

Financial Education and Traditional Financial Services

Moderator - Michael Berry, Manager, Emerging Consumer and Compliance Issues Unit, Federal Reserve Bank of Chicago

Session Two

Financial Access for Immigrants: Learning from Diverse Perspectives

The second session of the conference addressed financial education and factors impacting the decision to own a bank account, the ramifications of U.S. tax code, and highlighted strategies of one small and one large banking institution to reach immigrant markets with financial services. Sherrie Rhine, a senior economist with the Federal Reserve Bank of New York, presented a paper coauthored with William Greene of New York University considering the decision by immigrants of whether or not to hold bank (transaction) accounts. Nina Olson, national taxpayer advocate for the Internal Revenue Service (IRS), discussed the important role the tax code has on financial access and financial literacy for immigrants in achieving long-term financial success in U.S. society. James Maloney, chairman of Mitchell Bank in Milwaukee, discussed building community relationships to reach a growing ethnic market, a matter of business survival – and ultimate success – for the community bank he leads. Alice Perez, vice president and Hispanic market manager for U.S. Bank, discussed, in a large bank context, serving growing Hispanic populations with financial services and the nuanced strategies in marketing, staffing, and product development that branches serving diverse ethnic populations must undertake.

SHERRIE RHINE
Federal Reserve Bank of New York

Sherrie Rhine of the Federal Reserve Bank of New York presented a paper she co-authored with William Greene of New York University: *The Bank Status Decision of the Foreign Born*. The paper addresses several specific questions about the decision to own a transaction account.

Rhine noted that the Survey of Consumer Finances showed that 9.1 percent of all U.S. households do not hold a checking or savings account. Among non-White

Hispanic households, the ratio is 21.8 percent and among White, non-Hispanic households, 5.1 percent. She referred to the consumer protections afforded to households that own an account versus households that pay bills with cash and linked ownership of a transaction account with long-term asset accumulation. “We know that a relationship with a financial institution is a method by which consumers can gain better information, and more timely information, to make sound financial decisions. We know that communities with well-functioning financial markets are more resilient against economic downturns and can take better advantage of economic growth as well,” she said.

With respect to account ownership, Rhine stated that the specific purpose of the research was to identify, “...those socioeconomic and demographic characteristics that influence that decision.” She noted in addition that cultural orientations and preferences may well influence decisions regarding financial services. The research controls for, “...cross-period, cross-time correlations of what are unobserved individual effects,” she said. Examples of these effects include family specific characteristics or home country attributes. The broad demographic categories that tend not to hold bank accounts include: households that have lower education attainment, are younger, low-income, and a member of a minority group. Households that do tend to hold bank accounts include those that are married, employed, and have larger family size and relatively greater net worth.

Rhine and Greene track these characteristics across four immigrant groups: Mexicans, other Latin Americans, Europeans, and Asians. Among Mexican immigrants, 53 percent do not hold transaction accounts; among other Latin Americans, 37 percent do not; among Asians, 20 percent do not; and among Europeans, 17 percent do not hold transaction accounts.

Rhine mentioned the importance of programs like the Earned Income Tax Credit (EITC) and Individual

Development Account (IDA) in influencing the decision among immigrant households to hold an account and ultimately influence wealth accumulation. Broadly, the EITC is a public benefit administered through the tax code to income-qualified households; the IDA program offers institutionally administered matching funds to savers meeting certain income requirements. Often, qualifying households access their EITC by visiting volunteer income tax assistance (VITA – an IRS program that helps cities and communities to organize volunteer tax return preparers) sites where financial institutions market low-cost transaction accounts and products. Individual deposit accounts can attract potential savers to financial institutions through the offer of the matching incentive.

In closing, Rhine discussed stored value cards as a means to link immigrant households to financial institutions. The cards address in part the danger of carrying or storing large amounts of cash, though loss of the card could lead to a short-term liquidity crisis while the card is cancelled and replaced. Rhine also noted that the level of consumer protections afforded holders of these cards is not yet clear. Moreover, stored value products may not lead to near-term positive outcomes with respect to establishing a credit history or accumulating wealth. Rhine used this example to highlight the rapid evolution of U.S. financial markets and products stating, “These markets are perpetually changing, which only exacerbates the need for financial education, and I think that that is very important; it certainly is to the Federal Reserve System, and we really need to continue those efforts.”

