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On the Backs Of the Poor

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Turning illegal immigrants' banking dilemma into a billion-dollar business.

Illegal immigrants **don't** dare **open a bank account** in the U.S. To wire money overseas, they pay a hefty fee. One company has built a billion-dollar business on their dilemma.

Shielded by bulletproof glass, the crowded check-cashing outlet on Anaheim Street in Wilmington, a Hispanic neighborhood in southern Los Angeles, functions as lifeline and financial center for the thousands of illegal immigrants who visit it. Open seven days a week, it caters to the **unbanked**--people who are too poor, or too illegal, to have a bank account. It offers them "free money orders," welfare-benefit pickups, prepaid phone cards and the real clincher: money transfers to relatives overseas. They pay hefty fees--almost a day's wages in some cases--for a transaction that costs \$3 to \$6 to process.

A few blocks away a young woman named Teresa stands in her tiny, dirt-packed front yard and passes judgment on the store's fees: "Way too much," she says in Spanish, as some of her seven children scamper barefoot among strewn toys and a battered van propped up on jacks. Teresa, who doesn't want her last name used, is poor and

illegal, having slipped into Arizona from Mexico a year ago.

When she first arrived, her 17-year-old son wired a \$1,000 payoff, or two months' pay, to the "coyote" who brought her in. The transfer fees cut the smuggler's take to only \$900, and he abandoned her in anger, she says. When her sister, Aurora, sent \$90 back to family in Mexico a few months ago, it cost her \$14; when she sent \$50 a month later, it cost her \$15--this for a woman who doesn't work and depends on her husband's sporadic income.

Teresa is one face behind the booming, multibillion-dollar transfer business that has revived the fortunes of a 153-year-old corporate icon: Western Union. The company that pioneered coast-to-coast telegraph service in 1861 dominates the money-transfer business today, racking up \$3 billion in fees and investment income, and an operating profit (net before interest, taxes and nonrecurring charges) of \$1 billion last year--most of it on the backs of the poor.

In five years it has extended its vast tentacles into thousands of check-cashing joints, pawnshops and other gritty outposts of the fringe economy to better exploit the dreary **unbankability** of the underclass. Western Union handled 81 million cash transfers last year, with a face value that appears to be close to \$30 billion.

But all that cash, handed over in crumpled wads by calloused hands, has made Western Union a tempting target for regulators, politicians and advocates for the indigent. Western Union is under fire as never before (which may be one reason the company declined any interviews for this story). The feds are investigating it for locking in agents exclusively and forbidding them to offer cheaper rival services. The U.S. Department of the Treasury's Financial Crimes Enforcement Network is questioning whether the company may be unwittingly setting up agents who turn out to have terrorist ties, though no hard evidence has been cited. Western Union has already agreed to pay \$45 million in vouchers to settle a class action that accused it of deceptive practices in currency exchange. Congress is mulling proposals that would increase federal oversight of the lightly regulated transfer business, requiring full disclosure of fees.

Anti-immigration forces, meanwhile, accuse Western Union of aiding and abetting a flood of illegal aliens to U.S. shores. Western Union and others "lure people up here, put them in very precarious situations and are responsible for their deaths," says Michael McGarry of the Colorado Alliance for Immigration Reform, a hard-line group that has thrown up

billboards bearing a map of the U.S. stamped with the word "FULL."

Western Union's money transfer business seems shrewdly geared to the 8.7 million illegal immigrants in the U.S. If they walk into a regular bank to wire money overseas, the fees will be lower, but the senders are asked for identification and personal details they don't want to provide. At a Western Union shop such formalities are shelved and anonymity is prized; for transfers of less than \$1,000, no ID is required at all. The tradeoff is far higher fees: Western Union charges \$16 in fees and foreign currency exchange costs to send \$300 to Mexico, 50% higher than the rates of four rivals, a study by UBS Securities finds.

The coming crackdown could crimp the company's hell-bent expansion. Western Union fuels handsome growth at First Data Corp., the Denver firm that acquired it in buying First Financial Management Corp. in 1995 for \$6.7 billion. First Data, in the nine months ended September 30, posted a 41% jump in net income from continuing operations to \$1.4 billion and a 19% increase in revenues to \$7.3 billion. First Data shares are trading at \$40 or so, up 14% in 11 months and near their recent all-time high of \$47. That makes the company worth \$34 billion.

The Western Union deal was engineered by First Data veteran Charles Fote, 55, who rose to chief executive two years ago. He is a driven man who is said to roust his lieutenants most mornings for conference calls that begin at 6:30 a.m. Under his gaze Western Union's reach has grown from 55,000 to 200,000 storefronts since 1998; in the U.S. it grew from 30,000 to 65,000.

