

Setting the Scene

Moderator – Pia Orrenius, Senior Economist, Federal Reserve Bank of Dallas

Session One

Financial Access for Immigrants: Learning from Diverse Perspectives

The first of seven conference sessions featured presentations of two research papers and the perspectives of two organizations with strong interest in immigrant financial assimilation. Audrey Singer of the Brookings Institution Metropolitan Policy Program (formerly the Center on Urban and Metropolitan Policy) presented her paper on demographic trends over the last century and emerging immigrant gateways. Anna Paulson, a senior economist with the Federal Reserve Bank of Chicago, presented research she had conducted with Una Okonkwo Osili of Indiana University-Purdue University at Indianapolis on immigrant financial market participation. James Ballentine, director of Housing, Community, and Economic Development for the American Bankers Association (ABA), discussed the importance of building

institutional infrastructure to market financial services successfully to immigrants. Roberto Suro, executive director of the Pew Hispanic Center, discussed immigrant assimilation; factors, such as home country characteristics and perceptions of financial institutions, to consider in serving the immigrant market; and the role of regulation in encouraging immigrant financial market participation.

AUDREY SINGER
Brookings Institution

Audrey Singer is a sociologist and demographer with the Brookings Institution Metropolitan Policy Program. Singer's paper, *The Rise of New Immigrant Gateways*, reveals how the significant inflows of immigrants in recent decades have begun to rearrange America's immigration map, adding new communities of settlement to well established destinations. Metropolitan areas across the United States during the second half of the twentieth century decentralized, and their suburban areas grew. Concurrently, there was a large, sustained immigration of people from very diverse backgrounds that continues today. These two processes together have produced significant new settlement patterns that are affecting everyday life in many parts of the country. Singer noted that the confluence of factors suggests that the country will confront, "...major social, cultural, and political change during the coming decades."

Singer's research focuses in particular on more recent and dramatic immigration trends. In the decade from 1990 to 2000, more immigration to the United States occurred than in any previous decade. The foreign-born population grew by 11.3 million or 57.4 percent, bringing the total from nearly 20 million in 1990 to 31.1 million in 2000.

The six primary states of settlement for immigrants during the second half of the twentieth century were California,

Figure 1: Percent Change in the Foreign-Born Population by State for 1990-2000

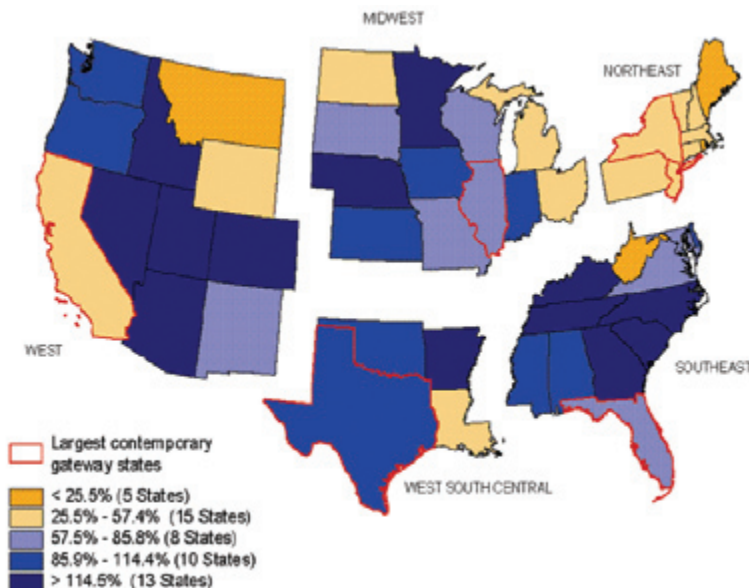
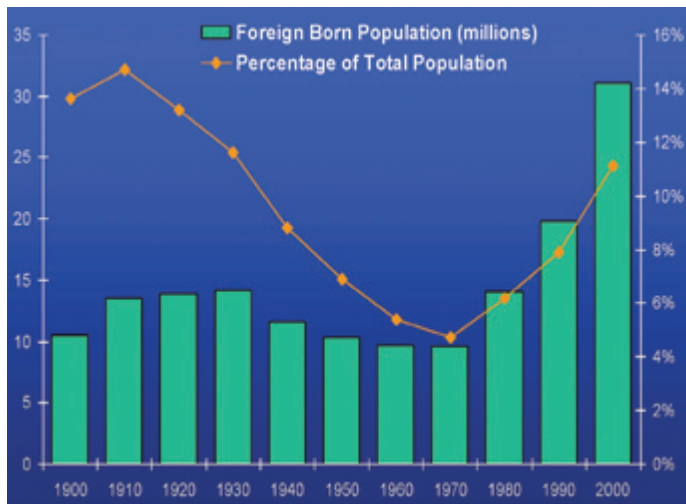


Figure 2: Number of Foreign-Born and Share of Population, United States, 1900-2000



Texas, New York, New Jersey, Illinois, and Florida. Two-thirds of all immigrants lived in these six states in 2000. Figure 1 illustrates the trends with respect to established and emerging immigrant destinations. Whereas Texas, Illinois, and Florida still have immigrant growth rates that exceed the national average, California, New York, and New Jersey now lag the national average growth rate, and the Southeast has emerged as a new immigrant destination. Thriving job markets in southeastern states, particularly in the construction services and technology sectors, are driving growth as both native- and foreign-born people move from within the United States and new immigrants are attracted directly from abroad.

