



## **Neighborhood Economic Development Advocacy Project**

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### **THE ASSEMBLY STANDING COMMITTEE ON CONSUMER AFFAIRS AND PROTECTION AND ASSEMBLY STANDING COMMITTEE ON BANKS**

#### **Public Hearing on Bank Discontinuance of Money Service Business Accounts**

**October 4, 2006  
New York, New York**

#### **Comments of Deyanira Del Rio, Neighborhood Economic Development Advocacy Project**

Thank you for the opportunity to present testimony at today's hearing. My name is Deyanira Del Rio and I direct the Immigrant Financial Justice Project at the Neighborhood Economic Development Advocacy Project (NEDAP). My testimony seeks to provide a consumer and community perspective on the issues being discussed today.

The Immigrant Financial Justice Project promotes fair financial services access and economic reinvestment in immigrant neighborhoods, and works to eliminate discriminatory and harmful financial practices affecting immigrant New Yorkers. Since launching the project in 2004, we have worked with hundreds of local groups to: a) Provide trainings to low income and undocumented immigrants about their rights and options in the financial services system; b) Press banks to equitably serve immigrant communities, including by not inquiring about immigration status or requiring a Social Security Number to open accounts – neither of which is required by law; c) Expose and combat abusive practices by non-bank financial services providers, including money transmitters; and d) Support the formation of community-based financial institutions in immigrant neighborhoods.

Immigrants' access to fair and affordable financial services is a major economic justice issue in NYC, where nearly 40% of residents are foreign-born. Studies have shown that fewer than 50% of immigrants in the U.S. have a bank account, and that low income and undocumented immigrants in particular rely on informal and high-cost financial services, ranging from so-called loan sharks to money transmitters and check cashers. Many immigrants deal exclusively in cash economies, earning wages, paying bills, making purchases, and wiring money to family members back home, in cash. As a result, they typically pay higher costs, are more vulnerable to fraud and theft, and lack opportunities to save or build any sort of credit or banking record. For many undocumented immigrants, especially, lack of financial access compounds other problems they experience in employment, housing, medical and education systems.

**Since September 11, 2001, immigrants' access to affordable financial services has been further complicated, and NEDAP views banks' discontinuance of money services business (MSB) accounts in this broader context. Specifically:**

- Banking institutions now face heightened scrutiny from regulators regarding compliance with the Bank Secrecy Act (BSA) and related rules aimed at combating money laundering and terrorism funding through financial institutions.

- Many banks perceive that providing services to immigrants – and in some cases, MSBs that serve them – poses inherently greater compliance and reputational risks for their institutions. Official regulatory guidance to the contrary has had little effect, and some banks report receiving conflicting guidance from different departments at the same regulating agency.
- The current regulatory environment – and banks' actions in response – have had the severe, unintended consequence of shutting many immigrants out of the mainstream banking system.

NEDAP has serious concerns about the impact of these trends on immigrant New Yorkers and their neighborhoods. For example, when several money transfer locations in Jackson Heights closed in 2005, as a result of their bank accounts being discontinued, one prominent community group reported a sudden increase in the cost of wiring money in the neighborhood.

At the same time that banks are diminishing MSBs' ability to operate, they are failing more broadly to serve immigrants at their own institutions. With a few notable exceptions, banks in NYC typically require two forms of ID and a Social Security Number (SSN) to open even a basic account. Few banks offer a viable money transfer service. Among those with more flexible offerings, outreach and consular ID acceptance are often limited to immigrants from Mexico and a few other countries, and though it's vital that these groups are served, hundreds of other immigrant groups are left stranded. Bank loans to individuals without a SSN and credit history are virtually nonexistent.

It should be said that many groups have concerns about money transmitters and MSBs, including, for example, exorbitant, un-transparent and inconsistent fees and foreign exchange rates; inadequate error resolution systems and other consumer protections; absence of publicly-available data on business practices; and lack of investments in neighborhoods. Groups throughout the country are exploring ways to hold these institutions accountable to immigrant communities. Still, they currently represent the most reliable way for people to send critically needed money to family members back home. A blanket refusal by banks to serve these institutions seems unnecessary and overreaching at best, and discriminatory and dangerous at worst. Pushing MSBs out of mainstream, regulated financial systems also undermines public policy and national security objectives, as transactions become harder to track, and illicit activities more difficult to prevent or detect.

We recommend that the NYS legislature:

- Exert pressure on banks to develop policies that do not have a discriminatory impact on immigrant neighborhoods. This includes not reactively closing accounts for MSBs, as well as developing Customer Identification Programs that provide fair access to banking services for all immigrants.
- Explore NY State's ability to regulate and curb unfair and deceptive practices by money transmitters and other MSBs, and hold hearings on these issues. If MSBs are to receive public protection and intervention, they should be held to higher standards of transparency and accountability.
- Support community development credit unions that are working to meet the full range of financial services and credit needs in immigrant communities, as well as those considering opening accounts for MSBs.

NEDAP thanks the Assembly committees for organizing today's hearing and calling attention to these critical issues. We would be pleased to speak with you about other ways New York State can expand fair access to financial services for immigrant communities.