those and banking services, we find that financially they are better able to manage their finances. It is an indication of their ability to keep and retain property, wealth, homeownership. So oftentimes, becoming associated with a Federally Deposited Insurance financial institution leads to more success on their part.

One debate that is going on in the Congress today does involve the use of Matricula Consular cards. There is a bill before the Congress to actually prohibit a federally insured institution from accepting those cards as identification. There is another bill before the Congress by Mr. Hinojosa which would on the other hand require federally insured deposit institutions to accept those cards. Mr. Abernathy will testify, and I agree with his approach to it, that we should basically allow each financial institution to determine what they believe is proper identification, and neither prohibit nor require certain forms of identification. Several of our banks—we are going to have a witness from Bank of America—but several of our large banks have very much increased their services and outreach to the un-banked. We are going to hear some of those success stories.

Furthermore, we have several government initiatives. The FDIC MoneySmart program, the Federal Reserve has just announced an initiative. The National Credit Union Administration, we will hear from Administrator Dollar about Access Across America. The Treasury First Accounts program—we will hear about those from Under Secretary Abernathy.

I think there are a lot of great things happening. There are some very aggressive campaigns underway by both the government and by large banks, and by minority-owned banks. We are going to hear from minority-owned banks, many of whom have several programs and offer tellers who speak the language of the people seeking the service. That is a big help.

I think my time has about expired, but I do want to commend Bank of America, Wells Fargo and Citigroup, three of our largest institutions, for their increase in making remittance services available to the un-banked.

At this time, I am going to recognize Mr. Hinojosa for an opening statement.

[The prepared statement of Hon. Spencer Bachus can be found on page 50 in the appendix.]

Mr. HINOJOSA. Thank you, Mr. Chairman.

Chairman Bachus, thank you for your leadership as Chairman on this very important issue. I am grateful that you and my friend, Ranking Member Sanders, have agreed to hold this hearing today as a result of our colloquy on my amendment to H.R. 1375, the Financial Services Regulatory Relief Act of 2003, considered in the Financial Institutions Subcommittee on April 9, 2003. My amendment would have deemed Consular ID cards issued by the Embassy of Mexico, which refers to them as Matricula Consular cards as a valid form of identification under Section 326 of the USA PATRIOT Act.

I appreciate Chairman Bachus's efforts and those of his staff and of the staff of Ranking Member Barney Frank in pulling together

this hearing. This issue is extremely important to me, to my constituents, to all my state of Texas, and to the un-banked throughout the United States. Opening an account at a financial institution is often impossible for foreign nationals who lack the generally required two forms of identification. As a consequence, they are often forced to use expensive check cashing services to cash payroll checks and wire services to send money to relatives back home.

In addition, these same un-banked foreign nationals have had to carry large sums of cash, which has increasingly made them targets of crime. The Mexican government has attempted to resolve this problem by issuing their own Consular ID cards. I want to say that they have been doing this not for a year or two, but for close to 132 years. They have through the years gone through three stages of improving this identity card that I will be showing you later on during this presentation that is going to be made by our panelists. I want you to know that when I compared the present Consular card that Mexico is issuing with my own identification card that I carry for a driver's license, it is equal to, or superior to, the identification card that I use to identify myself wherever I bank or cash a check or conduct other financial services activities.

I should stress again that these cards are over 130 years old and have been accepted in the United States for quite some time. In March 2002, the Mexican government significantly improved the ID card by adding several security features, including those that are invisible except when exposed to infrared light. Acceptance of the Consular ID card by local U.S. authorities and governments does not encourage illegal immigration. The Consular ID card serves as proof of Consular registration as established by the Vienna Consular Convention. Thus, the mere acceptance of this document as a means of identification does not constitute a violation of federal immigration laws because it is not intended to aid nor give foreign nationals in the United States the understanding that they can continue to reside without documents in the United States. Moreover, Mexican consulates clearly explain the nature of the documents to assure that Mexican nationals know that it does not regularize their immigration status.

To address the un-banked issue, I introduced on February 13, 2003, H.R. 773, the "21st Century Access to Banking Act." This legislation will make several key reforms to the USA PATRIOT Act of 2001, which was enacted to safeguard our U.S. banking system against terrorism. The key reforms include: (1), authorizing U.S. financial institutions to accept these Consular ID cards as valid identification for the purposes of opening an account; (2), bringing un-banked individuals into the U.S. banking system; and (3), allowing for more efficient regulation of currency in the United States.

My legislation will allow these hard-working families to enter the mainstream financial system, thus enabling them to open checking accounts, savings accounts, establish a credit history, and possibly even purchase a car or home. Although my legislation runs on a parallel track to Treasury's recently promulgated Section 326 regulations, it goes further. It requires institutions to accept these identification cards. Consequently, my legislation will help improve our sagging economy by enabling these struggling families to avoid being preyed upon by sometimes unscrupulous check cashers and

payday lenders, and instead permit them to enter the mainstream financial system, thus infusing our banks, credit unions, and ultimately our economy with much-needed cash.

Think about it. If individuals were denied use of the Consular ID card, foreign nationals would not be able to open accounts at U.S. financial institutions and send remittances to their loved ones abroad at significantly reduced cost. Funds transferred from foreign nationals in the United States to their families allows them to purchase goods imported from the United States, thus creating a rather desirable economic cycle.

The recent increase in competition for remittances by Wells Fargo, Citibank, Bank of America, Texas State Bank, and the credit unions, particularly Security First Federal Credit Union represented here today by its CEO and my constituent Al Beltran, has helped reduce the cost of remittances these families send back to their loved ones. We should continue to encourage such activity. Furthermore, improving and encouraging the development of financial literacy programs can only help increase the living standards of these nationals and of Americans in general. As I always say, education is the foundation for economic development. This hearing is a step in that direction.

There are numerous financial literacy programs out there: FDIC's MoneySmart for Adults, both in English and Spanish; NCEE's K through 12 Program; ACB's MoneyRules program; Fannie Mae's homeownership program in both English and Spanish; Freddie Mac's CreditSmart Espanol; the SIA's online Stock Market Game; ICI's Investing for Success; Operation HOPE's Banking on our Future, and others that are improving financial literacy for our entire population. I would especially like to commend the Independent Bankers Association of the state of Texas for encouraging the Texas state legislature to pass legislation requiring two semesters of financial literacy to graduate from high school.

Finally, Mr. Chairman, I would like to acknowledge all the hard work put into this hearing by Carter McDowell, Dina Ellis, Kevin Macmillan, Karen Lynch, and especially Jim Clinger of the majority staff, and special thanks also to Jaime Lizarraga and Jeanne Roslanowick of Ranking Member Frank's staff. As a result of all of their efforts, we have crafted a truly bipartisan hearing. I look forward to hearing the testimony of our witnesses.

I yield back the balance of my time.

[The prepared statement of Hon. Rubén Hinojosa can be found on page 56 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Lucas?

Mr. LUCAS OF KENTUCKY. In the interest of time, I will pass.

Chairman BACHUS. Thank you.

Mr. Scott, the gentleman from Georgia. I applaud your leadership on this issue and recognize you for an opening statement.

Mr. SCOTT. Thank you so very much, Chairman Bachus. First, I want to congratulate and commend you for providing great leadership on this very important and timely issue of serving the underserved and getting forth the initiatives to broaden access to the financial mainstream hearing.

I would like to also congratulate my friend, Ranking Member Sanders, for holding this hearing today as well.

Yesterday, the annual survey of African American investors by Ariel Mutual Funds and Charles Schwab was released. It found that of black families with annual incomes of $50,000 or more, only 61 percent had money in the stock market, compared to 79 percent for white families. Many of these middle-class families were moving their money into their homes, but this must be a small group because from 1998 to 2002, African American homeownership rates only rose from 45.6 percent to 47.3 percent, compared with the national average increase from 66.3 percent to 67.9 percent. With interest rates at a historical low, I believe that we must push even harder to help increase minority homeownership rates, but we cannot even begin to encourage low-and middle-wage earners to invest in the stock market or consider a home mortgage if they do not have basic economic understanding of savings and credit.

I have worked, as you know Mr. Chairman from our discussions with you, to coordinate and improve homebuyer education to prevent predatory lending, and to increase investment and financial education and literacy. Our legislation, H.R. 1865, will help educate consumers about predatory lending by providing easy to locate counseling services. The legislation is based on our belief that consumers can best help themselves if they are armed with information and not confusing regulation.

Specifically, H.R. 1865 would do the following. One, it would provide grants to states and nonprofit agencies for programs that educate consumers, especially low-income borrowers and senior citizens about lending laws, counseling programs for homeowners, and prospective homeowners regarding unscrupulous lending practices, and referral services for homeowners and prospective homeowners. Secondly, and which I think is one of the most creative features of our legislation, this bill will create a nationwide toll-free number to receive consumer complaints regarding predatory lending practices, provide information about unscrupulous lending practices, refer victims to consumer protection agencies or organizations, and create a database for information for consumers.

Third, it will coordinate government agencies and nonprofit organizations that provide education, counseling to consumers who have been victims of predatory lending practices. And fourth, it will establish a predatory lending advisory council under the Department of Housing and Urban Development, comprised of community-based groups, homeowners, government officials, and the private industry. The council will advise the HUD Secretary and conduct a study on the root causes of default and foreclosure of home loans.

I would like to ensure that all investor education programs are targeted in ways that reach the intended audiences and have a maximum impact. Many federal agencies, nonprofit groups and private sector firms have public investor education programs and plans. However, I believe that the unsophisticated consumer is not aware of these many overlapping programs. I believe that we can improve the delivery vehicle for many of these worthy programs, especially with the institution of our nationwide toll-free number.

I would like for this committee to determine if some of the financial literacy programs in federal agencies can be combined or streamlined to reduce overhead, reduce overlapping missions, and be easy to find in a one-stop shop that even the unsophisticated consumer can find help. I would also like for the committee to continue to review the standards of investor education curriculum and discuss the best ways to help much of the investors with these programs.

I look forward to the hearing and the testimony from today's panel. And Mr. Chairman if I may on a personal note, I do understand that we have Mr. James Young with us, who is the CEO of Citizens Trust Bank from my home town of Atlanta. We are delighted to have him. He is one of the pioneering leaders in our community and providing excellent banking services. Glad to have you, James. Thank you very much for being here, my friend.

Mr. Chairman, I thank you for giving me the opportunity to make this statement.

[The prepared statement of Hon. David Scott can be found on page 59 in the appendix.]

Chairman BACHUS. I appreciate your remarks, Mr. Scott.

What the committee will now do is recess for votes on the floor. What we then intend to do with Mr. Hinojosa's consent is we will come back here probably about 11:45 a.m., as soon as we can return from the floor. Our first panel, which is two basically old friends to this committee, will offer their opening statements. And then my hope is that we will have probably about 30 minutes of questions by the members, so that we can try to get our second panel up by, say, noon, at least by noon, 11:45 a.m. or noon.

Actually, I am going to resume as soon as we can. And I am hoping that in about 15 minutes we can do that. I keep getting indications to come back at 11:00 a.m., but I would just assume use all our time. So we are going to recess and we are going to come back as soon as the last vote. There are three votes on the floor, but the last vote is just about over. So we will come back. The others are 5-minute votes.

I am sorry. We will shoot for 10:45 a.m. or 10:50 a.m.

[Recess.]

Chairman BACHUS. Welcome back. I want to welcome everyone back.

Our first panel is the Honorable Wayne Abernathy, Assistant Secretary for Financial Institutions, Department of the Treasury. Our second panelist is the Honorable Dennis Dollar, Chairman of the National Credit Union Administration. As I said before the break, you all have testified before our committee on many occasions. We have enjoyed your testimony in the past and look forward to your testimony here today.

Secretary Abernathy, we will let you start the testimony.

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

Mr. ABERNATHY. Thank you, Mr. Chairman.

It is a pleasure to be here, Mr. Chairman and members of the subcommittee. I appreciate the opportunity to appear before you

this morning. The Treasury Department strongly believes that everyone should have the opportunity to establish a banking relationship with an insured depository institution. While most Americans already have the comfort of keeping their money in insured accounts, other Americans use financial services of a different sort. They cash checks at the neighborhood storefront and pay bills with cash or money orders. There may be a variety of reasons for this, but it is usually expensive, occasionally dangerous, and rarely the best option.

Establishing a banking relationship is a key step toward building a promising financial future. Without a bank account, it is nearly impossible to establish a strong credit record, which in turn is necessary to qualify for a good car loan, home mortgage or small business loan at reasonable rates. A traditional banking relationship offers the account holder an opportunity to become familiar with the fundamental concepts that are critical in asset building. Bank accounts are tools to help families establish and fulfill their savings goals, and manage their money. Saving is the foundation for good financial management.

Greater use of mainstream banking services also aids in our country's fight against money laundering. As individuals move their money from informal financial services providers and rely more upon safer insured depository institutions, the funds are removed from paths more likely to be frequented by those engaged in illegal activity. The Treasury Department's most visible initiative to provide greater access to financial services is the First Accounts program. The 15 First Accounts pilot projects provide an opportunity for the Treasury to evaluate a variety of experiments intended to increase participation in mainstream financial institutions. Our next step is to evaluate the success of the funded projects and to understand which are most effective in achieving our goals.

Let me also highlight some other initiatives that Treasury is working on related to this effort. A key function of the Office of Financial Education is to identify sound, effective financial education programs around the country and highlight their efforts. Many of the individuals who need these programs do not even know of their existence. The attention that the Treasury Department can bring will help connect individuals in need to good financial education projects. For instance, earlier this week Treasurer Rosario Marin was in Columbus, Ohio to recognize the Ohio Credit Union League's Latino Financial Literacy Program which has provided classes for more than 200 Hispanics in the Columbus area. The program incorporates many of the criteria that we have identified for effective programs, especially the inclusion of tools to measure results. Hopefully this program and many others like it will expand throughout Ohio.

Another topic in this discussion is remittance activity. Many immigrants send remittances through a small number of alternative financial services providers. The limited competition has contributed to high costs, but this is changing. With our encouragement and support, more and more traditional financial institutions are recognizing that there is a positive opportunity to reach a diverse consumer base by offering low-cost remittance products. This can

lay the foundation for new customers to save and build assets, establish a banking relationship, and acquire important tools of personal finance.

At the same time, the increased competition will result in lower remittance costs. We support these and other efforts to make remittances more affordable for the people who send them, most of whom are low-wage earners and for those who receive them, people who often are in very great need. We should encourage this outreach and do nothing to discourage it.

Expanding access to financial services is a nonpartisan issue that contributes to improved financial well-being. Opening an account at an insured depository institution provides the accountholder with a number of benefits: the opportunity for wealth building; lower costs for financial services; security; knowledge of and familiarity with the fundamentals of personal finance; and the chance to build a credit history and qualify for credit on better terms. Because of these benefits, Treasury is committed to promoting policies that will encourage individuals to establish traditional account relationships with insured banks and credit unions.

Thank you for the opportunity to appear before you today. I look forward to working with the subcommittee on these important issues in the future.

[The prepared statement of Hon. Wayne Abernathy can be found on page 60 in the appendix.]

Chairman BACHUS. Thank you, Assistant Secretary.

At this time, we will hear from you, Chairman Dollar.

## STATEMENT OF HON. DENNIS DOLLAR, CHAIRMAN, NATIONAL CREDIT UNION ADMINISTRATION

Mr. DOLLAR. Thank you, Mr. Chairman and Ranking Member Sanders and members of the subcommittee.

On behalf of the National Credit Union Administration, I truly appreciate the invitation to appear here today and I am extremely pleased to have this opportunity to be able to testify and discuss NCUA's role in facilitating credit unions's ability to meet the needs of millions of underserved Americans in their desire for financial self-sufficiency.

NCUA has initiated a number of successful efforts over the course of the years, and a number that we have streamlined in recent years designed to extend lower-cost financial services to more underserved individuals through member-owned, not-for-profit financial cooperatives. We want to see more of the un-banked be empowered to bank themselves through the self-help approach that member-owned credit unions can provide. We recognize that many residents of underserved neighborhoods find themselves in a vicious pawnshop payday lender cycle that can only be broken when they have access to the lower-cost and user-friendly alternatives provided by traditional financial institutions.

The three initiatives I would like to briefly discuss here this morning in the little time that we have, and to offer as a results-oriented model of how NCUA's Access Across America program is making a difference in extending credit union services to the underserved, are our agency's Underserved Area Adoption program,

our agency's interagency and credit union partnerships, and the Community Development Revolving Loan Fund.

Very briefly, I would like to discus Access Across America. This is an NCUA initiative that is designed to facilitate the extension of lower-cost credit union services to underserved communities and create opportunities for economic empowerment for people from all walks of life. As of the year 2002, there were over 90 million Americans living in census tracts designated by the U.S. Treasury Department's Community Development Financial Institutions program, the CDFI program, as investment areas. These criteria are based upon income and economic criteria which certainly warrant the distinction as being underserved areas. In many of these instances, the residents of these underserved areas often find themselves largely at the mercy of higher-cost outlets such as pawnshops, check-cashing stores, rent-to-own companies in the absence of an affordable financial alternative.

Mr. Chairman, without sacrificing safety and soundness, without lowering oversight standards, in fact without changing a single existing regulation, NCUA made the decision that we could further the goals of Access Across America by streamlining where appropriate, without sacrificing the integrity of our regulations, the process for credit unions to adopt underserved areas into their field of membership, an option that has been allowed to federal credit unions by regulation since 1994 and statutorily was incorporated by Congress into the Credit Union Membership Access Act of 1998.

The removal of unnecessary regulatory impediments has resulted in the unbridling of innovation in service to underserved areas at what had become record levels. It has certainly served to put the "access" into our Access Across America initiative. Some numbers briefly, to help make this point. In 1999, under the same field of membership rules and statutes regarding underserved areas that we have today, there were seven federal credit unions that adopted CDFI-designated investment areas into their field of membership. There were approximately 235,000 people who lived in those underserved areas that became eligible for credit union membership.

In 2001, just two years later, with the procedural enhancements incorporated under the umbrella of NCUA's Access Across America initiative, there were a total of 164 federal credit unions that adopted 281 CDFI-designated investment areas. Some adopted more than one. The result was a record-setting 16.1 million Americans living in these underserved neighborhoods that at the end of the year had access to the lower-cost financial services of a credit union that had not had such access at the beginning of the year.

In 2002, thinking we could never see the record-setting numbers of 2001 duplicated, we were pleased to see that applications were approved of 223 federal credit unions adopting 424 underserved neighborhoods, totaling over 23.5 million residents. That is a 45.9 percent increase over 2001 and a total increase 100 times greater than the results just 3 years before had been in 1999.

But we have not just stopped with encouraging and facilitating the adopting of underserved areas. We have tracked the results from this adoption program so that we can verify and monitor that his local and lower-cost financing alternative has indeed resulted in a significant number of the over 45 million Americans residing

in these underserved areas actually making the decision to take advantage of their eligibility and to become members of their local credit union.

In fact, through our monitoring of our NCUA call report data, we find that the average annual membership growth since January 2000 in federal credit unions that expanded into underserved areas has been 4.80 percent. The national average for annual membership growth in all federal credit unions was 2.49 percent in that same three-year period since January 2000.

In other words, the membership growth for federal credit unions who adopt underserved areas is 93 percent greater than the average annual growth rate for all federal credit unions. Not only are the residents taking advantage of the access extended to them through this initiative, but credit unions are finding that there is good business in these communities as long as there is proper due diligence and risk management in place.

That leads briefly to the second of our initiatives that I just want to briefly discuss, and that is the interagency and credit union partnerships that we are facilitating through Access Across America. My testimony in writing clearly states how we are dealing with various federal agencies to facilitate the extension of credit union services and to work in partnership and even in synergy with them to extend our programs into their areas and their programs into ours.

We have partnerships with the U.S. Department of Agriculture, U.S. Department of Housing and Urban Development, U.S. Treasury Department's Community Development Financial Institutions program, the Internal Revenue Service through their VITA initiative, the Corporation for National Community Service, the FDIC through its MoneySmart financial literacy that we chose to endorse ourselves rather than reinventing the wheel. We felt that there was no reason for there to be a separate credit union financial literacy program endorsed by NCUA when the FDIC program was as strong as it was. The Neighborhood Reinvestment Corporation, Small Business Administration, these are all agencies that we are working together in partnership to extend this service.

Another issue of importance, quickly, in extending lower-cost financial services to underserved individuals is the issue that was discussed earlier of international remittance. The predatory high cost of international remittance has been a concern of NCUA for a number of years. We have tried to facilitate where appropriate the innovative services and technologies available through credit union partnerships such as the IRnet service facilitated by the World Council of Credit Unions. The savings to individuals remitting funds internationally can be sizeable when the not-for-profit credit union sector can offer a lower flat-fee alternative to the percentage of funds which is often charged by some international transmittal outlets. Credit unions, of course, must fully comply with all U.S. USA PATRIOT Act regulations and verify their customers' identity. But NCUA strongly believes that encouraging individuals to use traditional financial institutions actually provides greater security.

NCUA will continue to facilitate these lower-cost international remittance alternatives wherever possible under existing law and

regulation through credit union partnerships such as the IRnet and others.

Lastly, I just want to mention the Community Development Revolving Loan Fund, Mr. Chairman, because I don't think that we could look at ways that the Congress and NCUA have worked together to further the extension of credit union services into low-income communities without briefly addressing the Community Development Revolving Loan Fund. It was established by Congress in 1979 through an initial appropriation of $6 million to assist officially designated low-income credit unions in their efforts to provide basic financial services to underserved communities. Over the years, Congress has continued its commitment to CDRLF program by increasing the number of appropriated dollars available for loans to $13 million.

Now, for more than 13, almost 14 years, NCUA has successfully administered this ongoing program, providing more than 217 revolving loans totaling $32.8 million. We have been able to revolve your $13 million appropriation into $32.8 million worth of loans to low-income credit unions during its history. In 1992, the NCUA board began funding technical assistance grants by using the interest that was generated from these loans.

In fiscal year 2001, you began to recognize the success of that grant program by reserving certain funds, and you have reserved up to this point a total of $1 million of additional appropriation for technical assistance grants to assist low-income credit unions. We have awarded more than 1,000 grants totaling $2.4 million between the two sources, both the interest from the loans and your $1 million appropriation. By providing an alternative to the higher-cost lenders, we believe that the CDRLF program furthers the goal of credit unions extending service into underserved areas.

So Mr. Chairman, as you can see, the NCUA takes seriously its responsibilities to not only ensure the safety and soundness of the American credit union system, but also to make sure that it is both viable and valuable in meeting the needs of folks from all walks of life. We are building today's NCUA Access Across America initiative on the foundation of decades of outreach by financially sound credit unions. That has established a successful model of individual and community empowerment that we feel can have a positive impact on future generations and lead millions of individuals no longer in the ranks of the underserved, and giving the self-help empowerment through member-owned credit unions to bank themselves out of the category of the un-banked.

I appreciate the opportunity to testify before you today. I will be more than glad to answer any questions that you or members of the subcommittee have. I respectfully ask that my full statement be entered in the official record.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Dennis Dollar can be found on page 104 in the appendix.]

Chairman BACHUS. Thank you.

In the interest of time, I am going to actually forego my questions. I would like to make one comment that I think is particularly important. That is that more Americans do have a bank account if for no other reason than to provide a safe place for deposit

of their Social Security benefits or other government benefits, veterans benefits, electronic transfers, which can be a tremendous advantage to them.

I am sure that the United States Government, the people of America have probably saved hundreds of millions of dollars on direct deposit programs. Because as you know, a prevalent problem in our country is people stealing benefit checks out of the mailbox.

At this time, I am going to recognize Mr. Hinojosa for questions.

Mr. HINOJOSA. Thank you, Mr. Chairman.

I want to commend all of you for your efforts to bank the unbanked. I am going to ask my first question of Wayne Abernathy. I recently obtained a copy of a letter from Treasury Secretary Snow to Chairman Sensenbrenner of the House Judiciary Committee announcing that you would reopen the regulations for a 45-day comment period. Why are you reopening these regulations that you recently promulgated and that were two years in the making? And what questions will you ask of financial institutions?

Mr. ABERNATHY. Thank you, Congressman, for asking that question, because there has been some confusion as to exactly what it is that Treasury is doing in that regard. We are not reopening those regulations. Those regulations were promulgated on July 9. They will go into effect I believe in October. What we have made a promise to do, however, is because of the increased interest that there is on the impact of those regulations, the request was made to us from Congressman Sensenbrenner and others to continue to evaluate some of the concerns that they raised. We are very happy to do that.

We don't have the view that any regulation, any answer is ever permanent, so we are always willing to gather additional information. We frankly would encourage everyone who has a view on these particular questions that we are putting forward to let us know what their views are, pro or con. And the two questions we are putting forward, one of the concerns that was raised in our regulation was whether or not financial institutions should be required to maintain photocopies of the identification documents that were used to open an account. The regulation does not require a lengthy retention of that kind of paperwork for a number of reasons that I think were explained during that two-year comment period that you mentioned.

There are some in the law enforcement community who think that maybe that does not aid law enforcement. We are open to hear whatever comments the people may have on that. We would like to have people comment on that and tell us, does it assist law enforcement to retain that paper, or does it actually cause some additional vulnerabilities to retain that paper?

And then the other question is, particularly with regard to the Consular identification cards, whether those are appropriate means of identification. We have the policy in the regulation as you know of saying that financial institutions have a very important responsibility that their new customers are who they say they are. But the regulation says that responsibility is yours, as a financial institution. You should be sure, as a financial institution, that you have in place a good system that makes you feel very comfortable that the people who are opening accounts with you are who they say

they are, and your particular financial regulator when they come to examine you in your periodic examinations will be asking, what is your system? What procedures do you have in place to verify that your customers are who they say they are?

That is where that question should be asked. It should be between the financial institution and their examiner. The burden is on the financial institution. The examiner will make sure they have looked at it properly. Treasury has said that is where the duty is.

Mr. HINOJOSA. I appreciate that. Let me ask you, is it accurate to say that the Section 326 regulations as recently promulgated would leave the decision of whether or not to accept Consular ID cards at the discretion of the financial institution?

Mr. ABERNATHY. By and large, but not wholly. The responsibility is on the financial institution to have a good process in place, and they can be questioned about their process by their financial regulator. So it is partially a shared responsibility, but the primary responsibility is with that financial institution. We do not think that it is wise for the Treasury or for the government to come up with lengthy lists of which forms of identification are appropriate and which forms are not, for a very important reason.

If we try to maintain those lists, we will always be behind the times. We will always be behind the times of putting on the list things that banks should not be using and putting on a list things that they ought to. We do not want to be behind the times. We want that to be a current process. It is best left to those who understand it best and in their community what works best.

Mr. HINOJOSA. Let me ask another question, and possibly Chairman Dollar can answer it. I am glad that NCUA recognizes the Consular ID card as a legitimate identification source for an individual to become a member of a credit union, and that you all are working closely through your office of general counsel to assist credit unions in the effective use of the matricula card.

If Treasury decides to reopen the Section 326 regulations of the USA PATRIOT Act, how will this impact the NCUA and credit unions?

Mr. DOLLAR. Congressman, we are very comfortable with the USA PATRIOT Act regulations as they were put into effect. The Treasury regulations, as you referred to, have also been adopted by the other financial regulatory agencies as our regulations. So we are in the process of, as Secretary Abernathy said, implementing them even as we speak.

Our office of general counsel is working in close consultation with credit unions who are seeking our guidance as to the acceptance of the matricula card. We have made very clear to them that not only is it allowed in the regulation, but that we recognize it and that we will work with them to facilitate their use of the card. Then through, as Secretary Abernathy said, the oversight and supervision process, we will then be able to monitor the effective use of that.

It is working very well among those credit unions, particularly in the southwest part of the United States, who have been looking for a way to be able to bring these individuals into the traditional financial institution, to show them the value of a credit union or another traditional financial institution as an alternative to the

check-cashers, the international remittance sources that are so highly priced. So we think it is working well.

We don't see a reason to revisit it at this particular stage, but we do see that there is an importance in all the financial regulators having consistent regulation. So if it is revisited by others, we would feel obligated to at least examine those issues, but we are very comfortable with the regulation as it is presently constituted.

Mr. HINOJOSA. Thank you, Mr. Dollar.

Mr. HENSARLING. [Presiding.] The chair now recognizes Mrs. Waters.

Ms. WATERS. Thank you very much, Mr. Chairman.

I am very pleased that we are holding this hearing today and I would like to thank Chairman Bachus for paying attention to a subject that I am very much involved with and have spent an awful lot of time dealing with.

I am very pleased to see the National Credit Union Administration here today talking about the efforts that are being made through your Access America campaign. This is something that I strongly support and I have urged the credit unions to move faster to locate in these underserved communities and to become very visible, because as you know, we are at the mercy of payday loan operations, check-cashers, rent-to-own and a whole host of services that have evolved in the poor communities that charge exorbitant amounts of monies and fees and they are just robbing poor people of their limited resources in order to be able to cash checks and have other kinds of limited services.

I recognize that there are many people who end up without money prior to payday and that they need to have the ability to borrow money, but also recognize that there needs to be some kind of education that goes along with the borrowing of money for just very basic needs.

What I would like to know is, could you give me an example of the difference in the kind of fees that the credit union would charge, the difference between the credit union and a check-cashing operation or a payday loan operation, for borrowing money or for check cashing? I will tell you why that is very important to put on the record. I have researched some of the payday loan and check-cashing operations. I have found with the payday loan operations we have people that are paying as much as 400 percent interest, in some cases 1,000 percent.

I see these post-dated checks that are required, and of course people are intimidated with the post-dated check, that if you can't pay when you have agreed to pay, then you could be in violation of the law. And then an agreement often worked out where you flip it and you create another loan with additional interest rates. How would the credit union service this population? I am just sick and tired of poor people being ripped off. What can you do differently? You mention in your testimony low-cost services. Describe to me what you could do different than these payday loan rip-off operations?

Mr. DOLLAR. Congresswoman, the first answer is the most statutorily fixed answer of all, and that is that federal credit unions have a usury limit of 18 percent that can be charged. So federal credit unions will charge no more for any loan than 18 percent. An

18 percent alternative to the costs that you were referring to in your statement makes a good comparison at any time. Even if because of risk these individuals were charged the highest amount that would be allowed, it would be an 18 percent alternative to what many times you are correct is a 400 percent and a 500 percent rate.

I would like to make one quick point, if you don't mind. I really believe that the not-for-profit sector, the credit union sector is an important part of breaking this cycle of the check-cashing, rent-to-own, pawnshop mentality that is so prevalent in many underserved communities. One of the reasons that we believe we have had the success with Access Across America that we have is not only that credit unions are adopting these areas, but as a part of our requirements, they must establish a physical presence in that community. They cannot do it through home banking. They cannot do it through audio response. They cannot even do it through a mere ATM, although they can open ATMs in that area, but they must establish a physical presence.

The pawnshop has a physical presence. The check-casher has a physical presence. The rent-to-own company has a physical presence. And if they have to take 28 bus stops to get to the credit union, then it is not as viable of an alternative. I believe that this physical presence has made a key contribution to the success of Access Across America. It is the reason that those membership numbers in credit unions that adopt underserved areas is so much higher than it is in the general credit union population.

Ms. WATERS. Thank you very much. I would request unanimous consent for one more minute. I see the light has gone on.

Mr. HENSARLING. Without objection.

Ms. WATERS. Thank you very much.

I would also like to ask you if you are aware that the payday lenders are established near our Army bases, and that our Army personnel are now getting involved in getting these short-term loans and robbing these families of their limited resources. What can you do as you pay attention to the un-banked and the underserved to also pay attention to what is happening around our bases? Because payday loans are sprouting up around all of our military bases, and it is another whole problem that I have got to try and address in this Congress. Are you aware of that and can you include that in the areas that you pay attention to?

Mr. DOLLAR. Yes, Congresswoman. Let me say this, I do not know of a military installation in America that does not have a credit union that is associated with its field of membership. It is one of our goals in Access Across America to encourage those credit unions to get outside the doors of the base, to get outside the fences and the security by the base, and to get out in those surrounding communities to adopt those surrounding communities.

Some of those bases even have the choice of more than one credit union. We see nothing wrong with that. We hope that someday residents of underserved communities will have the choice of as many credit unions as they do of pawnshops. When that day comes, I think we will have made a great contribution and we will be much more successful in this initiative.

Ms. WATERS. Thank you so much. Some of us would like to help promote that and would be willing to do ads and to go to events to help talk about the difference between the credit unions and the payday loan rip-off operations.

Thank you.

Mr. DOLLAR. Thank you. We will take you up on that offer.

Ms. WATERS. Yes, I would be happy to.

Mr. HENSARLING. Ms. Velazquez is now recognized.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Dollar, in your testimony you note that the NCUA has partnered with key federal agencies including the Small Business Administration to 7(a) communities across the country. SBA has recently expanded credit union access to the 7(a) loan program, SBA's flagship loan program. In doing so, it was hoped that credit unions will greatly expand the reach of the 7(a) program. I believe that providing access to capital to would-be entrepreneurs in underserved areas must be part of any strategy aimed at bringing people into the financial mainstream. Access to capital is essential to spur economic development in many of these underserved areas.

Mr. Dollar, how have credit unions made use of the 7(a) loan program to increase small business lending in such underserved areas?

Mr. DOLLAR. Congresswoman, the last communication that I have had from SBA, there have been over 100 credit unions since they were authorized to participate in the 7(a) loan program, which was just several months ago, who have already made application and are in the process of either being approved or have been approved. May I say that I agree 100 percent with your contention that if we are truly going to make a long-term difference in these underserved communities, that the access to start-up entrepreneurial capital is key.

Yes, it is a noble cause within itself to offer an 18 percent alternative to a 400 percent payday loan, but I believe that with start-up entrepreneurial capital, there may well be the possibility that people will be able to have their own jobs, have their own businesses, and not need the payday lender. That is how we will most positively impact these communities. So not only through participation in the 7(a) loan program, NCUA has been working where we can within statutory restrictions to allow more member business lending by credit unions. This is a source for investment in these communities that we think will pay long-term dividends.

Ms. VELAZQUEZ. Do you believe that credit products such as the 7(a) loan program should be part of any un-banked outreach strategy?

Mr. DOLLAR. Yes, unquestionably.

Ms. VELAZQUEZ. Mr. Abernathy, do you have a comment on this?

Mr. ABERNATHY. Yes, I do, Congresswoman. Our view is that there are so many different reasons why people are not making full use of the financial services that are available to them that we need to address it in as many ways as we can. The credit unions have a multitude of different programs, working together with SBA and other governmental programs.

One comment I would make on the question from Congresswoman Waters with regard to military bases, one of the things that

we have tried to emphasize is to deal with this problem of people who do not have accounts is helping them understand what the options are. The option may be there. There may be a credit union on-base, but do they understand what it means to have an account with a credit union? Can we educate them?

Very recently we had the Defense Department present, we convened a meeting in the Office of Financial Education of all of the different governmental agencies that have financial education programs. We had the Defense Department and the Agriculture Department who have excellent programs explain to these others what their programs are. What the Defense Department is doing is they are saying now to their military, "You will come to this class; and you will learn what it means to manage your pay and your various accounts; and you will then take a test to see if you understood," because they understand that it is a real problem. It harms the efficiency of a soldier if he is worried about the financial health of his family. So it is very important.

Ms. VELAZQUEZ. Mr. Abernathy, in your testimony you noted that through the Partnership for Prosperity with Mexico, Treasury has encouraged the entry of new providers into the U.S.-Mexico remittance market. What sort of specific steps has the Treasury taken to encourage financial institutions to enter this market?

Mr. ABERNATHY. I have discovered one of the biggest tools that we have at Treasury is we have a podium that we can talk from and people listen to us. We have been very encouraged at our continual jawboning of major financial institutions, pointing out to them that there is a real market opportunity for you to enter into, both in Mexico and here, in these important financial underserved markets that will be very good for your bottom line and very good for these populations.

One of the most recent examples of that has really encouraged me, a major financial institution not long ago made a hefty investment in a large bank in Mexico. They have just recently leveraged that investment to make it possible for someone in Mexico to go to an ATM in Mexico and draw money from an account here in the United States at almost no cost at all. That is the kind of progress that we are happy to see.

Ms. VELAZQUEZ. As you stated in your testimony, the international remittance market is growing rapidly. It is my hope that the prices will continue to fall. I also hope that consumer protections of such products will be enhanced. Are new entrants addressing some of the consumer protections issues with remittances, such as providing customers with clear notice and making the pricing of remittances more transparent?

Mr. ABERNATHY. We have seen a lot of good work in that regard. Some of the banks that are getting into this business lately have discovered that they might not make any money on the actual remittance transfer. Where they will make money is they have discovered that is a great opportunity to build a relationship with their customer. As they build a relationship with their customer, they need to convince their customer that it is a good thing to bank with them. Those banks that are doing that, part of building that customer confidence is being very transparent in what your policies and programs are.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman BACHUS. Thank you.

Mr. Davis, and then we will go to Mr. Baca.

Mr. DAVIS. Thank you, Mr. Chairman. I appreciate that.

Mr. Dollar, welcome to you. You and I shared a platform together last Friday and I appreciate your coming to Birmingham.

Let me start with you, if I can. One of the things that I am struck by as I look at your written testimony and a lot of other data, is how successful the credit unions have been in reaching the underserved population. I want to focus on one particular aspect of that, financial literacy, as I assume that is a critical component to whatever you are doing effectively. If you would talk a little bit about how you manage and how your entities manage to reach out to the underserved communities to help them with financial literacy, that would be helpful.

Mr. DOLLAR. I think we begin with the fact that a credit union by its nature is a member-owned institution, and also by its structure it is a not-for-profit institution. So therefore, there is a tie to the membership, either through an employer, an association or a local community that enables them to perhaps have a little more of a high-touch approach. I think then we have been very serious and diligent in our encouragement of credit unions to look at ways to promote financial literacy. We have even gone to the point of realizing that this is a combination effort, that is not just a credit union effort, but it is a financial institution effort from banks to thrifts to mortgage companies to credit unions.

So as I stated in my earlier remarks, we have partnered with the FDIC on their MoneySmart financial literacy program. Rather than spending several hundred thousand dollars to develop our own credit union financial literacy program to be endorsed by NCUA to further this initiative, we chose to endorse theirs. I issued a credit union letter to all federal credit unions encouraging them to examine the program. From my reports at FDIC, there have been several hundred credit unions that have taken the FDIC MoneySmart program, adapted it, put it in their high-touch approach that they have as a member-owned, not-for-profit institution. I think the results are demonstrating themselves in the various statistics that were included in my testimony.

Mr. DAVIS. Let me shift, Mr. Abernathy, to a slightly different area, and it is the earned income tax credit and the potential impact the credit unions can have about the earned income tax credit. Some of your colleagues and some people in this institution have raised concerns about what they view as being rampant fraud or abuse that takes place around the earned income tax credit, and that is a discussion for another day. But I want to raise what I think is a more pressing problem.

I think that there are a lot of people who frankly would benefit from the earned income tax credit, but do not know how to take advantage of it, people who are not getting it. One of the things that I think we need to talk about when we talk about reaching the underserved is that population of people who would be able to take advantage of the earned income tax credit if they were more financially literate and were better educated about it. Do you agree with me that there is a problem in this country with people who

are eligible for the earned income tax credit not getting it and not being able to take advantage of it?

Mr. ABERNATHY. I think there is a very big problem with a lot of people not understanding a whole panoply of what their tax benefits are. We have been very encouraged. A number of these pilot projects that are currently taking place under the First Accounts program include not just getting you into a bank account, but giving you the financial education that is needed. Part of that financial education, many of them are focusing on how the tax program works; how tax benefits can be obtained; how you file your tax forms; and how to take advantage of what is being extended to you through the tax system. I think that is an excellent combination of all the different aspects that any family needs to know if they are going to be managing their finances effectively.

Mr. DAVIS. And would you agree, Mr. Abernathy, that that problem of people who should be getting the earned income tax credit or should be taking advantage of it, the problem of they are not being accessed into the system is, if anything, probably a more pressing problem than that of people abusing the earned income tax credit?