NINA OLSON Internal Revenue Service

Nina Olson, national taxpayer advocate for the IRS discussed the implications of the tax code on financial access and financial literacy for immigrants, pointing out that “Taxes are a primary, if not the first interaction that these taxpayers have with the U.S. financial system.” Olson stated that an understanding of the tax system is fundamental to long-term financial success in U.S. society. Mistakes in the early stages of an immigrant’s tenure in the United States can have significant impact on his or her ability to participate in other aspects of the financial system. As an example, she discussed the W-4 form that every salaried worker must fill out prior to beginning work. That form requires a Social Security number. It also requires the worker to set a withholding level, which has ramifications if it set too high or too low. Accrued interest and penalties on tax liabilities can be financially devastating. The tax return is an important document in applying for credit, particularly for a mortgage or student loan or student financial aid. Tax returns are also important to the legal immigration process. For individuals who have

lived in the United States without proper documentation to take advantage of any kind of amnesty program, or when in due course their request for citizenship reaches the critical stage, copies of tax returns “show good moral character.” Similarly, a person living in the United States who wants to sponsor a family member or friend from the home country must show the financial means to do so. Preparation of the tax return further serves as an annual financial checkup for the taxpayer, a building block to financial literacy.

Olson also pointed that taxes are a major savings vehicle for the unbanked. Through over-withholding, the tax system provides a method of forced savings. But she noted that many of the participants in the tax preparation industry that serve the unbanked are unregulated or poorly regulated. The result is that check-cashers, pawnbrokers, car dealers, and other seemingly poorly suited organizations and individuals prepare tax returns for the unbanked. Some of the organizations that prepare taxes offer refund anticipation loans that often have triple digit annual percentage rates, but represent a fast way for the taxpayer to access his or her refund or earned income credit (a benefit not presently available to non-citizens). She also mentioned the VITA sites that prepare taxes free of charge with volunteer staff.¹ The receipt of the refund represents an opportunity to open a bank account and begin a long-term savings regimen, but without financial literacy, the impetus to open the account is not there.

Olson discussed home country orientation, where the tax code and related practices may differ notably from U.S. norms. Language also represents a barrier in many cases, she added, and even absent the necessary expertise locally, immigrants may be highly reluctant to go outside of their community for assistance. Olson stated that immigrants may even have difficulty putting in context a request from the IRS, not understanding the urgency to respond, or knowing that IRS interpreters offer counsel in 69 languages.

Olson touched on the “...profound conflict between immigration law in the United States and tax law that compounds these challenges.” There are two tests that require immigrants to file based on their worldwide income. Anyone holding a green card is documented and required to file a tax return on all income. The second is the substantial presence test: essentially anyone holding a job, regardless of immigration status, is required to file a return. These individuals by definition do not have Social Security numbers, but can use individual tax identification numbers (ITINs), for the purpose of filing a tax return. An apparent conundrum with respect to workers that fall into the latter category is that all salaried workers must provide a Social Security number to complete a W-4 form in order to work in the United States. It is well documented that many immigrant workers have used, illegally, Social

Security numbers of others in order to obtain work. However, Olson noted that it is the official policy of the IRS to encourage wage earners who have used the Social Security numbers of others, which is technically identity theft, to file a return using an ITIN anyway, stating, “We administer the tax laws, not the immigration laws.”

Olson also touched on the special needs of immigrant taxpayers with respect to language. As the founder of the first low-income taxpayer clinic in the country not affiliated with an academic institution, she had incorporated an ESL (English as a second language) outreach program. Congress in 1998 created a grant program to fund similar efforts – there are presently 14 such clinics nationwide – which Olson now administers. An underlying tenet of the grant program, which has few restrictions, is that

“We administer the tax laws, not the immigration laws.”

Nina Olson

“...undocumented workers in this country contribute to our economy, pay taxes, and need representation and education,” Olson stated. Olson also noted that there are bills before Congress that link tax

preparation with financial literacy.

Olson discussed changes to the procedures for obtaining and using an ITIN. The key change is that applicants for an ITIN must prove that the number will be used for tax administration purposes; they must also provide a completed tax return with the W-7 application for an ITIN. The IRS has issued notices to state government agencies to ensure that the ITIN is not accepted as an identification number, as the identity verification process at IRS upon application for an ITIN is not extensive. Olson closed by challenging the financial industry representatives in the audience to think creatively about reaching undocumented immigrants, who are often part of a household that has both documented and undocumented members, with financial services, and to facilitate financial literacy.