That expansion has helped spark a kind of underground foreign aid: Some \$200 billion in cash transfers now course around the globe from one country to another, exceeding foreign investment and aid in many countries. The \$14 billion that went to Mexico last year, a 33% jump over the prior year, is now the second-largest source of income for that country, behind oil exports. Remittances make up 33% of the gross domestic product of Haiti and 29% of the GDP of Nicaragua. Senator Paul Sarbanes, the Maryland Democrat and sponsor of a crackdown bill, says money zappers such as Western Union, which controls as much as 90% of the business in some markets, siphon off up to \$4 billion of the \$30 billion sent from the U.S. to Latin America.

First Data has tried to counter the criticism by forming a \$10 million "Empowerment Fund" for immigrants and staging immigration

"reform" panels around the country. But the sessions have emboldened the company's critics and sparked a melee or two. At the panel in July in Denver, a woman was arrested after pummeling an anti-immigration heckler, Terry Graham. Graham filed a lawsuit against the woman, First Data and Western Union alleging negligence and misconduct.

The parent company has even managed to get into a spat with its own representative, outspoken conservative Colorado Republican Congressman Tom Tancredo. He sparked the fight last May by briefly suggesting that cash transfers to foreign recipients should be taxed. "This guy is off in left field, and we're tired of his antics, tired of his games," a First Data spokesman huffed in the *Rocky Mountain News* at the time. Now Tancredo accuses the company of retaliating against him by forming a new political action committee to help Tancredo's Democratic opponent defeat him in November.

"If they want to use me as a whipping boy for some marketing thing, they have a right to do it," says Tancredo, but "there is a line they may have crossed."

Responding with vague written answers to specific questions about Western Union's tactics, First Data says it "does not support any illegal immigration initiatives." Whatever that means. It adds that the new company PAC will "ensure that our voice is heard" and is "completely bipartisan."

For now, at least, the criticism has done little to aid Western Union's competitors. Congress, regulators and diplomats have encouraged banks to get into the game, but they haven't made much progress; they handle only 3% of the transfers to Mexico, says a study by Georgetown University's Manuel Orozco for the Pew Hispanic Center. Of the 40 billion money transfers from the U.S. to Mexico each year, the four biggest banks in the field--Citibank, Wells Fargo, Harris Bank and Bank of America--handled just 1.2 billion. Prices, after falling to half of what they were in the 1990s, have since leveled off.

Not far from Teresa's dirt-caked yard in Wilmington, Lucia Moreno-Linares runs the Family Federal Credit Union. With just a single outpost and \$11.7 million in assets, it provides financial workshops for its 4,100 members and requires anyone cashing a check to set aside a portion to build up a savings account. The credit union had offered Western Union money transfers and, ten years ago, switched to Vigo, the nation's third-largest service. Now Family Federal charges \$10 to

wire up to \$1,000, lower than Western Union's fees.

Despite the rock-bottom price, however, Family Federal handles just 60 to 70 transfers a month, for a total of \$500,000 in transfers a year. "When we ask for ID and the name of the person the money is being sent to, customers say we're hassling them because Western Union doesn't ask for all that," says Moreno-Linares.

Vigo's chief executive, Mario Trujillo, blames Western Union's heavy-handed tactic of tying up its agents. "There are agents in the U.S. who would love to have our service but can't," says Trujillo. "Long-term exclusive agreements aren't healthy for us or for consumers."

Western Union disclosed in February that the Department of Justice, joined by "several" states, is looking into the company's "contractual relationships" with the agents. The Federal Trade Commission and one unnamed state had previously made similar inquiries but dropped the investigation. The company insists the money transfer business has become "even more dynamic and highly competitive."

In Wilmington myriad money transfer outlets compete for a thriving immigrant trade. At the main intersection of Anaheim and Avalon boulevards a MoneyGram in an ACECash Express check-cashing store competes against a Western Union outpost in a Rite Aid just across the parking lot. Down the street a pristine, nearly empty branch of Mexican banking giant Bancomer, devoted to money transfers, sits a few storefronts down from a cluttered travel agent offering transfers under the Orlandi Valuta brand--a subsidiary of Western Union's parent. A little farther up Avalon Boulevard, the Guanajuato meat market offers Mexico Express from a specially built glass enclosure, offering transfers of up to \$1,000 for \$10 (while a bootlegger sells DVDs of new movie releases just outside the store).

But many of the immigrants, legal or not, are drawn to Western Union, despite the fees. José, a waiter at the Birria Tepechi Mexican restaurant on Avalon Boulevard, says he uses Western Union to send \$1,000 every two months to his parents in Sahuayo, a town in the Mexican state of Michoacan. "It's a lot easier, and they're all over the place," he says.