Mr. ABERNATHY. I couldn't comment with regard to the earned income tax credit program itself. I am no expert on that. I can certainly envision that as being a problem. If people don't know how to fill out their tax returns properly, they do not understand how the tax system works, then they are not going to be able to take full advantage of the programs that are there to help them.

Mr. DAVIS. Mr. Dollar, if you could just comment on some things that your credit union has done to educate people about the earned income tax credit and to position people to take advantage of it.

Mr. DOLLAR. It is an important part of the MoneySmart financial literacy program. Another partnership that you will see listed in my testimony is one that I entered into and signed with officials of the Internal Revenue Service, in which we agreed to work with them in the promotion of the VITA program and the informational campaign that they have to make sure that those who are eligible to take advantage of the earned income tax credit and other tax opportunities that are available to them, are aware of and do so. They can do that and can provide that information through credit unions.

Mr. DAVIS. Thank you, Mr. Chairman.

Chairman BACHUS. Mr. Hensarling, and then we go to Mr. Baca, and then I am not sure if we have to recess for a vote on the floor. We will try to get all of the questions in.

Mr. HENSARLING. Thank you, Mr. Chairman.

I believe that it is a good thing that we are holding this hearing today. I believe this is a subject worthy of our attention. I believe there probably is a problem with the un-banked and, I am here to learn about the scope of this problem. I suppose there are several reasons why one might be un-banked. One is, they know what banks are about and they have chosen not to do business with a bank.

Another reason perhaps is for some reason the banks are barring their doors to some certain subset or class in our society, and I would be curious to know if we have any evidence of that. I sup-

pose a third reason is simply ignorance of what banks and financial institutions have to offer, and education is often a good remedy for ignorance.

So number one, Mr. Abernathy, is there any evidence that Treasury has that there is some class of people in our society that are being prevented from entering the banking system?

Mr. ABERNATHY. I don't believe that there is any evidence that there is a systematic bar in place keeping people from entering into the banking system. The reason why I say that is we have laws against that. We have not heard any indications from the financial regulators that there is a systematic problem of redlining currently occurring. So I think the fundamental causes for why people don't have bank accounts probably are elsewhere.

What we would like to do, though, is move away from the current situation where we are in now where most of the evidence of why people don't have bank accounts is pretty anecdotal. We think there is a good opportunity and need to have a more systematic evaluation of why it might be that people are not opening up bank accounts. A lot of evidence seems to point that people don't have access to bank accounts because there is not a bank nearby. There isn't a financial institution close enough to do business. Other concerns are, people just aren't familiar with their opportunities, what it means to have a bank account, why it's important and why that is of benefit to them. It can be intimidating if people don't understand what a bank does. They can have a very imposing exterior that makes it hard for people to walk in and feel, "will I be comfortable there."

I think we need to study it better, but we have not heard from the bank regulators that there is a systematic problem of redlining today.

Mr. HENSARLING. I appreciate the sentiment that perhaps a study is certainly needed in this area. I, for one, would be a member interested in working with you on that, so we can understand better perhaps the reasons that this phenomena exists. We have had testimony that there are a number of people, and perhaps mainly low-income people, who choose to deal with payday lenders and rent-to-own and check-cashing services for some their quasi-banking or monetary needs.

It seems to me in a free society people would have the choice whether to deal with these institutions or banks, but perhaps Treasury has some other observation. If people are choosing to use these various services, does Treasury have any evidence that there is widespread fraud among these particular institutions?

Mr. ABERNATHY. There certainly have been cases from time to time of people who have been taken advantage of in the informal financial sector. But I think you make a good point that banks are not the only financial services providers in the nation. What we want to make sure is that everybody has a real choice of whether they want to have a bank account or not. To do that, you have to do a couple of things. First, you have to make banking available to people. Secondly, you also have to educate them as to what their choice really is so that they can make an educated choice.

If some consumers decide that they don't want to choose for whatever reason to have a bank account, that is fine, provided they

really had a meaningful choice. That is the goal that Treasury wants to achieve, that everybody in this country has a full and meaningful choice to open a bank account, be it in a credit union, a bank, or savings and loan. And then the knowledge and ability to exercise that choice.

Mr. HENSARLING. Speaking of choices, sometimes I choose to buy my bread and milk at 7-11 and sometimes I choose to buy it at Tom Thumb. When I choose to buy it 7-11, typically it is more expensive. I choose to do that because I can find a 7-11 on every street corner and I know that I will never face a line of more than two or three people. At Tom Thumb, I have to drive some distance and the lines quite often are long.

So might it be a rational decision by an informed consumer that they prefer the ubiquitous nature of some of these other institutions and prefer the convenience as a factor of why they might be using these payday lenders and rent-to-own and check-cashing businesses for their banking needs?

Mr. ABERNATHY. I think convenience is probably the number one driving reason why people use these other financial institutions. It is more convenient because it is in their community. It is more convenient because they are willing to provide funds when another financial institution might not be willing to provide funds. I think what we would like to do and what we see happening is banks are becoming more convenient. They are feeling that pressure. And so they are offering products to increase their convenience. But nevertheless, as long as the consumer knows what his options are, understands them, let the consumer make the choice as to what meets their needs best.

Mr. HENSARLING. Thank you. My time is up.

Chairman BACHUS. Thank you.

The gentleman from California, Mr. Baca?

Mr. BACA. Thank you, Mr. Chairman.

My question is for Mr. Abernathy. On May 9, the Treasury Department published the final rule requiring financial institutions to establish consumer identification programs to identify the identity of each consumer opening an account. Many in the financial service industry supported this rule because it allowed them to accept Matricula Consular cards. Unfortunately, the Treasury Department is, I state, "reexamining the rule." Shouldn't banks be the ones to determine what they are going to use for foreign ID? That is question number one. And do you think that banks need the flexibility of identifying the risks? That is question two.

In my district in Rialto, the police department recently decided to accept Matricula Consular cards, joining the police departments in Chino, Colton, Fontana, Rialto, Indio and San Bernardino and Upland. Do you think the Treasury Department is in a better position to evaluate the risk than local law enforcement? That would be the final question.

Mr. ABERNATHY. Very good questions, Congressman, I appreciate the opportunity to comment on them. I think you have presented exactly the correct distinction. The regulation went into effect or was promulgated and will go into effect in the fall. At the request of members of the Congress and others, we have agreed to reexamine the rule. We are not reopening the rule, and that is important

to understand. We are willing to receive additional comments on the advisability of going forward with the rule, which has been published as a final rule.

I think you have touched upon the reason why we have promulgated the rule the way we have. It is very difficult for us to understand why Treasury should put itself in the position of trying to second-guess people who in their communities are making the decisions as to what are the best forms of identification, particularly with regard to financial services.

So the rule says, you as a financial services provider have a requirement to be sure that who is doing business with you is who they say they are. But it is up to you to find out the way that works best for you to fulfill that requirement, knowing that you might have to justify your decision and your process and your procedures with your bank regulator. That is the principle. We think that is the best way to do it. We think that way we are more likely to have the solution that really fits the needs of that particular community.

Mr. BACA. You mentioned that members of Congress have asked you. Is this Tancredo and his groupies?

Mr. ABERNATHY. A number of congressmen have asked questions and we are happy to respond to requests from Congress. I want to make this very clear. The results of the information that we get during this comment period, we intend to come and discuss with this committee. It is this committee that has jurisdiction and responsibility over that particular part of the law. I do not think that we would even contemplate making any changes to the regulation without having close consultations with this committee.

Mr. BACA. Earlier you talked about choice in banking availability and educating the knowledge that is important. Well, you have got to create the climate that is there. And by offering matriculas, at least then people feel a sense of comfort going into a bank, so attitudes then change in terms of perception towards individuals. So it is a lot easier to be educated if you create the kind of climate and attitude that is going to be there. But if you claim the attitude in terms of the identification and not accepting matriculas, it becomes very difficult. And that is why people choose to go somewhere else other than one of our banking institutions. So we have got to change those kind of climates and those kind of attitudes.

Mr. ABERNATHY. I agree with you fully. What we need to be doing is finding ways to attract people into financial institutions, not erecting new barriers.

Mr. BACA. Thank you.

Mr. ABERNATHY. Thank you.

Chairman BACHUS. Instead of asking questions, I am simply going to make a statement. I want to associate myself with your remarks and those from Mr. Baca that a lack of documentation by legal immigrants is one of the main barriers to them establishing a bank account. I believe that federal regulations allowing these institutions if they so choose, credit unions and banks, to accept these foreign government-issued documentation is the right approach and really the humane approach. I very much support the use of Matricula Consular cards as identification and I applaud those banks which are accepting them.

Ms. Maloney?

Mrs. MALONEY. Thank you, Mr. Chairman.

I would like very much to be associated with your remarks on this subject, as well as Mr. Baca's and Mr. Abernathy's. Following up on Mr. Baca's line of questioning, some in Congress, as you mentioned, and I would add other anti-immigration groups, have turned what is essentially a debate on curbing money laundering into a debate on immigration policy. My question is, can you tell us Treasury's view about whether it is appropriate for financial institutions to take on the role of participating in the immigration policy debate?

Mr. ABERNATHY. I don't pretend to be an expert on immigration issues, but I can say that certainly Congress has decided that immigration issues are to be determined in two focal points, by and large: at the border and at the workplace. Congress has not placed in any statute that I am aware of that we should be using the financial institutions and access to them as a means of enforcing immigration policy.

Mrs. MALONEY. In enforcing the anti-money laundering provisions of the USA PATRIOT Act, which Treasury and others are very involved in, have you seen any evidence that Mexican nationals are using matricula cards to launder money? Has there been any evidence of that?

Mr. ABERNATHY. Certainly not in any more noticeable way than any other forms of identification are abused. We see driver's licenses abused. We see birth certificates abused. We don't see Consular identification cards being abused any more frequently than those other documents are.

Mrs. MALONEY. Earlier in your testimony, Mr. Abernathy, you mentioned that a United States bank had opened up a branch in Mexico, whereby one could go to the Mexican branch and use an ATM card and get money from America. Is that correct? Is that what you said?

Mr. ABERNATHY. Actually, what they have done is even more expansive than that.

Mrs. MALONEY. May I ask which bank is it? I am curious.

Mr. ABERNATHY. Bank of America.

Mrs. MALONEY. Bank of America.

Mr. ABERNATHY. Bank of America made an investment of well over $1 billion in Banco Santander Serfin, I believe it is, a major bank in Mexico.

Mrs. MALONEY. Was it just one branch or are they all over Mexico?

Mr. ABERNATHY. No, all the branches of Banco Santander Serfin, their branches can be accessed to reach money in an account in a Bank of America operation here in the United States. So it is very large and very extensive. I believe Banco Santander Serfin is the third largest bank in Mexico.

Those kinds of relationships are the kinds of benefits, frankly, that we expected would occur from NAFTA, and the greater penetration of U.S. banks into Mexico, and we are beginning to see those benefits.

Mrs. MALONEY. I think it is fair to say that we have an interest in stabilizing and helping the economies of other countries, particu-

larly those that border us. It appears to me to have been a good policy decision for this to happen. I further would like to follow up and ask about the current Section 326 rules for financial institutions. These institutions can decide for themselves whether to accept identification documents in opening an account for non-U.S. citizens. As you discussed earlier, these document may include the matricula cards issued in Mexico, but they might also include driver's licenses issued in Canada. Is there any anti-money laundering reason why we should be concerned with Mexican matricula cards, but not Canadian driver's licenses? I have heard this debate all over the place on the matricula cards, but no one seems to be questioning the Canadian driver's licenses. So is there any difference in Treasury's mind?

Mr. ABERNATHY. Our view is that Treasury does not want to weigh in on the debate of whether a bank should use a Consular ID or should use a Canadian driver's license, what they should use. The responsibility is on the financial institution, with the oversight of their particular financial regulator to make sure they have the answer right. But they have the responsibility to decide what really does successfully work for them as a financial institution to be sure that their customer is who he says he is.

Mrs. MALONEY. Mr. Abernathy, have any other American financial institutions opened up branches in Mexico? Is Bank of America the only one that has opened up branches or is it growing?

Mr. ABERNATHY. Yes, there are other U.S. banks that have their own branches and operations in Mexico. We expect that as the benefits of NAFTA continue to develop that you will have increased penetration of U.S. banks in Mexico for the benefit of Mexican consumers.

Mrs. MALONEY. Thank you very much. My time is up. I would like to really thank Mr. Hinojosa who pushed very hard to have this hearing. It is a tremendously important one. I thank the Chairman for responding to the concerns of the minority request on this important hearing.

Thank you.

Mr. GILLMOR. [Presiding.] That will conclude the first panel. I want to thank you both, Mr. Abernathy and Mr. Dollar, for your testimony and your help. Thank you.

We will call forward the participants in panel two.

**STATEMENT OF JAMES E. YOUNG, PRESIDENT AND CEO, CITIZENS' TRUST BANK, ATLANTA, GEORGIA**

Mr. YOUNG. I am pleased to appear before you today to offer comments on the topic, Serving The Underserved: Initiatives to Broaden Access to the Financial Mainstream. I thank you for the invitation and opportunity. You are to be commended for holding hearings on this matter best known in the financial services arena as banking the un-banked. I am also pleased to see Congresswoman Waters here, who has been a long-time supporter of minority-owned financial institutions.

I am here of course representing Citizens Trust Bank, headquartered in Atlanta, Georgia. Citizens Trust Bank was founded in 1921 and in fact gained its experience in serving the unbanked for very different reasons in 1921 and years thereafter. It

is currently the Southeast's largest African American-owned commercial bank and we are the third largest African American-owned commercial bank in the nation, with nearly $400 million in total assets. I would remind you, though, that is smaller than the branches of some of the major banks.

Citizens Trust Bank is a community development financial institution, a designation received from the U.S. Treasury Department by banks and other financial institutions with the primary mission of promoting and meeting community development needs in distressed areas of its market area. Recently, Citizens Trust acquired the historic Citizens Federal Savings Bank of Birmingham, Alabama and currently has 11 branches throughout metropolitan Atlanta, the Columbus, Georgia area, two branches in Birmingham and one in Eutaw, Alabama.

We have for many years been involved in banking the unbanked. In January of this year, we began a program called the CT Beginnings program, which is a retail services program designed to provide a DDA, demand deposit account and savings account to low-to moderate-income individuals, in conjunction with the U.S. Department of Treasury initiative on bank the un-bankable.

We have in fact been utilizing the FDIC's MoneySmart financial literacy program and we have been teaching that in conjunction with faith-based community services operations. We are employing the human resource department's educational Lunch and Learn series. We conducted evening seminars through our CTB branch network. As of June, we had conducted 10 seminars, some of them running as long as six weeks; three at local churches and seven through the branch network. Seminars are held twice a month at our branches. However, since March, we have opened only 27 accounts. Small impact.

However, what we require before accessing the CT Beginnings initiative and a new account is in fact that there be this educational process. The direct deposit from employers is helpful in this regard and we have a minimum deposit to open an account of only $10.

In the context of how the financial services industry currently works, low-income citizens must establish a deposit account as a means to enter the financial mainstream and begin asset accumulation. It is also my contention that economic vitality can flourish in low-income communities if, and only if, significant numbers of the members of that community are able to move forward on an asset-building track. Therefore, access to financial mainstream for the un-banked is more than simply being able to open bank accounts. It is more than simply being able to simply open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development.

Insured depositors should take on providing such access, and in general these institutions offer useful services to support an individual asset-building program by taking direct deposits, providing a safe place for electronic payrolls, government benefit checks and other deposits to be received; promoting savings by paying interest and often limiting access to funds on deposits; providing account statements to track the customer's savings and checking balances and interest earned; providing access to regulated loan products

which have minimum standards of customer protection; providing a means to establish good credit; encouraging homeownership through mortgage loans; lower the cost of basic financial services for customers with qualifying balances; combining the delivery of financial services with informal customer education on financial planning, including appropriate loans and savings for college, homeownership, home improvement or retirement.

The question is, what are the challenges facing most mainstream financial institutions in making such banking services available to the un-banked? As a banker, I would submit the following observations for your consideration. Such financial institutions do not offer the types of retail services that meet the particular needs of the un-banked because they do not find such transactions cost-effective. Many low-income customers need personal high-touch services at odd hours. In addition, many banks and credit unions prefer not to underwrite the small short-term loans those low-income customers require. Because low-income households barely have sufficient funds to meet their day-to-day needs, many need short-term credits, especially when unexpected expenses arise.

However, we know the profile of the un-banked individual, a history of bounced checks, account closures, poor financial management, cash-only basis for household expenses, and the low-to middle-income levels.

Therefore, the challenge in banks and other financial institutions face in providing banking services to the un-banked is that they must build a significant volume of customers within an array of products and a level of service that meets the immediate financial needs of the un-banked; builds a strong interest on the part of the un-banked in establishing a deposit account; and a healthy credit relationship that promotes asset accumulation; and finally turn a profit.

There have been many studies done by such organizations as the National Community Investment Fund, Fannie Mae and the Federal Reserve Bank. They have been conducted to quantify and explain the high proportion of Americans who have no checking or savings account in regulated banks and credit unions. The National Community Investment Fund is an independent trust and certified community development financial institution whose mission is to increase the number and capacity of depository institutions that are both effective agents of local community development and sound financial institutions.

In May, with the support of a grant from the Fannie Mae Foundation, the NCIF conducted a comprehensive study on the unbanked and published one of the most thorough reports that I have read on this subject. The report is entitled, A Report on Innovative Products and Services for Low-Income and Un-Banked Customers. It was published in May 2002. In order to support the products and services described in this report, I believe that community banks, those relatively small and locally based financial institutions, are best prepared to deal with this.

Going even further, minority-owned financial institutions such as mine are even more focused on communities where our low-to moderate-income fellow citizens live. The fact of the matter is that the initial owners of these institutions founded them with that notion

in mind. They remain in those communities today, although most of them were founded more than 50 years ago. Today, there are 167 minority-owned depository banks in the country. Of these, 49 are black or African American, 69 are Asian or Pacific Islander American, 30 are Hispanic American, 17 are Native American or Alaska Native American, and 2 are multiracial American. These banks are located in 96 cities in 30 states and two U.S. territories. In the aggregate, these institutions control some $93 billion in assets.

However, it should be noted that there are no special charters granted to these banks and they must comply with all the banking laws and regulations governing all banks. In fact, the regulators have the ability to look in every nook and cranny of our small institutions, something they cannot achieve with the major institutions. While almost all of these are profitable and meet minimum standard capital requirements, they can ill-afford to incur the losses attributed to providing normal banking services to the un-banked. Yet they have been less than profitable and less profitable than major banks; less profitable than those who serve the majority market. We are measured on profitability. We are measured on capital adequacy by the very regulators who now promote serving the un-banked.

There have been funding initiatives by the federal government such as the Bank Enterprise Award program of the U.S. Treasury Department, and the most recent New Markets Tax Credit Allocation program administered by the same department. However, when applying for such funding, minority-owned banks find themselves competing for the limited resources against much larger majority-owned financial institutions.

Mr. GILLMOR. Mr. Young, to try to stay on schedule, could we ask you to wrap up?

Mr. YOUNG. Yes. I will be finished in 2 minutes, please.

The result is that many of these smaller minority-owned financial institutions are often overlooked and shut off from the kind of financial support needed to offer normal banking services in disadvantaged communities. To give you an example, there was $2.6 billion available in tax allocations to encourage the private sector to support the development and redevelopment of projects in these underserved communities. When it all came out, there were $26 billion in applications, a number of them minority-owned banks. There was only one minority-owned bank in this country that received a tax allocation for such work.

I do not quarrel with the process. I do quarrel with the outcome. While you invited me here to make comments, I would also like to make the following recommendations for your consideration. One is to form a true partnership with minority-owned banks in this country to foster the implementation of the integrated products that are described in the NCIF report. These institutions need to have initiative funds allocated only to those banks. They should not have to compete with the major banks. After all, these institutions are heavily regulated already, regularly examined by governmental agencies, and have to meet strict criteria for the maintenance of their respective banking charters.

Number two, one of the critical problems facing the nation is financial illiteracy. Our children are not being taught the importance of participating in the financial mainstream even though they attend public school daily. If we must teach science, math and art, surely our presence here dictates that we should empower our children in financial matters long before they are ready to be first-time homebuyers or before they become un-bankable.

Within this city is the National Bankers Association, which is a 70-year-old trade organization for the nation's minority-owned banks. It represents a convenient access to those banks that have labored long and hard to provide the affordable banking services we would all like to see available to all.

I want to thank you again, and as I stated at the outset, access to the financial mainstream of the un-banked is more than simply being able to open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development.

Thank you again, and I apologize for taking advantage of the opportunity.

[The prepared statement of James E. Young can be found on page 130 in the appendix.]

Mr. GILLMOR. Thank you, Mr. Young. It was an 11-minute 5 minutes.

Mr. YOUNG. They told me I had 10 minutes before I came here.

Mr. GILLMOR. Okay. Well, that is fine.

Next we will hear from Mr. Al Beltran, who is the Chief Executive Officer of Security First Hidalgo Federal Credit Union in McAllen, Texas. You are here on behalf of the Credit Union National Association. Mr. Beltran?

**STATEMENT OF AL BELTRAN, CEO, SECURITY FIRST HIDALGO FEDERAL CREDIT UNION, MCALLEN, TEXAS, ON BEHALF OF THE CREDIT UNION NATIONAL ASSOCIATION**

Mr. BELTRAN. Thank you.

Good morning, Representative Gillmor and my good friend, Representative Ruben Hinojosa, and members of the subcommittee.

I am honored to appear before you this morning to present testimony on the plight of the un-banked and underserved. I am Al Beltran, President and Chief Executive Officer of Security First Federal Credit Union, a $137 million community-chartered credit union serving nearly 21,000 members in McAllen and the Rio Grande Valley of South Texas.

I appear before you today on behalf of the Credit Union National Association. My written statement includes detailed descriptions of a recent CUNA modest-means survey, a study on serving new Americans and fairly lengthy descriptions of many programs credit unions are employing in an effort to meet the financial needs of the un-banked and the underserved. Because of time constraints, I will only briefly mention some of those programs.

Before I do that, let me quickly say that CUNA and credit unions are extremely grateful to Chairman Dollar for his tenure on the NCUA board. His leadership in the area of reaching out to the underserved has been unparalleled in credit union history.

Many of the un-banked still depend on some entity to help them wire much of their hard-earned money back to their families in

their native countries. CUNA, along with the World Council of Credit Unions, has for a long time recognized the desperate need for affordable remittance services and the difficulties in providing these services. This recognition has resulted in an aggressive effort by credit unions to address these needs.

I am proud to say that Security First Federal Credit Union has been offering its members the opportunity to wire money back to Mexico and use the World Council of Credit Unions service called International Remittance Network, or the IRnet. This service saves our users at least one-third the cost of using a high-cost money transfer agent. As you know, many of the un-banked are immigrants, all of which need some form of identification to be able to use the services of a mainstream financial institution. For those from Mexico, that form of identification is often the Matricula Consular.

CUNA is very concerned about some current efforts to discredit the use of the matricula. We have formally adopted a position to oppose any legislation prohibiting the use of the matricula or other similar government-issued ID, and support legislation allowing its use for financial institutions or for general purposes. In that regard, we congratulate Representative Ruben Hinojosa on the introduction of H.R. 773, the 21st Century Access to Banking Act.

There is a growing public awareness that none of these products or services will help consumers unless they are aware of their options and how the financial system works. Credit unions recognize that it is necessary to offer financial literacy training to successfully integrate the un-banked into the financial mainstream.

Security First actively sponsors community-and school-based educational programs and seminars. We also provide credit union staff as volunteers to read to elementary school children, participate in the Partners in Excellence program with the local school district, and provide scholarships to needy high school students. All these services are provided at no cost and are open to credit union members and the community it serves.

At the national level, CUNA has formed a partnership with the National Endowment for Financial Education and the Cooperative Extension Service to teach the high school financial planning program to high school seniors across the country. In addition, CUNA's foundation implemented a nationwide financial literacy campaign called Plan For It, Save For It to address the need for increased savings among low-to-moderate income families.

For the next few minutes, I will focus on some of the programs provided by Security First. As a whole, the Rio Grande Valley is considered an underserved area. Our credit union products are specifically designed to meet the financial needs of the people we serve. For example, to join the credit union, we have lowered our membership savings account requirement from $100 to $5. Direct deposit and payroll deduction may be established to reach the minimum savings account balance of $50. Once the savings account is open, they do not have a waiting period to use any additional products and services. We advertise in English and Spanish, including billboards and direct mail advertisements.

Security First is currently piloting a checking account program called First Choice Checking, that is available at no cost with cour-

tesy overdraft protection. Additional services include the first order of checks at no cost, debit ATM card access, no-cost check imaging, no-cost audio access, and no monthly maintenance fee. Credit union educational programs in Spanish are regularly presented to groups.

In conclusion, on behalf of CUNA I am grateful for the opportunity to have commented on the plight of the un-banked and underserved, and how Security First Federal Credit Union and credit unions across the country are trying to reach out and bring them into the financial mainstream.

There is no more pressing need, in my opinion, for it is only through economic opportunity that we can solve many of the problems facing our nation's poorest and most deprived individuals. Whether it is through the First Accounts program, affordable housing programs, enhanced IDAs, expanded opportunities to serve their communities, or financial literacy, credit unions stand ready to meet this very important challenge.

Thank you and I would be pleased to answer any questions you may have.

[The prepared statement of Al Beltran can be found on page 72 in the appendix.]

Mr. GILLMOR. Thank you very much, Mr. Beltran.

Is Mr. Hinojosa your congressman?

Mr. HINOJOSA. Yes, Chairman Gillmor.

Mr. GILLMOR. I was just going to tell him he has a very fine congressman, but I presume he already knows that.

We will go to John Bryant, Chief Executive Officer of Operation HOPE.

**STATEMENT OF JOHN BRYANT, CEO, OPERATION HOPE**

Mr. BRYANT. Good afternoon. I am honored to be here, Mr. Chairman and members of the subcommittee, and Congressman Hinojosa, and those members on the committee from California which is where I am based, including Congresswoman Maxine Waters.

I would also like to take this opportunity to thank other of your colleagues in the House who have been extremely helpful in our work in California and across the nation. They include Congresswoman Diane Watson, where just yesterday we stood with Simone Lagomarsino, the CEO of $2.5 billion Hawthorne Savings Bank; the Bishop Charles E. Blake of the West Los Angeles Church of God in Christ and more than 100 community leaders to cut the ribbon to a full-service Hawthorne Savings Bank branch in the underserved yet deserving areas of South Los Angeles.

This is significant because in 1996 we built what we called a HOPE Center at this location, and few financial leaders thought it would succeed. A HOPE Center is a cross between a traditional bank branch and a Kinko's for empowerment; one-stop shopping for changing your life. Well, 7 short years later and $100 million in homeownership and small business bank lending, and with zero reported home mortgage defaults. I will repeat. This is in the inner-city; $100 million in bank lending for homeownership and small business through Operation HOPE, all FDIC-insured banks, with zero reported home mortgage defaults over 9 years. Last year, Op-

eration HOPE became the first nonprofit in U.S. history to build a bank branch and sell it to a bank.

Congresswoman Diane Watson supports us in her district, as Congresswoman Lucille Roybal-Allard has supported us in her mostly Latino and Spanish-speaking district, with our HOPE Centers there. I am proud to say that there, too, in Maywood, California, the densest city in the State of California with more than 30,000 Spanish-speaking individuals, we now have a full service bank branch replacing the role of Operation HOPE in this deserving community. California National Bank, a $6 billion bank, and their CEO Greg Mitchell made the decision to invest there, and is doing quite well, I might add. Before Operation HOPE made the commitment to serve the underserved yet deserving community of Maywood, the only mainstream financial service provider was an ATM and a 7-11.

And then there is Congresswoman Juanita Millender-McDonald, where we have a HOPE Center in Watts. And Congressman Charles Rangel of Harlem, New York, we partner with the Congressman and former President Bill Clinton to educate every child in Harlem by the year 2005, that is 35 schools in Harlem, in economic literacy through Banking on Our Future, our economic literacy program, teaching kids the basics of a checking account and savings, credit and investment.

Operation HOPE has taught over 107,000 youth in 400,000 teaching sessions in more than 500 schools, community-based and faith-based organizations, with more than 1,000 trained and certified volunteer banker teachers, what we call Life 101, economic literacy skills, what Mr. Young was referring to earlier. Operation HOPE today is the only national urban delivery platform for economic literacy in the country, both inspiring and depressing.

And then you have U.S. Senator Dianne Feinstein who has proposed to expand our HOPE Center model across the State of California. I am proud to say today we are building a HOPE Center in Oakland, California with Bank of the West and SBC Communications. After four years of operating, the bank has committed to build a bank branch in our place.

Finally, we have been asked by Senator Rick Santorum of Pennsylvania to bring Banking on Our Future into the entire State of Pennsylvania. Working with the Senator and the Federal Reserve Bank of Pennsylvania, we will make this happen next year.

We are working with this administration, the Bush Administration, to push and press a bold economic literacy agenda for our nation and a hoped-for Presidential priority. We are talking, they are listening, and we are on the verge of several major partnerships with this administration.

So I am honored to be with you today to talk about the wealthless and what I call the "silver rights" movement. How concerned should America be if 80 percent of its economic activity is tied to the U.S. consumer? Very, because it is true. How concerned should the President and Congress be if some propose that we manage our own Social Security accounts when a good number of us cannot manage our own bank accounts? Very, because it is true.

How concerned should economists and policymakers be if billions of dollars in yet unrealized taxable income and other tax receipts

are effectively left on the table, so to speak, in urban inner-city and low-wealth communities because people don't know better and as a result find it hard to do better? Very, because it is true. How concerned should all of us be that more than 1 million American filed for bankruptcy protection in 2000 and 1.5 million in 2001, with the largest group of bankruptcy filers being youth between 18 and 24? Very, because it is true.

But not all the news is alarming news. I come with good news. It is called the "silver rights" movement. The silver rights movement says two quick things. If the 20th century was marked by race and the color line, then the 21st century will be marked by issues of class and poverty. It also suggests that there is a difference between broke and being poor. Being broke is economic and being poor is a disabling frame of mind and a depressed condition of our spirit. We must vow never to be poor again.

In both cases, as I told Federal Reserve Chairman Alan Greenspan on June 5 when we took him into an inner-city classroom here in D.C. at John Philip Sousa Middle School in Southeast Washington, DC. He and I talked at an economic literacy course called Banking on Our Future to 35 young bright lights. One kids said when asked what did ATM mean, he said "all the money."

[Laughter.]

And to bring the attention of economic literacy to our nation and to you for monetary policy and public policy. Greenspan agreed that education is the ultimate poverty eradication tool and I must commend Congresswoman Waters for first bringing Greenspan into South-Central LA and we are now passing the baton to take it to the next level.

All the indicators suggest that the rich are getting richer, the poor are getting poorer, and it is harder to be middle class. Thirty years ago, middle class was one parent working. Today, it is two parents working and the television set is raising your child. According to CNN, half of all Americans are living paycheck to paycheck. That is not black folks, that is all folks. And an estimated 65 million Americans or 10 million households have no traditional banking relationship and there are 33 million poor Americans in this great country. That is more than 21 states combined.

And then you have our children. As I just mentioned, the largest group of bankruptcy filers are youth between 18 and 24. That is not black kids. Those are middle class white college students, getting a master's degree in psychology and an undergraduate degree in bankruptcy paying for their pizza with a credit card and believe a check is a form of credit. We have to do this because our nation and our economy depends on us doing this. Let me now go to the good news. We are the only nation in the world where every race of people is within our borders. We also happen to be the largest economy in the world. The two largest economies in the nation are California and New York. The two most diverse places in the nation are California and New York. The fifth largest economy in the world is California. The 10th largest economy in the world is Los Angeles County, 180 ethnic groups. I tell CEOs, don't put blacks and Latinos on your boards because it looks good. Do it because it is good for your bottom line.

Facts: The largest condiment seller in the nation for generations has been ketchup. It is now salsa. African Americans are an economic force to be reckoned with. We represent a $500 billion a year consumer spending force, the ninth largest in the free world. We represent 25 percent of every movie ticket sold in this country and that is why Magic Johnson's theater in South-Central LA is one of the top ten theaters in the entire SONY chain.

In Harlem, there is $1 billion in cash economy not showing up on census data. In Harlem, there is over $1 billion in untapped buying power and the crime rate per capita, per 1,000 residents is lower in Harlem than in Manhattan. In D.C, there is $250 million of untapped cash economy and the mayor here has launched an illiteracy initiative to empower the individuals here to get the jobs that are actually available. We are bringing a HOPE Center here to Anacostia in partnership with E-Trade Bank and the District and the federal government to prove you can do well by doing good.

Finally, Banking on Our Future. As I mentioned, we taught 107,000 kids economic literacy, the only national delivery platform. We partnered with the FDIC. It was noted earlier today how good this program is. I believe it is the best program in the federal government, and Chairman Powell deserves a lot of credit. We have also partnered with eight of the twelve Federal Reserve banks and the American Bankers Association and the American Community Bankers Association, and President Bush has highlighted our volunteers.

I have already mentioned the local partnerships, and Wells Fargo and I have committed to bring economic literacy online at Bankingonourfuture.org. We get 250,000 hits per month on this Web site for folks desiring to get economic literacy. We are now partnering with, as I have mentioned, other branches of the administration, the Economic Development Administration, Veterans Affairs. I believe economic literacy has to be clear and transparent throughout our system, because as I said earlier, 80 percent of our economy is tied to the U.S. consumer.

Results, and my final comment. Check-cashing customers into banking customers conversion. We partnered with Union Bank of California and Nix Check Cashing. I don't like check-cashers, but if you can't beat them, buy them. So we went into the inner-city and we partnered with Nix and Union Bank. I am proud to say today that of 30,000 checking accounts opened by Union Bank of California in 2001, 10 percent or 3,000 accounts were from our partnership, converting check-cashing customers into banking customers. By the way, Union Bank is on its way to one million ATM transactions in those locations this year. You cannot have an ATM transaction without a bank account.

We have converted renters into homeowners. I referred to those statistics already. You might note that there is not one home burned in the riots of 1992 and there were 3,000 structures damaged. You do not burn that which is your own. We believe in converting the un-banked into communities of choice. I have talked about the HOPE Centers already and I have mentioned that we have built three of them. We are building on in Oakland, California and we are building on in Washington, D.C.

And so, my request to you today, our nation's legislators, is to do more and to have a call to action and a marked increase in support for economic literacy education and tools and services that empower the wealthless of our great nation. These individuals do not want a hand out, they want a hand up. I believe in the James Brown version of affirmative action, "Open the door, I will get it myself."

Thank you.

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

Mr. GILLMOR. Thank you very much, Mr. Bryant.

And we will go to Mr. Gabriel Manjarrez, who is the Senior Vice President, Hispanic Marketing Executive at the Bank of America.

**STATEMENT OF GABRIEL MANJARREZ, SENIOR VICE PRESIDENT, HISPANIC MARKETING EXECUTIVE, BANK OF AMERICA**

Mr. MANJARREZ. Thank you, very much. Thank you, Congressman Gillmor, Congressman Hinojosa, Mr. Chairman, the rest of the distinguished members of the subcommittee.

On behalf of Bank of America, I want to thank you for the invitation to testify on our initiatives to bring the un-banked and underserved into the mainstream financial system. Specifically, I want to talk about two of our programs seeking that objective in the Hispanic market.

In my role in charge of marketing to Hispanic consumers, it is my job to develop sales and marketing strategies that will connect Hispanic customers with our financial products and services in a way that provides them with the most positive and integrated banking experience. In fact, our in-language advertising slogan is Superacion Constante, which conveys that we are always striving for improvement in the way we serve this market.

I would like to take a little time today to describe what we have done to be responsive to the needs of this market. The first program I want to discuss is our initiative to accept the use of the Mexican consulate ID, the Matricula Consular. We developed this initiative because we wanted to make it easier for Mexican citizens living in the USA to have access to banking services from Bank of America. Like many of our Hispanic customers, we recognized the opportunity presented by the Mexican consulate ID, but needed to see if the card could serve as an effective form of identification. We launched a pilot in December 2001.

The results were quite convincing, with significant net gains on new checking and savings accounts that have continued an upward trend to this day. The pilot program was successful and we decided to expand it nationwide as of June 2002. The size and significance of this step should not be underestimated. Bank of America is the nation's largest retail bank, with over 4,000 retail branches and more than 13,000 ATMs. In fact, we are the only coast-to-coast retail bank in the nation; 75 percent of the nation's Hispanic population live in communities served by Bank of America.

We knew that this is a market that has a high need for banking services and very high growth potential. Today, every single Bank of America banking center recognizes the Matricula Consular as a

valid form of identification. We believe that banking services ought to be made available to everyone so that they can manage their money without carrying large sums of cash. As Congressman Hinojosa eloquently noted, the consequences of having to carry a stash of cash can be quite dire and take the form of muggings and other violent crimes.

We strongly encourage the U.S. and Mexican governments to work together to ensure that the consulates have the best authentication measures and tracking systems in place. We also applaud the Mexican government for developing much stronger security measures to ensure the integrity of the card itself. Today, many consider it as secure as a U.S. passport because of its robust security features.

The second program I want to talk about is our money remittance program. It is called SafeSend. Addressing Congresswoman Velazquez's excellent point about promoting alternatives, we launched an entirely unprecedented international money transfer service as an alternative to traditional wire transfer services that dominate the marketplace.

SafeSend is a safe, trustworthy and convenient card that uses a telephone Internet and the ATM network, rather than expensive wire services. Our SafeSend customers can send money by phone or electronically to loved ones in Mexico 24 hours a day, 7 days a week, without having to leave their homes. On the receiving end in Mexico, the recipient uses a secure PIN and SafeSend ATM card to access the money within minutes in over 20,000 Mexico-based ATMs.

We created this product because customer feedback demonstrated the demand for less expensive options in the money transfer business. SafeSend is the first to serve that the Bank of America designed exclusively for Hispanics. It offers greater value and convenience than traditional wire transfer products and provides a secure service at a low cost to the sender. More than one-third of all our SafeSend customers open checking accounts when they subscribe to the service. We are finding our remittances business to be a great generator of deeper customer relationships and helping the un-banked and the underserved be banked and served.

Last, we would be remiss if we failed to mention efforts to bring the underserved populations into banking through financial education initiatives. As Chairman Bachus and Secretary Abernathy pointed out, financial education is key to improve the situation of the un-banked. Bank of America is one of the nation's strongest supporters of financial education.

We have longstanding commitments to the health of the communities where we do business, and as a provider of financial services we have a responsibility to help our customers and clients understand our products and services so they can plan for every stage of their lives. We have several examples of alliances we have done, including with the National Council of La Raza, with Freddie Mac and Consumer Credit Counseling Service, and with Consumer Action to provide educational services.

In sum, the Mexican consulate ID, SafeSend, and our financial education initiatives are opening the door to financial services for more un-banked customers. As a result, more are opening new

bank accounts, cashing checks, making international money transfers, subscribing to other banking services, and becoming more documented in the process. We are providing opportunity for thousands to gain access, many for the first time, to mainstream banking services, and applaud the subcommittee's interest in learning more about the subject.

I would like to thank the subcommittee once again for the opportunity to share our perspective and look forward to answering any questions.

Thank you.

[The prepared statement of Gabriel Manjarrez can be found on page 116 in the appendix.]

Mr. GILLMOR. Thank you very much, Mr. Manjarrez.

We go to Ms. Sheila Bair, who is the Dean's Professor of Financial Regulatory Policy at the University of Massachusetts.

**STATEMENT OF SHEILA BAIR, DEAN'S PROFESSOR OF FINANCIAL REGULATORY POLICY, UNIVERSITY OF MASSACHUSETTS**

Ms. BAIR. Thank you, Mr. Chairman.

I appreciate the opportunity 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. Today, I will highlight the report's key findings.