JAMES MALONEY
Mitchell Bank

James Maloney is president and CEO of Mitchell Bank in Milwaukee. The bank is located in a predominantly Latino and largely immigrant community and has roughly \$80 million in assets.²

Maloney began his presentation by noting that many characteristics are common to Latino immigrant communities – low education attainment, low-income rates, undercounted population, and low homeownership rates. In Milwaukee, unlike Chicago, the Latino population

is still concentrated in urban areas. He discussed the need to build relationships with social, religious, and civic institutions that have broad membership and acceptance in the immigrant community as a key method to gain trust and acceptance for the bank.

Mitchell Bank has a full-service branch known as Cardinal Bank located in South Division High School in Milwaukee. A unique aspect of the branch, which is named for the school's mascot, is that it is run by students at the school. They play a key role in fostering the financial literacy of the community by bringing their parents to the

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James Maloney

bank to, initially, cash paychecks. The parents are introduced to other financial services, as many of the students are bilingual. “We use the students as teachers for their parents because we are dealing with such a large undocumented population; they do seem to be willing to extend their knowledge to their parents,” Maloney said.

Maloney noted that customer activity at the main branch increased fourfold after the opening of the high school branch. “Had we not done this, we probably would not have survived as a bank,” he said. Maloney closed by reiterating a point made by James Ballentine of the American Bankers Association. “This is not about [the] CRA (Community Reinvestment Act); this is a real opportunity to tap a market...and it is the future.”



Mitchell Bank's Cardinal Branch in South Division High School, Milwaukee, Wisconsin.

ALICE PEREZ
U.S. Bank

Alice Perez is a vice president and the Hispanic market manager for U.S. Bank. She also raised the point that marketing to immigrant populations is not a CRA opportunity – it is a business opportunity. Formerly, the work Perez headed up at U.S. Bank was called the Hispanic Banking Initiative. It is no longer considered an initiative and is now called the Hispanic Banking Segment. The advertising slogan is “Usted tiene amigos en U.S. Bank,” which translates into, “You have a friend at U.S. Bank.” U.S. Bank is headquartered in Minneapolis and has offices in 24 states and assets of \$195 billion.

U.S. Bank launched the initiative in June 2001; it involved 300 branches at that time. Presently, more than 500 branches are involved in the Hispanic Banking Segment. Perez noted the bank’s commitment to staffing branches to in part reflect the ethnic makeup of the community being served. She stated that the bank makes an effort to promote from within, affording career growth for locally hired staff.

Perez also noted the critical need for bank branches to participate in the civic and social segments of the communities served. This outreach serves as a means to attract financial services customers; however, Perez stated that these relationships are also valuable in determining community credit and product needs and tailoring marketing campaigns to the values and customs

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of local residents. In addressing the Hispanic market, Perez noted the bank segments its marketing by tenure in the United States. Recent immigrants require much more hands-on attention and often speak no English. Second generations of families very often have transaction

accounts but have lower homeownership rates and also represent a potential market for investment products. The third tier is essentially Hispanics who are fully integrated. However, Perez noted that the third tier may still represent a market opportunity for investment products, as she mentioned a tendency for Hispanics not to gravitate readily to securities.

In closing, Perez discussed some of the partnerships the bank has formed to address particular types of services. A partnership with the U.S. Hispanic Chamber of Commerce called “iCapital!” has the goal of lending \$1 billion to small businesses in high growth Hispanic markets nationwide. A partnership with L@ Red de la Gente³ helps to promote wealth building both among U.S. immigrants and Mexicans still living in Mexico. Combined with a very low-cost remittance service, this program provides incentives for recipients of remittances in Mexico to save and invest.

Notes

1 For more information on the VITA program, refund anticipation loans, and the EITC, see “An Informed Discussion of the Earned Income Tax Credit,” *Profitwise*, Winter 2003, at www.chicagofed.org/publications/profitwise/2003/pwwinter03.pdf.

2 The panel included representatives from a small (assets less than \$250 million) and a large bank.

3 L@Red de la Gente is itself an alliance of the National Savings and Financial Services Bank (known in Spanish as BANSEFI) and the Association for Popular Colonias (ACP) in Mexico. That alliance was formed to promote broader bank usage, particularly in rural areas of Mexico, and more efficient distribution of certain government benefits. For more information, see *Profitwise News and Views*, December 2003, at www.chicagofed.org/community_development/12_2003_profitwise_news_and_views_page4.cfm.