Singer illustrated the twentieth century immigration patterns to the United States graphically, showing the ebbs and flows during different decades. Figure 2 depicts the high level of immigration in the early part of the twentieth century and an overall decline in the share of foreign-born population from the beginning to the end of the century, despite a sharp numeric increase in foreign-born residents. A slower period of migration during the middle of the century in combination with the post-World War II baby boom served to dilute the immigrant population. The trend in the latter part of the century that continues today is that of a slower growing native-born population and increasing immigration. The other significant change Singer noted was the shift in source countries from Europe in the early part of the century to Latin America, the Caribbean, Asia, and Africa in the latter part of the century.

Cities such as Philadelphia, Detroit, and Boston attracted many immigrants at the turn of the last century (1900), with immigrants comprising up to one-third or more of the population at the time. With the abrupt shift late in the last

century from Europeans to Latinos as the predominant immigrant group, the gateway cities have also changed, she noted. Continuous immigrant gateways include New York and Chicago, which had a large proportion of immigrants throughout the century, while cities such as Los Angeles, Miami, Houston, and San Jose emerged as predominant gateway cities after World War II.

Cities such as Washington, D.C., Atlanta, Dallas, and Fort Worth comprise what Singer terms emerging gateways, places that did not experience a high degree of immigrant settlement until the latter part of the twentieth century. Singer also identified a category she termed, “re-emerging gateways.”¹ As the term implies, these are cities that experienced high rates of immigrant settlement in the early years of the twentieth century, lower settlement rates as other gateways emerged, and more recently a resurgence in immigrant settlement.

Singer closed by noting the need to understand the diversity in the immigration history of U.S. regions to address financial services needs among immigrants. Gaining an understanding of changing immigration and settlement patterns is a logical first step in this process.

ANNA PAULSON
Federal Reserve Bank of Chicago

Anna Paulson is the senior economist and manager of the Consumer Issues Research group in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Paulson discussed research she has conducted with Una Okonkwo Osili of Indiana University-Purdue University at Indianapolis. Specifically, their research focuses on how the quality of country of origin institutions shape financial choices that immigrants make once in the United States.²

Paulson pointed out that participation in the financial system is, “...an important way for us to measure the success of individual immigrants in the United States, and it’s also a way to measure...our success as a society in incorporating immigrants and benefiting from the aspirations that brought them here.” She discussed the importance of financial market participation to enable households to cope with income uncertainty, access credit in an emergency at reasonable cost, and obtain credit for customary purposes such as purchasing a car or a home. Paulson noted other fundamental considerations: the behaviors of first generation immigrants can affect the second generation – children learn from the financial habits of their parents – and clusters of households that keep large amounts of cash on hand can unnecessarily give rise to crime.

Paulson presented data from the Survey on Income and Program Participation from 1996 to 2000 (Figure 3).

Figure 3: Financial Market Participation – Survey on Income and Program Participation, 1996-2000



These data essentially showed that immigrants as a group are less likely to own bank accounts, stock, or a home. She identified three related questions that her research seeks to answer:

- Are migrants from countries with “better” institutions more likely to participate in U.S. financial markets?
- How long do you have to experience a set of institutions for them to influence your behavior?
- How persistent are the effects of the home country institutions?

Institutional quality³ refers to a summary measure that captures the capacity of a country’s institutions to protect private property and provide incentives for investment. On a scale of one to ten, the median score is 7.07. Countries such as Switzerland and Luxembourg score perfect tens, and the United States is close behind at 9.98. The lowest scoring country is Iraq at 1.81. Countries from which many immigrants to the United States originate score above the median: Mexico – 7.51; China – 7.79; and Canada – 9.79.

Paulson and Osili looked in particular at two aspects of financial market participation: owning a savings account and stock ownership. To illustrate the impact of home country institutional quality, they demonstrated that immigrants originating from El Salvador, whose institutional quality rating is 5.07, would have stock market participation that was 5.25 percentage points higher and savings account ownership that was 4.75 percentage points higher if the institutional quality rating matched that of Mexico at 7.51. Paulson stated that the impact of home country institutional quality on behavior once in the United States also depends on age at migration. Immigrants who arrive in the United States after the age of 16 years exhibit behaviors similar to adult immigrants. Since teenagers do not typically have bank or credit accounts, the orientation to home country institutions may stem from

lessons absorbed in schools or at home in the country of origin. Immigrants who arrive in the United States before they are 16 years old exhibit financial market behavior closer to that of native born.

Paulson addressed the question of how long the home country institutional orientation persists in influencing financial decisions. The effect is very persistent: “Only immigrants who have lived in the United States for 32 years or more are unaffected by their home country institutions,” she said.