Previously sponsored IDB survey data show that lack of documentation of legal status to be the most frequently cited reason Latino immigrants do not use banks. 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 un-banked 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.

Our research showed that mainstream financial institutions's acceptance, particularly the Matricula Consular, appeared to move a major impediment to bringing un-banked immigrants into banked status. For instance, Wells Fargo estimated that it opened 60,000 new accounts since it began accepting the matricula in November 2001. The FDIC Chicago office recently began surveying banks accepting the matricula, and of the eight banks they had surveyed so far, nearly 13,000 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, and bilingual assistance at their car centers and Web site, as well as placing 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 secure credit products and 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 very important. 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. Financial education was also heavily utilized by all surveyed institutions. School-based programs were particularly effective at outreach since in a high percentage of Latino families the parents are un-banked. School banking programs introduced Latino children to bank accounts which they, in turn, would take home and share with their families.

Surveyed institutions also made very stringent efforts to provide services in easily accessible locations and during nontraditional hours and to be visible, present forces in Latino neighborhoods. Many institutions had also entered 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 the top product need of their Latino immigrant customer base. All also said that providing low-cost remittance services was a major marketing tool, a key to getting Latino immigrant customers in the door. A key benefit of banks and credit unions interested in marketing to the Latino community has been their entry into the remittance market. As other witnesses have testified this morning, their entry into this market has created needed competition which has already made significant progress in lowering the cost of remittances. 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.

Unfortunately, their ability to do so under the section 326 regulations has become embroiled in the larger debate over immigration control policy. Being able to have a banking 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 would do little if anything 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. 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 pro-

vide remittance services could run counter to our enforcement objectives.

Senator Richard Lugar eloquently stated in a recent op-ed defending the Matricula Consular, quote, "throughout American history, our nation has succeeded in integrating immigrants into the economic fabric of the country," end quote. 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 micro-manage these institutions's 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 procedures, coherent tracking systems and a rationalization of the patchwork of laws that make up the immigration code. This is where the focus of our immigration control efforts should be.

Thank you, Mr. Chairman, for this opportunity.

[The prepared statement of Sheila Bair can be found on page 66 in the appendix.]

Mr. GILLMOR. Thank you very much, Ms. Bair.

We will now go to Mr. Brian Satisky, who is the President of the Maryland Association of Financial Service Centers, testifying on behalf of Financial Service Centers of America.

**STATEMENT OF BRIAN SATISKY, PRESIDENT, MARYLAND ASSOCIATION OF FINANCIAL SERVICES CENTERS, INC., ON BEHALF OF THE FINANCIAL SERVICES CENTERS OF AMERICA**

Mr. SATISKY. Good afternoon, Mr. Chairman, subcommittee members.

My name is Brian Satisky and I am here today to testify on behalf of Financial Service Centers of America, also known as FSCA, where I serve on the board of directors. I am the Vice President of A&B Check Cashing and I also serve as President of the Maryland Association of Financial Service Centers, Incorporated.

FSCA represents more than 5,000 businesses which provide consumers with a variety of financial services, including check cashing, money orders, ATMs, electronic bill payment, money wire transfers, transit tokens and passes, and a host of other financial and related services. Today, we hope to dispel some myths and make it very clear that we are in the financial mainstream serving millions of Americans on a daily basis.

All consumers deserve access to essential financial services whether they are offered by banks or our service centers. The policy goal should be to assure that choices are available and not just

shoe-horn consumers into a financial model which may not fit their circumstances. Everyone needs financial services; not everyone needs to get them from a bank.

For many consumers, the traditional banking model is not the best choice. The Federal Reserve Board reported in the year 2001that half of those who do not currently have checking accounts used to have them. For these consumers, the choices not to have an account are appropriate. Comptroller of the Currency John Hawke said last year that appearances to the contrary notwithstanding, check cashing customers do business outside the banking system for practical and economically rational reasons.

The un-banked are actually the self-banked. These individuals understand the costs and benefits of maintaining a banking relationship and have voted with their feet to utilize our financial services. Consumers know that banks will not cash checks in amounts later than the amount of funds on deposit. Check-cashers will do so and make funds readily available to these consumers so they do not have to wait for a check to clear.

Unlike banks which primarily derive their income from the spread between interest paid on deposits and their loan portfolios, we rely on transaction fees. Our success depends on providing a high level of service. It is not realistic to expect banks to welcome customers who do not add much to their bottom line, but these are our customers and they are pleased with our services. Eight-one percent of survey respondents rated our service either excellent or very good.

Many consumers prefer to obtain their financial services at check-cashers despite the efforts of government to direct them to banks. There will always be some consumers for whom a depository account does not make economic sense, but those who choose to obtain depository accounts should have the opportunity to do so. We believe that our infrastructure could serve as a conduit for them into the banking system. Check-cashers directly serve the people the policymakers are trying to reach.

When the banks abandoned many of our nation's neighborhoods, our industry continued to serve these neighborhoods. Does it really make sense to ask these very banks now to offer them accounts? Or should government turn to the industry which has continued to serve the public without subsidies? Government has subsidized banks to serve our customers, but these programs can and do come with substantial costs to taxpayers.

As the House Appropriations Committee has pointed out, for some consumers the cost to open each first account averages almost $250. Last year, the GAO questioned the efficiency of the ETA, stating, "Given the limited appeal of the ETA, we question whether the program would generate savings sufficient to offset Treasury's costs of maintaining and promoting this program."

Although many banks have abandoned neighborhoods, FiSCA members have found some financial institutions with which partnerships can be formed to benefit all parties involved. My company, A&B Check Cashing, is involved in a project in Southwest Baltimore City in which we have partnered with a federal credit union to provide services to a community that has lacked banking for the past five years. We call it Our Money Place. This partnership arose

after a community group, Operation Reachout Southwest, sought a bank to serve the community, but was rejected time and time again. Finally, they came to the Social Security Administration Baltimore Federal Credit Union which agreed to serve the neighborhood, but did not want to provide cash services. That is where we come in.

Our company provides all the cash services that are necessary for a full-service financial institution to have. We will not only cash checks, but dispense free money orders to the customers to use as they see fit. If a customer has a savings account and wishes to make a deposit, A&B will cash their check and issue them a free money order in the amount of the deposit they want to make. They simply walk over to the credit union window and make the deposit.

Additionally, Operation Reachout Southwest maintains a desk in our lobby that answers questions and provides financial literacy education and counseling. A neighborhood that had no banking at all now has a full-service financial institution to serve them.

In New York, another FiSCA member, RiteCheck Cashing, is in a cooperative venture with Bethex Federal Credit Union. In that case, the idea is to permit the credit union to expand its reach without incurring the expenses of constructing and servicing new branches. In California, some Nix Check Cashing locations are co-located with Union Bank facilities, allowing consumers full access to depository services. The partnership teams up with Operation HOPE, a community group represented here today by its Chairman John Bryant.

While FiSCA members are working with some institutions to expand services, other banks continue to abandon our customers by refusing to serve all check-cashing businesses. They are following guidance from the OCC suggesting that check-cashers and a few other businesses are at high risk for money laundering. This designation is false, misleading and damaging. Our record of compliance is exemplary. The Financial Crimes Enforcement Network, FinCen, has found our industry not to be at any higher risk than any other industry.

This problem could be acute for our customers. There are now only two major banks serving the industry in New York City, and with the loss of competition, fees are likely to rise. Many banks have also stopped verifying funds availability for our customers' accounts. It makes it difficult for our customers who are attempting to cash payroll checks as check-cashers need to be able to determine that there is a likelihood that the funds are available. Even the recently passed USA PATRIOT Act encourages all financial institutions to verify funds to help fight against fraud and suspicious transactions. How can we comply if the banks refuse to assist us? FiSCA intends to pursue these issues of bank discontinuance and lack of verification of funds with this subcommittee.

I thank you and I would be pleased to answer any questions that you may have.

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

Mr. GILLMOR. Thank you very much, Mr. Satisky.

Let me begin and I would like to go to Mr. Manjarrez. You stated in your testimony that the Bank of America's policy is to accept

Matricula Consular as a valid form of identification when it is presented with a secondary form of identification. In your experience, what other forms of identification do holders typically present when they are seeking to cash checks and open an account? And what standards does the bank apply in determining whether the secondary form of ID is sufficient?

Mr. MANJARREZ. Thank you very much for your question, Congressman Gillmor. As primary form of identification, we take the Matricula Consular along with a number of other identifications, including any U.S. Government-issued identifications. As a secondary form, we will take either a driver's permit or other photo identification that are assessed by our risk department to comply with our efforts to not permit fraud and to comply with all federal regulations.

Mr. GILLMOR. So it would have to be a government-issued photo ID of some type?

Mr. MANJARREZ. That is right.

Mr. GILLMOR. Okay. Let me go to Ms. Bair. Those who oppose the acceptance of the Matricula Consular by depository institutions have argued that the cards lack adequate security features which make them susceptible to fraudulent misuse. Does your research support or refute that claim? I might also ask you, what are the security features of the matricula? Also, I have been told and I just want to ascertain if it is true, that it would be relatively easy for someone who is not a Mexican citizen to obtain one, and is that accurate as well.

Ms. BAIR. I think the standard under section 326 regulations is one of reasonableness and is based on available identification. We looked at the security features in the high security Matricula Consular and talked to a number of bank officials. B of A was one of the institutions surveyed and written up as an institution with best practices in our report. I would add, incidentally, that they are not alone. Most of the banks and credit unions we surveyed also require an additional form of ID. The Matricula Consular is accepted as the primary form, but their requirements are typical of the other institutions we looked at.

Certainly I think a number of forensic specialists, which I am not, in this area would say that the security features are comparable to those that the U.S. government has tried to instill in our own documents, and superior to a number of the state driver's licenses in terms of the safeguards they have against counterfeiting. So I think in terms of that I think the Mexican government has made a good case that they have made a number of efforts to enhance the security of the card against counterfeiting. It is much more foolproof against counterfeiting than a number of state driver's licenses.

Mr. GILLMOR. From your knowledge, what standards does the Mexican government use before they would issue one?

Ms. BAIR. I can just read to you from our report. To obtain a Matricula Consular, the applicant must present an original birth certificate, another official ID with a photo, personal information, their name, address and all that, plus a document with their current address such as a utility bill. The matricula has nearly a dozen security features which are designed to deter falsification

and counterfeiting. These include a holographic image with hidden marks such as the person's name appearing over the picture when viewed with a decoder, an official seal appearing over the photo that changes color in natural light, and issuance on green security paper with the Mexican seal printed in a special security pattern.

Again, these are standards that they tried to learn from the types of security measures we put in our own documents and use them with the matricula.

Mr. GILLMOR. Switching ground a little bit, you said in your testimony the possibility of a large volume of remittances from the U.S. to Latin America could have a significant positive effect on local economies in Latin America. Has the Inter-American Development Bank or any other organization compiled statistical data which would show that effect? I guess based on your research, how would you expect any effect to show up in the data?

Ms. BAIR. I don't know. They have obviously the aggregate numbers of dollars that are sent. In terms of gauging local economic impact, no, I am not aware of any comprehensive studies. But it is a good idea they should do some, because it is quite a large amount of money going to a lot of these small impoverished communities. I can only assume anecdotally that it having a positive impact.

Mr. GILLMOR. I guess we assume that if you dump a lot of money somewhere it will have an impact.

Ms. BAIR. That is right.

Mr. GILLMOR. Going now to the gentleman from Texas.

Mr. HINOJOSA. Thank you, Chairman Gillmor.

Mr. Beltran, I am very glad to see you here in Washington and that you accepted to come to this subcommittee hearing.

Mr. BELTRAN. Thank you, Mr. Congressman.

Mr. HINOJOSA. What would you think if legislation were introduced to authorize $4 million for the First Accounts program, but $1 million of that was used to study the effectiveness of the 15 First Account pilot programs, basically using the money to contract out the funds to a private company to research the methodology each pilot program used?

Mr. BELTRAN. I believe that by doing what you just said, using the money to research, I would hope that it would benefit the programs that we have and increase the understanding of the value of why we need those programs. I think we could find the study probably to reflect some of that in some of the programs that we offer.

Mr. HINOJOSA. Thank you.

Ms. Bair, if you could pick one thing to do to reach out to the un-banked, other than through the First Accounts or IDAs, what would it be?

Ms. BAIR. That is a hard question. I assume your question goes to un-banked populations generally, not just to the Latino immigrant community which was the focus of our report. If we are talking about the recent Latino immigrants, clearly documentation is first and foremost. I think for the larger population, I do think I would agree with what Mr. Abernathy said on the first panel that access has really been a key issue, and I would agree with you that a lot of large banks got out of a lot of low-to moderate-income neighborhoods in the 1990s. You saw a precipitate decline, a lot of

bank closings, and a precipitous rise in alternative service providers going into these neighborhoods. They have offered an important service in terms of convenience and they have been there when other banks have not been.

I welcome that there is a trend in the other direction, that big banks and small banks are moving back into these neighborhoods. They need to be there. They need to be physically present and accessible. They need to be open during nontraditional hours. I think particularly for the Latino immigrant community, they need to have a less institutional atmosphere. At a lot of banks, B of A again and Wells Fargo, as well as the smaller community banks, the decor is friendlier. There are play areas for the children when they come in. There is a lot of hands-on intensive attention when a person comes in to open an account, a lot of extensive counseling and explanation of the bank and the appropriate way to use a bank and the bank products.

So I think that physical presence and access and being active partners in the communities that these banks large and small are trying to serve is really the most important thing.

Mr. HINOJOSA. Thank you.

Mr. Gabriel Manjarrez from Bank of America, in your testimony you note that some critics of the Consular ID card have raised concerns about increased risk of fraud; that you have thoroughly considered these risks and have significant controls in place for screening potential customers and monitoring their accounts for fraudulent activity. I was pleased to hear that. You go on to state that your bank is also working closely with government agencies to comply with any and all the requirements, including those resulting from the USA PATRIOT Act. What is your opinion of Section 326?

Mr. MANJARREZ. Thank you, Congressman Hinojosa. I am no expert on Section 326. Our opinion is that we will comply with any and all federal regulations. We currently are simply trying to support our customer base and serve a large portion of underserved and un-banked customers. To do that effectively right now, the use of the Matricula Consular has been an incredibly effective way. We obviously support its use and we are continuing to work, and we thank the subcommittee for inviting us here to talk about its value.

Mr. HINOJOSA. Chairman Gillmor, to try to save some time, and I know that you are trying to finish this hearing by 1:00 p.m., I want to ask unanimous consent that some of the letters that have come in to my office from different organizations that are interested in this issue be inserted in the record.

For example I have a statement from the National Council of La Raza submitted to me by Brenda Y. Muniz, Policy Analyst for National Council of La Raza. She goes into detail about the identification card. In the conclusion, she says, "In conclusion, the matricula is simply an identification card. It does not legalize the status of any immigrant. It cannot be used to obtain any immigration or citizenship benefits such as work authorization or the right to vote. And it cannot be used to obtain public benefits. Its continued use and acceptance, however, does have a positive impact on immigrant workers, their families and the communities where they reside, fostering greater transparency and integration into the U.S. society which benefits us all."

It is a very well written document and I wish to ask that it be made a part of today's proceedings.

Mr. GILLMOR. Without objection, the Chair hearing none, it will be made a part of the record.

[The following information can be found on page 177 in the appendix.]

Mr. HINOJOSA. Also without reading them, there are two other documents that I would like to ask unanimous consent that they be accepted and made a part of today's record. One is the Citigroup's efforts on Banking the Un-Banked and Financial Literacy. It is a study that they made which is also very informative. The third one is one that is submitted by the Mexican-American Legal Defense and Educational Fund, better known as MALDEF. It is entitled "Acceptance of Mexican Consular ID's Is Not Only Legal, It Improves Public Safety and Enhances the Economy."

Mr. GILLMOR. Without objection it will be a part of the record.

[The following information can be found on page 155 and 137 in the appendix.]

Mr. HINOJOSA. Finally Mr. Chairman, I was very pleased to hear some of the presenters today talk about the fact that the Matricula Consular, or the Consular ID card as some call it, has invisible security features. I was able to obtain one for use at this public hearing from the Mexican embassy as a sample of the Matricula Consular or Consular ID card. In looking at it and comparing it with my driver's license, I find great similarity. It has lots of invisible security features contained in this document that I want to be made part of the record. I obtained it from the Embassy of Mexico here in Washington. It gives an explanation of those features. The document explaining that the term "Matricula Consular card" is printed on the card itself. It has invisible security features where, using a fluorescent light lamp, capital letters SRE can be seen all over the front.

All of this is to say that I want this document to be made a part of the record because I am convinced that what we are trying to do with this hearing is to simply say that we want banks to be able to use the matricula identification card for identification purposes and that we do not want to complicate it or let anyone say that we are trying to use it for immigration purposes or allow it to be used for terrorism. The Consular card an identification card, and hopefully Congress will treat it as such when my legislation comes to a vote.

Mr. GILLMOR. Without objection, the Chair hearing none, the copies will be made a part of the record.

Mr. HINOJOSA. Thank you, Mr. Chairman. With that, I yield back.

Mr. GILLMOR. The gentleman yields back.

The gentlelady from California.

Ms. WATERS. Thank you very much.

Mr. Satisky, I would like to raise a few questions with you about some of the testimony that I had an opportunity to read prior to coming in today. I was in and out of the room, so I don't know if it was the same testimony that I see with the written testimony that was provided to us before the hearing.

First, let me just say to you that I am not opposed to any organization providing services to poor communities. What I am opposed to is exploitation. I am opposed to exorbitant rates. And I am opposed to poor people being a convenient group of people by which to make money off of. Every scheme in America finds its way to the poor community. I have spent my life trying to articulate what is happening in poor communities and fighting on behalf of poor people. We have been able over the years since I served in the legislature and prior to coming here, to stop a lot of schemes.

So I am very, very versed in the ways that these things are done. I am not an elected official who turns a blind eye because I can get a campaign contribution or because I can cut a ribbon or be a part of a ceremony sending a signal to people that I am doing something when I am not doing something. So I am only concerned with whether or not poor people are being treated differently because they find themselves in a particular situation.

I would like you to explain to me the relationship that you have with credit unions. It could be that what you have described in this testimony is an answer to some of my concerns about how to provide services to poor people. I note that you describe some relationships between credit unions and payday loan operations or financial services, whatever you call it. And that it has worked out in such a way that the people able to benefit and even get checks cashed for free or for very little amounts of money because the credit union helps to reduce the cost of paying for the cashing of those checks.

Would you describe to me the A&B-federal credit union relationship? I think it is in combination with Operation Reachout in southwest Baltimore.

Mr. SATISKY. Yes, I would be happy to, Congresswoman. I am also happy to say today that we both oppose the very same things. So all those issues that you oppose, we do as well.

I got a phone call a little over a year ago from the Bon Secours Foundation, which is a nonprofit hospital-based foundation in southwest Baltimore City.

Ms. WATERS. Which foundation was that?

Mr. SATISKY. The Bon Secours Foundation, asking if A&B Check Cashing would be interested in partnering with a federal credit union to bring full financial services back to a community which had not had them for quite a long time. We were interested in such a program and we met with the groups of people involved, including Operation Reachout, which is a very active community group in that neighborhood.

What we found out at that meeting is that they had been searching for a bank or a credit union to supply that community with full financial services for quite a time and to no avail. They could get a little of this and a little of that, but not the whole package which was really what they needed. They needed somebody to handle cash services as well as non-cash services. They wanted to do the loans and the savings accounts and the checking accounts. They also needed the people to cash checks and get money orders and all those sorts of things that are traditional banking services.

We were surprised to hear that they had failed in such an attempt. Then the Social Security Baltimore Federal Credit Union

came and stepped forward and said that they would in fact be interested, but it was not viable for them to handle the cash services. It just simply was not profitable for them and they just didn't see a way that they could do it reasonably. So if they could find a partner that would handle the cash services, then they would be interested as well.

Well, all parties got together at that point and we hammered out some deals. It really was very easy for us, to be perfectly honest with you. We were very anxious for the opportunity to be involved in an FDIC institution and provide the cash services where the credit union could not. We also were very anxious to be involved in the financial literacy aspect of the whole program as well, of being able to provide a service desk in our lobby, educating people on how to obtain checking accounts; to determine is they even need a checking account, because it may not be for everybody.

Ms. WATERS. I am going to interrupt you for a minute now. In addition to the check cashing services, do you provide payday loan services?

Mr. SATISKY. No, ma'am. Short-fund payday lending is not available in Maryland at this time.

Ms. WATERS. Okay, so this is check cashing for the most part.

Mr. SATISKY. Yes, ma'am.

Ms. WATERS. Did your relationship reduce the amount that the consumers pay for cashing their checks?

Mr. SATISKY. Yes. Maryland is a regulated state and it has good quality regulations in line there as far as rate caps are concerned. I would tell you that in Maryland, especially in the Baltimore area that I am most familiar with, check cashers provide services for much less than the cap. The regular cap is 4 percent for payroll checks, 2 percent for government checks, and 10 percent for personal checks. Most check cashers provide check-cashing between 1 and 2 percent. So it is a very competitive thing.

Ms. WATERS. Let me ask now, the credit union is nonprofit?

Mr. SATISKY. That is correct.

Ms. WATERS. For the community group Operation Reachout Southwest that got involved, do they receive payment of any kind?

Mr. SATISKY. I don't think so, but I am not 100 percent sure about that. That is a part of the negotiations that I have not had anything to do with.

Ms. WATERS. Okay. Also, with the New York operation that you described at RiteCheck Cashing, and I think it is Bethex Federal Credit Union, it seems that there are no fees for check cashing and it is paid for by the credit union at a different rate, and the marketing materials for Bethex as available at the check-cashing locations and loan applications are available so that folks can join the credit union and they can make loans and those loans are at rates that other credit union users would be charged.

Mr. SATISKY. Or less.

Ms. WATERS. Or less. Now, so I guess what I want to be very clear about is this, I am not opposed to alternative banking operations. Again, I am opposed to people pretending to do good for the poor when the poor are being exploited in the name of civil rights or anything else. So I say to you that one of the operations that was described here today, the cooperative so-called nonprofit group,

is making 5 percent from the check-cashing payday loan operations, which means that the price of the product has increased when you have to pay everybody up the line for producing this product. If you show me operations such as you are describing now, I have no problems with that, none whatsoever.

So what the people have to understand is the difference. Most elected officials do not know this. They are not concentrated on financial services and they can be sold a bill of goods any day of the week because it looks good and they want to do something for their people. But of course my job serving on this committee is to be able to know the difference and to be able to call it like it is. So as a representative of the alternative banking that is described as something that is desperately needed, if you could begin to talk within your industry about what some of our concerns are, people who represent poor communities, and how we welcome the opportunities for real nonprofits such as the credit unions who have real services that they can provide and reduce costs, those kind of operations we have no problems with whatsoever. There is a difference in what you have described here and some of the others who purport to be doing something for the poor, when in fact they are just fattening their pockets on the backs of the poor and talking trash. Okay? Thank you.

Mr. SATISKY. Thank you.

Ms. WATERS. I yield back the balance of my time.

Mr. GILLMOR. The gentlelady yields back.

That concludes the questioning. I want to thank all six of our panelists for coming and for your very helpful testimony.

Mr. HINOJOSA. Mr. Chairman?

Mr. GILLMOR. Yes, Mr. Hinojosa?

Mr. HINOJOSA. Mr. Chairman, I apologize that I had overlooked a document that was prepared by my staff. In keeping with this hearing, which is entitled "Serving the Underserved," Initiatives to Broaden Access to the Financial Mainstream, some of the presenters talked about the importance of education. This document that I ask unanimous consent be made a part of the hearing today is entitled "List of Several Financial Literacy Programs."

In the record there should be a listing of these programs because anybody doing research would be helped a great deal if they knew that America's Community Bankers launched MoneyRules, a financial literacy campaign in which community bankers share their financial knowledge with the community. Others like the Federal Deposit Insurance Corporation initiated a national financial education campaign by developing a program called MoneySmart. There are many others, including Fannie Mae and Freddie Mac with their programs. The Independent Community Bankers of America have another program on MoneySmart. Again, I believe that this would be a good way to close our hearing today because I think it has wonderful information on the education that is necessary to help our un-banked community.

Mr. GILLMOR. Without objection, the Chair hearing none, the document will be made a part of the record.

Once again, my thanks to the panelists and we stand adjourned.

[Whereupon, at 1:25 p.m., the subcommittee was adjourned.]

# A P P E N D I X

June 26, 2003

# STATEMENT OF CHAIRMAN SPENCER BACHUS SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT "SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM"

Good morning. The subcommittee will come to order. Today we will hold a hearing entitled "Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream". This hearing was requested by Mr. Hinojosa to address issues relating to the "unbanked," including the use of international remittances and the acceptance of consular identification cards.

A wide range of government and private sector witnesses will testify on strategies for expanding access to mainstream financial services and promoting greater financial awareness. Representatives of the Treasury Department and the National Credit Union Administration (NCUA) will appear on the first panel. Witnesses on the second panel will include financial services industry representatives and community groups involved in outreach efforts to the "unbanked.

Although estimates vary, studies indicate that as many as 10 million American households do not have bank accounts. In addition, many Americans lack the basic tools for managing their money and making wise financial choices. Establishing and successfully managing an account relationship with a bank or other financial institution can lead to greater economic self-sufficiency and long-term financial security. Particularly for low and moderate-income Americans, opening a checking or savings account can be an important first step in establishing a credit history, which can unlock doors to other financial opportunities. For example, a study by the Federal Reserve found

that maintaining a bank account is an important factor – more significant than household wealth, income, or education level – in predicting whether an individual has a mortgage or auto loan. Moreover, the more financially sophisticated a consumer is, the less likely he or she will be to fall prey to abusive credit arrangements or other financial scams.

Recent Government initiatives on the underserved include:

- The Federal Deposit Insurance Corporation's (FDIC) MoneySmart program.
- The Federal Reserve's initiative to encourage consumers to establish financial goals, budget wisely, and use credit responsibly
- The National Credit Union Administration's (NCUA) Access Across America program.
- The Treasury Department's First Accounts program.

The past decade has witnessed more aggressive outreach by the banking industry to groups that have historically chosen to conduct their financial affairs outside the traditional banking system. Many banks and credit unions have partnered with community-based non-profit organizations to increase the availability of basic banking accounts for low and moderate-income consumers and to offer financial literacy workshops to current and potential customers.

Efforts to attract customers in the Hispanic community, now the largest minority population in the U.S., have been particularly intense, as banks have sought to capture a share of this lucrative market. According to the Pew Hispanic Center and Multilateral Investment Fund, money transfers by individuals living and working in the U.S. back to

Latin America, currently estimated at $10 billion annually, should more than double – to $25 billion – by 2010. These so-called "remittances" have traditionally been executed through Western Union outlets and other money-transfer services, but are increasingly being offered by depository institutions. There is substantial evidence that this new source of competition has driven down costs for consumers.

Several major U.S. banks have rolled out innovative remittance products in the last two years. Credit unions have also been active in the remittances area.

As part of their efforts to court business from the Mexican-American community, many banks and credit unions, including some of the nation's largest institutions, have announced in recent years that they will accept as a valid form of identification the *matricula consular* card, a photo ID issued by Mexican consulates in the U.S. to Mexican nationals. Bank of America, Wells Fargo, and Citigroup are among the institutions that have chosen to accept this form of identification. Recent regulations issued by the Treasury Department outlining customer identification procedures for banks and other financial institutions permit those institutions, in the exercise of their discretion, to accept the *matricula consular* when proffered by someone seeking to open an account.

Since the *matricula consular* is often issued to undocumented aliens, some have argued that recognizing the card's validity undermines enforcement of U.S. immigration policy. Legislation has been introduced (H.R. 502) that would prohibit Federal agencies from accepting forms of identification issued by foreign governments. Proponents of the

*matricula consular* contend that banks' acceptance of the card both promotes "banking the unbanked," and advances law enforcement objectives by creating a record of remittances and other transactions that would otherwise flow through less regulated channels. Mr. Hinojosa has introduced legislation (H.R. 773) that would require financial institutions to recognize the *matricula consular* as a valid form of identification.

In closing, I would like to thank Mr. Hinojosa and his staff for working with us on this hearing. He is strongly committed to these issues and I admire his efforts in ensuring that the underserved have access to our financial services system.

The chair now recognizes the Ranking Member of the Subcommittee, Mr. Sanders, for any opening statement that he would like to make.

**OPENING STATEMENT**

**REPRESENTATIVE J. GRESHAM BARRETT (SC-3)**

**SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**

**JUNE 25, 2003**

Mr. Chairman, I want to thank you and Chairman Oxley for convening this hearing today on an important issue that affects many of our colleagues. I also want to thank our witnesses for taking time out of their busy schedules to present their testimony and expertise today.

Mr. Chairman, the title of today's hearing is "Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream." While I agree that we should examine ways to bring more people into the financial mainstream, I want to ensure we do not compromise our national security in the process. The specific issue I would like to address is the use of consular ID cards, and most notably, the matricula consular card issued by the government of Mexico.

As you know, the matricula consular is essentially a document used to identify Mexican nationals. However, it is not a travel document nor is it an authorization to operate a motor vehicle. Legal immigrants have no need for such a document because they possess a Mexican passport, state-issued driver's license, or even a social security card. However, reports of its use among illegal immigrant communities to open bank accounts raises concerns of national security and enforcement of our immigration laws.

The real danger in accepting the matricula consular card is that other countries with substantial illegal immigrant populations in the United States will want to have their consular ID cards given the same stature as the Mexican matricula consular. This is a slippery slope, and if Congress does not act now to stop the use of these consular ID cards, we will begin to weaken our ability to effectively safeguard our country from evil-doers. Many news reports have examined our porous borders and how terrorists could escape detection and enter our country.

It is estimated that between 8 to 11 million illegal immigrants are in the United States, which not only puts a strain on our government services, but also presents an excellent harbor for terrorists to hide and carry out their treacherous plan.

In closing Mr. Chairman, I would urge all Members to consider cosponsoring H.R. 687, the Identification Integrity Act of 2003, introduced by Representative Gallegly, which would prohibit the federal government from accepting a form of identification issued by a foreign government, except for passports that are authorized under federal law for such purposes. The legislation currently has 95 cosponsors, including Chairman Bachus, Capital Markets Chairman Baker, Domestic & International Monetary Policy, Trade, and Technology Chairman King, and 9 of my colleagues on this committee. Mr. Chairman, I want to thank you again for holding this important hearing. I would like to submit my opening statement for the record, I look forward to the testimony from our witness's today, and I yield back the balance of my time.

June 26, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Financial Institutions and Consumer Credit Hearing entitled "Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"

Thank you, Mr. Chairman, for holding this important hearing regarding the "unbanked" population in the United States, the use of international remittances and the acceptance of consular identification cards.

Currently, as many as 10 million American households do not have a bank account. I applaud this committee's efforts to identify ways to reach those individuals and allow them to enter the traditional banking system without failing victim to fraudulent actors. Establishing and successfully managing a bank account can lead to greater economic self-sufficiency and long-term financial security. It can also be an important first step in establishing a credit history, then allowing the consumer to access many other financial opportunities.

Today, I look forward to learning more regarding the Federal programs already in existence to identify and assist our "unbanked" population through the Federal Deposit Insurance Corporation (FDIC), Federal Reserve, National Credit Union Administration (NCUA), and the Treasury Department and considering strategies to improve their effectiveness.

Thank you again, Mr. Chairman, for calling us here today. I look forward to an informative session.

**OPENING REMARKS FOR THE HONORABLE RUBEN HINOJOSA**
**HOUSE FINANCIAL SERVICES COMMITTEE**
**SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**
**"SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM"**
**JUNE 26, 2004**

Chairman Bachus,

I am very grateful that you agreed to hold this hearing today as a result of our colloquy on my amendment to H.R. 1375, the Financial Services Regulatory Relief Act of 2003 considered in the Financial Institutions Subcommittee on April 9th. My amendment would have deemed Consular ID Cards issued by the Embassy of Mexico, which refers to them as Matricula Consular cards, as a valid form of identification under Section 326 of the PATRIOT ACT.

During that colloquy, we agreed to discuss three distinct topics: (1) barriers to bringing the unbanked into the mainstream financial system; (2) the high cost of international remittances; and (3) issues surrounding the acceptance by financial institutions of Consular ID Cards. Working together, I believe that the Chairman and I have crafted two panels of witnesses that best address these matters in a fair, balanced, and comprehensive manner.

I appreciate Chairman Bachus's efforts and those of his staff and of the staff of Ranking Member Barney Frank in pulling together this hearing. This issue is extremely important to me, to my constituents, to all of Texas and to the unbanked throughout the United States.

Opening an account at a financial institution is often impossible for foreign nationals who lack the generally required 2 forms of identification. As a consequence, they are often forced to use expensive check-cashing services to cash payroll checks and wire services to send money to relatives back home. In addition, these same "unbanked" foreign nationals have had to carry large sums of cash, which has increasingly made them targets of crime. The Mexican government has attempted to resolve this problem by issuing their own Consular ID cards. I should note that these cards are over 130 years old and have been accepted in the United States for quite some time. In March 2002, the Mexican government significantly improved the ID card by adding several security features, including those that are invisible except when exposed to infrared light. Acceptance of the Consular ID Card by local U.S. authorities and governments does not encourage illegal immigration.

The Consular ID Card is a proof of consular registration as established by the Vienna Consular Convention. Thus, the mere acceptance of this document as a means of identification does not constitute a violation of federal immigration laws, because it is not intended to aid or give foreign nationals in the U.S. confidence that they can continue to reside without documents in the United States. Moreover, Mexican consulates clearly explain the nature of the document to assure that Mexicans know that it does not regularize their immigration status.

To address the unbanked issue, I introduced on February 13th, H.R. 773, the 21st Century Access to Banking Act. This legislation will make several key reforms to the Patriot Act of

2001, which was enacted to safeguard our U.S. Banking System against terrorism. The key reforms include: (1) authorizing U.S. financial institutions to accept these Consular ID cards as valid identification for the purposes of opening an account; (2) bringing unbanked individuals into the U.S. Banking System; and (3) allowing for more efficient regulation of currency in the United States.

My legislation will allow these hardworking families to enter the mainstream financial system, thus enabling them to open checking accounts, savings accounts, establish a credit history and possibly even eventually purchase a car or home. Although my legislation runs on a parallel track to Treasury's recently promulgated Section 326 regulations, it goes further. It requires institutions to accept these cards. Consequently, my legislation would help improve our sagging economy by enabling these struggling families to avoid being preyed upon by sometimes unscrupulous check cashers and payday lenders, and instead permit them to enter the mainstream financial system, thus infusing our banks, credit unions and ultimately our economy with much-needed cash.

If they were denied use of the Consular ID Card, foreign nationals would not be able to open accounts at U.S. financial institutions and send remittances to their loved ones abroad at significantly reduced costs. Funds transferred from foreign nationals in the U.S. to their families allows them to purchase goods imported from the U.S, thus creating a rather desirable economic cycle.

The recent increase in competition for remittances by Wells Fargo, Citibank, Bank of America, Texas State Bank and the credit unions, particularly Security First Federal Credit Union represented here today by its CEO and my constituent Al Beltran, has helped reduce the cost of remittances these families send back to their loved ones. We should continue to encourage such activity.

Furthermore, improving and encouraging the development of financial literacy programs can only help increase the living standards of these nationals and of Americans in general. As I always say, education is the foundation for economic development. This hearing is a step in that direction.

There are numerous financial literacy programs out there: FDIC's Money Smart for adults in both English and Spanish; NCEE's K-12 program; ACB's *Money Rules* program; Fannie Mae's homeownership program in English and Spanish; Freddie Mac's Credit Smart Espanol; the SIA's online Stock Market Game; ICI's Investing for Success ; Operation Hope's Banking on Our Future and others that are improving financial literacy for our entire population.

I would especially like to commend the Independent Bankers Association of Texas for encouraging the Texas State Legislature to pass legislation requiring two semesters of financial literacy to graduate from high school.

Finally, I would like to acknowledge all the hard work put into this hearing by Carter McDowell, Dina Ellis, Kevin MacMillan, Karen Lynch and especially Jim Clinger of the Majority's staff and special thanks also to Jaime Lizarraga and Jeanne Roslanowick of Ranking Member Frank's staff. As a result of all their efforts, we have crafted a truly bipartisan hearing,

and I look forward to hearing the testimony of the witnesses.

I yield back the balance of my time.

DAVID SCOTT
13TH DISTRICT, GEORGIA

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## Subcommittee on Financial Institutions

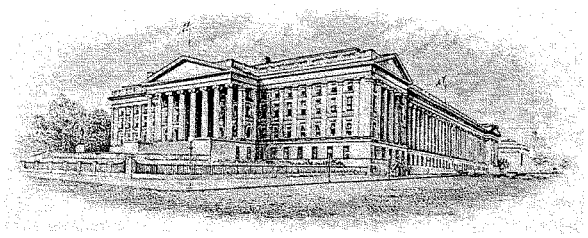
Congressman Scott
"Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"
June 26, 2003

**Opening statement:**

Chairman Bachus, Ranking Member Sanders, I want to thank you for holding this hearing today on initiatives to broaden access to the financial mainstream. I also want to thank you for giving me the opportunity to speak before your committee.

Yesterday, the annual survey of African American investors by Ariel Mutual Funds and Charles Schwab was released. It found that of black families with annual incomes of $50,000 or more, only 61 percent had money in the stock market compared to 79 percent for white families. Many of these middle class families were moving their money into their homes. But this must be a small group because from 1998 to 2002, African-American homeownership rates ony rose from 45.6 percent to 47.3 percent compared with the national average increase from 66.3 percent to 67.9 percent. With interest rates at historical lows, I believe that we must push even harder to help increase minority homeownership rates. But we cannot even begin to encourage low and middle wage earners to invest in the stock market or consider a home mortgage if they do not have basic economic understanding of savings and credit.

I have worked to coordinate and improve homebuyer education to prevent predatory lending in H.R. 1865, the Prevention of Predatory Lending Through Education Act. I would like to ensure that all investor education programs are targeted in ways that reach intended audiences and have a maximum impact. Many federal agencies, non profit groups, and private sector firms have public investor education plans. However, I believe that the unsophisticated consumer is not aware of these many overlapping programs and I believe that we can improve the delivery vehicle for many of these worthy programs. I would like for the Committee to determine if some of the financial literacy programs in federal agencies can be combined or streamlined to reduce overhead, reduce overlapping missions, and be easy to find in a one-stop shop, that even the unsophisticated consumer can find help. I would also like for the committee to continue to review the standards of investor education curriculum and discuss the best ways to help match investors with these programs. I look forward to hearing the testimony from today's panel.



# DEPARTMENT OF THE TREASURY
## OFFICE OF PUBLIC AFFAIRS

**Embargoed Until 10:00 am**
**June 26, 2003**

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**WAYNE A. ABERNATHY**
**ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS**
**U.S. DEPARTMENT OF THE TREASURY**
**BEFORE THE**
**SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**
**OF THE COMMITTEE ON FINANCIAL SERVICES**
**U.S. HOUSE OF REPRESENTATIVES**

Chairman Bachus, Ranking Member Sanders, and members of the Sub-Committee, I appreciate the opportunity to appear before you this morning to talk about an important issue: expanding access to mainstream financial institutions, such as banks, thrifts, and credit unions, for all individuals. Mr. Chairman, I commend you for focusing a national spotlight on this critical issue by convening today's hearing. I look forward to updating you this morning on the Treasury Department's efforts in this area.

The Treasury Department strongly believes that everyone should have the opportunity to establish a banking relationship with a regulated and insured financial institution. An account at an insured depository institution is a basic tool for individuals to build their own financial security.

While most Americans already have the comfort of keeping their money in insured accounts, other Americans use financial services of a different sort. They cash checks at a neighborhood storefront and pay bills in cash or with money orders. There may be a variety of reasons for this, but it is usually expensive, occasionally dangerous, and rarely the best option.

There are few reliable statistics available regarding the true size of the U.S. population who have no accounts with insured financial institutions. Some estimates indicate, however, that as many as one in ten families, or approximately ten million households, may not have bank accounts.[i]

Given the size of the population without mainstream financial institution relationships, the obvious question is why do so many people remain outside of the mainstream? Are they shut out of the system or have they made a conscious choice not to do business at traditional financial institutions? Surveys on this issue reveal varied responses to these questions.[ii] Some individuals cite financial reasons for not maintaining a bank, thrift, or credit union account; they say that bank fees or minimum balance requirements are too high. Other individuals suggest that they choose to use non-bank financial services because the types of accounts offered by traditional financial institutions do not meet their needs. For example, a person may not write enough checks or have enough month-to-month savings to make it worthwhile to maintain an account. Attitudes toward banks also appear to be a factor as a large number of people surveyed indicated that they are not comfortable dealing with banks or letting them know their personal financial information.

It is clear that there is no single reason that applies to all of the many people in the United States who do not have a relationship with a mainstream financial institution. It also seems clear that there is no single solution. Yet, because there are significant advantages to establishing an account at a bank, thrift, or credit union, the Treasury Department is committed to efforts whereby people have the knowledge to choose and the ability to access the financial services that in their view serve them best. Such choice, however, is illusory if people do not have accurate and adequate information, together with sufficient understanding of how to use that information, that will enable them to make educated decisions and access a range of financial services providers.

Consumers using non-bank financial services typically pay higher costs in the form of transaction fees for financial services than individuals with banking relationships. Recent Treasury research indicates that a worker can pay an average of $18 per month for cashing paychecks at a non-bank check casher.[iii] A Social Security recipient would pay an average of $9-16 a month to cash his or her government check. Relying on alternative service providers as a source of credit is similarly more expensive. The costs of loans from pawnshops, car-title lenders, payday lenders, and small loan companies can be very high as relative to the amounts borrowed.[iv]

Individuals also face heightened safety and security risks as a result of conducting financial transactions in cash. Carrying large amounts of cash is dangerous and keeping cash at home is not a whole lot safer. There have been a number of news stories describing how criminals have specifically targeted immigrants for robbery as they leave check cashing outlets because of the likelihood that these individuals are carrying a significant amount of cash.[v] And we are all familiar with tragic cases of people losing their life savings in fires because they kept it hidden in their homes in the form of cash.[vi] Unlike traditional depository institutions, alternative financial services providers cannot offer their customers insured deposit account products. Deposit accounts at insured financial institutions offer a safe place to keep money until the depositor is ready to spend or invest it.

It is not that we question the validity of products offered by alternative service providers. They can offer the advantages of immediacy and convenience, or other specialized services for specialized circumstances, for which the providers charge a premium. But America is in the

choice business. Rather than seek to close down legitimate alternative services providers, we would like to continue the progress in this nation of expanding the choices available to consumers, as well as consumers' ability to understand and make use of those choices.

Establishing a banking relationship is taking a key step toward building a promising financial future. Individuals lacking basic financial services may have a reduced ability to manage their finances, and may be limited in planning and saving for the future. Without a banking account, it is nearly impossible to establish a strong credit record, which in turn is necessary to qualify for a good car loan, home mortgage, or small business loan at reasonable rates. A traditional banking relationship offers the account holder an opportunity to become familiar with fundamental financial concepts that are critical in asset building, and bank accounts are tools to help families establish and fulfill their savings goals and manage their money. And saving is the foundation for investment.

Greater use of mainstream banking services also aids in our country's fight against money laundering. As individuals move their money from informal financial services providers and rely more upon safer, insured depository institutions, the funds are removed from paths more likely to be frequented by those engaged in illegal activity.

The Treasury Department's most visible initiative to provide greater access to financial services is the First Accounts program. Through this program, Treasury has funded projects to connect low- and moderate-income individuals with mainstream financial services. The paramount goal of First Accounts is to assist a maximum number in establishing accounts with insured depository institutions. The fifteen First Accounts pilot programs provide an opportunity for Treasury to evaluate a variety of experiments intended to increase participation in mainstream financial institutions.

Additional goals of the program include the provision of financial education to the individuals served by the pilot programs to enhance the sustainability of the new financial relationships. Having relatively recently completed award allocation, our next step is to undertake research to evaluate the success of the funded projects and to understand what products, services, educational initiatives, marketing techniques, or incentives are most effective in achieving the goals of the First Accounts program. Although it is too early to predict because many of the projects have not yet reached their midway point, the Treasury Department has great hope that the pilot programs funded through First Accounts will provide a wealth of practical insight on how to develop replicable, self-sustaining programs for assisting a significant number of individuals to establish banking relationships with insured depository institutions.

Let me also highlight some other initiatives that Treasury is working on related to this effort. First, we have a number of activities underway that are aimed at improving financial education. A key function of the Office of Financial Education is to identify sound, effective financial education programs around the country and highlight their efforts. Many of the individuals who need these programs do not even know about them. The attention that the Treasury Department can bring to the programs will help connect individuals in need to good financial education programs. In addition, these financial education programs will then serve as examples for other programs. For instance, earlier this week, Treasurer Rosario Marin was in

Columbus, Ohio, to recognize the Ohio Credit Union League's Latino Financial Literacy Program, which has provided classes for more than 200 Hispanics in the Columbus area. The program includes many of the criteria that we have identified for effective programs, especially the inclusion of tools to measure results, and hopefully this program will expand throughout Ohio.

Our financial education initiatives at the Treasury Department are an important component of a larger, government-wide effort. We have been privileged to partner with some of the other agencies and departments engaged in financial education efforts, including the Department of Education and the Federal Reserve Board. And, when testifying on the subject of financial education last year, we provided information about no fewer than 10 federal departments and agencies, including the Treasury Department, the Federal Deposit Insurance Corporation, the Social Security Administration, the Department of Housing and Urban Affairs, and the Department of Labor, that do an excellent job in offering a wide variety of financial education programs and resources.

An additional Federal program that is supported by the Administration and contributes to the goal of moving individuals into the mainstream financial services sector is the Electronic Transfer Account (ETA) program. The ETA program, which is administered by Treasury's Financial Management Service, provides low-cost electronic bank accounts to Federal benefits recipients. To date, the ETA is offered in every state, the District of Columbia, and Puerto Rico through approximately 600 banks with more than 18,000 branch locations. Treasury plans to continue to examine the benefits of the ETA programs and, if necessary, make recommendations to the Administration and Congress on how to coordinate its ETA efforts with First Accounts to ensure that the participants in the program receive valuable services in the most cost-effective manner.

Another topic that is might be overlooked in this discussion is the remittance activity of many people in this country. The Inter-American Development Bank estimates that Latin American immigrants living in the United States send an average of $200 to their native countries an average of seven to eight times per year.[vii] These remittances have reached a level that surpassed $32 billion last year – approximately one third of total worldwide remittances.[viii] Many immigrants send remittances through a small number of alternative financial services providers. Limited competition in the remittance industry has contributed to high remittances costs. Although remittance charges have declined in the past two years, as we have encouraged greater competition, they still range from $15 to $26 for a typical $200 remittance. The cost varies depending on the type of institution used to send the money and the country where the money is being sent, but it can often exceed 20 percent, when transmission fees and exchange rate cost are both factored in.

But this is changing. With our encouragement and support, more and more traditional financial institutions and credit unions are recognizing that there is a concrete opportunity to attract a diverse consumer base by offering low cost remittance products. Offering remittance features as part of bank accounts can be an important marketing tool in reaching out to migrant workers. One important product that banks and credit unions can offer that money transmitters cannot is a federally insured checking or savings account. This can lay the foundation for new

customers to save and build assets, establish a banking relationship, and learn about important tools in personal finance. At the same time, the increased competition will result in lower remittance costs. We support these and other efforts to make the process of sending remittances more affordable for the people who send them – most of whom are low-wage earners -- and those who receive them, people who often are in very great need.

Through our efforts in the Partnership for Prosperity with Mexico, we have encouraged the entry of new providers into the US-Mexico remittance market. The results have been dramatic, with transfer costs falling by more than half on some new product offerings. We see an increasing range of financial institutions entering the market, with innovative product ideas.

In closing, I would like to commend the efforts of the many banks, credit unions, and community- and consumer-based entities and groups – some of whom are represented on the panel that follows me this morning – who have recognized the problems faced by the segment of the population who do not have relationships with depository institutions and which institutions have undertaken innovative initiatives to bring these individuals and families into the financial mainstream.

Expanding access to financial services is a non-partisan issue that contributes to improved financial well being, particularly among many low- and moderate-income individuals. Opening an account at an insured depository institution provides the account holder with a number of benefits: the opportunity for wealth building; lower costs for financial services; security; knowledge of and familiarity with the fundamentals of personal finance; and the chance to build a credit history and qualify for credit on better terms. Because of these benefits, Treasury is committed to promoting policies that will encourage individuals to establish traditional account relationships with insured banks and credit unions.

To accomplish this goal, Treasury has focused on both educating individuals about the benefits of opening and maintaining deposit account and persuading depository institutions to expand and tailor services for this segment of the population. Thank you for the opportunity to appear here today. I look forward to working with Committee on these issues in the future.

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[i] James T. Moser, *Fostering Mainstream Financial Access: www.chicagofed.org/unbanked*, Chicago Fed Letter, Number 162, (Feb. 2001) (http://www.chicagofed.org/publications/fedletter/2001/cflfeb2001_162.pdf).

[ii] John P. Caskey, *Bringing Unbanked Households Into the Banking System*, Capital Xchange (Jan. 2002) (http://www.brook.edu/dybdocroot/es/urban/capitalxchange/article10.htm).

[iii] Moser, *supra* note i.

[iv] Caskey, *supra* note ii.

[v] *CUs Testify Provisions of the Patriot Act Could Harm Immigrants*, Credit Union Journal (Feb. 25, 2002).

[vi] Angela Shah, *Money in the Bank: Accounts Helping Wary Immigrants Park Cash Safely, Send It Home*, The Dallas Morning News (Aug. 19, 2001).

[vii] *Remittances to Latin America and the Caribbean*, Multilateral Investment Fund/Inter-American Investment Bank (Feb. 2002)(http://www.iadb.org/mif/website/static/en/study3.doc).

[viii] *Sending Money Home: An International Comparison of Remittance Markets*, Multilateral Investment Fund/Inter-American Investment Bank (Feb. 2003) (http://www.iadb.org/exr/prensa/images/RoundTablesFEB2003.pdf).

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

**STATEMENT OF SHEILA BAIR**
**DEAN'S PROFESSOR OF FINANCIAL REGULATORY POLICY**
**UNIVERSITY OF MASSACHUSETTS**

**June 26, 2003**

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 necssary 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.

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**WRITTEN TESTIMONY OF**
**Al BELTRAN**
**PRESIDENT AND CEO**
**SECURITY FIRST FEDERAL CREDIT UNION**
**MCALLEN, TEXAS**
**ON BEHALF OF**
**CREDIT UNION NATIONAL ASSOCIATION (CUNA)**
**BEFORE THE**
**HOUSE FINANCIAL INSTITUTIONS SUBCOMMITTEE**
**ON**
**"SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM"**

**June 26, 2003**

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**June 26, 2003**

Good morning Chairman Bachus, Ranking Member Sanders, my good friend, Rep. Ruben Hinojosa, and members of the Subcommittee. I am honored to appear before you this morning to present testimony on the plight of the "unbanked" and "underserved." I am Al Beltran, President and CEO of Security First Federal Credit Union, a $137 million community-chartered credit union serving nearly 21,000 members in McAllen and the Rio Grande Valley of South Texas. I appear before you today on behalf of the Credit Union National Association (CUNA), which represents over 90 percent of the nation's approximately 10,400 state and federally chartered credit unions and their 83 million members.

In holding this hearing, Chairman Bachus, along with Rep. Hinojosa and other Subcommittee members, implicitly understand that approximately 10 percent of households in the United States are "unbanked," and that most of these individuals predominantly come from low-income households and often must utilize high-cost services offered by fringe financial service providers in order to conduct routine transactions such as check cashing and bill payment. In addition, the "unbanked" have had a difficult time establishing traditional forms of credit, receiving bank loans, acquiring financial assets and saving for the future.

My testimony this morning will focus not only on the efforts of Security First to serve the underserved, but also on those of credit unions across the nation. I will describe several programs designed to attract and retain the unbanked. Before I do that, however, I would like to summarize a recent study undertaken by CUNA, as well as a paper published by the Filene Research Institute.

**"Serving Members of Modest Means" Survey Report (CUNA Market Research Department, 2003)**

The "Modest Means" survey was conducted by CUNA's Research and Advisory Services department, and was completed in January, 2003. The study's primary objectives were to

identify the types of financial services that credit unions make available to low - and moderate-income households (i.e., consumers with household incomes of $40,000 or less), and to document the types of activities and initiatives that had been undertaken by credit unions to serve members and attract potential members of modest means.

This study provides a valuable snapshot of "the current state of affairs" with respect to credit unions' efforts to meet the financial needs of low- and moderate-income consumers. Survey results reveal that many credit unions are proactively taking a wide variety of steps to serve their current members of modest means, and to persuade more potential members in this group to join the credit union

A number of credit unions, overall – including roughly 50 percent to 75 percent of credit unions with assets of $20 million or more – provide programs that are geared primarily to low- and moderate-income members, programs such as check-cashing services for members, money orders, financial counseling/debt counseling, and risk-based lending. Additionally, offerings such as loan- and savings-related financial management seminars, special home mortgage programs, and partnerships with community organizations that serve those of modest means, while provided by no more than about 15 percent of all credit unions, can nonetheless be found in upwards of 40 percent of expansion credit unions.

Other signs of credit unions' efforts to meet the needs of those of modest means include the findings revealing that one in three credit unions will open a share certificate account for as little as $100 (or less) and that an identical proportion will grant a member a loan for as little as $100 (or less).

Credit unions have also participated, in large numbers, in a wide variety of activities and initiatives designed to attract low- and moderate-income members and potential members. Reaching out to this market through newspaper ads and becoming involved – financially and/or through committing human resources – in community events and local organizations (e.g., church groups, clubs, etc.) head the list of activities that most credit unions have already been involved in.

Finally, findings reveal that – consistent with the "people helping people" credit union philosophy – many credit unions proactively seek out and provide assistance to credit unions that serve primarily low- and moderate-income members so that these assistance-receiving credit unions can, in turn, better serve their membership.

One in four credit unions (27 percent) have provided some type of technical support/staff, training, equipment, financial and/or other assistance to credit unions that serve predominantly low- and moderate-income members sometime in the past three years – with many of the support-providers supplying multiple types of aid.

Turning the focus exclusively to those credit unions that have added underserved areas, we find that although the vast majority of these areas have been served for just one year or less, they have already made significant inroads into serving those areas.

We estimate that after only an average of 7.3 months of service per area, the 256 credit unions that served 470 such areas as of May 31, 2002, served 615,000 members from those areas. These members had a total of $2.1 billion in savings at the credit union and $2.9 billion in loans as of June 30, 2002.

These credit unions also indicate that they have been more successful in attracting the low-income consumers from their underserved areas than the higher income ones. Although about 25 percent of their potential underserved-area members have household incomes of $20,000 or less, this low-income group accounts for almost 35 percent of the underserved-area members they have actually been able to attract to the credit union.

Additionally, these credit unions indicate that the potential members within their underserved areas account for one-third of all of their credit union's potential members, and that their actual members from the underserved areas account for nearly 5 percent of their entire membership.

Clearly, credit unions, as a whole, have established a solid foundation for serving the financial needs of consumers of modest means. As with most worthwhile and ambitious initiatives, however, there are also opportunities for credit unions to further improve upon their current efforts and successes with respect to this group. That is, one can argue that "more is always better," when it comes to the types of financial programs offered to, and the degree of effort put forth to attract, consumers of modest means.

**"Serving New Americans: A Strategic Opportunity for Credit Unions" (Filene Research Institute, 2003)**

This paper incorporates presentations at a colloquium at the University of California, San Diego earlier this year. The presenters stated what has become very obvious to most sophisticated observers: "There's a powerful force exerting itself on the U.S. economy, promising tremendous opportunities for those nimble enough to recognize and respond to it. That force is a population of more than 33 million immigrants—New Americans who are reshaping our society."

The presenters concluded that "Every credit union can respond to the opportunity presented by increased immigrant populations, regardless of its size, field of membership, or geographic location." Among the recommendations were: understand the market; develop services for unbanked immigrants; offer low-cost remittance services; provide access to savings accounts; explore small loan and mortgage programs; provide education and special communications programs; and staff properly.

**Current Credit Union Efforts to Serve the Underserved**

The suggestions in the Filene Study are not unique to serving immigrant populations. They are equally applicable to serving all those currently unbanked. Following are some of the programs currently employed by credit unions in an effort to provide their services as broadly as possible to their members.

**First Accounts**

CUNA is strongly committed to the principle of access to financial services by consumers, including those of modest means, and supports the Treasury Department's First Accounts Program, which is designed to make basic financial institution accounts available to low- and moderate- income consumers.

According to the Federal Reserve Board's 1998 Survey of Consumer Finances and the Treasury Department's Notice of Funds Availability regarding First Accounts, almost one family in ten in this country does not have a share draft/checking account or a savings account. These families generally have annual incomes of less than $25,000.

There are many reasons why an individual may not have an account with a financial institution. These include lack of awareness about the importance of efficient management of their financial resources – however meager – and how institutions, like credit unions, will provide financial counseling, education and guidance to help individuals develop financial plans to maximize their funds and plan for the future. Financial education is a hallmark of the credit union system and credit unions offer such education through a variety of programs that are described throughout my testimony.

Individuals, such as immigrants, may also be reluctant to approach a financial institution because they fear they lack proper documentation. This may become even more problematic as the Treasury Department implements the "Know Your Customer (Member)" rules under the USA PATRIOT Act. We are pleased that these rules as recently adopted will not have a chilling effect on the ability of immigrants to fully participate in our society, including through the use of financial institutions, although we are more recently concerned with new efforts to curb the use of *matricula consular* and to require photocopying of driver licenses and other forms of identification. CUNA will be filing a very strong statement with the Treasury Department and the National Credit Union Administration (NCUA) shortly to urge those agencies to retain provisions in the final rule that provide for the voluntary, not mandatory, use of photocopying and authorize *matricula.*

Without access to these very basic services, such individuals are severely limited in the choices they have to conduct the business of their daily lives. They are likewise disadvantaged in preparing for the future. Recognizing there is a role for the federal government to play in helping to address this situation, Congress last year appropriated a modest amount of money for the First Accounts program implemented by the Treasury Department.

Under the program, Treasury provided grants to eligible entities, such as credit unions, to offer low-cost savings and share draft/checking accounts to low- and moderate-income consumers. Such accounts could be offered electronically, such as through an ATM, and ideally would also be accompanied by financial education to encourage the use of the account and highlight its advantages.

We are gratified that Treasury has reached out to credit unions and granted nearly half of its grants for First Accounts to credit unions. One of those awards was through through CUNA's National Credit Union Foundation (NCUF) for $1.4 million. Over 50 credit unions, located in Texas, New York, California, Washington, Oregon, Idaho, Montana, and South Dakota, have moved over 500 unbanked into their first credit union account. To achieve this goal, credit unions have embarked on aggressive, innovative financial literacy campaigns. For example, in Washington, the Washington Credit Union League Foundation hired a team of bi-lingual Latinos, with the support and participation of local credit unions, to present financial literacy training in Spanish to local community organizations in Latino communities. In Montana, the Montana Credit Union League Foundation, working with local rural based credit unions, has held financial literacy workshops for rural Native American organizations. In Texas, the El Paso Affordable Housing Credit Union Service Organization holds weekly first time home buyer workshops for most low-income Latino organizations located throughout El Paso.

**Remittances**

CUNA, along with the World Council of Credit Unions (WOCCU), has for a long time recognized the desperate need for affordable remittance services and the difficulties in providing these services. This recognition has resulted in an aggressive effort by credit unions to address these needs.

There is a growing population of Hispanic and other individuals in this country who for one reason or another are not able to utilize traditional financial institution services. These individuals frequently send their hard-earned pay to parents, children, brothers, and sisters in Mexico or other homelands. Those who do not have access to a credit union or other financial institution must use wire services that charge outrageously high fees to execute the transaction.

I am proud to say that Security First Federal Credit Union has been offering its members the opportunity to wire money back to Mexico and uses the WOCCU service called International Remittance Network (IR*net*®). This service saves our users at least one-third the cost of using a high-cost money transfer agent. Our credit union has many individuals in our field of membership with familial ties to Mexico, and we know they send funds to relatives in Mexico using wire transfer services that charge as much as 28 percent of the amount transferred. By providing IR*net*® services, we offer members an inexpensive way to wire money to family in Mexico, or in 42 other countries, at an affordable price. For peace of mind, members also receive a free three-minute phone call to inform the recipient of the transfer. The program has shown moderate success.

CUNA is very excited about a recently announced partnership that should significantly enhance the IR*net*® product. CUNA has entered into an agreement with WOCCU and Travelex to make remittance services more broadly available to credit unions and those they serve in the U.S. The new program, retaining the name IR*net*, gives credit unions the option of using Travelex' Worldwide Money Remittance system or the Vigo Remittance service. It means that U.S. credit unions can provide international money remittances to their members and potential members even more efficiently and economically. Credit union members will also have access

to many of Travelex' other low-cost products. Using IR*net*®, credit union members are able to send up to $1,000 instantaneously to Mexico for $10. While some newer services charge less up front, the IR*net*® product does not charge foreign recipients any fee for accepting transfers, and offers exchange rates that are consistently better than the competition—about 1.35 percent below interbank rates. And with its new partnership with Travelex, plans are currently in the works to introduce a new ATM card product that promises to save remittance senders even more money.

While many credit unions are leading the way in ensuring that immigrants have access to affordable remittance and financial services, these efforts could be significantly enhanced if Congress would amend the Federal Credit Union Act to allow credit unions to provide these services to non-members within the field of membership. I am very excited that the House of Representatives has initiated legislation to do just that. H.R. 1375, "The Financial Services Regulatory Relief Act of 2003," which has been reported out by the full House Financial Services Committee, provides credit unions the authority to cash checks and provide remittance services for non-members within their field of membership. Having the authority to cash checks and provide wire transfer services to non-members within the field of membership would further enhance the ability of credit unions to reach the "unbanked" and "underserved" and provide an affordable and financially sound alternative to high-cost payday lenders. It would allow credit unions to play an even more important role in combating predatory lending practices. And by getting the "unbanked" in the door with these services, we would hope to gain their trust, respect, and loyalty so that they would join the credit union as full-fledged members. We are grateful to Representatives Ose, Gonzalez, and Gutierrez for their leadership on this important initiative.

I am also pleased to inform you that CUNA is in the process of considering a set of voluntary principles, or guidelines, in the areas of disclosure, advertising, and services. These will be designed to assist credit unions in providing wire transfer services in an open and truthful manner.

**Matricula Consular**

On March 26, John Herrara of Latino Credit Union in Raleigh, North Carolina, presented testimony on behalf of CUNA and WOCCU before the Congressional Hispanic Caucus on the role of *matricula consular* at financial institutions. Much of what I will discuss today in relation to *matricula* is borrowed from that statement.

CUNA is aware of at least 56 credit unions in 17 states that currently accept the matricula consular ID card and expect that there are many others that we are not aware of that accept this form of ID. In addition, CUNA is very concerned about some current efforts to discredit the use of *matricula*. We also have formally adopted a position to oppose any legislation prohibiting the use of the matricula or other similar government-issued ID, and support legislation allowing its use for financial institutions or for general purposes. In that regard, we congratulate Rep. Hinojosa on the introduction of H.R. 773, "The 21st Century Access to Banking Act."

Those credit unions that are accepting the *matricula* as a valid form of identification are doing so based in part on the following:

- There is no statutory or regulatory prohibition.
- The due diligence performed on the IDs provides us with reasonable assurances to the authenticity of the document presented.
- Local boards of credit unions have made the decision to accept the IDs.

**No Legal Prohibitions**

We have uncovered no federal statutory or regulatory prohibitions against accepting a *matricula* for identification purposes associated with member accounts. In addition, on July 23, 2002, the Treasury Department and federal financial institution regulators jointly published the proposed rule implementing Section 326 of the USA Patriot Act. This provision requires the regulators to implement rules detailing the minimum standards for identification of individuals that open accounts. We commend the Treasury Department's efforts to achieve a balanced approach in this proposed rule. The proposed rule does not discourage acceptance of the *matricula* and provides a framework for local decisions based on what is reasonable for each financial institution. Please bear in mind, financial institutions are not required by law to accept drivers' licenses specifically for opening accounts. And we do not believe that we should be required to accept the *matricula*, passport or other form of ID, but rather each financial institution should be provided with the authority to determine what types of identification it will accept. We appreciate Treasury's willingness to consult with financial institutions in finalizing the rules for account opening procedures. But let me repeat—CUNA is concerned that in response to some Congressional resistance, that Treasury is reviewing its position on *matricula*.

**Due Diligence**

Prior to broad acceptance of the *matricula* ID and CUNA's position on it, credit union officials at national and local levels performed sufficient due diligence. We met with local consulate generals, members of President Fox's cabinet, the Mexican Ambassador to the United States and President Fox to discuss and understand the document.

Following these discussions, there was a review of the seven security protection devices included in the enhanced *matricula*, including scrambled indita, Advantage Seal stamped photos, numbered telsin paper, and hologram logos. These security features ensure that the *matricula* is as secure a document as any U.S.-issued identification, enhancing the certainty that the member is who they say they are.

**Local Decisions**

We believe that boards of cooperatively and locally owned financial institutions have sufficient information to serve the diverse needs of their communities. A case in point is with John Herrara's home state of North Carolina. In the past decade, the Latino population of the state has grown more than 400 percent as immigrant workers helped expand businesses such as furniture plants and construction. In 1997, officials from Duke University Hospital contacted

area Latino leaders to try to identify why so many members of our community were ending up in the hospital.

They realized most of these newcomers were unbanked. Criminals were targeting Latinos for robberies and assaulting them as they left the check cashers on payday. For example, Federico Ñañez was gunned down in front of his apartment and robbed of his week's pay of $500. Francisco managed to escape death, but was left paralyzed in a wheelchair for the rest of his life. Federico and many others victims like him became members of the Latino Community Credit Union. With the support of regulators, local law enforcement officials, banks, other credit unions and the community, the Latino Community Credit Union was launched in June of 2000. Today it has over 12,000 members who have deposited over $4.4 million – not just saving money, but saving lives. Ninety percent of its members are immigrants and the vast majority are low-income.

Two-thirds of Latino's members have never had a financial account in their lives – neither here in the U.S. nor in their home countries – and are working long hours at multiple jobs to help support family members abroad. This is not unique to North Carolina. Nationwide, approximately 60 percent of all Latino immigrants do not have access to financial institution services, compared to 10 percent of the total U.S. population that is unbanked. Many credit unions have decided to accept the *matricula*, and while not required by law or regulation, some of them also require one additional form of ID with the presentation of the *matricula* to further authenticate the individual. This is a common practice by financial institutions.

**Commitment to Stopping Terrorist Financing and Serving the Underserved**

Credit unions believe that ensuring access to financial services for all immigrants and shutting down terrorists are not competing, but rather complimentary, objectives. It is clear that part of the reason so many immigrants remain unbanked is because the nation's financial institutions are unsure if, and how, they can provide service to documented and undocumented immigrants. The lack of certainty in the current regulatory environment results in many banks not welcoming immigrants. The immense majority of immigrants are here: to work, to prosper, and to live the American dream.

Credit unions and other financial institutions comply with the Office of Foreign Asset Control's (OFAC) requirements to check names of new members against its Specially Designated Names (SDN) and the block country list. We do this on a real-time basis for all our international money transfers – a popular service among our membership. Our government has identified the individuals on this SDN list as a potential threat to the U.S.

We certainly appreciate the importance of meeting our compliance responsibilities, particularly after September 11 and given the current war. However, given these requirements we already face, it is imperative that policymakers do not develop rules that will result in unreasonable obstacles to serving our members.

Again, we want to work with Treasury and Congress to develop an approach to this issue that will not have a chilling effect on the ability of underserved individuals to use a traditional financial institution. Otherwise, we will undoubtedly lose them as they head back to the usurious practices of money transfer companies, check cashers, and payday lenders.

**Individual Development Accounts (IDAs)**

I am proud that many credit unions are among the leading providers of Individual Development Accounts (IDAs). One of the purposes of this hearing is to address the inability of the "unbanked" to acquire financial assets and save for the future. If ever there was a product developed to serve exactly that purpose, it is the IDA. And if ever there was an institution developed to provide these accounts, it is the credit union, whose mission of "People Helping People" fits perfectly with the goal of IDAs.

IDAs are savings accounts with the added benefit of matching funds by government and private organizations. Participants must meet certain requirements such as, income qualification (usually 200% below the poverty level), and attendance at educational sessions. Each participant sets a savings goal for a specific purpose. The funds can only be used for the purposes of buying a first home, education and/or to start a small business.

Legislation currently before Congress would greatly enhance the number of IDA accounts in existence within credit unions and other financial institutions. The Savings For Working Families Act (SWFA) has been introduced both as a free-standing bill and incorporated within other legislation. The Senate has passed its charitable giving bill, which includes the SWFA, while H.R. 7, the Charitable Giving Act of 2003, does not yet include the IDA provisions. H.R. 7 is currently pending before the House Ways and Means Committee. Essentially, the SWFA would provide tax credits for matching funds to IDA accounts, dramatically increasing the market for IDAs. I urge the House to support this very important initiative.

**Financial Literacy**

Credit unions recognize that it is necessary to offer some form of financial literacy training to successfully integrate the "unbanked" into the financial mainstream. We also believe that similar to a "continuing education" requirement for many professionals such as doctors and lawyers, consumers require similar continuing financial education to help them navigate the many pitfalls and opportunities available to them. That is why credit unions have traditionally made financial education a part of their mission. Credit unions, including Security First, provide financial information and training to members on a one-to-one basis. Many credit unions actively work in schools to teach personal finance skills to children and teenagers. Security First actively sponsors community and school-based educational programs and seminars, providing individuals with resources such as: how to maintain a checking account; how and what to look for when purchasing family transportation; how to complete a mortgage loan application; what is involved when applying to finance or repair a home. We also provide credit union staff as volunteers to read to elementary school children, participate in the "Partners in Excellence"

program with the local school district, and provide scholarships to needy high school students to attend institutions of higher learning. All these services are provided at no cost and are open to credit union members and the community it serves.

At the national level, CUNA has formed a national partnership with the National Endowment for Financial Education (NEFE) and the cooperative Extension Service to teach the High School Financial Planning Program® to high school seniors across the nation. CUNA underwrites the cost of printing course materials that are offered free of charge to any school requesting them, and credit union staff volunteer to either teach the course itself, or to train teachers how to teach it.

In addition, CUNA's National Credit Union Foundation, with support from the Ford Foundation, implemented a nationwide financial literacy campaign called "Plan For It. Save For It" to address the need for increased savings among low-to-moderate income families. More than 4,000 credit unions currently use the "Plan For It. Save For It" guide to increase savings among low-income credit union members. In addition, financial literacy training contributes to the creation of a local communities entrepreneurial class.

**Affordable Housing**

Many credit unions are engaged in programs designed to provide low and moderate income members access to affordable housing. Some credit unions have their own programs, others partner with local organizations, and still others partner with CUNA's Nationals Credit Union Foundation. The Foundation sponsors a unique approach that combines access to affordable housing with wealth building.

The connection between wealth creation and homeownership is well documented. Less understood, however, is the enormously important role that homeownership plays in financing small business development. According to the Fannie Mae Foundation, the vast majority of new business starts are financed not by the Small Business Administration or from local or state funded loan programs, but through the tapping of home equity. Thus, the Foundation provides funding to a number of affordable mortgage lending programs which are designed to educate (homeownership counseling) and offer low-to-moderate income individuals access to first time home buying expertise and mortgage finance. For example, the Foundation provided funding for the creation of an Affordable Housing Credit Union Service Organization (AHCUSO), which is owned by eight local El Paso, Texas credit unions and provides affordable mortgage products to the mostly Latino low-income community of El Paso. Other key partners include Fannie Mae, the El Paso Housing Authority, and a number of local Latino service and religious institutions.

Since its inception in the spring of 2003, the AHCUSO has closed on over 40 loans made to low-wealth Latino homebuyers that live, work or worship in the field of membership areas of the El Paso credit unions. More importantly, over 600 low-wealth Latinos have completed intensive one-on-one homebuyer training classes offered by the AHCUSO in local churches, community centers, and housing authorities.

**Credit Unions Combat Predatory and Payday Lenders**

Over the past decade, high-cost credit facilities, such as payday lenders and subprime mortgage lenders, have flourished across the country, particularly in underserved areas. Unfortunately, many of these lenders incorporate predatory practices into their programs, such as exorbitant fees and interest rates, frequent "flipping" of the loans to needlessly increase costs, undisclosed balloon notes and unnecessary insurance premiums.

Credit unions have stepped up their efforts to combat predatory lenders in neighborhoods by offering affordable alternatives for both payday loans and mortgage loans.

A "payday loan" refers to the use of a post-dated check to receive a small loan until the next payday. Generally, the annual percentage rate for a payday loan is more than 400 percent.

The demand for these payday loans continues to increase, and there are now more payday lenders across the country than credit unions.

To reverse this disturbing trend, credit unions have developed affordable alternatives to the high-cost payday loan. For example, some credit unions offer their members up to $300 at 18% with up to six months to pay back the loan, as long as the member has direct deposit. Some credit unions offer emergency loans, for specific purposes, with no fees or interest attached. Some credit unions have opened facilities in underserved neighborhoods to offer not only small unsecured loans, but low-cost check cashing, affordable money orders, bill-paying services, bus tokens, and free credit counseling.

Credit unions also have developed a variety of subprime lending programs to help consumers build credit, get into homes with as little as 1% down, and pick up smart credit habits as they reduce their loan rates. For example, one credit union program offers subprime loans at 2 percent or 4 percent above normal rates, depending on collateral. The credit union drops this subprime rate to the prime rate when the borrower has made 12 on-time payments.

Another credit union program offers its subprime borrowers several ways to reduce their interest rates. For example, attending one consumer credit counseling class reduces the rate by 1/2 percent; attending more than one class will reduce the rate by 1 percent; depositing $15 a month into a savings account for a year reduces the rate by 1/2 percent; and for each year the debt does not increase, the rate drops 1 percent.

Credit unions are uniquely positioned to help combat these practices, particularly if given additional tools to do so.

**Conclusion**

In conclusion, I have mentioned several programs that credit unions are participating in to bring the unbanked into the financial mainstream. I would like to enter into the record booklets describing some of these programs.

On behalf of CUNA, I am grateful for the opportunity to have commented on the plight of the "unbanked" and "underserved" and how Security First Federal Credit Union and credit unions across the country are trying to reach out and bring them into the financial mainstream. There is no more pressing need in my opinion, for it is only through economic opportunity that we can solve many of the problems facing our nation's poorest and most deprived individuals. I have witnessed first-hand that poor people want to work and know even with a little bit of savings they can grow and thrive. Whether it is through the First Accounts Program, affordable housing programs, enhanced IDAs, expanded opportunities to serve their communities, or financial literacy, credit unions stand ready to meet this very important challenge.

***TESTIMONY BY***

**JOHN BRYANT**
**FOUNDER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER**
**OPERATION HOPE, INC.**

**TO THE**

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

**HEARING ON "SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM:**

**U.S. CAPITOL HILL, WASHINGTON, DC**

**TUESDAY, JUNE 26, 2003**

Good morning. I am indeed honored to be here before you today. Thank you, *Chairman Bachus*, Subcommittee on Financial Institutions and Consumer Credit, and all the members that comprise the Subcommittee and U.S. House of Representatives Committee on Financial Services, for the kind invitation.

I want to take a moment in particular to acknowledge those Members of your Committee from the Great State of California, namely Congressman Edward R. Royce (R), Congressman Doug Ose (R), Congressman Gary Miller (R), and Congresswoman Barbara Lee (D), Congressman Joe Baca (D), Congressman Brad Sherman (D) and Congresswoman Maxine Waters (D).

**The Silver Rights Movement**

How concerned should America be if approximately 80% of its annual economic activity was tied to the U.S. consumer? Very -- because it is true.

How concerned should the President and this Congress be, if some propose that we manage our own Social Security Accounts when a good number of us cannot responsibly manage our own bank accounts? Very -- because it is true.

How concerned should economist and policymakers be, if billion of dollars in yet unrealized taxable income and other tax receipts were effectively being "left on the table," so to speak, in urban, inner-city, rural and other low wealth communities; because people don't know better and as a result, find it hard if not impossible to "do better?" Very – because it is true.

How concerned should all of us be that American citizens filed more than 1 million actions for Bankruptcy protection in 2000, and more than 1.5 million actions in 2001, with the largest group of Bankruptcy filers being youth between 18-24 years of age? Very – because it is true.

But not all news is alarming news. I come with good news too, and I call it the Silver Rights Movement. I have a vision for America, and all of Americans, in all of the under-served regions of America, and it is called the Silver Rights Movement. "From the strong roots of 20th century civil rights, grows the foundation and strength of and for 21st century silver rights."

***"If the 20th century was marked, both here and abroad, by issues related to race and the color line, then the 21st century will be marked by issues of class and poverty." John Bryant.***

Let me frame the issues, as I see them.

Today's indicators strongly suggest that in spite of the destabilization of the stock market, the lingering recession and what appears to be a mostly jobless (economic) recovery, the rich are getting richer (statistically based), the poor are arguably getting poorer, and it is harder for the average person, simply to *remain* "middle class."

30 short years ago, middle class meant one parent working, and one parent raising our children at home, as a sort of "domestic engineer." Today middle class most often means two parents working, and the television set and popular culture is raising our children, in our place.

According to a 2001 study by CNN, half of all Americans, be they black, white, red, brown or yellow, are living from paycheck to paycheck. Effectively one paycheck away from poverty.

Against this backdrop we have another phenomena of the 21st century. The penta-millionaire. According to USA Today there are 600,000 penta-millionaires in America today (individuals with a net worth of $5 million or more, not including their primary residence), and according to their data, there will be **four million penta-millionaires by 2004**.

And then you have the poverty;

An estimated 65 million Americans, or 10 million households, have no traditional banking relationship. According to new Census Bureau data for 2001, 33 million Americans are dirt poor in this, the richest nation in the world. That's more than the combined population of the District of Columbia plus 21 states: Alaska, Arkansas, Delaware, Hawaii, Idaho, Iowa, Kansas, Maine, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Mexico, North Dakota, Rhode Island, South Dakota, Utah, Vermont, West Virginia and Wyoming. According to the 2001 Census, child poverty rates were 16.3 percent (one out of six children) in 2001. In contrast, child poverty rates were 14.4 percent in 1953, and a low of 14 percent in 1969.

Median incomes are going down. Median pre-tax household income fell by more than $900 from $43,162 in 2000 to $42,228 in 2001. In fact, income dropped everywhere but the top. The average income of the top 5% of Americans *actually rose* from $259,445 in 2000 to $260,464 in 2001; and respectfully, this number is understated because the Census Bureau excludes capital gains income, for example, which goes disproportionately to the wealthy.

According to the United Nations, five billion of the more than six billion individuals inhabiting and sharing our planet live on less than $1 dollar per day.

And then you have, our children.

According to the Jump$tart Coalition, more than one million Americans file for bankruptcy every year, with the largest group being young adults between 18-24 years of age. In my opinion, these are not principally minority youth, but middle-class, white college students. Young people who also were not given any economic literacy education growing up in fairly affluent families; and today they unfortunately believe that credit card limits equate to "free money," and a check is a form of credit. They

are paying for the pizza with a credit card, and are increasingly graduating with a masters' degree in psychology, and an under-graduate degree in bankruptcy.

In a year 2000 study conducted by the Jump$tart Coalition and the National Endowment for Financial Education, students in all fifty states, of all races and socio-economic standards, were asked 30 multiple-choice questions on money management, savings, investment, and credit.