Paulson closed noting once again that home country influences are diverse and that to some extent financial education, products, services, and outreach strategies could be more sensitized to differences in immigrants’ home country experiences. “Achieving financial access for many immigrants involves challenging powerful lessons that are absorbed early in life,” Paulson said, but “immigrants have signaled their readiness to absorb new lessons about institutions here in the United States simply by their decision to move.”

JAMES BALLENTINE
American Bankers Association

James Ballentine is the director of Housing, Community, and Economic Development for the ABA. He discussed the opportunities for banking institutions to reach the immigrant market, cautioning that, “You must implement a strategic business plan, not a CRA (Community Reinvestment Act) plan; this is not about community reinvestment.” Ballentine referenced the Fannie Mae Foundation/Georgetown University Institute for the study of International Migration joint publication, *Reaching the Immigrant Market: Creating Home Ownership Opportunities for New Americans*.⁴ The ABA has been conducting training in conjunction with other Federal Reserve Banks using the publication as a guide; the training program targets lenders attempting to reach immigrant markets with financial services.

Ballentine discussed the importance of personal relationships and personal service with customers, and the need to understand characteristics valued by the target immigrant group. He mentioned a Seattle bank where an Asian lending officer changed jobs but remained in the same community. Many of the customers of the bank who had come to know and trust him became customers of the new bank because the personal relationship was more important than the institutional relationship.

Ballentine discussed institutional support and capacity. “You cannot translate materials into Spanish or any other language, [then] someone calls the institution and lo and behold no one there speaks that language; it must be a company-wide strategy.” Further, he noted that English

advertising slogans often translate poorly into other languages, again underscoring the need for fundamental institutional support. Ballentine closed emphasizing the need for additional staff training, careful market research, and a willingness to explore new or modified products to serve the immigrant market effectively.

ROBERTO SURO
Pew Hispanic Center

Roberto Suro is the executive director of the Pew Hispanic Center. He began his remarks pointing out that Chicago is an, "...ideal place to be having this discussion." Chicago, he noted, was one of the best "...laboratories for the process of assimilation for the last wave of immigration." Changes in immigration law, the Great Depression, World War II, and other factors gave rise to a hiatus in immigration from the mid 1920s to the late 1960s after continuous immigration to the United States prior to 1925. The country is now experiencing an unprecedented wave of immigration and Suro stated that the process of assimilation "...affects not just the newcomers, but the hosts as well, and so we're talking about all the societal as well as the demographic changes that take place when large numbers of immigrants arrive."

Suro related his experience as a journalist in Chicago in the mid 1970s during the first Daley administration, when he covered the city council. He shared an anecdote where, in an exchange between Mayor Daley and a councilman, Daley remarked on his Irish heritage. Not meant in a casual or facetious way, Suro said Daley's remark, "...implied a series of beliefs, associations of networks that have profound importance." Suro used the anecdote to illustrate the point that assimilation is a long process and the current wave of immigration is at a relatively early stage. Suro also ventured, "Ethnic affirmation is part of the process of assimilation, that ability to form a community of interest is one of the key factors in civic engagement... The formation of bonds among people with common nationalities, of common language groups is in itself one of the ways people become part of a new society."

Suro noted that a key component to assimilation in U.S. society is the use of financial markets and financial services. He compared gaining familiarity with our complex financial system to acquiring a new language. A key distinction between the last wave of immigration and the current one is the wide range of laws enacted since to facilitate homeownership and savings from which new immigrants can benefit. Many of these changes occurred while the rate of immigration was low.

Suro identified some of the challenges facing financial institutions seeking to reach recent immigrants. First, he

stated that it is important to reach immigrants while they are still fairly new to U.S. society. Accordingly, assimilation, ethnic affirmation, and an array of other societal orientation processes are occurring simultaneously. Aversion to common practices in the U.S. financial system, home country orientations with respect to financial institutions, and the trend toward on-line banking and financial services present further challenges. A person opening a bank account for the first time in a new country, who may be the first in their family to open a bank account, is unlikely to embrace the idea of opening the account through a computer. Indeed, the need for a human interaction, with someone who speaks the customer's native language, is more likely required to encourage that person to open an account.

In closing, Suro discussed the importance of the regulatory environment. He cited Federal Reserve Chairman Alan Greenspan's frequent assertion that the two pillars of the U.S. economy are strict respect for property rights and market sensitive regulation. The state has a vested interest in promoting property ownership and access to financial services among immigrants as part of a broader array of goals including English proficiency, citizenship, and overall economic success, he stated.

Notes

1 The paper identifies six classifications of immigrant gateways and is available at www.brookings.edu/urban/publications/20040301_gateways.htm.

2 Ms. Paulson's slide presentation from the conference is available at www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_paulson.pdf.

3 Anna Paulson and Una Okonkwo Osili, 2004, *Institutional Quality and Financial Market Development: Evidence from International Migrants in the U.S.*, Chicago: Federal Reserve Bank of Chicago, manuscript.

4 The report *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, can be accessed at www.fanniemae.foundation.org/programs/pdf/rep_immigrant.pdf.