The compiled results confirmed an average failing score of 51.9 percent. Of all students polled, only 6.7 percent achieved a "C" or higher. Based on the results of the test, it was concluded that the majority of America's young adults are not prepared to make sound financial decisions.

At Operation HOPE we call the economic empowerment work that is directly linked to and with this new era, the "Silver Rights Movement." The Silver Rights Movement is a movement of empowerment for the wealthless in America. A movement reflective of all people and all races, because without strong, consistent and positive intervention, all the major trend lines suggest a large and growing economic disparity gap; and "any nation is at its greatest risk by those who have no stake in it." But with positive intervention, consistency and a spirit filled with HOPE, we can realize the rebirth of the American dream of equality for all. An era of economic prosperity in America, and justice, instead of "just-us."

An economic era where all boats truly rises.

An economic era where selfishness is replaced with enlightened self-interest, and where "doing well and doing good," truly grows and develops into a business ethic of "doing well *by* doing good."

An economic era where people make a choice of the permanent wealth associated with promoting good selfishness (where I benefit and everyone else benefits more), over the temporary and shortsighted gains of bad selfishness (where I benefit and everyone else pays a price for it).

An economic era giving birth to the stakeholder class. Lodged between the working class and the middle class, the stakeholder class doesn't necessarily make more money, but makes better decisions with the money they make.

An era that links our past gains with our future purpose.

Of course, we all well know of the pioneering and important work of Dr. Martin Luther King's in our nation around issues of civil rights. But what most Americans *don't* seem to know, is that in 1968, the year he was assassinated, Dr. King was focused on something different; something called the "The Poor People's Campaign."

The Poor People's Campaign was about moving poor Blacks, poor Hispanics, poor Asians, poor Indians, and yes, even poor whites, into the economic mainstream in America. It is a fact that there are more poor whites in America today, than poor anyone else. Dr. King realized what smart business leaders today also realize – that this is *an American issue*, and not just a minority issue. Yes, Dr. King realized by 1968 that you could not legislate goodness in America, nor pass a law to force someone to respect you. That the only way to achieve the first rung of social justice in America, essentially a capitalist and consumer led country, was through economic parity.

Translation: **ownership**. That any society was at its greatest risk by those individuals that had no stake in it. But the connection between social justice and economic progress for all, was not born by way of Dr. King nor the civil rights movement of the 50's and 60's.

If you reflect back on America's civil war, you can see clearly the parallel and connection even then.
The north of that era was focused on modernizing and diversifying, and seemed, to many, to be "open for business," so to speak, and to new ideas.
The south of that era was, shall we say, very "comfortable with the way things were."
The result: according to a report by the Council on Foreign Affairs in Washington, D.C., America's northern states began attracting a broader and more "diverse" cross section of America's new immigrant population, mostly from less affluent parts of Europe.
Issues of social justice were bound up and inter-connected, with issues of diversity, markets, growth and money, even then.

And so, today I have hope for America.

As we enter the 21st century, we see a bold and proud America, which is the lone super power in the world today -- **and the only nation in the world where every race of people is within its borders.**

To find the two leading economic engine-states in the nation today, one must look to New York and California, with California checking in as the 5th or 6th largest economy in the world today, based on pure economic output. That means that the great state of California is a larger producer than Italy.

California and New York – the two largest economic engines in America, **and the two most diverse states in America**. Accident coincidence.

I would make the case that America is the leading economy in the world today, and that California and New York are the two leading economic engine-states *in* America today, not by accident, but by insight.

Some of us know and act upon what others, both here and abroad, for some reason don't even want to acknowledge; **that diversity is a strength**. One of America's greatest strengths.

Simply put – *"you cannot do business with people you don't respect, reflect, or understand."* And *"unless you want a larger and larger share, of a smaller and smaller marketplace, we all need to better understand how to do business with folks who are Black, brown and different."*

It's enlightened self-interest, and *"doing good by doing well"* at its very best.

When I have the opportunity, as I do now, I advise CEOs of growing, leading edge banks, savings institutions, financial service companies and major corporations, *"don't put Blacks, Latinos, women, and others on your boards, and in key positions within senior management, because it looks good, ...do it because it IS GOOD."*

Good for business, and good for your bottom-line too.

And for the skeptics, here are a few helpful statistics.

The largest condiment seller in the nation, for generation after generation, as you well know has been ketchup. It's now Salsa.

And African-Americans are an economic force to be reckoned with as well.

According to a recent university report, African-Americans represent a $500 billion per year annual consumer spending force, or the 9th largest spending force in the free world.

We represent 25% of all movie ticket sales, yet we are only 11% of the U.S. population.

THAT is why the ever so wise Earvin Magic Johnson partnered with Sony Corporation to build a movie theatre in South Central Los Angeles. Investing in that movie theatre, which is now a chain, wasn't

charity – it was simply good business. It was "doing well *by* doing good." Enlightened self-interest. A way forward, and a viable vision for the future.

That theatre, in South Central Los Angeles, is now one of the top 10th best performing theatre in the entire Sony chain.

My message for you here today, is a message of vision, for the Bible says "where there is no vision, the people perish…"

**The communities you have been told about for years, and advised to effectively right off, are the last bastions of lost capitalism here in America, and untapped markets.**

These are not Black communities, or brown communities, but under-served communities, and Operation HOPE has proven through its work that these communities, and the people who live within them, make for a much better partner than protestor.

The people who live in this community are not dumb or stupid, no more than anyone in this room here today. They are uninformed or misinformed, at worst. They want to get ahead, but *"it's what they don't know that they don't know that's killing them," and in a blind town a one eyed man is king,"* someone once said.

In short, our experience tells us if most folks knew better, they would do better. No rational person one wants to be consciously ignorant or stupid. And so, once again, we come back to the issue of education as the ultimate poverty eradication tool.

Starting with a mere $61,000 operating budget a decade ago, founded immediately following the worst urban civil unrest in U.S. history, with one employee and a vision to change the world and to eradicate poverty as we know it. And more than a decade later Operation HOPE is still here.

Today Operation HOPE has a $5 million annual operating budget, more than 40 full-time employees, offices in Southern California, Northern California, Chicago (thank you Oprah), New York, Washington, D.C. and Virginia, 120 bank partners with combined assets of $2.6 trillion dollars between them, more than $120 million in lending commitments and $90 million in funded loans, we have served more than 500,000 individuals since our founding 10-years ago, and in partnership with countless institutions in this

room today, we have embarked upon our most ambitious mandate yet – teaching every youth in America economic literacy by the time they leave 8th grade!

**Banking on Our Future**, our economic literacy program which has the only national urban delivery platform in the nation, has already taught more than 107,000 youth, in more than 350 schools, with more than 1,100 trained volunteer banker-teachers (program to date), the basics of a checking account, a savings account, and the importance of credit and investment in their young lives….

…And we have only just begun!

Banking on Our Future is the official national partner with the FDIC and their Money Smart program, in educating the entire family in economic literacy. I believe that the FDIC's MoneySmart is one of the best curriculum efforts available today through the Federal or local governments, and should be strongly supported and expanded in its reach. FDIC Chairman Donald Powell should be commended for his leadership here.

Banking on Our Future has also entered into national economic literacy partnerships with America's Community Bankers and the American Bankers Association Education Foundation. Thinking global and acting local, Banking on Our Future has also entered into local partnerships with the William Jefferson Clinton Foundation in Harlem, to educate every child in Harlem in economic literacy within 5 years, with the Department of Banks and Financial Institutions in Washington, D.C. and the New York Bankers Association in New York City, amongst others.

We will soon enter into important economic literacy partnerships and agreements with the U.S. Department of Education, Veteran Affairs and the Internal Revenue Service, and are working on other innovative economic literacy initiatives with this Administration. We hope to work closely with Congress and this Committee as well over the coming months.

At Operation HOPE we believes in a hand up, and not a hand out.
We believe in the James Brown version of affirmative action – *"open the door, and I'll get it myself!"*

At Operation HOPE we believe in the three-legged stool of government, community and the private sector working as collaborative partners.

At Operation HOPE we believe in the power of conversion.

**We believe in converting check-cashing customers into banking customers.**

And that is why we partnered with Union Bank of California to acquire an interest in Nix Check Cashing, the largest and best run check cashing operation in South Central Los Angeles, with 47 locations and more than 600,000 customers. If you can't beat'em, buy'em – and our conversion rate of new customers in approximately 40%. **More than 10% of all new checking accounts for Union Bank of California in 2002, or more than 3,000 accounts, came through the conversion of check cashing customers into banking customers.**

Building on the success of this partnership, we have now moved the HOPE Alliance into a one-stop location in the Watts/Willowbrook area of Los Angeles, in order to focus the power of conversion.

**We believe in converting renters into homeowners.**

More than 3,000 structures damaged in the civil unrest of April 29th, 1992, and not one was a home. Because you do not burn that which is your own. Enlightened self-interest.

35% of the residents of South Central Los Angeles owned their own home in 1992, while 65% rented for the same cost of a mortgage statement.

Now, why would 65% rent - for the same cost of a mortgage payment? It must be a combination of a lack of education, low self-esteem, and access to capital and credit.

But here is the miraculous part – 35% of the residents of South Central owned a home in 1992, and the voter turn out rate in 1992 was 38%.

That told us that the same dynamics apply in the inner city as in the suburbs. Enlightened self-interest. Ownership made the difference.

That you weren't really concerned with tax policy, unless you had a job.

That you weren't really concerned with the bond issue for infrastructure investment, unless you owned a home or business.

That at the end of the day, one was not nearly as concerned with black, brown or white, as they were with green!

According to the non-profit Greenlining Institute, we made more loans in South Central, East Los Angeles and Watts, California, for individuals making under $35,000 annually in 2000 and 2001, than the top 8 banks in California combined. …And IN EIGHT YEARS NOT ONE HOME LOAN HAS EVER GONE BAD.

**We believe in converting small business dreamers into small business owners.**

Again, partnering with many institutions in the audience today, we created approximately 100 new minority small business enterprises. After all, more than 70% of all new job creation comes from small business, and women owned businesses employ more people than the Fortune 500 combined!

**We believe in converting unbanked communities into communities of choice.**

And that is why we decided to partner with Hawthorne Savings Bank, Wells Fargo, Union Bank of California, Washington Mutual, to build HOPE Centers in the inner city. And so, in 1996 and 1998 we build an Operation HOPE Banking Center & Inner City Cyber Café (HOPE Centers) in South Central, Watts and the Southeast city of Maywood, California.

Six short years later we have 16,000 customers a month, $130 million in total lending commitments, and in 2002, as reported on the front page of the Los Angeles Times Business Section, as well as the front page of the American Banker, we became the first non-profit in U.S. history to build a bank branch – and SELL IT TO A BANK!

Hawthorne Savings Bank and California National Bank saw real emerging market opportunities, and decided to make a long-term commitment to these communities, building full-serve bank branches where we started fledgling HOPE Centers, …and we will be standing right there with them.

**We believe in converting minimum wage workers into living wage workers with modern economy job skills.**

And so, we partnered with UCLA Extension, which made each of our inner city cyber café locations official UCLA Extension satellite facilities – and now we provide 16 college credits, a UCLA Extension certificate in Basic Information Technology, and even a job to those who are the most ambitious, to individuals with no more than a GED degree out of high school.

A little more than 18 months since the start of this program, we have 800 committed students, and we have a waiting list that lack only partial tuition sponsorship, but not ambition.

And so, my request of you today is a "call to action."

Together, we CAN make a difference. Together we can help to change the world.

***For the record, I would like to submit the Operation HOPE, Inc. Vision Statement.***

Operation HOPE, Inc., a national non-profit self-help organization and a leading provider of economic empowerment tools and services for the under-served and the wealthless, is America's first non-profit social investment banking organization. Headquartered at Wilshire Boulevard and Hope Street in Los Angeles, California, Operation HOPE has regional operations in Southern California, Northern California, Chicago, New York, Washington, D.C., Virginia and soon Maryland.

Founded May 5th, 1992 in Los Angeles, California, immediately following the worst civil unrest in U.S. history, Operation HOPE emerged from the ashes as a symbol of new and *renewed* HOPE for underserved communities, the poor, and the wealthless everywhere. And reflecting this new approach to HOPE building in under-served communities, even the word "poor" meant something different to the passionate builders of Operation HOPE.

John Bryant, the founder of Operation HOPE, believes *"there is a difference between being broke and being poor. That being broke is a temporary economic condition, but being poor is a disabling state of mind, and a depressed condition of your spirit; and that we, each of us, must make a vow never, ever to be poor (in spirit) again."*

The mission of Operation HOPE is the eradication of poverty, as we know it here in America. This done utilizing education as the ultimate poverty eradication tool, a philosophy of practical "self-help," real tools for economic empowerment, and ultimately the creation of mental, spiritual and economic wealth amongst individuals and communities. At Operation HOPE we call this body of work ***the Silver Rights Movement***.

Working in partnership with leaders representing what Operation HOPE calls the "three-legged stool of HOPE," government, community and the private-sector, Operation HOPE creates and proactively nurtures into operational maturity a holistic and focused group of companies, targeted projects and empowerment initiatives, that together provide real solutions to poverty in America.

The true test of Operation HOPE lies within its *"power to convert;"* converting check cashing customers into banking customers; converting renters into homeowners; converting small business dreamers into small business owners; converting minimum wage workers into living wage workers with 21st century job skills; converting the economically uneducated into the economically literate and empowered.

The tools of and for conversion at Operation HOPE include:

- Economic education.
- Economic literacy.
- Credit counseling.
- Budget counseling.
- Case management.
- Borrower preparation.
- Homeownership and small business creation.
- Banking and financial services.
- Emergency financial counseling services ("economic triage").

*Some of the companies of Operation HOPE I'd like to highlight as it pertains to the unbanked:*

**Bruce Willison**
Dean
The Anderson School at UCLA
HOPE Center Chairman

The Operation HOPE Banking Centers, known as HOPE Centers, are a growing network of inner-city banking and one-stop economic empowerment centers. The HOPE Center (OHIC), operated through a for-profit subsidiary of Operation HOPE the national non-profit organization, is a sophisticated financial products and services conduit for traditional financial institutions. Working with a growing network of FDIC insured banks and other credible providers of mainstream financial services, the HOPE Center network is the premier provider-model of and for economic education and soft banking services in urban, inner city and under-served communities.

Currently Operation HOPE operates three HOPE Centers locations in Southern California, with two additional HOPE Center locations scheduled to come online in 2003, in Washington, D.C. and Oakland, California respectively. A first in U.S. banking history, in 2002 Operation HOPE "sold" three of its mature HOPE Center locations to FDIC insured banks, thereafter converting them into full-service bank branches, featuring hard and soft banking services.

**Richard Hartnack**
Vice Chairman

Union Bank of California
HOPE Alliance Chairman

Building on the success of the HOPE Centers, but focusing even more squarely on the potential conversion of countless check cashing customers into mainstream banking customers, in 2000, Operation HOPE partnered with Union Bank of California to acquire an interest in Navicert Financial, parent company for Nix Check Cashing, forming the Alliance Partnership. Nix Check Cashing is the largest and arguably the best run check cashing operation in South Central Los Angeles, with 47 locations and more than 600,000 customers.

In 2002 it is reported that more than 10% of all new checking accounts for Union Bank of California came from the successful conversion of check cashing customers into mainstream banking customers, through both the Alliance Partnership and Union Bank's own Cash & Save operation.

Building on the success of this partnership to date, in December, 2002, Operation HOPE, Union Bank of California and Navicert moved the new HOPE Alliance into a full-service, one-stop location, located in the Watts/Willowbrook area of Los Angeles. Objective: to focus the power of conversion in under-served communities.

**Lora Watts**
President External Affairs
SBC Communications
HOPE Inner-City Cyber Café Chairwoman

Operation HOPE has utilized the same direct, bottoms-up entrepreneurial approach and spirit to bridging the digital divide in inner-city and under-served communities as it did in meeting the under-served banking needs of these communities.

Operation HOPE Inc. currently operates three (3) HOPE Inner City Cyber Cafés, servicing the Central, South Central and South East areas of Los Angeles County, which are designed to bridge the digital divide with digital empowerment solutions.

The HOPE Inner City Cyber Café, complete with gourmet coffee kiosks, also provides the local community with a comfortable, relaxed and positive atmosphere in which to meet, to conduct e-commerce related business and research, hold one-on-one business meetings, and to unleash the enormous untapped power of the Internet and the World Wide Web. The HOPE Inner City Cyber Café is equipped with a minimum of fifteen (15) cutting edge technology stations, and through a unique partnership with leading high-tech hardware and software providers, access to the most cutting edge, up to date PC tools and equipment available today.

The three (3) HOPE Inner City Cyber Café locations in Southern California also serve as official satellite learning facilities for UCLA Extension. Two additional HOPE Inner City Cyber Cafes are scheduled to come online in 2003 serving Washington, D.C. and Oakland, California.

**John Bryant**
Founder, Chairman & Chief Executive Officer
Operation HOPE, Inc.
HOPE Consulting Chairman

Capitalizing on the vast accumulation of knowledge and insight of Operation HOPE over more than a decade in operating successfully in under-served communities, HOPE Consulting was developed by the Operation HOPE leadership team to address, support and achieve the following:

1. Provide a practical means for redistributing the accumulated and invaluable experience and knowledge, gained by Operation HOPE in its hands-on implementation, management and analysis of its empowerment programs, back into the wider community.

2. Utilizing the HOPE Soft Banking Services model pioneered in the HOPE Centers, HOPE Consulting will provide mainstream financial institutions with creative, alternative concepts for converting non-bankable customers into a bankable customer; thus allowing a Partner Bank to offer products and services, maintain their existing customers, increase their customer base, increase market share and practical new market opportunities.

3. Provide unique marketing and business development strategies that target individuals and small businesses for the purpose of converting them into traditional banking customers.

4. Provide a resource for emerging market research.

**Paul Irving**
Chief Executive & Managing Partner
Manatt, Phelps & Phillips, LLP
HOPE Coalition America Co-Chairman

**Simone Lagomarsino**
President and Chief Executive Officer
Hawthorne Savings
HOPE Coalition America Co-Chairman

**Lynn Pike**
Managing Director
Consumer Banking and Distribution
Fleet Bank
HOPE Coalition America Co-Chairman

Created as a emergency rapid response economic triage team, for the families of the victims following the tragedy of September 11th, 2001, HOPE Coalition America is the national emergency economic response initiative of Operation HOPE, and its private-sector, government and community partners. Calling on bank CEO's, bank presidents, senior bankers, insurance professionals, and other volunteer financial specialists, HOPE Coalition America shall provide victims of natural disasters and national emergencies with what one prominent bank president referred to as critical, on-the-ground "economic triage" assistance, to those in need.

**John Bryant**
Founder, Chairman and Chief Executive Officer
Operation Hope Inc.
Inner-City Economic Summit Co-Chairman

**Honorable Jack Kemp**
Co-Director
Empower America
Inner-City Economic Summit Co-Chairman

**Governor Preston Martin**
Chairman
Martin & Associates
Inner-City Economic Summit Co-Chairman

Capitalizing on the success of the first Inner-City Economic Summit (ICES), held in April of 2000, Operation HOPE, Inc., America's first non-profit investment banking organization, and a broad cross section of supporting organizations, in partnership with leaders from the private sector, government and the civil society, hosted a 2nd Bi-Annual Inner-City Economic Summit in April of 2002.

Based on the overwhelming success of the first two Summit gatherings, Operation HOPE and the Summit Organizing Committee published in a written "best practices" report. The first Summit report, entitled "The 2001 Inner City Economic Report," was published and released nationally in 2001.

This 2nd historic Bi-Annual ICES Summit meeting brought together more than 600 of the most substantive players on the American economic field. Delegates to the Summit included CEOs and other business leaders, heads of federal government agencies, mayors from cities where private/public partnerships are working, and leaders from the civil society. This event served as a historic opportunity to chart a new course for the future of America's urban, inner city and under-served communities.

The 2000 and 2002 ICES Summits strongly made the case that America's urban, inner city and under-served communities represent, in fact, the last bastion of lost capitalism in America, and a genuine "new markets" opportunity where everyone wins.

The objective of the ICES Summit is to create and begin the implementation process of the Inner-City Economic Summit Strategic Plan that will create more stakeholders, improve the economic quality of life for individuals and stabilize and grow the economy in under-served communities.

**John Bryant**
Founder, Chairman & Chief Executive Officer
Operation HOPE, Inc.
Banking on Our Future Chairman

Banking on our Future is an economic literacy program which teaches inner city youth, as well as those from low wealth and under-served communities, the basics of a checking account, a savings account, and the importance of credit and investment in their young lives. Called a "Life 101" class for youth growing up in a country rooted in capitalism and a market economy, Banking on our Future has provided instruction to more than 110,000 youth in Greater Los Angeles, New York, Chicago, Washington D.C., Virginia, San Francisco, and other cities across the country.

As one of the four main priorities for the organization, Operation HOPE will build upon the success stories of the Banking on our Future program to date, while adding the needed resources and tools required for the expansion and growth of the popular program.

Banking on Our Future is the national partner of the FDIC in its efforts to educate the entire family in economic literacy. Operation HOPE has also entered into a national online partnership with $300 billion Wells Fargo, providing free online economic literacy access at www.bankingonourfuture.org.

***Below are some key highlights of our Banking On Our Future Program.***

- In line with Operation HOPE, Inc.'s mission to bring economic self-sufficiency and a sustained spirit of revitalization to America's inner city, underserved communities, the *mission* of the OHI **Banking on Our Future (BOOF)** program is to execute a nationwide delivery system for economic literacy education for youth.

- Banking on Our Future acts as a catalyst of empowerment by exposing youth to their potential financial future and encourages parents, teachers, government, community and corporate America to lead by example and work with youth to enact comprehensive change in behavior.

- Working in partnership with local **Departments of Education,** the **FDIC**, the **Federal Reserve System,** the **Department of Banking and Financial Institutions, Washington DC,** the **OCC, OTS, New York Banker Association, New York State Banking Department, American Bankers Association, American Community Bankers, Community Bankers Association, California Bankers Association,** and **150 additional public and private partners,** Operation HOPE, Inc. delivers Banking on Our Future instruction to thousands of youth annually via "face-to-face" classroom presentations and the interactive computer program, www.bankingonourfuture.org.

- On April 18, 2002, the FDIC and OHI announced a partnership where OHI will provide Banking on Our Future instruction for youth and the FDIC will provide Money Smart instruction for adults. Collectively, OHI and the FDIC are working to educate the "entire family" nationwide.

***The Need for Economic Literacy Education –***

***– The Solution – Quality Content and Seamless Delivery***

In a year 2002 study conducted by the Jump$tart Coalition, 4,024 12th graders in all fifty states were asked multiple-choice survey on money management, savings, investment, and credit. The compiled results confirmed an average failing score of 50.2 percent.

As reported by Jump$tart Coalition, in a nation where nearly a third of high school seniors already use a credit card, a higher proportion have an ATM card, and nearly 1.5 families filed for bankruptcy last year, the need for personal financial literacy is apparent. Yet fewer than 30 percent of young Americans are given the opportunity to take even one week of course work on personal finance in high school.

**BANKING ON OUR FUTURE - RESULTS**

- **Since program inception in 1996, over** 107,415 **youth have received Banking on Our Future instruction in** 335 **schools and** 25 **community-based organizations.**

- **OHI has a volunteer base of** 750 **"Banker-Teacher" volunteers**

- BOOF is currently delivered in the following regions/cities:

  **Southern California**
  - Anaheim
  - Greater Los Angeles
  - San Diego
  - Ventura

  **Northern California**
  - East Palo Alto
  - Oakland
  - San Francisco

  **Arlington, VA**
  **Boston, MA**
  **Chicago**
  **New York City**
  **Washington DC**

- www.bankingonourfuture.org was launched on October 31, 2001 in partnership with **Wells Fargo Bank** to provide 24/7 on-line access to an advanced interactive and print Banking on Our Future financial literacy curriculum.

- **Operation HOPE conducted a three week** financial literacy marathon **called** Banking on Our Future Across America **between October 29, 2002 and November 19, 2002, teaching 15,000 youth, utilizing bankers, celebrities and elected officials. During the five-region effort, Banking on Our Future celebrated its** 100,000th-student **milestone.**

- President Bush **highlighted a Banking on Our Future volunteer during his April 29th, 2002 visit as part of his** USA Freedom Corps **activities and in November 2002, Banking on Our Future was highlighted as a *Spotlight/Take Action Now* opportunity on the USA Freedom Corp site.**

- **In demonstration of the FDIC/ OHI partnership,** FDIC Chairman Donald Powell **taught a BOOF session alongside OHI Founder John Bryant and** Secretary Martinez **in a Washington DC classroom on November 19, 2002.**

- **In April of 2002, OHI and the** William Jefferson Clinton Foundation **formed a partnership to implement Banking On Our Future in every middle and high school in Harlem over a four-year period.**

- **Operation HOPE, Inc. received** Oprah's Use Your Life Award **in May 2001, and the money has been allocated towards the Banking on Our Future program in Chicago.**

- **On June 5, 2003, Federal Reserve Board of Governors Chairman Alan Greenspan taught a BOOF Session alongside OHI Founder John Bryant and Federal Reserve Bank of Richmond President J. Alfred Broaddus in a Washington, DC classroom.**

- **Beginning in April, 2003, Federal Reserve Bank Presidents from Boston, Dallas, Chicago, and St. Louis taught a BOOF Session alongside OHI Founder John Bryant in a local city classroom.**

## BANKING ON OUR FUTURE – PROGRAM STRUCTURE AND STRENGTH

- Banking on Our Future provides year-round financial education for youth ages 8-18 at no cost to school districts, and is primarily focused on urban, under-served communities. The program consists of four modules, I. Basics of Banking, II. Checking & Savings Accounts, III. The Power of Credit, and IV. Basic Investments, that are taught by volunteer Banker-Teachers who are trained to break down their knowledge of banking into terms that youth can understand and utilize immediately. In addition to economic education, the students are left with a message of empowerment, a message of responsibility, and most important, a message of HOPE.

- **Banking on Our Future is administered by OHI staff in each region who coordinate activity with participating schools and local volunteers. During the first module, students are each provided with a Student Guide, which covers the basic principles of the entire curriculum, including definitions of key terms, practical application of the learning material and money tips. During the second or third module, students receive documentation to open no-fee starter savings accounts within our participating financial institutions. For as little as $5-$25, depending on the participating bank, students can implement their newly acquired financial skills by beginning a savings program. Upon conclusion of the fourth module, students receive a certificate of completion.**

### MEASURES OF SUCCESS

- **Program success is measured on a variety of levels including tracking the number of sessions and students taught, conducting a sampling of surveys with the volunteer Banker-Teachers and students, direct follow-up with participating school staff, monitoring of the number of starter savings accounts that are funded by students, and the compilation of support letters and anecdotal information from students and teachers on a monthly basis.**

- **In 2003, OHI will be conducting a survey of 25% of all of the students that complete the program in preparation for a formal program assessment in 2004.**

## SUMMARY

It is critical for the future stability of our global economy that students learn the basics of money management at an early age and, as adults, make sound financial decisions and actively participate as

educated consumers throughout our country. Our goal is to reach children while they are still developing their financial habits and equip them with tools to make wise decisions when spending their money and planning for their future. Through our state and national partnerships and alliances and with our proven mechanism for delivery, Operation HOPE, Inc. will continue to empower the entire family and reach our goal of eradicating poverty.

STATEMENT

OF

THE HONORABLE DENNIS DOLLAR
CHAIRMAN
NATIONAL CREDIT UNION ADMINISTRATION

ON
"SERVING THE UNDERSERVED: INITIATIVES TO BROADEN ACCESS TO THE FINANCIAL MAINSTREAM"

BEFORE THE

SUBCOMMITTEE
ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
U.S. HOUSE OF REPRESENTATIVES

JUNE 26, 2003

Mr. Chairman, Ranking Member Sanders, and Members of the Subcommittee. On behalf of the National Credit Union Administration (NCUA), I appreciate your invitation to appear here today and am extremely pleased to have this opportunity to testify before the Subcommittee and to discuss NCUA's role in meeting the needs of millions of underserved Americans in their desire for financial self-sufficiency.

NCUA is committed to promoting and facilitating the extension of affordable financial services to individuals and communities throughout America. We consider the extension of access to credit union services to more "unbanked" or underserved individuals within the fields of membership of America's credit unions to be a high priority in our agency's strategic efforts to keep credit unions safe, sound and diversified in their risk and also successful in reaching out to make a greater difference in the financial lives of their members from all walks of life, including those that the Federal Credit Union Act refers to as "persons of modest means."

NCUA has initiated a number of successful efforts throughout its history which were designed to extend lower cost financial services to more underserved individuals through member-owned, not-for-profit financial cooperatives. We want to see more of the "unbanked" be empowered to "bank" themselves through the self-help approach member-owned credit unions can provide.

The growth in nationwide credit union membership to over 83 million is evidence of the dramatic impact credit unions are having in providing a valuable financial service alternative to more lower-income individuals and assisting them to find a much needed financial services partner. We recognize that many residents of underserved neighborhoods find themselves in a vicious pawnshop/payday lender cycle that can only be broken when they have access to the lower cost and user-friendly alternatives provided by traditional financial institutions.

Credit unions are reaching out to be that kind of financial partner for many "unbanked" individuals in underserved communities, bringing increased hope for financial self-sufficiency and perhaps the American dream of homeownership. In my testimony today I would like to emphasize some of NCUA's most recent actions and initiatives that are designed to, and we feel are serving to, further the goal of continuing this record of outreach by America's credit unions.

Three successful NCUA agency initiatives to reach the "unbanked" will be addressed today. They began at different times in recent agency history but have been strategically coordinated under the outreach banner we have now named our Access Across America initiative. The results of each have been impressive and the potential for enhanced future impact, far-reaching.

The three initiatives I would like to discuss for the few moments we have today and to offer as a results-oriented model of how NCUA's Access Across America

program is making a difference in extending credit union services to the underserved are our agency's:

- Underserved Area Adoption Program,
- Inter-agency and Credit Union Partnerships, and
- Community Development Revolving Loan Fund.

Each will be outlined and briefly addressed below:

**ACCESS ACROSS AMERICA**

"Creating Economic Empowerment for All Walks of Life"

Access Across America is an NCUA initiative designed to facilitate the extension of lower-cost credit union services to underserved communities and create opportunities for economic empowerment for people from all walks of life. The initiative is showing tremendous results with a growing interest from credit unions, the neighborhoods which need their services, and other partner agencies who are working with us to further what credit unions are accomplishing through this initiative.

As of the year 2002, there were over 90 million Americans living in census tracts designated by the U. S. Treasury Department's Community Development Financial Institutions (CDFI) program as investment areas based upon income and economic criteria which certainly warrant the distinction as being underserved areas. In many instances, residents of these underserved areas often find themselves largely at the mercy of higher-cost outlets such as pawnshops, check-cashing stores, and rent-to-own companies in the absence of an affordable financial alternative.

As should all agencies when we begin to look for ways to better meet our mission, our Access Across America initiative led NCUA to first look for areas where our own agency's administrative process and internal priorities needed to be overhauled to further the goal of extending access to credit union services to the underserved. We found examples where our own procedural impediments had become stumbling blocks to innovation in the extension of financial services to the underserved by the credit unions NCUA regulates and supervises.

Without sacrificing safety and soundness, without lowering oversight standards, in fact, without changing an existing regulation, NCUA made the decision that we could further the goals of Access Across America by streamlining, where appropriate without sacrificing the integrity of our regulations, the process for federal credit unions to adopt underserved areas into their field of membership – an option allowed to federal credit unions by regulation since 1994, and statutorily incorporated into the Credit Union Membership Access Act of 1998.

NCUA initiated an extensive credit union education campaign, directly assisted credit unions in identifying nearby underserved areas which met the legal criteria, computerized the application process, and prioritized the timeliness of the approval or disapproval process. The result was that the adoption of an underserved area into a credit union's field of membership went from a previous average of 16 months for an application to be approved to what is now an average of 10 weeks.

This adoption process for underserved areas as a part of Access Across America has exceeded our highest expectations – not merely in the removal of regulatory obstacles, but in the extension of lower-cost financial services to more Americans from all walks of life.

In fact, the removal of unnecessary regulatory impediments has resulted in the unbridling of innovation in service to underserved areas at what have become record levels. It has certainly served to put the "access" into our Access Across America initiative. Some numbers help to make the point.

In 1999, under the same field of membership rules and statutes regarding underserved areas that we have today, there were 7 federal credit unions that adopted CDFI-designated investment areas into their fields of membership, making 235,000 residents that became eligible for credit union membership in that year.

In 2001, just two years later, with the procedural enhancements incorporated under the umbrella of Access Across America, there were a total of 164 federal credit unions that adopted 281 CDFI-designated investment areas. The result was a record-setting 16.1 million Americans living in these underserved neighborhoods that at the end of the year had access to the lower-cost financial services of a credit union but did not have such access at the beginning of the year.

In 2002, thinking we could never see the record-setting numbers of 2001 duplicated, we approved the applications of 223 federal credit unions to adopt 424 underserved neighborhoods, totaling 23.5 million residents (a 45.9% increase over 2001 and a total increase 100 times greater than the annual results just three years before in 1999).

As of the end of May 2003, there have been an additional 64 credit unions adopting 96 underserved areas, giving another 7.4 million residents of underserved areas access to a traditional financial institution and putting us on a pace of approximately 18 million residents of CDFI-designated investment areas gaining access to a credit union in 2003.

Recognizing that there may be duplication in the numbers as some underserved areas have been adopted by more than one credit union, we maintain that these

numbers tell a positive story. We also want to emphasize that these numbers come only from federally-chartered credit unions, and that there are certain state regulators who have approved state-chartered credit unions in their respective states to likewise adopt underserved areas; therefore, the positive story is only enhanced by these state initiatives.

NCUA requires a solid and verifiable business plan be submitted and approved to ensure that all due diligence and risk management standards have been met before a federal credit union can be approved to adopt an underserved area. Importantly to the results, we also require a physical presence by the credit union in any underserved neighborhood adopted by a credit union. We have found that local community access is crucial.

By tracking the results from this adoption program we can verify that access to a local and lower-cost financing alternative has indeed resulted in a significant number of the over 45 million Americans residing in these underserved areas actually making the decision to take advantage of their eligibility and becoming members of their local credit union.

In fact, as a part of our agency monitoring closely the progress of our Access Across America initiative, we have found from NCUA call report data that the average annual membership growth rate since January 2000 in federal credit unions that expanded into underserved areas has been 4.80%. The national average for annual membership growth in all federal credit unions was 2.49% in that same three-year period since January 2000.

In other words, the membership growth rate for federal credit unions who adopt underserved areas is 93% greater than the average annual growth rate for all federal credit unions. Not only are the residents taking advantage of the access extended to them through this initiative, but the credit unions are finding that there is good business in these communities as long as there is proper due diligence and risk management in place.

This NCUA call report data is significant evidence that credit unions are not merely expanding into underserved areas, they are adopting those communities and making a positive difference in the lives of the residents there. That is why we use the term "adopt" an underserved area in all of our communications to credit unions to emphasize the importance of outreach to the individuals in these communities.

There are numerous specific examples of credit unions meeting the challenge set by Access Across America that could be cited as well as the statistics presented above. For example, the credit unions of Ohio, through the Ohio Credit Union League, established a program providing financial education classes covering savings, money management, and handling credit for the Hispanic community in their state. Last year, 225 people attended the course and received a certificate

of graduation. The Ohio League, in a partnership between their member credit unions and the Ohio State University Extension Office, sponsor this successful program. Earlier this week, Treasurer Rosario Marin presented an award to this Ohio financial literacy program.

In a partnership with the San Antonio Affordable Housing Corporation, San Antonio Federal Credit Union, a $1.5 billion federally-chartered institution, has provided extensive financial literacy resources to families seeking the American Dream of homeownership in the San Antonio community, particularly in Hispanic neighborhoods. This partnership has built on the financial education component with a special mortgage financing program which has resulted in the credit union providing the construction funding and permanent mortgage loans to over 120 families totaling over $7 million. The credit union has committed another $5 million toward this project. Over two years into this partnership initiative, there has not been a penny of loss to the credit union in these mortgage loans.

The tremendous success of the San Antonio initiative indicates the benefits of partnering with successful community organizations and represents a quality model of providing access to homeownership to an inner-city, underserved community. In particular, the Hispanic families in these neighborhoods are the cornerstone of this partnership. Their access to affordable financial service through this partnership has both created a financial empowerment opportunity for these families and opportunity to strengthen the financial position of this credit union through participating in this initiative. We consider partnerships such as this, when done right, a potential win-win for both the communities and the credit union.

This leads to the next example of the success of NCUA's Access Across America initiative that we wish to discuss today – inter-agency and credit union partnerships under Access Across America.

## INTER-AGENCY AND CREDIT UNION PARTNERSHIPS

Through Access Across America, NCUA is partnering with key federal departments and agencies to develop solid opportunities to aid communities in America with the resources and technical assistance to provide much needed financial services, affordable housing, and economic empowerment opportunities.

These efforts are designed to counter the growing predatory lending problem in America and to extend access to lower-cost financial services through a member-owned credit union. From the service of faith-based and other local credit unions in providing financial assistance for their communities to campus credit unions committed to instilling financial literacy at an age early enough to

build upon, America's extension of service to the underserved communities in our country has never been more important than now.

Access Across America seeks to bring results which demonstrate the value of economic empowerment to people from all walks of life. Our federal partners provide valuable resources to America's credit union system including grant opportunities and innovative programs available for credit union members to participate. Examples of partnership activities that have been fostered include:

**U.S. Department of Agriculture**: NCUA signed a Memorandum of Understanding with USDA to promote USDA programs to credit unions offered by USDA Rural Housing Service, Rural Business-Cooperative Service, and the Rural Community Development Initiative. In September, the USDA participated in NCUA's Access Across America workshop in El Paso, Texas held for credit unions that are involved with extending financial services to Colonias residents in the southwestern United States. Also in June, NCUA was a key presenter at USDA's Rural Housing Summit in Washington, DC.

**U.S. Department Housing and Urban Development**: NCUA is a federal partner with HUD's Blueprint for the American Dream, which is a White House initiative to increase homeownership by 5.5 million minority families by the end of the decade. In 2002, on behalf of NCUA, I participated in a panel discussion on mortgage financing at the White House Conference to Increase Minority Homeownership. In June, 2003, NCUA was a key partner in HUD's "Homeownership Express" bus tour with a stop in Birmingham, Alabama.

**U.S. Treasury Department's Community Development Financial Institutions**: CDFI has provided many credit unions with several million dollars in awards for the credit unions' initiatives to provide access to financial services in CDFI-designated areas. The Treasury Department provided $2.8 million to credit unions through the First Accounts Grant Assistance program. These grants were provided to institutions that offered low-cost electronic checking or other types of accounts to low- to moderate-income individuals not being served by a financial institution. Through Access Across America, NCUA has promoted credit union participation in these Treasury Department programs through written communication to credit unions and in personal contact by agency personnel with credit union officials.

**Internal Revenue Service**: NCUA and the IRS signed a Memorandum of Understanding to promote the IRS' partnership initiative to help families with low- to moderate-income build assets and increase financial literacy. This partnership is in conjunction with the IRS' well-established Voluntary Income Tax Assistance (VITA) initiative and has been well received by credit unions and their members.

**Corporation for National and Community Service**: NCUA's partnership with the Corporation for National and Community Service has forged volunteerism

efforts with credit unions for AmeriCorps/VISTA programs and encourage credit unions to utilize the volunteer resources available through the CNCS.

**Federal Deposit Insurance Corporation**: NCUA has issued Letters to Credit Unions notifying federal credit unions of the FDIC's MoneySmart financial literacy initiative and encouraging their participation. We continue to partner with FDIC on these initiatives and have recognized a tremendous response from credit unions using the MoneySmart financial literacy curriculum for their members.

**Neighborhood Reinvestment Corporation**: NCUA is represented on the NRC Board of Directors by one of our presidentially-appointed NCUA Board Members. NCUA has hosted workshops and issued joint publications in partnership with NRC as part of the Access Across America initiative and its Partnering And Leadership Successes (PALS) component.

**Small Business Administration**: NCUA encourages credit unions to consider the guarantee programs for member business lending. The SBA 7(a) loan program allows credit unions to serve their members and impact their communities through a conduit for start-up business capital and to empower entrepreneurs and small business owners in America which continues to create jobs and grow the economy. NCUA has worked in partnership with the SBA to further credit union participation in the 7(a) guarantee program, an important outreach vehicle for SBA and a valuable risk mitigation opportunity for NCUA to promote as a credit union safety and soundness regulator concerned about proper risk management.

Another component of Access Across America worthy of mention is the previously mentioned PALS initiative – Partnering And Leadership Successes, which is intended to encourage credit unions to share their best practices for improving member service and reaching out to all individuals in their field of membership. It provides a forum to discuss successful efforts so credit unions can tap the experiences of those who have faced similar challenges. NCUA has hosted a series of PALS workshops on a wide range of issues in locations across the nation including San Francisco and Boston. These workshops have focused on partnership opportunities with the Neighborhood Reinvestment Corporation, and have encouraged credit union partnerships with NeighborWorks® organizations to give credit union members access to low-cost, non-conforming mortgage loans.

In July, the North Carolina, South Carolina, Georgia, and Alabama Credit Union Leagues will cosponsor a PALS workshop in North Carolina on Hispanic outreach. The workshop will address the financial service needs of the Hispanics and Latinos as well as techniques to market successfully to this community. In October, a workshop is planned which will focus on member business lending, with a particular emphasis on start-up lending for small businesses in underserved communities.

Another issue of importance in extending lower cost financial services to underserved individuals is international remittance. As the federal regulator of federally chartered credit unions, we are sometimes called upon to review the regulations associated with transferring money in and out of the country. NCUA does this from a perspective of safety and soundness for the credit union and its members, efficiency, cost to the consumer, and national security.

The predatory high-cost of international remittance has been a concern of NCUA for a number of years. We have tried to facilitate where appropriate the innovative services and technology available through credit union partnerships – such as the IR*net* a service facilitated by the World Council of Credit Unions. IR*net* is an electronic funds transfer services providing credit union members with a safe and inexpensive way to send money overseas or domestically. Services such as IR*net* provide access to a viable and lower-cost alternative to excessive predatory fees charged by many non-traditional institutions. The savings to individuals remitting funds internationally can be sizable when the not-for-profit credit union sector offers a lower flat-fee alternative to the percentage of funds (averaging in excess of 30%) which is often charged by some international transmittal outlets.

Credit unions must, of course, comply with all USA Patriot Act regulations and verify their customers' identity. NCUA strongly believes that encouraging individuals to use traditional financial institutions actually provides greater security. Credit unions have the expertise and ability to recognize potential fraud and crime.

In February 2002, NCUA's General Counsel released an opinion letter providing guidance to federal credit unions about the limited ways wire transfer services might be extended to eligible non-members of credit unions. These individuals, often vulnerable to risky alternatives, need to be encouraged to use safe, well regulated financial institutions to move money. The Committee on Financial Services has recognized NCUA's commitment to serving the "unbanked." The Committee recently approved legislation (H.R. 1375) that would provide regulatory relief to the financial services industry that included a provision amending the Federal Credit Union Act to allow federal credit unions to cash checks and wire money for eligible non-members. Representatives Ose and Gonzalez introduced stand-alone legislation that is similar to the provision in H.R. 1375. With enactment of this language, I am confident credit unions will commit further to serving these individuals. In the meantime, NCUA will continue to facilitate these lower cost international remittance alternatives wherever possible under existing law and regulation through credit union partnerships such as those mentioned herein.

NCUA has maintained a keen strategic focus on facilitating credit union service to underserved communities wherever possible. In particular, we have focused

considerable attention in recent years to those minority communities where many residents lack the understanding of and trust in mainstream financial institutions. Because of language barrier issues, there are Hispanic and Latino neighborhoods where this is a significant issue in need of special initiatives. We are aware of numerous credit unions that have developed innovative outreach programs to serve these neighborhoods, including educating them on the importance of financial literacy and value of opening a savings or checking account. One challenge and hurdle for many in these neighborhoods, however, is the issue of identification.

As Chairman of NCUA, I have met with my counterparts in Mexico, Argentina and Chile, among other nations with institutions they regulate as a part of the worldwide credit union movement. We share a common interest in the safe and efficient movement of money across our borders. Together we are working in conjunction with one another to preserve and improve the integrity of the process. In this regard, Mexican Matricula Consular cards are working effectively as a form of identification from our experience. For a non-citizen without a taxpayer identification number, current regulations permit financial institutions to accept other government-issued documents evidencing nationality or residence and bearing a photograph or similar safeguard. A Matricula card meets all the requirements set out in regulations by the Treasury Department. As the Hispanic population continues to grow in this country, the Matricula Consular card is a necessary component to provide services to this unique population within the United States. We recognize it as a legitimate identification source for an individual to become a member of a credit union and work closely through our Office of General Counsel to assist credit unions in the effective use of the Matricula card.

This process has served well and as long as federal credit unions operate a safe and sound remittance system with the proper institutional due diligence monitored by NCUA as an effective credit union supervisory authority, we expect it to grow and continue to be a viable, affordable financial alternative.

For example, City Credit Union in Dallas is participating in a Dallas Police Department program called Communities Banking for Safety. Under the program, City Credit Union has teamed with the Dallas police to protect Hispanic citizens that have not previously had the benefit of a relationship with a financial institution. The program enables individuals to open accounts at any branch; all the individual needs is a Matricula card. City Credit Union provides a full range of financial services to these members, including remittances. The credit union also offers basic consumer education classes to assist their Hispanic members.

## COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

The Community Development Revolving Loan Fund (CDRLF) plays a vital role in the success of NCUA's Access Across America initiative. The CDRLF was established by Congress in 1979, through an initial appropriation of $6 million to assist officially designated "low-income"[1] credit unions in their efforts to provide basic financial services to underserved communities. The credit unions participating in the CDRLF provide underserved communities access to a variety of services including basic savings and share draft accounts, home and car loans, and start-up capital for small businesses.

Over the years, Congress has continued its commitment to the CDRLF program by increasing the number of appropriated dollars available for loans to $13 million. For more than 13 years, NCUA has successfully administered this ongoing program, providing more than 217 revolving loans totaling $32.8 million during its history. And, in 1992, the NCUA Board began funding technical assistance grants by using the interest generated from the CDRLF loans. In fiscal year 2001, Congress recognized the success of the grants by reserving certain funds specifically for this part of the CDRLF program. To date, combining grants awarded from both the interest generated by CDRLF loans and the total of $1 million appropriated by Congress specifically for the grant program over the past three fiscal years, the CDRLF technical assistance grant program has provided more than 1,000 grants totaling $2.4 million to assist low-income credit unions.

Low-income designated credit union use low-interest loans from this program to further community development by providing funding for member loan demand, additional member services, and increase credit union capacity to serve members. The grants are used for verifiable and need-based technical assistance purposes. Low-income members benefit from the greater service provided by their credit unions.

A survey completed in May 2001 found that low-income designated credit unions that receive CDRLF assistance demonstrated the following results:

- Used the program to make additional funds available to meet community loan demands and improve financial services to members,
- Experienced significant growth,
- Stimulated economic activities in their communities, and
- Increased funding for these institutions from other sources.

[1] Credit unions designated as low-income may accept non-member deposits, participate in the Community Development Revolving Loan Fund program, accept secondary capital funds and receive technical assistance. Credit unions may request and obtain low-income designations. See Section 107(6) of the Federal Credit Union Act (12 U.S.C. 1757(6)).

Credit unions have used the funding for a variety of programs. In San Francisco, the Northeast Community Federal Credit Union received a loan in the amount of $100,000 to support its loan programs and extend service to small business and non-English speaking populations. In Munising, Michigan, a grant to Munising Community Credit Union enabled them to provide the only ATM within a 55 mile radius. In Shreveport, Care Plus Federal Credit Union used a grant to automate its posting of payroll deductions. Until Care Plus received the grant, it was hand-posting over 1,000 payroll deductions weekly.

Access to affordable financial services and products can provide these communities with a much needed and viable alternative to check cashers, pawn shops, and title loan companies. By providing an alternative to higher-cost lenders, credit unions play a significant and meaningful role in helping residents keep more money in their communities and households. The CDRLF program furthers this worthwhile public policy goal, and NCUA values the strong support Congress has provided over the years.

## CONCLUSION

Mr. Chairman, as you can see, the National Credit Union Administration takes seriously its responsibilities to not only ensure the safety and soundness of the American credit union system, but to also make sure that it is both viable and valuable in meeting the needs of folks from all walks of life.

Building today's NCUA Access Across America initiative on the foundation of decades of outreach by financially sound credit unions has established a successful model of individual and community empowerment that we feel can have a positive impact for future generations in leaving millions of individuals no longer in the ranks of the underserved and giving them the self-help empowerment through a member-owned credit union to "bank" themselves out of the category of the "unbanked."

Again, Mr. Chairman, I appreciate your calling of this hearing on this vitally important issue and am honored to have been asked to be here today on behalf of the National Credit Union Administration to speak briefly about some of the successes of our Access Across America initiative. I look forward to answering any questions you may have on these issues or any others of interest to you and the members of the subcommittee.

Thank you very much.

Statement of Gabriel Manjarrez
Senior Vice President - National Hispanic Consumer Marketing
Bank of America

At the Hearing on: "Serving the Underserved:
Initiatives to Broaden Access to the Financial Mainstream"

Before The Subcommittee on Financial Institutions and Consumer Credit
Of the United States House of Representatives
Committee on Financial Services

2128 Rayburn House Office Building
June 26, 2003
10:00 a.m.

Chairman Bachus and distinguished members of the Subcommittee,

My name is Gabriel Manjarrez and, on behalf of Bank of America, I want to thank you for the invitation to testify on our initiatives to bring the "unbanked" and "underserved" into the mainstream financial system and specifically two of our programs seeking that objective in the Hispanic market.

I am the Bank's senior vice president in charge of marketing to Hispanic consumers. In this role, it is my job to develop sales and marketing strategies that will connect our Hispanic customers with the financial products and services in a way that provides them with the most positive and integrated banking experience. In fact, our in-language advertising slogan is "Superacion Constante" which conveys that we are "always striving for improvement" in the way we serve this market. I'd like to take a little time today to describe what we have done to be responsive to the needs of this market.

Mexican Consulate ID

The first program I want to discuss was our initiative to accept the use of Mexican Consulate ID card (or "*Matricula Consular*"). In short, we developed this initiative because we wanted to make it easier for Mexican citizens living in the USA to have access to banking services from Bank of America. Like many of our Hispanic customers, we recognized the opportunity presented by Mexican Consulate ID but needed to see if the card could serve as an effective form of identification. So, in December 2001, we launched a pilot to begin accepting this card as a primary form of identification for cashing checks and opening new accounts (when presented along with a secondary form of identification). This pilot was established in select markets with sizeable Mexican immigrant populations in Arizona, California, New Mexico and Texas.

The results were quite convincing with significant net gains on new checking and savings accounts that have continued an upward trend to this day. In fact, the pilot program was so successful that we decided to ramp it up nationwide as of June 1, 2002.

The size and significance of this step should not be underestimated because Bank of America is the nation's largest retail bank with more than

four thousand banking centers, more than thirteen thousand ATMs and the only footprint that spans from east coast to west coast. With 75% of the country's Hispanic population living in communities serviced by Bank of America, we knew that this market had a high need for banking services and a high growth potential.

Overall, I would say that our experience has been very positive. More consumers are using the card to access banking services than would ordinarily have the opportunity to subscribe to them.

Today, every single Bank of America banking center recognizes the card as a valid form of identification. We believe that banking services ought to be made available to everyone so that they can manage their money without carrying large sums of cash. The consequences of having to carry a stash of cash can be quite dire and take the form of muggings and other violent crimes.

Some critics of the Mexican Consulate ID have raised concerns about increased risk of fraud. We thoroughly considered these risks and have significant controls in place for screening potential customers and monitoring their accounts for fraudulent activity. We are also working closely with government agencies to comply with ANY and ALL regulatory requirements including those resulting from the Patriot Act.

With regard to newly proposed legislation at the federal and state level, we are closely monitoring these proposals for any impact on our program. Our position is that, because verification requirements are so important when issuing identification documents, we strongly encourage the US and Mexican governments to work together to ensure that the Consulates have the best authentication measures and tracking systems in place. We also applaud the Mexican government for developing much stronger security measures to ensure the integrity of the card itself. Today, many consider it more secure than a U.S. passport or other ID because it has many more security features.

SafeSend

The second program that we developed to broaden access to financial services in the Hispanic market is in response to the $9 billion in international money transfers that are sent from the United States to

Mexico each year. We launched an entirely unprecedented international money transfer service called *SafeSend*™ as an alternative to the traditional wire transfer services that dominate this marketplace.

*SafeSend* is a safe, trustworthy and convenient card that uses the telephone, Internet and the ATM network rather than expensive wire services. Our *SafeSend* customers can send money by phone or electronically to loved ones in Mexico 24 hours a day, 7 days a week, without having to leave the comfort of their own homes. Then, on the receiving end in Mexico, the recipient uses a secure personal identification number (PIN) and a *SafeSend* ATM card to access the money within minutes at any of 20,000 ATMs.

We created this new product because customer feedback demonstrated showed the demand for more options in the money transfer business. *SafeSend* is the first service that Bank of America designed exclusively for Hispanics. It offers greater value and convenience than traditional wire transfer products and provides a secure service at a low cost to the sender and at no cost to the recipient.

More than one third of all our *SafeSend* customers open checking accounts when they subscribe to this service. In other words, one out of every three *SafeSend* customers did not have a bank account, but opened one when they started using *SafeSend*. We are proud of these results and look forward to the continuation of this trend.

Financial Education Initiatives

Last, we would be remiss if we failed to mention efforts to mainstream underserved populations into banking through financial education initiatives. Bank of America is one of the nation's strongest supporters of financial education. We have a long-standing commitment to the health of the communities where we do business, and as a provider of financial services, we have a responsibility to help our customers and clients understand our products and services so that they can plan for every stage of their lives. Here are some examples:

- In 2002, Bank of America and the National Council on Economic Education (NCEE) launched "Financial Fitness for Life" an innovative financial education curriculum for students from kindergarten through

high school. This program presents key concepts in economics in personal finance in an easy-to-understand style, using real-life examples to which students of all ages can relate.

- Bank of America is partnering with the National Council of La Raza (NCLR) on their "En Su Casa" program to provide homeownership counseling in 12 cities.

- Bank of America is partnering with Freddie Mac and Consumer Credit Counseling Service (CCCS) to provide Credit Works, a unique program to expand homeownership opportunities for low/moderate income families.

- Bank of America also partnered with Consumer Action (CA) to create a set of free educational brochures distributed through CA's national network of more than 6,500 community-based groups.

Recap

In sum, the Mexican Consulate ID, *SafeSend* and our financial education initiatives are opening the door to financial services for more unbanked consumers. As a result, more are opening new banking accounts, cashing checks, making international money transfers, subscribing to other banking services and becoming more documented in the process. We are providing opportunity for thousands to gain access, many for the first time, to mainstream banking services and applaud the Subcommittees interest in learning more about this subject.

I would just like to thank the Subcommittee once again for the opportunity to share our perspective. I look forward to answering any questions.

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

Testimony of Brian Satisky

Vice President, A&B Check Cashing, Inc.

on behalf of

Financial Service Centers of America

before the

Subcommittee on Financial Institutions and Consumer Credit

Regarding

"Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"

June 26, 2003

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Good morning. My name is Brian Satisky. I am testifying this morning on behalf of Financial Service Centers of America (FiSCA) where I serve on the Board of Directors. I am the Vice President of A&B Check Cashers, located in the state of Maryland and I also serve as President of the Maryland Association of Financial Service Centers, Inc.

Financial Service Centers of America represent the more than 5,000 businesses which provide consumers with a variety of financial services including check cashing; money orders; atm's; electronic bill payment; and in some instances provide transit tokens and motor vehicle license plates. We hope to dispel some myths and provide some food for thought. We are in the financial mainstream, serving millions of Americans on a daily basis.

Our members believe that all consumers deserve access to essential financial services, whether they are offered by banks, credit unions, thrifts, or our service centers. The public policy goal should be to assure that *choices* are available—not to attempt to shoehorn consumers into a financial model which may not fit their circumstances. Everyone needs financial services: not everyone needs to get them from banks. Consumers should be able to make their own decisions about what services are optimal for their own needs.

In fact, for many consumers, the traditional banking model is not the best choice. The Federal Reserve Board's Survey of Consumer Finance reported that in 2001, 50.4 percent of those who don't have checking accounts used to have them. Obviously, their experience persuaded them that such accounts were not beneficial for them.

For these consumers, the choice to *not* have an account is appropriate. Comptroller of the Currency John Hawke said in a speech last year that "appearances to the contrary notwithstanding, check cashing customers…do business outside the banking system for practical—and economically rational reasons. Further, he said, "This is an exceedingly important point, because it is sometimes mistakenly assumed that people with low incomes lack the acumen to make sound decisions in their own self-interest. " The Office of the Comptroller of the Currency conducted a study in 2000 which showed that 97 percent of check cashing customers cash fewer than four checks per month. This is consistent with the findings of the Federal Reserve Survey which reported that consumers cited the small number of checks as the top reason they did not have depository accounts. Additional reasons cited for not maintaining a bank account included inconvenient hours and locations; bank service charges (including NSF charges); and the inability to manage or balance a checking account.

The fact of the matter is that the "unbanked" are actually by and large the "self-banked." These individuals understand the costs and benefits of maintaining a banking relationship and have voted with their feet to utilize financial service centers and other non-bank financial service providers.

Most customers who have made the choice to use financial service centers are hard working – a recent study found 80 percent had full-time jobs – earning low to moderate incomes. These consumers understand the real costs of goods and services, making buying decisions on value and the total actual cost for transacting business.

**Immediate Access to Funds**

One factor that few people consider is that banks will usually not cash checks in amounts larger than the amount of funds on deposit. Check cashers will do so and make funds readily available to consumers who do not have to wait for a check to clear before accessing cash. This immediate access to cash, along with convenience, may explain why 58 percent of industry customers hold bank accounts in addition to using check cashing services.

**Motivated to Serve**

Unlike banks, which primarily derive their income from the spread between interest paid on deposits and loan portfolios, we rely on transaction fees. Our success depends on providing a high level of service in exchange for those fees. It is not realistic to expect banks to welcome customers who do not add much to the bottom line. *But these are our customers*. And they are pleased with our services. In a recent survey conducted by Eric Mower and Associates our service was rated either "excellent" or "very good" by 81 percent of respondents. In a report done for the Department of the Treasury in 2000, Dove Consulting found that check cashers offer convenient locations, use the language of customers, and are open longer and offer more convenient hours than banks.

**Consumer Choice—the Link From Self-Banked to Banked**

The evidence demonstrates that many consumers prefer to obtain their financial services at check cashers despite the efforts of government to direct them to depository institutions. There will always be some consumers for whom a depository account *does not* make economic sense. On the other hand, those who choose to obtain depository accounts should have the opportunity to do so. We believe that our infrastructure should

serve as a conduit for them into the banking system. Check cashers have built an industry directly serving the people policy-makers are trying to reach. We can serve as the gateway to savings and lending products.

When the banks abandoned many of the nation's neighborhoods, our industry continued to serve the communities. Does it really make sense to ask these very banks to now take the lead to bring in those without accounts? Or should government turn to the industry which has continued to serve the public without special programs or government subsidies? Over the last several administrations, we've seen attempts to use "Electronic Transaction Accounts", EFT 99, First Accounts and others to serve our customers. These programs can and do come with substantial costs to taxpayers. As the House Appropriations Committee pointed out in its report on the FY 2003 Treasury Appropriations bill, for some consumers the cost to open each account averages almost $250. Doesn't it make more sense to turn to the industry that has the experience serving the targeted population? Last year, the General Accounting Office questioned the efficacy of the Electronic Transaction Accounts, stating "given the limited appeal of the ETA, we question whether the program will generate savings sufficient to offset Treasury's cost of maintaining and promoting the program."

**Innovative Programs**

Although many banks have abandoned neighborhoods, FiSCA members have found some financial institutions with which partnerships can be formed to the benefit of both parties and consumers. My company, A&B Check Cashing, is involved in a project in Southwest Baltimore city in which we have partnered with a federal credit union to

provide services to a community that has lacked banking for the last five years. We call it "Our Money Place".

This partnership arose after a community group, Operation Reachout Southwest, sought a bank to serve the community but was rejected time and time again. Finally they came to the SSA Baltimore Federal Credit Union which agreed to serve the neighborhood but did not want to provide cash services. That's where we come in. Our company provides all of the cash services that are necessary for a full service financial institution to have. We will not only cash checks –but dispense free money orders for the customers to use as they see fit. If the customer has a savings account and wishes to make a deposit—A&B will cash their check and issue them a free money order in the amount that they want to deposit. They simply walk over to the credit union window and make the deposit. Additionally, Operation Reachout Southwest maintains a desk in our lobby that answers questions and provides financial literacy education and counseling. And at the end of the day, a neighborhood that had no banking now has a full service financial institution to serve them.

In New York, another FiSCA member, RiteCheck Cashing is in a cooperative venture with Bethex Federal Credit Union. In that case, the idea is to permit the credit union to expand its reach without incurring the expense of constructing and servicing branches. Bethex members can cash their checks at RiteCheck Cashing without incurring a fee. It is paid by the credit union at a rate below the normal 1.4 percent fee. In addition, marketing materials for Bethex are available at the check cashing locations as are loan applications.

In California, some Nix Check Cashing locations are co-located with Union Bank facilities, allowing consumers full access to depository services. The partnership teams with Operation Hope, a community group represented here today by its Chairman.

Other cooperative ventures with ATM networks and banks are serving many neighborhoods. A three-state coalition of check cashers has created an innovative system known as PayNet. Comprised of more than 500 licensed check cashers in New York, Connecticut and New Jersey, this system provides a solution to the payroll needs of employers and banks. Through PayNet, companies outsource their check cashing requirements. Once an employer joins PayNet, employees can use any of these locations to cash paychecks near home or work. Banks refer customers to PayNet because they find it efficient and convenient.

Several check cashers are now offering a pre-paid debit card through Netspend Corporation. It allows consumers to load cash onto a MasterCard which allows them to make purchases at thousands of locations. Our industry is looking to expand offerings to include a savings component.

In sum, we believe government should focus on encouraging and supporting choice, including bank and credit union links instead of merely inducing banks to serve additional consumers.

**Bank Discontinuance**

At the same time in which FiSCA members are working with some depository institutions to expand services in the neighborhoods, other banks continue to abandon our customers by refusing to serve check cashers. Over the past couple of years, some major banks have adopted a policy to refuse to serve our businesses. This follows guidance from the Office of the Comptroller of the Currency suggesting that check cashers and a few other businesses are at a "high risk for money laundering". This designation is false, misleading and damaging. Our industry's record of compliance is exemplary, and the Financial Crimes Enforcement Network (FiNCEN) has found the industry not to be at a higher risk than any other industry. The OCC has not provided information explaining any evidence on which they based their conclusion that we are a high risk.

Several banks have stopped serving long-time check cashing businesses, citing a higher compliance cost without providing any evidence. They have also been unwilling to quantify the cost and allow us to pay any additional fee. This problem can become acute for our customers. There are now only two major banks serving the industry in New York City, and with the loss of competition, fees are likely to rise. We have advised the Subcommittee of our concerns.

Many banks have also stopped verifying funds availability of customer accounts. This makes it difficult for our customers who are attempting to cash payroll checks, as check cashers need to be able to determine that there is likelihood that funds are available. Again, the harm goes to the customer who is not able to negotiate his or her paycheck. Even the recently passed Patriot Act encourages *all* financial institutions to

verify funds to help fight against fraud and suspicious transactions. How can we comply if the banks refuse to assist us?

FiSCA intends to pursue these issues of bank discontinuance and lack of verification of funds with the subcommittee.

In summary:

1. We serve the self-banked.
2. We are the mainstream for this population.
3. We offer choices for consumers by partnering with banks and credit unions.
4. Government policy to attempt to direct consumers to banks without working with our centers is backwards, and should be reversed.
5. Banks should not be refusing to service our customers either by breaking relations with our businesses or by refusing to verify accounts.

I will be pleased to answer any questions you may have.

**Testimony of**
**James E. Young, President & CEO**
**Citizens Trust Bank – Atlanta, Georgia**
**Before**
**U. S. House of Representatives**
**Subcommittee on Financial Institutions and Consumer Credit**
**Hearing**
**2128 Rayburn House Office Building**
**Hon. Spencer Bachus, Chairman**

***"Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream"***

**Thursday, June 26, 2003**
**10 A.M.**

Mr. Chairman, and distinguished Members of this important Subcommittee; I am pleased to appear before you today to offer comments on the topic: **Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream.** I thank you for the invitation and opportunity. You are to be commended for holding hearings on this matter, best known in the financial services area as "Banking the Un-banked".

I am here representing Citizens Trust Bank; headquartered in Atlanta, Georgia.

I. **CTB History**:

- Citizens Trust Bank was founded in 1921 and is currently the southeast's largest African-American owned commercial bank Citizens Trust Bank is the third largest African American owned commercial bank in the nation, with nearly $400 million in total assets.

- Citizens Trust Bank is a Community Development Financial Institution (CDFI), a designation received from the U.S. Treasury Department by bank's and other

financial institutions with a primary mission of promoting and meeting community development needs in distressed areas of its market area.

- Recently, Citizens Trust acquired the historic Citizens Federal Savings Bank of Birmingham, AL and currently has 11 branches throughout metropolitan Atlanta and Columbus, Georgia, two branches in Birmingham, and one in Eutaw, Alabama.

**II. Economic Trends and Necessity:**

- In the context of how the financial services industry currently works, low-income citizens must establish a deposit account as a means to enter the financial mainstream and begin asset accumulation. It is also my contention that economic vitality can flourish in low-income communities - - If significant numbers of the community are able to move forward on asset building tracks. Therefore, access to the financial mainstream for the "un-banked" is more than simply being able to open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development. Insured depositories should take on providing such access. In general these institutions offer useful services to support an individual asset building program by:
    - Taking direct deposits, providing a safe place for electronic payrolls, government benefit checks and other deposits to be received.
    - Promoting savings by paying interest and often limiting access to funds on deposit.

- Providing account statements to track their savings or checking balances and interest earned.

- Providing access to regulated loan products, which have minimum standards of customer protection.

- Providing a means to establish good credit.

- Encouraging home ownership through mortgage loans.

- Lowering the costs of basic financial services for customers with qualifying balances.

- Combining the delivery of financial services with informal customer education on financial planning, including appropriate loans and savings for college, home ownership, home improvement, or retirement.

- The question is: What are the challenges facing most mainstream financial institutions in making such banking services available to the un-banked? As a banker, I would submit the following observations for your consideration:

    1. Such financial institutions do not offer the types of retail services that meet the particular needs of the un-banked because they do not find such transactions cost effective.
    2. Many low-income customers need personal "high-touch" services at odd hours.

3. In addition, many banks and credit unions prefer not to underwrite the small, short-term loans those low-income customers require. Because low-income households barely have sufficient funds to meet their day-to-day needs, many need short-term credit especially when unexpected expenses arise.

4. Profile of an Un-banked Individual:
    1. History of bounced checks
    2. Account closures
    3. Poor financial management
    4. Cash only basis for household
    5. Low to middle income levels

Therefore, the challenge in banks and other financial institutions face in providing banking services to the "un-banked" is that they must build a significant volume of customers with an array of products and level of service that a) meets the immediate financial needs of the un-banked b) builds an strong interest on the part of the un-banked in establishing a deposit account and a healthy credit relationship that promotes asset accumulation, and c) turn a profit.

Many studies by such organizations as the National Community Investment Fund, Fannie Mae, and the Federal Reserve Bank Board, have been conducted to quantify and explain the high proportion of Americans who have no checking and savings accounts in regulated banks and credit union.

The National Community Investment Fund is an independent trust and certified community development financial institution whose mission is to increase the number and capacity of domestic, depository institutions that are both effective agents of local community development and sound financial institutions.

In May, with the support of a grant from the FannieMae Foundation, the NCIF conducted a comprehensive study on the un-banked and published one of the most thorough reports that I have read on the subject. The report is entitled ***"A Report on Innovative Products and Services for Low Income and Un-banked Customers"*** and was published in May of 2002.

In order to support the products and services described in NCIF's report, I believe that community banks, those relatively small and locally based financial institutions are best prepared. Going farther, minority-owned financial institutions are even more focused on communities where our low-to-moderate- income fellow citizens live. The fact of the matter is that the initial owners founded these institutions with that notion in mind. They remain in those communities today although most of them were founded more than fifty (50) years ago.

Today, there are 167 minority depository banks in the United States. Of these 49 are Black or African-American; 69 are Asian or Pacific Islander American; 30 are Hispanic-American; 17 are Native American or Alaskan Native American and 2 are Multi-Racial American. These banks are located in 96 cities and 30 states and 2 U. S. territories. In the aggregate, these institutions control some $93 billion in assets.

However, it should be noted that there are no special charters granted to these banks and they must comply with all the banking laws and regulations governing all banks. While almost all are

profitable and meet minimum capital requirements, they can ill afford to incur the losses attributed to providing normal banking services to the un-banked.

There have been funding initiatives by the federal government such as the Bank Enterprise Award Program of the U. S. Treasury Department and the most recent New Markets Tax Credit Allocation program administered by the same department. However, when applying for such funding, minority-owned banks find themselves competing for the limited resources against much larger majority-owned financial institutions. The result is that many of these smaller minority-owned financial institutions are often overlooked and shut off from the kind of financial support needed to offer normal banking services in disadvantaged communities.

While you invited me her to make comments, I would also like to make the following recommendations for your consideration:

1. Form a true partnership with minority-owned banks in this country to foster the implementation of the innovative products that are described in the NCIF Report. These institutions need to have initiative funds allocated to only those banks. After all, these institutions are already heavily regulated, regularly examined by government agencies and have to meet strict criteria for the maintenance of their respective banking charters.

2. One of the critical problems facing the nation is financial illiteracy. Our children are not being taught the importance of participating in the financial mainstream, even though they attend public school daily. If we must teach science, math and the arts, surely our presence here dictates that we empower our children in financial matters long before they are ready to be "first time homebuyers" or before they become un-bankable.

3. Within this city is the National Bankers Association, which is the seventy year-old trade organization for the nation's minority-owned banks. It represents a convenient access to those banks that have labored long and hard to provide the affordable banking services we all would like to see available to all.

Thank you again and as I stated at the outset, access to the financial mainstream for the "un-banked" is more than simply being able to open bank accounts. Indeed, equal access to the financial mainstream is a critical component of local development.

## Acceptance of Mexican Consular IDs is Not Only Legal—It Improves Public Safety and Enhances the Economy

This summary of law addresses the legality of accepting Mexican consular identification documents. It was prepared by the Mexican American Legal Defense and Educational Fund ("MALDEF"), which is a national non-profit non-partisan organization dedicated to defending the civil rights of the more than 37 million Latinos living in the United States through community education, advocacy and litigation.[1]

MALDEF prepared this summary of law because the anti-immigrant lobby has undertaken an extensive campaign against acceptance of the Mexican *matricula consular* identification card ("matricula" or "Mexican consular ID"), falsely alleging that its acceptance could provoke criminal and civil liability. One of the anti-immigrant groups, called Friends of Immigration Law Enforcement ("FILE"), has even published threatening model letters on its website, urging citizens to write to banks and public institutions to complain that their acceptance of the matricula is illegal. At least 80 banks, over 100 cities, and hundreds of police departments have accepted the Mexican consular ID, and for good reason.[2]

The Mexican consular ID is a better, more fraud-proof form of ID than any passport or US government-issued ID.[3] But despite this, FILE alleged that: "After careful consideration, it is our legal opinion that acceptance by financial institutions of the *matricula consular*: (1) is a federal statutory violation; (2) raises Constitutional questions; (3) opens the institution to civil liability and personal injury lawsuits; and (4) exposes the institution to prosecution (including criminal prosecution), and legal action by competing financial institutions under the Racketeering Influenced and Corrupt

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[1] For further information, contact Katherine Culliton, MALDEF Immigrants' Rights Attorney in our D.C. offices at (202) 293-2828 x14.

[2] See,e.g., "Good Move on Security," West Palm Beach Post (Editorial, Mar. 19, 2003)("During a period of war and terrorist threats, the country needs accurate accounting of the foreign nationals within its borders. Local law-enforcement officials must have a reliable way to identify immigrants... More than 100 cities and 800 law-enforcement agencies nationwide already accept the Mexican IDs.")

[3] See, e.g., O. Avila, "Doubts Surface About Mexican IDs—U.S. Questions Acceptance of Matricula Cards," Chicago Tribune (Jan. 23, 2003)("new version introduced last year contains at least eight safeguards, including a hologram and magnetic strip"); C. Rodriguez, "Pursuing a Dream—Identity-card Program Offers an Opportunity for Mexican Workers," Boston Globe (Feb. 2, 2003)("So far, about 700 Mexicans have gotten their 'Matriculas Consulares' in New England. Mexicans must show an original Mexican birth certificate, a photo ID card such as a driver's license, and a bill to show proof of residence. The laminated cards contain digital photographs and embedded codes that Mexican officials say are impossible to duplicate.") See also S. Ferris, "ID Cards Help Illegal Immigrants," Washington Times (Nov. 26, 2002)("In 2000, a rash of robberies of Mexican immigrants carrying cash in Austin, Texas, inspired Mexico to promote an improved form of identification. Officials turned the previous version of the [matricula] card into a high-tech ID that's more fraud-proof than many state drivers' licenses.") Also note that: "There is nothing in the matricula consular that will change a person's migratory status in any country," according to the Mexican Embassy. "A consular ID does not violate any federal law." R. Alonso-Zaldivar, "Move Opens to Stop Use of Mexican Immigrant's ID Cards," Los Angeles Times (Jan. 30, 2003)(quoting a spokesperson for the Mexican Embassy).

Organization Act (RICO)."[4] Also, Representative Tom Tancredo (R-Colo.) and other members of the Congressional Immigration Caucus introduced legislation that would ban acceptance of any foreign IDs whatsoever, including passports,[5] and wrote a letter directly to Colin Powell alleging that the Mexican and Central American governments were issuing identification documents "with the express purpose of evading U.S. law."[6]

Such allegations are entirely incorrect, and the summary of applicable law set forth below is designed to help banks and public officials make rational decisions about whether or not to accept Mexican and other countries' consular IDs.[7] Each of the allegations will be addressed in the legal analysis below. The analysis will demonstrate that acceptance of the Mexican consular ID is not illegal. In fact, refusal to accept it could prove to be a liability, especially with regard to security issues.

The analysis addresses the following issues:

1. **Acceptance of the Mexican consular ID is not illegal—in fact is it currently permitted by the U.S. Treasury under the Patriot Act.**

2. **Allegations that banks accepting the Mexican consular ID would be considered as "aiding and abetting illegal immigration," in violation of 8 U.S.C.A. § 1324, are irresponsible, false and frivolous. And since there is no underlying crime, there is no RICO-prohibited financial gain involved.**

3. **Threats of civil liability are arbitrary, capricious, and without any legal merit.**

4. **State and local government officials are not charged with enforcing immigration laws, which under our constitutional system is an exclusive mandate of the federal government. Therefore, state and local governments, as well private entities and individuals, may not be held negligent or otherwise liable for any theoretical failure to enforce federal immigration laws.**

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[4] www.fileus.com/dept/id/matricula/bank-letter-0201204.html. (FILE Model Complaint, "Foreign Issued Identification Cards & U.S. Financial Institutions—Legal Considerations.") Links to these materials can also be found on the website of Colorado Representative Tancredo, leader of the Immigration Reform Caucus, whose platform includes protecting the U.S. from the "foreign invasion" of "massive immigration, combined with our own self-destructive policies of radical multiculturalism."
www.house.gov/tancredo. Rep. Tancredo is also the author of a bill, H.R. 502 (Jan. 29, 2003), that would prohibit acceptance of any foreign ID under any circumstances—it would effectively prohibit any tourist, international businessperson, diplomat or immigrant from interacting with any branch of government, including law enforcement. Id.

[5] HR 502 (108th Cong., 1st Sess., Jan. 29, 2003).

[6] Press Release of January 23, 2003, Office of Rep. Tancredo (attaching letter to Colin Powell of same date), at www.house.gov/tancredo.

[7] Other countries are issuing or considering issuing consular IDs. D. Kong, "Latin American nations offer ID cards for citizens living in the U.S.," AP/Raleigh Daily News and Observer (Mar. 14, 2003).

5. **In fact, state and local governments, as well as banks and other private entities or individuals, are prohibited from discriminating based on immigration status.**

6. **The international legal rules followed by the U.S. State Department prohibit non-recognition of the Mexican consular ID.**

7. **Eight hundred police departments, various local governments and at least 80 banks have accepted the matricula, because it increases public safety, national security and our economic competitiveness by enabling the reliable identification of millions of Mexicans living and working in the U.S.**

8. **The only viable alternative to acceptance of the matricula is to legalize the millions of Mexicans who are performing vital work and sustaining the U.S. economy.**

**Analysis:**

**1. Acceptance of the Mexican consular ID is not illegal—in fact is it currently permitted by the U.S. Treasury under the Patriot Act.**

In Colorado, where the anti-immigrant and anti-matricula campaign has been most vocal, the State Bank Commissioner, Richard Fulkerson, was copied on a "Legal Notice" addressed to all Colorado banking institutions, by anti-immigrant groups contending "that the matricula consular card is illegal and exposes the acceptor to legal liability."[8] The State of Colorado decided to follow the lead of the federal government and refrain from prohibiting acceptance of matriculas.[9] Commissioner Fulkerson reasoned that:

> "At this time, I am not aware that any of the federal banking agencies have officially taken a position as to the acceptability of the [Mexican consular ID] card. However, I would note that a footnote to a July 16, 2002, Department of Treasury press release concerning proposed rules implementing Section 326 of the Patriot Act, specifically advises that '...the proposed regulations do not discourage bank acceptance of the 'matricula consular card that is being issued by the Mexican government to immigrants.' It is anticipated that the proposed [Patriot Act] rules requiring financial institutions to establish a formal customer identification program will be issued in the very near future.

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[8] See Description of "Legal Notice," in Memorandum from Colorado State Bank Commissioner Richard Fulkerson to State Chartered Banks, Industrial Banks, Trust Companies, Colorado Licensed Money Transmitter Companies, State of Colorado, Division of Banking, State Bank Commissioner, Regarding Matricula Consular Card (Jan. 21, 2003), www.dora.state.co.us/banking/commissionercorner/matriculaconsularcard.doc.

[9] Even proposed Colorado House Bill 1224, which would prohibit state and local governments from accepting the matricula, would only do so if the matricula consular is not recognized by the federal government. A. Kane, "Consular Bill ID Advances," Denver Post (Mar. 4, 2003).

> "Unless contradicted by the issuance of the above referenced rules in final form, it is the position of the Division of Banking that Colorado state-chartered financial institutions may accept the matricula consular card as one form of identification, although it would generally be expected that one or more additional identifying documents also be obtained. Federal banking regulators have informally advised me that the federal agencies have adopted a similar position until such time as that final regulations are issued."[10]

As the Colorado Bank Commissioner mentioned, Section 326 of the Patriot Act will "require financial institutions to establish minimum procedures for identifying and verifying the identity of customers seeking to open financial accounts."[11] These requirements will be applicable once the Department of Treasury, along with all other federal financial regulators, complete their relevant rule-making procedures in order to implement Section 326 of the Patriot Act. In July 2002, proposed rules were issued jointly by Treasury with seven other federal financial regulators.[12] In the case of non-citizens, the rules would require that:

> "A financial institution is given the discretion to decide what type of information it will request of a non-U.S. citizen in place of a taxpayer identification number. A financial institution may accept any one or more of the following: a U.S. taxpayer identification number; a passport number and country of issuance; an alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard."[13]

The U.S. Treasury's "Section 326 Summary" then included a footnote stating expressly that: "Thus, the proposed regulations do not discourage bank acceptance of the 'matricula consular' identity card that is being issued by the Mexican government to immigrants."[14]

In sum, Treasury approved of the Mexican consular IDs in the context of the provisions of the Patriot Act designed to identify all account holders and report suspected terrorists.

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[10] Id. [Emphasis added.], *citing* U.S. Treasury, Summary of Proposed Rules under Section 326 of the Patriot Act (July 16, 2002), and noting that "The Section 326 Summary is available at: http://www.ustreas.gov/press/releases/docs/sec326.pdf."

[11] Summary of the Patriot Act Section 326, supra. note 10. [Emphasis added.]

[12] See Dept. of Treasury, Press Release PO-3263, Treasury and Federal Financial Regulators Issue Patriot Act Regulations on Customer Identification (July 17, 2002), attaching Proposed Bank Rule [Billing Code 4810-02] (Dept. Treasury, Office of the Comptroller of the Currency, 12 C.F.R. Part 21 [Docket No. 02-11]; Federal Reserve System, 12 C.F.R. Part 208, 12 C.F.R. Part 211 [Docket No. R-1127]; Federal Deposit Insurance Corp., 12 C.F.R. Part 326; Dept. of Treasury, Office of Thrift Supervision, 12 C.F.R. Part 563 [No. 2002-27]; Nat'l. Credit Union Assn., 12 C.F.R. Part 748; Dept. of Treasury, 31 C.F.R. Part 103, RIN 1506-AA31) Customer Identification Program for Banks, Savings Associations, and Credit Unions (July 23, 2002), www.treas.gov/press/releases/po3263.htm?IMAGE.X=34\&IMAGE.Y=4 (official joint publication for public comment/hearings)(also published at 7 different places in the Federal Register).

[13] Summary of the Patriot Act Section 326, supra. note 10.

[14] Id.

However, in the meantime, the anti-immigrant lobby convinced the General Services Administration ("GSA") that it should suspend acceptance of the matricula for purposes of entering the San Francisco Federal Building.[15] The GSA asked the State Department to review the matter, and then an Inter-Agency Commission of the Departments of State, Treasury, Justice ("DOJ") including the Federal Bureau of Investigation ("FBI"), Health and Human Services, Education, and the new Department of Homeland Security ("DHS")(collectively, "Inter-Agency Commission") began reviewing the validity of accepting the Mexican consular ID. We understand that the final ruling will be issued by the State Department, and that is why we are writing to the State Department directly.[16]

The Inter-Agency Commission should approve continued acceptance of the Mexican consular ID and similar foreign consular IDs. The rulings to date of Treasury, well-established law, the logic of the need to identify all persons within our borders, and the fact that the matricula is a better, more fraud-proof form of ID than any U.S. government-issued identification document, all clearly indicate that at this moment in history, our government should accept the Mexican consular ID as a valid and reliable form of identification. Moreover, Treasury has made clear that acceptance of the matricula by banks is perfectly legal in the meantime.

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[15] In an effort to expand constituent services, House Minority Leader Nancy Pelosi had initiated a pilot program in which Mexican consular cards could be accepted as valid ID in San Francisco's Federal Building. Representative Tancredo "was instrumental" in "killing" this pilot program last December. T. Hendricks, "House Bill Would Outlaw Accepting Foreign IDs," San Francisco Chronicle (Jan. 30, 2003).

[16]"Statement of the General Services Administration Concerning Acceptance of Consular Identification Cards for Admission to Federal Agencies:

"The matter of foreign consular identification cards is under discussion both within the State Department and among federal government agencies, including the General Services Administration. While this matter is under deliberation, GSA has suspended the trial acceptance of consular identification cards for admittance to certain federal facilities. As of January 10th, GSA will no longer accept consular issued identification cards as a means of identification, pending further study.

"Once the interagency working group has made a formal recommendation to federal law enforcement and security agencies that ensures integrity of information contained in such cards and security of the document itself, the General Services Administration will reconsider its policy concerning acceptance of consular identification.

"Viki Reath
GSA Public Affairs
202-501-1499." (Statement sent by EMAIL from the GSA to MALDEF, Feb. 26, 2003).

**2. Allegations that accepting the Mexican consular ID would be considered as "aiding and abetting illegal immigration," in violation of 8 U.S.C.A. § 1324, are irresponsible, false and frivolous. And since there is no underlying crime, there is no RICO-prohibited financial gain involved.**

As FILE correctly points out, Section 274 of the Immigration and Nationality Act (8 U.S.C.A. §1324, Bringing in and harboring certain aliens) provides criminal penalties for any person who "encourages or induces an alien to come to, enter, or reside in the United States, knowing or in reckless disregard of the fact that such coming to, entry, or residence is or will be in violation of law."[17] Accepting the Mexican consular ID is not in violation of this statute. As a preliminary matter, banks and government officials that are accepting Mexican consular IDs are doing so from persons who already reside in the U.S. Therefore, the acceptance of the ID is not encouraging or inducing anyone to "come into, enter, or reside" in the U.S.[18] The individual who carries the Mexican consular ID, whatever his or her immigration status is, has already come to, entered, and resided in this country well before he or she approaches a bank or local government official.

While highly unlikely, even in the case of an individual who has come to and entered the U.S. but not yet begun residing here, acceptance of a Mexican consular ID could not be legally considered as "aiding and abetting" the underlying crime of encouraging or inducing illegal immigration. This is because the statute requires that the accused was acting while knowing or in reckless disregard that an immigrant's residence in the U.S. is or will be in violation of the law.[19]

The statute requires a level of intent or mental state to commit the crime of encouraging illegal immigration that does not apply to the circumstances of acceptance of a Mexican consular ID. The plain language of the statute makes clear that "knowing or reckless disregard" that the person's residence in the U.S. is in violation of immigration laws is required to prove criminal culpability.[20] Bank officials are not knowingly or recklessly encouraging illegal immigration by accepting matriculas, because they are not even aware of the immigration status of the individuals with whom they are conducting business. Instead, they are only verifying identification for the purposes of opening bank accounts and conducting financial transactions.

The Mexican government issues consular IDs to any of its nationals living abroad who can provide sufficient documentation to meet Mexico's strict standards for issuance of matriculas. Any person born in Mexico and residing in the U.S. who has not naturalized is a Mexican citizen, even if he or she is residing in the U.S. legally and permanently. As such, holding a Mexican consular ID cannot be equated with being illegally present in the

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[17] FILE Model Complaint, "Foreign Issued Identification Cards & U.S. Financial Institutions—Legal Considerations," supra. note 1; 8 U.S.C.A §1324(a) (West Supp. 2002).
[18] 8 U.S.C.A. §1324 (a)(1)(A)(iv).
[19] See 8 U.S.C.A. §1324(a)(1)(A)(iv)(II). See also: U.S. v. Bunker, 532 F.2d 1262 (9th Cir. 1976)(knowledge of illegal status essential element of the crime); U.S. v. Boerner, 508 F.2d 1064 (11th. Cir. 1975), cert. denied 421 US. 1013 (guilty knowledge required to prove felony); U.S. v. Holley, 493 F.2d 581 (9th Cir. 1974), cert. denied 419 U.S. 861 (1974) (incumbent upon government to prove knowledge and intent on part of defendant taxicab driver).
[20] Id.

U.S. The Mexican consulates emphasize that the matricula does not provide, document or otherwise address immigration status.[21] The fact that a person of Mexican origin is carrying a Mexican consular ID does not prove that the person is undocumented.

Neither banks nor police departments could be held liable for "aiding and abetting illegal immigration," because knowledge that a person has a Mexican consular ID does not mean knowledge of the person's immigration status. Furthermore, local police are not charged with enforcing federal immigration laws.[22]

Police stop people either due to suspicion or for a random check. If local police stop a person for suspicion, they are responsible for verifying whether that person has committed the violation for which they were suspected. Further investigation would be unconstitutional. If, on the other hand, local police stopped a person for a check without articulable suspicion (in a checkpoint or similar stop), the United States Constitution requires that the stop is random, meaning that everyone is stopped on an egalitarian basis. Investigating outside the scope of such stops is unconstitutional. Furthermore, hundreds of police departments are accepting matriculas precisely because this increases public safety.[23] In sum, state and local police accept the Mexican consular ID not for the purpose of checking immigration status, but because it increases public safety. For all these reasons, local police could not be held liable for failure to check the person's immigration status.

The same rationale applies in the case of government officials who ask for identification. The purpose of asking for identification documents are to know who the person is, e.g., that they are who their ID says they are, that they have the right to enter the building or public property in question, and that they are not a threat to public safety or security. People enter government buildings for a variety of purposes, such as paying traffic

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[21] See Sources cited in notes 1 and 2, supra.

[22] See, e.g., Final Rule, Release of Information Regarding Immigration and Naturalization Service Detainees in Non-Federal Facilities, Dept. of Justice, Immigration and Naturalization Service, Vol. 68, No. 19 Federal Register 4364 (Jan. 29, 2003), in which the Department of Justice and the Immigration and Naturalization Service ("INS") published the following analysis:

"Federal control over matters regarding aliens and immigration is plenary and exclusive. 'Control over immigration and naturalization is entrusted exclusively to the Federal Government, and a State has no power to interfere.' *Nyquist v. Mauclet*, 432 U.S. 1, 10 (1977); *see* also, e.g., *Matthews v. Diaz*, 426 U.S. 67, 81 (1976)('[T]he responsibility for regulating the relationship between the United States and our alien visitors has been committed to the political branches of the federal government.')."

[23] See e.g. "Palm Beach First in State to Accept Mexican IDs," AP/West Palm Beach (Mar. 13, 2003) and See §8, infra. (police accept matriculas in order to increase public safety). For similar reasons, numerous police departments are supporting campaigns to provide for immigrants to receive drivers' licenses. See, e.g., "Undocumented and On the Road," Washington Post (Mar. 14, 2003)("Legislatures bow to the demand for low-wage workers—who, once here, are treated like shadows, though they contribute more in spending and taxes than they take in services. A solution might be to set realistic quotas for temporary and permanent working visas, but after Sept. 11 realistic policy at the federal level seems remote. Meanwhile, state and local governments are charged with the simpler matter of keeping streets safe.")

tickets, going to court, or trying to participate in democracy.[24] Since checking immigration status is not part of such purposes, then government officials cannot be held liable for failure to check an ID holder's immigration status, unless such check is part of the express purpose of their mission. In that case, federal government officials should be asking for proof of immigration status, which the Mexican consular ID does not provide.

It is difficult to see why FILE would allege that banks would have the requisite criminal intent to be held liable for encouraging illegal immigration under the express terms of the Immigration and Nationality Act ("INA") they cite in their Model Complaint.[25] The underlying crime of encouraging or inducing illegal immigration, as is prohibited under INA,[26] is hardly committed by opening a bank account. There is no causation. The bank account does not encourage illegality—it is up to the federal government, and not private entities, nor the states and localities, to enforce immigration laws.[27]

Moreover, study after study has shown that millions of undocumented immigrants are living and working here in the United States, with or without bank accounts.[28] Their presence is not caused by banks, by local police, school boards or other local government officials, or federal government officials, except those who are directly working on federal immigration policy. Millions more legal immigrants, refugees, visiting businesspersons and tourists make financial transactions in the U.S. every day, providing immeasurable benefit to the U.S. If banks are responsible for facilitating these financial transactions that benefit the U.S. economy, then we should support their acceptance of foreign identification documents.

In sum, banks, police departments and government officials (except those expressly charged with enforcing federal immigration laws) are not criminally liable if they accept matriculas. Since there is no underlying illegal procurement of citizenship or naturalization,[29] there can be no conspiracy to commit a crime or unlawful gains from such crime, and therefore the federal RICO statute is inapplicable.[30]

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[24] Legal permanent residents have the right to petition the government. Moreover, in many jurisdictions, with regard to school boards, immigrants are able to participate in meetings and decisions about their children's education. This is because most immigrants pay taxes and have other vested interests in participating in government. J. Raskin, "Legal Aliens, Local Citizens: The Historical, Constitutional and Theoretical Meanings of Alien Suffrage," 141 University of Pennsylvania Law Review 1391 (1993).

[25] See FILE Model Complaint, citing 8 U.S.C.A. §1324(a)(10(A)(iv)(West Supp. 2002), supra. note 1.

[26] The mental state of knowledge or reckless disregard that the immigrant's entry or residence in the U.S. is illegal is required for the crime to be proven. U.S. v. Yoshida, 303 F.3rd 1145 (9th Cir. 2002).

[27] See Sources cited at notes 1 and 2, supra.

[28] See, e.g., Dan Griswold, Willing Workers: Fixing the Problem of Illegal Mexican Migration to the U.S. (Cato Institute, Trade Policy Analysis No. 19, Oct. 15, 2002).

[29] Racketeer Influenced and Corrupt Organizations ("RICO"), 18 U.S.C. §1961 (West Supp. 2002)(Definitions of "racketeering activitity").

[30] 18 U.S.C. §1962 (West Supp. 2002)(Activities prohibited under RICO).

Finally, FILE should be aware that there is no private right of action to enforce immigration laws.[31] For all these reasons, the FILE allegations of criminal liability and threats to prosecute those who accept matriculas are irresponsible.

**3. Threats of civil liability are arbitrary, capricious, and without any legal merit.**

FILE claims that acceptance of the Mexican consular ID "opens the institution [that accepts the ID] to civil liability and personal injury lawsuits."[32] However, in order for a bank to be held negligent for any damages caused to U.S. citizens by illegal immigration, the bank would have to have legally caused such damages. In order for a bank to have legally caused such damages, the damages would have to be foreseeable.[33] Currently, the federal government sanctions acceptance of matriculas by banks,[34] and therefore damages are not legally foreseeable.[35]

Even if the federal government were silent on the matter, a bank official accepting a form of identification that proves who the person is, is not responsible for ascertaining the immigration status of that person. A person presenting a Mexican consular ID might or might not be here illegally. Therefore, bank officials could not have forseen any damages caused by a holder of a Mexican consular ID having a bank account here in the U.S, and could not be held liable for such hypothetical damages.[36]

**4. State and local government officials are not charged with enforcing immigration laws, which under our constitutional system is an exclusive mandate of the federal government. Therefore, state and local governments, as well private entities and individuals, may not be held negligent or otherwise liable for any theoretical failure to enforce federal immigration laws.**

FILE is correct in one part of the "Legal Considerations" it published for citizens to send to banks. FILE correctly surmises that: "The courts have long recognized that by Article I, Section 8 of the U.S. Constitution (the Commerce Clause), Congress has 'plenary power' over all aspects of immigration law."[37] This is correct, but the analysis and conclusion that FILE gathered from the original legal norm, set forth by the Supreme Court in 1893, fails to take into account a long series of cases decided in the interim.

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[31] Chavez v. Freshpict Foods, Inc., 456 F.2d 890 (10th Cir.), *cert. denied* 409 U.S. 1042 (1972); Larez v. Oberti, 23 Cal. App.3d 217 (1972).
[32] FILE Model Complaint at p. 2.
[33] *See* W. Page Keeton et al., *Prosser & Keeton on the Law of Torts* § 36, at 224-27 (5th ed.1984).
[34] See Treasury and other sources cited in §1, supra.
[35] *Prossner & Keeton* supra. note 33.
[36] In fact, many have argued that the presence of new immigrants, including undocumented Mexican workers, is not harmful but is instead helpful and even essential to the U.S. economy. See Moving Forward in Reforming Our Immigration System: Quotes from Across the Spectrum (Nat'l. Immigration Forum, Feb. 2003)(citing Editorials, Columns, Op-Eds, and Elected and Appointed Officials, including the Bush Administration).
[37] File Model Complaint at 1, *citing* Fong Yue Ting v. United States, 149 U.S. 698 (1893).

FILE asserts that because the power to regulate immigration belongs to the federal government: "Therefore, no public institution except the Federal Government may make *any policy that speaks in any way* to the presence in the community of foreign nationals."[38] As will be shown below, this analysis is entirely incorrect.

Since 1893, the Supreme Court has repeatedly reaffirmed and further interpreted the general norm that enforcement of immigration laws is the exclusive mandate of the federal government.[39] The Court has made clear that state and local officials are prohibited from legislating on immigration, unless their policies mirror the policies set forth by the federal government.[40] Any state and local law regarding immigrants that differs from federal immigration law may be struck down as outside the mandate of state and local authority.[41]

No matter which scenario is applied to matriculas, their acceptance by state and local governments is perfectly legal. FILE did not take into account that not everything that has to do with immigrants as people falls under the purview of the plenary power of the federal government to regulate immigration. For example, immigrants go to school, operate businesses, and are subject to state criminal and civil laws the same as any other person. The Supreme Court has ruled again and again that these types of matters do not fall under the federal plenary power to regulate immigration.[42] Acceptance of matriculas has nothing to do with the plenary power or foreign policy, but is merely a means to accurately identify a person who wants to open a bank account, identify themselves for safety reasons, or pay a traffic ticket. In this case, relevant state and local policy would not unduly interfere with the plenary power of the federal government.

Assuming that acceptance of Mexican consular IDs falls under the federal plenary power to regulate immigration, as long as the federal government permits the acceptance of

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[38] Id. at 2. [Emphasis added.]

[39] See, e.g., De Canas v. Bica, 424 U.S. 351, 354 (1976)("The power to regulate immigration is unquestionably exclusively a federal power.") See also: "DOJ/INS, Final Ruling, Release of Information Regarding Immigration and Naturalization Service Detainees in Non-Federal Facilities, 8 CFR Parts 236 and 241 [INS No. 2203-02], RIN 1115-AG67, Vol. 68 No. 19 Federal Register 4364 (Jan. 29, 2003), finding that:

> "Federal control over matters regarding aliens and immigration is plenary and exclusive. 'Control over immigration and naturalization is entrusted exclusively to the Federal Government, and a State has no power to interfere.' *Nyquist v. Mauclet,* 432 U.S. 1, 10 (1977); *see* also, e.g., *Matthews v. Diaz*, 426 U.S. 67, 81 (1976)('[T]he responsibility for regulating the relationship between the United States and our alien visitors has been committed to the political branches of the Federal Government.')."

[40] See M. Wishnie, Devolution of Immigration Power, Equal Protection and Federalism, 76 N.Y.U.L. Rev. 493 (May 2001)(discussing the 1996 Personal Responsibility and Work Opportunity Reconciliation Act, which would permit the states to follow the federal government's denial of benefits to legal immigrants).

[41] Id.

[42] See Matthews v. Diaz, 426 U.S. 67 (1976); Graham v. Richardson, 403 U.S. 365 (1971); and See Takahashi v. Fish & Game Comm'n., 334 U.S. 410 (1948); Yick Wo v. Hopkins, 118 U.S. 356 (1886). See also Plyler v. Doe, 457 U.S. 202 (1982).

Mexican consular IDs, state and local governments may not enact contradictory policies. However, states and local governments may enact policies that mirror and further the federal policy, as long as federal constitutional protections are in place.[43] Similarly, if the federal government were silent on the matter, states and localities may not enact anti-matricula laws for the purpose of involving themselves in immigration.[44] This analysis was affirmed on January 29, 2003, by a recent final ruling of the Department of Justice and the Immigration and Naturalization Services ("INS").[45]

In sum, (1) either acceptance of matriculas is simply regulation of immigrants that is not part of the plenary power because it has nothing to do with foreign policy, or (2) state and local regulation of immigrants falls under the plenary power, and therefore is subject to the authority of the federal government. In either case, acceptance of the Mexican consular IDs could not be an undue interference in the plenary power or foreign policy.

**5. In fact, state and local governments, as well as banks and other private entities or individuals, are prohibited from discriminating based on immigration status.**

Because state and local governments may not enforce immigration laws, except under limited circumstances with delegation of authority by and supervision of the federal government, their actions are subject to stricter standards of review than the federal government. As discussed, when the federal government enforces immigration laws, its actions fall under the plenary power to regulate immigration and act in matters of foreign policy. Therefore, U.S. courts reason that the federal government should have discretion as to how to conduct such activities.[46] When state and local governments are taking actions under delegated federal authority, similar rules of law could apply.

However, when state and local governments are not regulating immigration, but instead regulating immigrants, they do not enjoy such wide discretion and their actions are subject to much stricter scrutiny.[47] Similarly, private entities such as banks, which are

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[43] See Wishnie, Devolution of Immigration Power, supra. note 40; DOJ, Memorandum Opinion for the United States Attorney Southern District of California, Assistance by State and Local Police in Apprehending Illegal Aliens (Feb. 5, 1996).

[44] Fong Yue Ting v. United States, supra. note 37.

[45] See DOJ/INS Final Ruling, supra. note 22, finding that: "Federal control over matters regarding aliens and immigration is plenary and exclusive." The Final Ruling cited the Supreme Court ruling in Nyquist v. Mauclet, 432 U.S. 1, 10 (1977) that: "'Control over immigration and naturalization is entrusted exclusively to the Federal Government, and a State has no power to interfere.'"

[46] The actions and omissions of the federal government are still always subject to constitutional scrutiny—but the federal government has discretion in its authority to regulate immigration, which under the plenary power implicates foreign policy and national security issues. Therefore, the federal government is subject to rational basis instead of strict scrutiny of its actions infringing constitutional rights in this arena. Reno v. AADC, 525 U.S. 471 (1999).

[47] See Graham v. Richardson, 403 U.S. 365 (1971). Note that one problem with state and local enforcement of federal immigration laws is that, in this context, state and local police often racially profile minorities such as Latinos. Even if a person is here illegally, initiating an investigation based upon perceptions of race/ethnicity is unconstitutional. See, e.g., Carrasca v.

not authorized to enforce immigration laws, do not enjoy discretionary authority and may not discriminate against or otherwise infringe upon the fundamental constitutional rights of immigrants, even those who are undocumented.[48]

For example, the U.S. Supreme Court held in 1982 that children of undocumented immigrants are entitled to receive public education.[49] It would be illogical to conclude the public schools are encouraging illegal immigration by providing education to deserving students, without discrimination based on immigration status. Similarly, if banks were to deny services to all Mexicans who presented matriculas, they could be charged with discrimination.

### 6. The international legal rules followed by the U.S. State Department prohibit non-recognition of the Mexican consular ID.

Mexico is a sovereign nation with the right to issue Mexican identification cards to its foreign nationals. The new Undersecretary of Border and Transportation Security, Asa Hutchinson, made this clear in recent public statements.[50] Furthermore, the practice of consular registration has been recognized by international law. Mexican Consuls have been issuing consular ID documents since 1871. The purposes of consular registration are to enable consular officers to protect their nationals and provide access to consular services,[51] and to help relatives and authorities of the sending State to locate their nationals overseas. As part of this mandate, the Mexican consulates explain to matricula applicants that the card does not provide any immigration status or legal access to benefits whatsoever. Its main purpose is to provide accurate identification of its holder.[52]

Consular registration of Mexican nationals assists Mexican consulates in complying with the functions recognized by the Vienna Convention on Consular Relations.[53] The Mexican consular ID assists in identifying the Mexican nationality of a person returning

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Pomeroy, No. 02-1127 (3rd Cir., Feb. 18, 2003); M. Waslin, Nat'l. Council of La Raza Issue Brief No. 9, Immigration Enforcement by Local Police: The Impact on the Civil Rights of Latinos (Feb. 2003). Under the same analysis, refusal to provide banking or other services based on race/ethnicity, e.g., assuming Latinos are undocumented immigrants, is unconstitutional. Takahashi v. Fish & Game Comm'n., 334 U.S. 410 (1948); Yick Wo v. Hopkins, 118 U.S. 356 (1886).

[48] Id.; See also Plyler v. Doe, supra. note 42.

[49] Plyler v. Doe, 457 U.S. 202 (1982).

[50] S. Gamboa, "Agencies Question Mexican ID Cards," Associated Press (Jan. 31, 2003); R. Alonso-Zaldivar, "Move Opens to Stop Use of Mexican Immigrants' ID Cards," Los Angeles Times (Jan. 30, 2003). As far as security concerns, Mr. Hutchinson said that he wanted to ensure that matriculas were fraud-proof. He commented that: "We want to work with them to prevent fraud and abuse in our country... We just want to make sure the right protections are there... These are practical problems we have to work through." Id.

[51] See services/functions permitted under the Vienna Convention on Consular Services at note 55, infra.

[52] Id.; See also sources cited supra. notes 1 and 2 (West Palm Beach Post, Chicago Tribune, Boston Globe, and Washington Times reports).

[53] Vienna Conv. on Consular Relations and Optional Protocols, U.N.T.S. Nos. 8638-8640, vol. 596, pp. 262-512 (Vienna, 1963).

to Mexico from the U.S., and provides an official *Mexican* record of that person's residence for the time in which he or she was in the U.S. Consular registration also facilitates the access to protection and consular services, as the registration is considered evidence of Mexican nationality. For all these reasons, Mexican consulates issue matriculas to Mexicans living in any part of the world.[54]

U.S. consular posts also provide consular registration services for U.S. nationals living in other countries, in order to better provide consular services to U.S. citizens living abroad. When Mexican nationals in the U.S. have problems, they turn to their consulates for help, the same as U.S. citizens turn to U.S. consulates for help when living overseas.

The Vienna Convention on Consular Relations permits many relevant consular functions, such as protecting and safeguarding nationals living abroad, providing them with services and legal advice, developing helpful bilateral relations, and certifying and issuing legal documentation.55 These functions are the legal framework for the services that both U.S.

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[54] "The Battle Over the Matricula Consular," Atlanta Latino (Mar. 27, 2003)(example given by the Government of Mexico that matriculas are issued to Mexicans living in Paris from the Parisian consular).

[55] Consular functions that are expressly permitted under the Vienna Convention include the following relevant consular activities:

"(a) protecting in the receiving State the interests of the sending State and of its nationals, both individuals and bodies corporate, within the limits permitted by international law;
(b) furthering the development of commercial, economic, cultural and scientific relations between the sending State and the receiving State and otherwise promoting friendly relations between them in accordance with the provisions of the present Convention;...
(d) issuing passports and travel documents to nationals of the sending State, and visas or appropriate documents to persons wishing to travel to the sending State;...
(f) acting as notary and civil registrar and in capacities of a similar kind, and performing certain functions of an administrative nature, provided that there is nothing contrary thereto in the laws and regulations of the receiving State;
(g) safeguarding the interests of nationals, both individuals and bodies corporate, of the sending State in cases of succession mortis causa in the territory of the receiving State, in accordance with the laws and regulations of the receiving State;
(h) safeguarding, within the limits imposed by the laws and regulations of the receiving State, the interests of minors and other persons lacking full capacity who are nationals of the sending State, particularly where any guardianship or trusteeship is required with respect to such persons;...
(j) transmitting judicial and extrajudicial documents or executing letters rogatory or commissions to take evidence for the courts of the sending State in accordance with international agreements in force or, in the absence of such international agreements, in any other manner compatible with the laws and regulations of the receiving State;...
(m) performing any other functions entrusted to a consular post by the

and Mexican citizens are entitled to from their respective consulates. Issuance of the Mexican consular ID and similar foreign consular IDs falls well within the legal boundaries of the consular functions permitted under the Vienna Convention. Moreover, as will be discussed below, compliance with this Vienna Convention is important to the United States.

**Parity and Reciprocity**

The Inter-Agency Commission studying the validity of accepting foreign IDs must take into account that the United States is party to and its citizens enjoy parity and reciprocity under a series of international treaties that permit U.S. citizens to travel and do business abroad. Enjoyment of the benefits of such treaties means that we must provide for parity and reciprocity of such benefits to other countries. The principle of parity and reciprocity is set forth in the non-discrimination provisions of the Vienna Convention on Consular Relations.[56] This means that in addition to the requirement that the U.S. not discriminate among foreign Consuls, the Vienna Convention provides that better or worse treatment will not be considered discriminatory, as long as the same favorable or restrictive treatment is also applied to U.S. citizens in the "sending State."[57]

Whatever treatment we give Mexican Consuls, the same treatment will be applied to U.S. Consuls in Mexico with regard to their ability to protect the myriad interests of U.S. citizens living, doing business in, or simply traveling to Mexico. U.S. Consuls issue birth certificates, death certificates, divorces, and provide many other documents, document authentications, and services for the nearly 500,000 U.S. citizens living in Mexico and the 15-17 million U.S. citizens visiting Mexico annually.[58] The legal principle of parity and reciprocity means that whatever consular functions we engage in on behalf of U.S. citizens in Mexico, Mexico has the right to do on behalf of Mexican citizens in the U.S.[59] On the other hand, whatever functions we deny to the Mexican Consuls in the U.S., Mexico has the right to deny to U.S. consulates in Mexico.[60]

For all these reasons, non-acceptance of Mexican IDs could lead to non-acceptance in Mexico of U.S. identification documents, including passports. There is no known international treaty that requires acceptance of U.S. passports, and if we fail to acknowledge the rights of foreign Consuls to issue IDs to their nationals, the rule of

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sending State which are not prohibited by the laws and regulations of the receiving State or to which no objection is taken by the receiving State or which are referred to in the international agreements in force between the sending State and the receiving State." Art. 5, Vienna Conv. on Consular Relations and Optional Protocols U.N.T.S. Nos. 8638-8640, vol. 596, pp. 262-512 (Vienna, 1963).

[56] Id. at Art. 72.

[57] Id.

[58] Tips for Travelers to Mexico, Dept. of State, Bureau of Consular Affairs, Publication 10571 (1998), www.travel.state.gov/tips_mexico.hptl. ("The Department of State and its Embassy and Consulates in Mexico offer a wide range of services to assist U.S. citizens in distress. U.S. consular officials meet regularly with Mexican authorities to promote the safety of U.S. citizens in Mexico.")

[59] Vienna Conv. on Consular Relations, Art. 72 (2)(b).

[60] Id. at Art. 72(2)(a).

reciprocity and parity means that other nations could also restrict the rights of U.S. Consuls to issue U.S. identification documents. Before unilaterally denying the rights of foreign Consuls to issue foreign documents to their nationals in the U.S., the U.S. government should at the very least engage in negotiations for the reasonable reciprocal recognition of foreign IDs.

If the U.S. government fails to take these steps, U.S. citizens and businesses could be without legal protection and unable to function abroad. Furthermore, the U.S. could be open to an international lawsuit. By adopting the Optional Protocol to the Vienna Convention on Consular Relations Concerning the Compulsory Settlement of Disputes, the United States agreed that any disputes about the interpretation or application of the provisions of the same Vienna Convention "shall lie within the compulsory jurisdiction of the International Court of Justice."[61]

**7. Eight hundred police departments, various local governments and at least 80 banks have accepted the matricula, because it increases public safety, national security and our economic competitiveness by enabling the reliable identification of millions of Mexicans living and working in the U.S.**

When deciding upon the legality of accepting foreign IDs, we must ensure that whatever measures we take in the name of national security are actually effective. Common sense also dictates that we should not enact measures that will be detrimental to public safety and national security. Many jurisdictions are accepting the matricula because it very clearly increases public safety.[62]

The Inter-Agency Commission must take into account that perfectly legal Mexican immigrants and tourists may use the Mexican consular ID, because it is safer and easier to carry than a passport. Banks may also prefer the matricula, because its security features are in full compliance with the Patriot Act and it is a much more reliable form of identification than a Mexican passport.[63]

The matricula has a number of extremely sophisticated security features, including a digitized photo, in-person consular interviews and review of supporting documentation, and standards for supporting documentation that are more demanding than those used for U.S.-government issued IDs.[64] Furthermore, the matricula decreases robberies of

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[61] Optional Protocol to the Vienna Conv. on Consular Relations Concerning Compulsory Settlement of Disputes, Art. 1, at U.N.T.S. Nos. 8638-8640, vol. 596, pp. 262-512. See also Case Concerning Avena and Other Mexican Nationals, No. 128, Order of Provisional Measures (Int'l. Court of Justice ("ICJ"), Feb. 5, 2003)
(ICJ found that it has prima facie jurisdiction because both the U.S. and Mexico acceded to the Optional Protocol Concerning Compulsory Settlement of Disputes).

[62] See, e.g., R. Keegan, "Napa's chief pushes for Mexican I.D.--City council may get opportunity to approve Matricula I.D.s" The Napa Valley Register (Mar. 13, 2003)(summarizing testimony).

[63] Note that the matricula is also a more fraud-proof form of ID than a passport. See sources cited supra. at notes 1 and 2, (West Palm Beach Post, Chicago Tribune, Boston Globe, Washington Times and Los Angeles Times reports).

[64] See sources cited at notes 1 and 2, supra.

Mexican nationals and increases public safety.[65] Eight hundred local police departments accept the matricula because it is extremely helpful to be able to accurately identify people.

Many Mexicans arrived here without a passport, and in any case, the Mexican passport is not nearly as fraud-proof as a matricula. Without the Mexican consular ID, many migrants would be without any reliable identification, either because they do not have access to U.S. documentation or because their application for immigration status is still pending. It is much better for police to be able to identify people, including suspects, witnesses, and people who come forward to report crimes and suspicious activities, than to be unable to accurately identify people and locate them in the future.[66] As Chief Moose of Montgomery County, Maryland explained to D.C.-area residents during the sniper crisis, we all need for immigrants to be able to report information without fear of immigration consequences.[67]

Acceptance of the Mexican consular ID has a proven track record of increasing public safety. On the other hand, it is not at all clear how failure to recognize the matricula and the inability to identify millions of Mexicans living and working here in the U.S. would actually assist in the primary mission of the Department of Homeland Security, e.g., "to prevent terrorist acts within the United States."[68] Furthermore, part of the official "primary mission" of the new Department of Homeland Security is to "ensure that the overall economic security of the United States is not diminished by efforts, activities, and programs aimed at securing the homeland."[69]

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[65] D. Ovalle & A. Chardy, "Mexico's migrant ID card: safety net or form of amnesty?," Miami Herald (Mar. 12, 1993), www.miamiherald.com.

[66] Also note that Mexican and other foreign nationals who are arrested in the U.S. are entitled to have their consulate notified. See, e.g., Case Concerning Avena and Other Mexican Nationals, No. 128, supra. note 61; Case Concerning Vienna Convention on Consular Relations (Paraguay v. United States), No. 99, Order regarding Request for Provisional Measures (ICJ, April 19, 1998).

[67] See Nat'l. Immigration Forum, Immigration Policy Update, §2 Sniper Case Illustrates Danger of Mixing Criminal, Immigration Enforcement (Oct. 23, 2002)(with Chief Moose's statement), www.immigrationforum.org. Also, on October 23, 2002, then-INS Commissioner James Ziglar issued a statement supporting police efforts. He said: "We are committed to supporting the investigation into the shootings in any way possible. It is crucial that local authorities get the help they need in this investigation. I want to personally urge the immigrant community to come forward if they have information that will assist in this investigation, and assure everyone that INS will not seek immigration status information provided to local authorities in this effort." Statement by INS Commissioner James Zigler, DOJ/INS News Release (Oct. 23, 2002), www.immigration.gov. See also Leslye E. Orloff, Director, Immigrant Women Program, Nat'l. Organization of Women Legal Defense and Educational Fund, Testimony at New York City's Sanctuary Policy, House Immigration, Border Security and Claims Subcommittee Hearing (Feb. 27, 2003).

[68] Homeland Security Act, Public Law 107-296 (Nov. 25, 2002), §101(b)(1)(A).

[69] Id. at §101(b)(1)(F).

**8. The only viable alternative to acceptance of the matricula is to legalize the millions of Mexicans who are performing vital work and sustaining the U.S. economy.**

While Representative Tancredo and the anti-immigration groups seem to be worried about securing our borders by making it impossible to recognize foreign IDs, it is obvious that their real concern is illegal immigration. The reality is that there are 8-9 million undocumented immigrants living and working here in the U.S., and about half of them are Mexican.[70] This is in large part because undocumented workers are an essential part of the U.S. economy. A recent study by Northeastern University found that more than half of new workers in the 1990s were undocumented immigrants.[71] They are doing work that U.S. citizens and residents do not want. In January, Alan Greenspan acknowledged that, due to the aging of the native U.S. workforce, a surge in immigration is our only hope for undoing massive fiscal deficits and moving towards economic recovery.[72]

It is not a good idea to leave millions of people without any means to legally identify themselves. As President Bush has said, undocumented Mexicans come here because they are willing workers going to willing employers.[73] Instead of pushing good people who are undocumented immigrants even further into the shadows, the administration should re-open the legalization negotiations that were underway on September 3, 2001. Recent statements by Secretary of State Colin Powell and National Security Advisor Condoleezza Rice, along with recent statements by President Bush himself, confirm that legalization is entirely logical if not essential in the context of the need to protect our collective national security.[74]

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[70] See American Immigration Law Found., Mexican Immigrants and the U.S. Economy: An Increasingly Vital Role, Vol. 1, Issue 2, Immigration Policy Focus (Sept. 2002).

[71] Northeastern Univ. Center for Labor Market Studies, Immigrant Workers and the Great American Job Machine: The Contributions of New Foreign Immigration to National and Regional Labor Force Growth in the 1990s (Prepared for the National Business Roundtable, Wash. D.C., August 2002). This groundbreaking study found that new immigrants made up more than ½ of the growth of the nation's entire civilian workforce between 1990 and 2001. Among other findings, Northeastern University concluded that: "The findings in this research report on the role of immigrant labor in meeting the employment needs of the nation's employers, especially in the private business sector, deserve the careful attention of the nation's and states' economic policy makers, the business community, organized labor, and state and local workforce development boards. At no time in the past 90 years was the nation so dependent on immigrant labor to meet its growing need for labor, especially among male workers, whose native supply barely increased in the past decade and actually declined in a number of regions and states..." Summary of Findings, 38-43 at §viii.

[72] See Federal Reserve Board Chairman Alan Greenspan's Semiannual Monetary Report to Congress, Uncertainty on Iraq Limits Economic Growth, Greenspan Says, U.S. Dept. of State, Int.l. Info. Programs 9 (Feb. 11, 2003).

[73] See Dan Griswold, Willing Workers: Fixing the Problem of Illegal Mexican Migration to the U.S. (Cato Institute, Trade Policy Analysis No. 19, Oct. 15, 2002).

[74] See Moving Forward in Reforming Our Immigration System: Quotes from Across the Spectrum (Nat'l. Immigration Forum, Feb. 2003)(citing Editorials, Columns and Op-Eds, Elected and Appointed Officials, including the Bush Administration, and Diverse Allies of the Nat'l. Immigration Forum).

**Conclusion:**

For all these reasons, the Inter-Agency Commission studying the validity of consular IDs should confirm that recognition of the Mexican consular ID and similar consular IDs is legal. The Administration should also realize that the *matricula* is only a stop-gap measure, and look into alternatives for providing U.S. legal identity and documentation to the millions of Mexicans and other foreign nationals who are working as the backbone of the U.S. economy.

## Citigroup Efforts on Banking the Unbanked and Financial Literacy

**House Financial Services Subcommittee on Financial Institutions**
**Increasing Access to the Financial Mainstream**
**June 26, 2003**

Citibank has made a significant commitment to ensuring access to financial products and services for low- and moderate-income (LMI) households and communities, as well as others, such as recent immigrants, who are typically considered among the un- and under-banked. This commitment goes back several decades, and involves long-standing partnerships with key community groups and institutions. Our approach combines the provision of financial products and services with opportunities to use those products wisely. Citibank's community support is provided to households, diverse communities, and the non-profit groups and other institutions that serve them.

**Product Offerings for Targeted Populations**

We have a number of products and services geared towards LMI and other un- and under-banked populations to ensure that they have access to vital financial services. Our financial centers reflect the communities that we serve. Where appropriate, we have bilingual or multilingual staff and collateral, and we are open during the hours most convenient for the populations we serve.

We recognize that banking services need to fit both a customer's financial situation and his or her budget, and we make it a priority to offer affordable banking services for customers with limited incomes. Citibank's affordable banking program provides a choice of two checking plans (Citibank EZ Checking and Basic Checking), a savings account, 24-hour banking convenience, immediate availability of deposited funds with direct deposit, special credit card programs, and a combined monthly statement. Additionally, if a customer opens an account through our Bank at Work program and has direct deposit, he or she receives free checking.

In addition to our traditional financial center network, we have developed a number of alternative delivery systems, such as ATMs, telephone banking and PC banking to assist all customers, including targeted populations, to access our products and services. Of particular note is our Bank at Work program, which was started in 1995. In partnership with companies and nonprofit organizations, big and small, Citibank offers employees innovative, flexible and price-competitive packages of financial services. Employees can also access on-site seminars on financial planning, investments and home buying. Benefits include: direct deposit of payroll, free introductory checking, free checks, free Citibank ATM network transactions, no fee PC banking services, no fee bill payment services, discount rates on lines of credit and loans in addition to reduced rates on our mortgage origination fee and a $500 closing cost concession with affordable mortgage products. The discount on credit products has increased the affordability of credit for LMI households.

Home mortgage lending plays a large role in our efforts to respond to the credit needs of LMI households and communities. Citibank works to increase homeownership in under-served communities by offering both traditional and non-traditional mortgage products, developing non-profit partnerships, working with affordable housing developers to capture end loans, and sponsoring financial education services in Citibank markets. Our objective is to make mortgage financing more easily obtainable for all homebuyers, particularly LMI borrowers, by offering innovative products, executing multiple sourcing strategies, permitting flexibility in underwriting guidelines, and monitoring and evaluating program effectiveness in relation to community lending goals.

Citibank has partnered with Fannie Mae, the State of New York Mortgage Agency (SONYMA), government agencies, and state and local housing authorities to provide a vast array of products that meet the mortgage financing needs of our communities. These community lending products

are designed to help increase LMI households' buying power by decreasing the total amount of cash needed to purchase a home, allowing higher debt to income ratios, and waiving cash reserve and minimum loan amount requirements.

Citibank also works with non-profit groups and governments at the local level to design specialized affordable lending programs. Collaborating with local entities ensures that these programs are in sync with local needs and conditions, provides Citibank with access to potential homebuyers, and offers excellent opportunities for implementing homebuyer education courses. In addition, Citibank has community mortgage consultants in targeted areas whose sole responsibility is to serve LMI borrowers and borrowers from under-served communities. Their performance is evaluated on targeted loan production and relationship management with non-profit partners.

**Financial Literacy**

We understand that providing LMI and un- and under-banked populations with products and services is important; however, providing them with the education to understand how to obtain and use those products wisely is even more imperative. As a result, we place considerable emphasis on financial literacy. As a leading financial institution, we draw upon our own knowledge in this area to directly serve the traditionally un- and under-banked, as well as assist our nonprofit partners in reaching out to this segment of the population. Citibank is a leader in providing these types of programs. Below is a sampling of our most noteworthy financial literacy initiatives.

**Citibank Seminar Series**

The Citibank seminar series covers 11 financial education topics at no charge to consumers. The seminars are scheduled throughout the year and are held across the country at Citibank's retail locations and at various other sites through Citibank's Bank-at-Work program. Citibank also works with non-profit partners to inform them of seminar offerings and invites partners to send attendees and/or host seminars. Seminar topics offered include: CitiTerm Insurance Protection, Cash Management, Credit Management, Homebuyers, Investing in Your Future, SBA, CitiTerm Insurance for Small Business, Citipro Financial Needs Analysis, Essentials of Investing, Home Equity and Small Business Retirement Plans. Many of these seminars are also available in Spanish. We hold hundreds of seminars each year through this program.

**Citipro Financial Needs Analysis**

Citipro is a one-on-one service, offered at our retail bank locations, that gauges an individual's current financial health and offers solutions for obtaining financial goals. Citipro is unique in that we ask our customers to tell us what they want to accomplish, and then by analyzing their current financial situation, we develop a customized "roadmap" for their future. Citipro is focused on five main customer needs: cash management, debt management, income protection (insurance), education, and retirement. Launched in 1999, this service is offered on a complimentary basis to all current and potential customers in the marketplace. Citipro is also available in Spanish. We performed more than 180,000 CitiPro analyses around the country in 2002.

**Individual Development Accounts**

Citigroup has taken a leading role in helping to establish the IDA movement in the United States. IDAs are savings programs that help low-income individuals work towards financial independence. The Citigroup Foundation was the only financial institution to invest $1 million in the American Dream Demonstration, the country's first national IDA learning demonstration. Further, Citibank is one of the only banks in the country to offer these non-profits an IDA financial management product to manage IDA savings and matching funds in a low cost manner while allowing the IDA consumer to earn as high an

interest rate as possible. Finally, Citibank employees have played an important role in the growth of the IDA movement - volunteering as financial education instructors, raising IDA matching funds from the Federal Home Loan Bank and organizing forums to educate others in the financial services, non-profit and government sectors regarding IDAs. Our commitment to the IDA movement has established us the IDA "bank of choice."

One of the facets of our IDA program that makes us unique is our ability to provide our nonprofit partners with the option of using our CitiEscrow account to manage their customers' finances. This product, originally designed to assist our legal clients, enables our IDA partners to keep client funds in separate accounts, while at the same time, giving them the ability to oversee all of them with one master account. Customers can use Citibank's online banking service, Business Access, to handle their accounts and, at the option of the customer, can provide separate statements for each individual account. Our non-profit developers have also found this product useful in keeping funds for their projects separate.

Our public/private partners on IDAs include: American Dream Demonstration, Harlem YMCA, YWCA of Rochester and Monroe County, Chinatown Manpower Project, Inc., San Diego Home Loan Counseling Service, Riverside Co. Dept. of Community Action, Faith Based Community Development, East Bay Asian Local Development Corp., YWCA of New Castle County, Fifth Avenue Committee, Local Development Corporation of East New York, Pratt Area Community Council, The Mount Hope Housing Company, Westchester Housing Fund, YWCA of Greater Miami Dade, YWCA of the National Capital Area.

**Teach Children to Save**

Citibank and the American Bankers Association Education Foundation have partnered on this national financial education initiative. Teach Children to Save is a financial education initiative that provides a guided learning curriculum on gaining good spending and saving habits for children in grades K-12. The program focuses on non-profits and LMI communities, and Citigroup volunteers can teach at schools, through non-profit organizations, and through other programs serving youth, such as the Boy and Girl Scouts and local YMCAs. More than 250 Citigroup employees volunteered through Teach Children to Save in 2002, reaching 5,000 students nationwide. In 2003, more than 500 employees volunteered, reaching more than 19,000 students, nearly triple the number in 2002. We focus our efforts on schools in LMI and underserved communities.

We consider community-based non-profits to be an important bridge in our efforts to deliver financial education to a larger segment of the population. As a result, we have developed a number of programs to build the capacity of our non-profit partners and enable them to provide their own financial literacy programs to their constituents. Below are some examples of how we have assisted non-profits in this way.

**Homebuyer Counselor Certification Training**

Training for nonprofit staff members to become certified to counsel and prepare a first-time homebuyers for homeownership is not available locally in many markets. In order to build the capacity of our nonprofit partners to carry out this critical work, Citibank sponsors week-long homebuyer certification training sessions, through the organizations such as the American Homeowner Education and Counseling Institute and the Neighborhood Reinvestment Corporation Training Institute. We provide space for training, meals and scholarships to participants.

**NCRC Financial Education Training**

In conjunction with the National Community Reinvestment Coalition (NCRC), and the National Center on Poverty Law, we provide financial education training sessions for local

non-profit organizations. This training session is part of the Citigroup Financial Education Leadership Initiative, a national program designed to reach approximately 10,000 low-income, minority and underserved individuals and families across the country, and provide them with greater access to financial products and services through financial education training. The "Train the Trainer" curriculum used by NCRC includes modules in budgeting, financial institutions, insurance, homeownership, small business lending and other financial topics.

We have provided NCRC with a $1 million nationwide grant, payable over two years to build upon its existing financial education program by training individuals from 150 community-based organizations in five major markets across the country to present the program in their local neighborhoods. Additionally, a Citibank representative sits on the NCRC Banker/Community Collaborative Council.

**Serving Immigrant Populations**

Recognizing that immigrants have a particularly difficult time entering the financial mainstream, we developed key strategic partnerships with nonprofits serving this segment such as the U.S. Hispanic Chamber of Commerce and National Council of La Raza. One organization with which we have partnered on a number of financial literacy initiatives is Together in America (TIA). In 2001, Citibank and CitiMortgage became founding sponsors of a newly created national membership association for immigrant Americans. TIA's mission is to improve the lives of immigrants from every ethnic background living in America by providing members with access to mainstream health, financial, and economic services at discounted and advantaged rates. Included among TIA's offerings are Citibank and CitiMortgage products and services, such as free checking accounts, low-cost international money transfers, discounts on home mortgages, and access to credit. We have provided TIA, and its parent, the New York Association for New Americans (NYANA), with grants, sponsorships, technical assistance and Board representation through the years. And, we conduct financial literacy programs, such as first time homebuyer seminars, with its constituents.

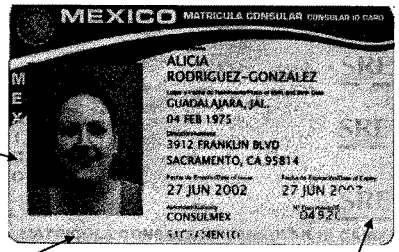
We also offer a host of products and services to ensure that immigrants feel more comfortable utilizing financial services in the U.S. These include selected bilingual collateral and loan applications, multilingual ATMs and staff, discounted money transfers, and other offerings. In addition, we have recently introduced Citibank Global Transfers, a unique, affordable, account-to-account real-time international and domestic funds transfer service for our consumer customers. Citibank's U.S. banking customers can use our online banking service or most of our ATMs to transfer funds between two Citibank accounts in the U.S. or between a Citibank account in the U.S. and a Banamex account in Mexico or a Citibank account in over a dozen countries. Banamex, the leading bank in Mexico and Citibank are both members of Citigroup. The transfer fee for a domestic transfer or a transfer to Mexico is an affordable $5.00, with other international transfer fees priced at $10.00.

Finally, we also accept the Mexican "matricula consular" as a valid form of primary identification for opening an account. Our objective is to offer another reliable and verifiable identification option in the account-opening process for Mexican nationals in the U.S. Individuals of Hispanic ethnicity now form the largest minority group in the country, with people of Mexican descent making up the largest proportion of Hispanics. We continue to look for ways to better accommodate the needs of this population and deepen our relationship with them. The ability to use a Mexican government-issued ID as a form of primary identification at Citibank, without making any additional changes in the account opening process, will help ease the way for Mexican nationals living in the U.S. to access appropriate financial products and services to meet their needs.

# EMBASSY OF MEXICO - USA

## *INVISIBLE SECURITY FEATURES*

*(A SPECIAL DECODER IS NEEDED)*



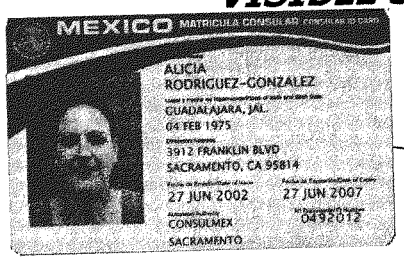

***"MEXICO" PRINTED ON THE LEFT SIDE, NEXT TO THE HOLDERS PICTURE***

***"MATRICULA CONSULAR ID CARD", PRINTED AT THE BOTTOM***

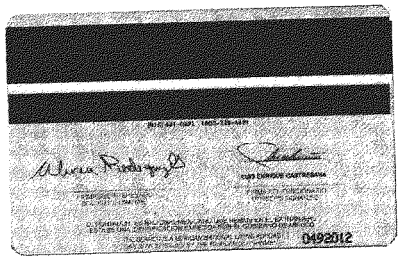
***"SRE" PRINTED THREE TIMES ON THE RIGHT SIDE***

# EMBASSY OF MEXICO - USA

## VISIBLE SECURITY FEATURES



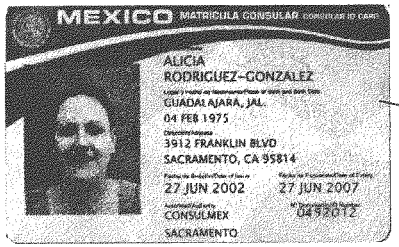

**USING A FLUORESCENT-LIGHT LAMP, CAPITAL LETTERS "SRE" CAN BE SEEN ALL OVER THE FRONT**




**INFRA RED BAND ON THE UPPER BACK**

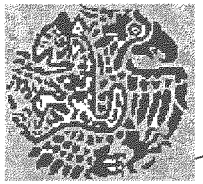
# EMBASSY OF MEXICO - USA

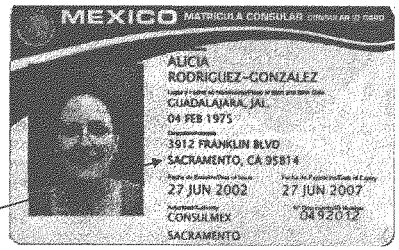
## VISIBLE SECURITY FEATURES



***GREEN SECURITY PAPER WITH THE OFFICIAL MEXICAN SEAL PRINTED IN A SPECIAL SECURITY PATTERN***

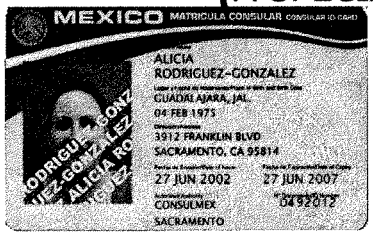
***COOPER-COLORED HOLOGRAM "ADVANTAGE SEAL" WITH THE SRE SEAL THAT APPEARS OVER THE HOLDER'S PICTURE AND CHANGES COLOR FROM GREEN TO BROWN***



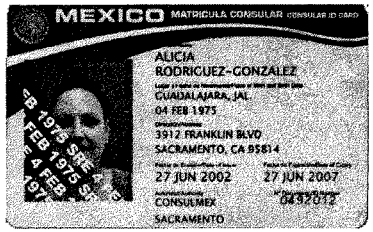


# EMBASSY OF MEXICO - USA

## *INVISIBLE SECURITY FEATURES*
*(A SPECIAL DECODER IS NEEDED)*



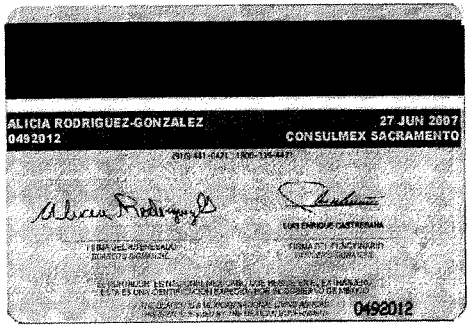

***THE HOLDER'S NAME DIAGONALLY PRINTED OVER THE PICTURE UPWARDS AND LEFT TO RIGHT***




***"SRE" AND THE HOLDER'S DATE OF BIRTH DIAGONALLY PRINTED OVER THE PICTURE DOWNWARDS FROM LEFT TO RIGHT***

# EMBASSY OF MEXICO - USA

## *INVISIBLE SECURITY FEATURES*
*(A SPECIAL DECODER IS NEEDED)*




***THE CARD HOLDER'S NAME AND THE ID NUMBER CAN BE READ ON THE LEFT SIDE OF THE GREEN LINE***

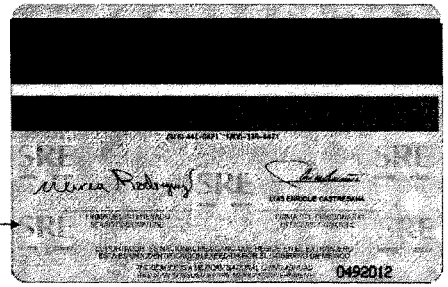
***THE ID'S EXPIRATION DATE AND THE NAME OF THE ISSUING OFFICE (CONSULMEX SACRAMENTO) APPEAR ON THE RIGHT SIDE***

# EMBASSY OF MEXICO - USA

## *INVISIBLE SECURITY FEATURES*

*(A SPECIAL DECODER IS NEEDED)*

***OVER THE BACK, UNDER THE GREEN LINE, AND TURNING THE DECODER 90 DEGREES, "SRE" CAN BE SEEN PRINTED FIVE TIMES WITH THE FOLLOWING PATTERN***



# LIST OF SEVERAL FINANCIAL LITERACY PROGRAMS

## AMERICA'S COMMUNITY BANKERS

ACB recently launched *Money Rules*, a financial literacy campaign in which community bankers share their financial knowledge with, and commitment to, the communities in which they live and work.

The first in the series of *Money Rules* brochures has been distributed in both English and Spanish. These pieces include guidelines designed to encourage consumers to think about their own levels of financial literacy, and to ask for help.

ACB is committed to working to increase the number of informed consumers who are better able to make wise financial decisions and avoid becoming victims of unscrupulous business practices.

America's Community Bankers is also sponsoring programs with Operation HOPE to help promote financial literacy in underserved communities. They also work with the FDIC to promote its Money Smart program.

**FANNIE MAE FOUNDATION**

The Fannie Mae Foundation offers several free guides and resources to help you buy a home, from determining what you can afford and how to find a mortgage lender, to understanding how to stay afloat financially before and after you've moved in. Learn how to avoid the pitfalls involved in making one of the biggest, most exciting investments in your lifetime.

Knowing and Understanding Your Credit
Several steps will bring you closer to your dream of homeownership. The first is to establish good credit, particularly if you have had credit problems in the past. Second, it is equally important to keep your good credit once you have it. Although these steps can take time and determination, they can be accomplished. Let us show you how. In this guide, learn about credit reports, improving your credit, creating a nontraditional credit history, and using a budget, checking account, and savings account to take control of your credit.

Opening the Door to a Home of Your Own
The home-buying process can be confusing. Homeownership is a big responsibility, one that will affect you for many years to come. This easy-to-read guide takes you through the steps a mortgage lending institution uses to decide if you qualify for a mortgage loan. Also included is a worksheet and questions to ask yourself to determine whether or not you are ready and qualified to buy.

Borrowing Basics: What You Don't Know Can Hurt You
Almost everyone needs to borrow money to buy a home, repair it, or make major purchases. Understanding the facts about loans can be difficult. Choose the wrong loan and you may ruin your credit, lose your cash savings, car, home furnishings, or even your home. Learn how to choose the best loan for your situation and how to avoid making a bad loan choice that could end your dream of homeownership.

Choosing the Mortgage That's Right for You
This guide is written for people ready for the next step in buying a home. How big of a loan can you get? How will the type of mortgage you get determine how much house you can afford? Which mortgage is best for your budget? First, learn what a mortgage is and how to calculate your buying power. Second, understand the different types of mortgages available. And third, discover where to shop for a mortgage and how to compare mortgage terms.

These publications are available in English, Spanish, Chinese, Haitian-Creole, Korean, Polish, Portuguese, Russian, or Vietnamese.

**FDIC's MONEY SMART PROGRAM**

In July 2001, the Federal Deposit Insurance Corporation (FDIC) initiated a national financial education campaign by developing Money Smart, a comprehensive financial education curriculum designed to help adults outside the financial mainstream develop financial skills and positive banking relationships. The curriculum, which is built on the foundation of delivering quality education at the local level, is available free to banks and others interested in sponsoring financial education workshops. Money Smart contains everything necessary to begin teaching the program right away and includes take-home booklets and other resources for participants.

**Accomplishments as of May 31, 2003:**

- An agreement between FDIC and the Department of Labor (DOL) to offer Money Smart at DOL's One-Stop Career Centers.
- FDIC has supplied more than 66,000 copies of Money Smart. Approximately 26% of the requests for Money Smart have been from financial institutions and credit unions.
- Over 1,400 representatives of community organizations, government agencies, and financial institutions have attended 55 orientation sessions held across the country.
- 17 FDIC-sponsored model projects have been established in FDIC regional offices. A model project consists of a multi-partner arrangement wherein low- and moderate-income people are provided financial education with Money Smart as the principle curriculum. The partnerships must include financial institutions, but may be broader based and include One Stop Career Centers, selected IRS Voluntary Income Tax Assistance (VITA) sites, community colleges and community based organizations, to name a few examples.
- FDIC has offered over 40 free train-the-trainer sessions and more than 1,200 people have attended.
- National agreements have been reached with:

U.S. Department of Labor, U.S. Department of Housing and Urban Development, Internal Revenue Service, U.S. Department of Defense, Association of Military Banks of America, Opportunities Industrialization Centers of America, Inc., Operation Hope, National Coalition for Asian Pacific American Community Development, Neighborhood Reinvestment Corporation, Independent Community Bankers of America, National Bankers Association, Office of the White House Initiative on Asian American Pacific Islanders, Wachovia Corporation, Goodwill Industries Int'l Inc., America's Community Bankers, Conference of State Bank Supervisors, American Bankers Association, National Image, Inc.

Reinvestment Corporation, Independent Community Bankers of America, National Bankers Association, Office of the White House Initiative on Asian American Pacific Islanders, Wachovia Corporation, Goodwill Industries Int'l Inc., America's Community Bankers, Conference of State Bank Supervisors, American Bankers Association, National Image, Inc.

- There are over 300 local Money Smart Alliance members throughout U.S.
- Money Smart articles have appeared in numerous national and local publications.
- Money Smart has been translated into Spanish and Chinese. A Korean language version will be available in mid 2003, and it will be available in Vietnamese in late 2003.
- A CD-ROM/web-based interactive version of the curriculum is planned for 2004.
- Plans are underway to expand formal collaborations with selected government agencies, housing providers, civil rights groups, national community development organizations, and financial information reporting firms.
- Discussions are underway with bank trade associations regarding implementation of Money Smart by association members.
- Program evaluations, surveys and assessments are underway.

**Freddie Mac's CreditSmart℠ Español Fact Sheet**

CreditSmart℠ Español is a comprehensive bilingual, classroom-based consumer education curriculum developed by Freddie Mac in partnership with seven of the nation's top organizations serving the Hispanic community:

Cuban American National Council (CNC)
Hispanic Association of Colleges and Universities (HACU)
League of United Latin American Citizens (LULAC)
National Association of Hispanic Real Estate Professionals (NAHREP)
National Council of La Raza (NCLR)
National Puerto Rican Coalition (NPRC)
United States Hispanic Leadership Institute (USHLI)

CreditSmart Español is the latest enhancement to Freddie Mac's highly acclaimed CreditSmart℠ consumer education initiative, which is designed to increase financial literacy by providing consumers life-long money management skills. Tailored specifically to meet the needs of Hispanic families, CreditSmart Español consists of 11 modules that help consumers obtain the knowledge and skills necessary to effectively manage their money and to positively impact their credit. The modules include: Managing Your Money, Banking Services, Goal Setting, Your Credit and Why It Is Important, Establishing and Maintaining Good Credit, Understanding Credit Scoring, Thinking Like a Lender, Avoiding Credit Traps, Restoring Your Credit, Planning for Your Future, and Becoming a Homeowner. Each module features colorful illustrations that are culturally sensitive and meaningful to members of the Hispanic community.

CreditSmart Español can be used as a stand-alone workshop or to enhance an existing curriculum. An Instructor's Guide is provided to instructors trained in the CreditSmart Español curriculum. Workshop participants receive a Consumer Workbook containing exercises in understanding credit scores, budget preparation and financial planning. The curriculum is printed in both Spanish and English. Consumers unable to participate in scheduled workshops can access CreditSmart Español instruction online.

CreditSmart Español is part of Freddie Mac's *Catch the Dream* initiative-a comprehensive approach to dismantling key barriers to minority homeownership. Representing a team effort with mortgage lenders, nonprofit housing and community organizations, and other industry leaders, *Catch the Dream* is Freddie Mac's contribution to the Bush Administration commitment to make the dream of homeownership a reality for 5.5 million more minority households by the end of the decade.

**ICBA**

The Independent Community Bankers of America has been actively involved the following financial literacy programs and activities:

ICBA has joined other organizations and trade associations in promoting the FDIC's Money Smart financial literacy curriculum to its members. ICBA has held "train-the-trainer" workshops to help bankers to more effectively the curriculum program.

For many months, ICBA has been publishing articles to educate its members about the need to do more financial literacy. Many ICBA members already do some form of financial literacy, but ICBA has tried to provide information to help our members do even more. Covering this topic in ICBA publications is ongoing, and many articles feature success stories of financial literacy programs at our member banks. One upcoming story, for instance, is of a bank conducting financial literacy with its local prison population.

To expose members to more options, ICBA has put together a clearinghouse of financial literacy resources for our members. We have published this list and kept it update on our member area of the ICBA's web site.

ICBA sponsors a Wall Street Journal Classroom Edition instructional program that teaches high school students about various aspects of modern day financial skills. ICBA member banks pay for the curriculum guide for teachers and a special classroom version of the WSJ, and some banks even send staff to their local schools to teach topics.

ICBA is a founding member of the Homeownership Alliance, a nonprofit education organization dedicated to promoting greater homeownership. Several programs with this organization, including Homeownership Month in June, have focused on helping potential homeowners better understand the process of buying a home.

ICBA also conducts an industry awareness program each April called Community Banking Month and an annual member awards program, called the National Community Bank Service Awards, that recognizes community banks' civic activities. These activities have become a way for ICBA to reinforce the need for members to participate in financial literacy efforts throughout their communities.

ICBA is open to other ideas in helping its members do more and be more effective in their ongoing financial literacy efforts.

**NCEE**

The National Council on Economic Education (NCEE) was founded as an independent, non-partisan, non-profit organization 54 years ago by business leaders and educators who saw the need to improve economic and personal finance education in the nation's schools, and is today the premier source of K-12 teacher training in practical and applied economics and the leader in advancing financial literacy nationwide and internationally.

- NCEE works through a unique Network of State Councils and 230 University Centers.

- Develops curriculum, print and on-line teaching resources and publications.

- Sets the national standards – through the *Voluntary National Content Standards in Economics*, published by the NCEE in 1997, and, through the affiliated State Councils, education standards for economics and personal finance in the states.

- In 2002, taught 120,000 K-12 teachers how to infuse economics and personal finance into the curriculum (at every grade level; in math, the social studies, history, geography) and how to make these subjects come alive in the classroom.

- Equipped those teachers with excellent, standards-based materials, lesson plans and student activities books, especially including the award-winning and national pace-setting *Financial Fitness for Life* program, developed by NCEE in partnership with Bank of America.

- In 2002, teachers benefiting from NCEE's professional development taught over 7 million students K-12, through the **Economics***America* schools program, the basics they need to know to manage their money (whatever income level they may be from) and to improve their opportunities to succeed in life as consumers, workers, investors, ethical and responsible members of families and communities, and as knowledgeable citizens and participants in the globally interconnected economy.

- NCEE leads the national *Campaign for Economic Literacy*, and convened and conducted, in collaboration with the Federal Reserve, the first-ever National Summit on Economic and Financial Literacy (Washington, DC, May, 2002).

- NCEE is pioneering in web-based economic and financial education; in working with community-based organizations to reach underserved and inner-city adult populations

with effective, practical and applied economic education, and economic education in the workplace (in partnership with the Business Roundtable).

NCEE's role and initiatives in financial literacy efforts have recently been features on ABC, CNN, and CBS Market Watch, as well as in numerous major newspapers, magazines, and radio talk shows.

**SIA'S INVESTOR EDUCATION RESOURCES**

SIA Investor - Your Path to Financial Knowledge* (www.siainvestor.org)

SIA Investor offers a variety of learning opportunities for investors. This highly acclaimed website features engaging, relevant financial core content and showcases industry experts. Features include Guided Trips – expert-led journeys that help investors master complex concepts; Vantage Points focus on specific demographic groups; calculators and interactive examples; and SIA's Dictionary of Financial Terms provides investors with knowledge they can use, regardless of their level of expertise. Investors can work at their own pace and build on what they learn, gaining confidence in themselves as they gain practical knowledge about the world of investing. www.sia.investor.org

Your Guide to Understanding Investing

Your Guide to Understanding Investing provides a comprehensive overview of the perplexing world of finance — investing, financial planning, tax planning, and retirement. This guide begins with basic financial concepts such as the importance of diversification, asset allocation, and long-term planning. The guide then navigates the intricacies of stocks, bonds, mutual funds, futures and options, including when and how to seek help from investment professionals.

Investor Topics - Basics of Investing

Investor Topics answers the most common questions new investors have.

Buying Stocks on Margin - The Basics

This brochure outlines the benefits and risks of incorporating margin accounts within an overall investment strategy. This brochure covers a broad range of basic topics including the setting of the interest rate, tax considerations, and margin calls.

How to Read a Research Report

This brochure will help investors understand research reports prepared by industry analysts and the role they might play in deciding whether a company is a good investment opportunity or a bad risk.

Identity Theft - How to Avoid Theft and What to Do if it Happens to You

This brochure provides tips on how investors can protect their personal data, and steps to take if their personal information has been stolen. Also included is a list of resources to help report identity theft.

Investing in Certificates of Deposit

Created jointly by the Bond Market Association and the SIA, this brochure explains the workings of CDs and the many features that distinguish one CD from another. This publication also explains "brokered CDs," which are issued by banks and made available to customers of a securities broker or other financial institution. Also included is a checklist of questions intended to help investors evaluate CDs as investments.

Managing Your Expectations for Long Term Success in the Stock Market

This brochure provides historical data on market trends as evidence that a long-term investment strategy will provide the best returns.

New Opportunities - How You Can Profit From Tax Law Changes

A review of tax law changes taking effect in 2002, including incentives to contribute to retirement and education savings programs and a gradual reduction in estate tax. All of these improvements will stop year-end 2010 unless Congress provides an extension.

New Retirement Distribution Rules for IRAs

This brochure explains how recent rule changes simplify and standardize the way lifetime minimum distributions of Individual Retirement Accounts are calculated. These changes also allow greater freedom in changing beneficiaries, clarify the treatment of trusts as account beneficiaries, and simplify the process of post-death payouts of account balances.

On-Line Investing Tips

This brochure assists the investors with online trading access. It provides a brief overview of the issues when investing online.

Promissory Notes: Promises, Problems

This brochure, produced jointly with North American Securities Administrators Association (NASAA), the National Association of Securities Dealers Regulation (NASD), the Securities and Exchange Commission (SEC), outlines the risks and rewards of investing in promissory notes. Investors learn what to consider in evaluating whether promissory notes are sound investments.

Understanding Market Risks - What Every Investor Should Know

Market ups and downs are a simple fact of investing. This brochure explains the risks and opportunities of investing in the capital markets. It outlines five rules investors should follow in their long-term investment strategies.

Understanding Your Brokerage Account Statements

Produced by The North American Securities Administrators Association, Inc. (NASAA) in cooperation with SIA, the brochure details the common features of most account statements, and features a step-by-step checklist on how to review them. The brochure also includes a frequently asked questions section and an extensive glossary of investment terms that account holders may come across while reviewing their statements.

**STOCK MARKET GAME**

The Stock Market Game™™ is a trademark of the Securities Industry Foundation for Economic Education (SIFEE), an affiliate of the Securities Industry Association. SIFEE was established in 1976 to foster a better public understanding of the U.S. economic system and the securities industry.

Since 1977, SIFEE has been providing technical and financial support, a wide variety of training and curriculum materials, and other assistance to teachers and students. The SMG Program is now available in all 50 states in both paper and Internet versions and throughout the world via the Internet.

SMG is a highly successful motivational, interactive, and interdisciplinary educational program that stimulates learning about economics, finance, and the American economic system. It consists of a 10-week simulation that allows participants to invest a hypothetical $100,000 in the stock market. Teachers are given supporting materials, including newspapers, to assist them in incorporating the game into their curriculum.

To sign up, contact your state coordinator by logging on to: www.smgww.org/frm_involve.html and selecting your state, or contact Gloria Talamas, (212) 618-0586, gtalamas@sia.com.

SMG is the only market simulation that is endorsed by the National Council on Economic Education and is correlated to voluntary national standards in math, economics, and business education, as well as educational standards in a growing number of states. It is run by a non-profit foundation that does not accept advertising or merchandise company products in delivering the program. It has 20 years of educational programming built into and around it, and it's really popular. This year, 700,000 students throughout the United States and many foreign countries, along with their 25,000 teachers, used The SMG Program to improve their basic skills, learn about our economic system, and have fun! Please note: Data collected in the SMG registration process is never given to third parties or used for commercial purposes.

Further, its hands-on support system for teachers includes workshop training, lesson plans, comprehensive curriculum materials, and a network of state-based distribution organizations and state SMG coordinators who administer the program and provide "TLC."

Anyone interested in learning more about investing can participate. Although the program is primarily used in grades 4 through 12, potential investors from all walks of life benefit from practicing first with The SMG Program.

NCLR
NATIONAL COUNCIL OF LA RAZA

**THE ROLE OF THE *MATRICULA CONSULAR* AT FINANCIAL INSTITUTIONS**

**SUBMITTED TO:**

**THE HOUSE FINANCIAL SERVICES SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT**

Submitted by:

Brenda Y. Muñiz
Policy Analyst

NATIONAL COUNCIL OF LA RAZA
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Washington, DC 20036
(202) 785-1670

June 26, 2003

Hello, my name is Brenda Y. Muñiz. I am a policy analyst at the National Council of La Raza (NCLR) responsible for banking and financial services issues. NCLR is a private, nonprofit, nonpartisan organization established in 1968 to reduce poverty and discrimination and improve life opportunities for the nation's Hispanics. NCLR is the largest national Hispanic constituency-based organization, serving all Hispanic nationality groups in all regions of the country through a network of more than 300 affiliate community-based groups.

NCLR has closely monitored and supported the use of the *matricula consular* as a tool that promotes the physical safety and financial security of Mexican immigrants and the communities where they reside. For this reason, we are deeply troubled by recent reports released by anti-immigrant groups which allege that the *matricula* is an unsecure document that it is being used to promote a surreptitious legalization agenda, and that its acceptance by law enforcement authorities and financial institutions should be discontinued.

We are also very concerned with several ongoing administrative and legislative efforts that may threaten the continued use of the consular ID card. First, an interagency task force composed of the Department of Justice, the Department of Treasury, the Department of State, and the new Department of Homeland Security has been meeting regularly to study the security of the card and whether its applications should be limited. Recommendations that stem from this task force may have serious implications regarding the future use of the *matricula*. Second, the Treasury Department has decided to issue an additional 45-day notice and comment period regarding the Section 326 regulations under the Patriot Act although the final rule was issued two months ago. Therefore, we hope that the ability of financial institutions to accept *matriculas* is not undermined in any way. Third, a few members of Congress have introduced legislation that would prohibit the use of consular IDs and most other forms of foreign government-issued identification cards by state or federal agencies.

That being said, we are pleased that Congressman Hinojosa has introduced H.R. 773, the 21st Century Access to Banking Act, which enjoys broad support from the Congressional Hispanic Caucus. H.R. 773 represents positive legislation that authorizes financial institutions to accept the *matricula* consular ID.

I would like to highlight first how the Mexican consular ID is essential to maintaining safe and healthy neighborhoods and communities; second, how the Mexican consular ID is vital to opening the doorways of economic opportunity for immigrant Latinos in the U.S.; and finally, how it is a central element in increasing U.S. economic growth and financial prosperity for the nation.

**Safe and Healthy Communities**

Mexican consular IDs are critical to public safety, crime prevention and investigation, and national security. *Matriculas* make entire communities safer because they facilitate easier access to mainstream financial services, which deters crimes and predatory schemes against immigrants, who are more vulnerable not only because they are more likely to have a lot of cash on hand to pay for daily needs, but because they are the least likely of residents to report crimes to local police. Four out of five (82%) unbanked individuals use check-cashing outlets and, therefore, must often carry large sums of cash making them easier targets for crime – especially theft or robbery. Because of these safety concerns, police departments across the

country support the use of these IDs along with efforts to link immigrant workers to mainstream financial institutions as a means of reducing crime and violence in neighborhoods and communities and as a means of promoting good community policing.

Acceptance of consular IDs is important to building community trust and maintaining communication between local police and immigrant communities. Many cities and counties and 800 law enforcement agencies are accepting *matriculas* as valid forms of identification. Police departments know that when people feel free to report crimes and other suspicious behavior without fearing immigration troubles for themselves and their family members, the whole community is safer. Police departments want to be able to identify people during a traffic stop or accident. If we prevent people from obtaining identification legally, we will make the job of our police departments more difficult.

Moreover, having a secure identification system allows the Mexican government to work with the U.S. to minimize fraud. If people are unable to obtain valid identity documents, they will obtain them fraudulently. Preventing individuals from obtaining legal identity documents increases demand for fraudulent documents, and in a world where security is the highest priority it is critical that we are not creating a demand for the fraudulent identification market. In a security-conscious environment, we want people who are in this country, whatever their status, to be able to prove their identity. We should applaud efforts by the U.S. and Mexican governments to issue secure identification documents so both governments know who is in the country.

**Economic Mobility for Latino Immigrant Families**

Too many families lack access to basic financial services. Nearly 10 million American families are unbanked, and Latinos are more likely not to have a checking or savings account. Thirty-five percent of Latinos recently surveyed reported that they did not have a bank account, and that number rises to 42% for foreign-born Latinos.

Many of us know that hardworking, taxpaying, Latino immigrants contribute billions to the U.S. economy in both their labor and consumer spending. While these workers pay rent, phone, and utility bills, they do not have regular bank accounts to facilitate these simple transactions. Unfortunately, for unbanked workers there are often no real financial alternatives except for payday lenders, which grew from 300 stores in 1993 to 8,000 stores in 1999, or check cashers – an industry that has doubled in size over the last decade with 11,000 outlets across the nation, most located in neighborhoods where Latinos work and reside. With limited access to formal savings tools, it is no surprise that the financial net worth of the median Hispanic family in 1998 was zero, compared with $37,000 for similar non-Hispanic White families.

Immigrants have both the strong desire and the need to access low-cost savings and asset-building tools to provide for their children and stabilize their families financially. Given the economic potential of this population, 70 banks and a number of credit unions across the nation now accept Mexican consular IDs and Individual Taxpayer Identification Numbers (ITINs) to open bank accounts and provide lower cost remittance services for Latino immigrants. Under the proposed strict guidelines established under the Patriot Act, financial institutions must exercise due diligence to verify the identity of persons who open accounts. To adequately

ensure the identity of accountholders, financial institutions are currently allowed to accept certain forms of foreign identification, including the *matricula consular*.

**Economic Contributions of the Immigrant Community**

Mexican consular IDs help integrate a population into the financial mainstream, which is intrinsically connected not only to the nation's economy but to the economies of cities and states as well. The purchasing power of the nation's Hispanic community now surpasses $580 billion annually, and Latino workers remitted $23 billion in 2001 to Latin America and the Caribbean – $10.5 billion to Mexico alone. Access to lower cost financial products and services for Hispanics, especially immigrant workers, provides more opportunities for Latinos to save and financially invest in the nation's economy.

**Conclusion**

In conclusion, the *matricula* is simply an identification card. It does not "legalize" the status of any immigrant, it cannot be used to obtain any immigration or citizenship benefits such as work authorization or the right to vote, and it cannot be used to obtain public benefits. Its continued use and acceptance, however, does have a positive impact on immigrant workers, their families, and the communities where they reside fostering greater transparency and integration into U.S. society, which benefits us all.

The truth is that the current controversy over Mexican consular ID cards is a byproduct of a larger immigration debate. Those advocating for greater immigration restrictions are attempting to use the *matricula* as a means of advancing their immigration agenda. NCLR would contend that access to financial tools and other services has little impact, if any, on an immigrant's decision to enter the U.S. and, therefore, cracking down on *matriculas* will not achieve a significant reduction in emigration from Mexico. NCLR has done considerable work studying the various impacts of migration, and for this reason we have asked the federal government to address the need for broad immigration reform that reflects our nation's social and economic realities.

I thank you for your interest in this issue.



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