

A Focus Group Study of Latin American Immigrants' Financial Behaviors

by Katy Jacob and Carrie Jankowski

Introduction

The subject of U.S. immigration – particularly more recent immigration trends – has generated many contentious debates around crime, impacts of worker skill levels on economic growth patterns, and on relative wage rates, among other areas. Further, analysis and focused studies of immigrant populations reveal varied and disjointed economic behaviors. A behavioral dimension that receives increasing attention by academics – and banking institutions – is immigrant participation in mainstream (retail) financial service markets. Immigrants tend to be less “banked” (i.e., use alternative and more costly financial service providers, such as check cashers and payday lenders) than the native population across income levels, though transaction account use correlates positively with higher income. The 2000 Survey of Income Program Participation reveals that 53 percent of Mexican immigrants and 37 percent of other Latin American immigrants remain unbanked, compared to about 9 percent of the total U.S. population.¹ Survey information reveals that the reasons for limited participation in financial markets vary and include language barriers, identification requirements, high bank fees, and minimum balance requirements, as well as income level.² Researchers often examine the impacts of (use of) mainstream financial services on the

overall assimilation and financial well-being of immigrant populations versus native born. Due to the negative impacts of limited participation – high transaction costs, low savings rates, and limited prospects for home or business ownership – as well as the potential to expand customer and deposit bases, the banking industry has been developing strategies to attract immigrants into mainstream financial services for many years.

Throughout most of the United States, immigrants originating from Latin America account for a higher percentage of total immigrants than from all other regions. In 2006, immigrants from Latin America accounted for 20 of the 38 million U.S. immigrants. Moreover, influxes of Latin American immigrants have driven overall in population increases in many metropolitan areas. Chicago is one of the large cities most affected by this trend. More than 140,000 immigrants moved to the city from 2000 to 2006, with almost 460,000 relocating there prior to 2000. The Chicago area is currently home to over 348,000 Latin American immigrants.³

Concurrent with these general immigration patterns is a shift in how financial services are utilized by the population as a whole. Indeed, the United States continues to transition from paper-based to electronic payments. For most households in the U.S. today,

currency (cash) still represents a transactions vehicle, but one that is increasingly being supplanted by a variety of substitutes, such as debit cards. However some populations including immigrants are less likely to use the services of banking institutions, and must rely more heavily on cash.

To understand these trends – and particularly use of cash among immigrants – at a finer level, in 2006 a group of researchers at the Chicago Fed began a long-term project to examine the impact of recent immigration patterns on domestic currency demand. Focusing on Latin American immigrants in the Chicago area, the study offers initial evidence that the dramatic increase in the number of immigrants is indeed boosting the demand for currency, particularly for \$100 bills.⁴ The study suggests that this trend has likely contributed to the increase in domestic demand for currency since the late 1990s—an increase that is at odds with the generally accepted view that cash use is declining.

This study was based on currency shipment data to community banks aggregated by five-digit zip codes. We can infer immigrant behavior through our regression findings, but the results are not directly informative about micro level, individual immigrant behavior. To shed further light on our broad findings, in 2008 we conducted a series of focus

groups of Latin American immigrants, hoping to discover the underlying reasons for the observed increase in demand for cash in areas with high concentrations of Latinos.

Focus group design

In recent years, financial institutions in metropolitan Chicago have conducted extensive outreach and directed marketing campaigns to Latino immigrants. Beginning in 2003, a partnership between the Mexican Consulate in Chicago and the Federal Deposit Insurance Corporation led to the creation of the New Alliance Task Force on immigrant banking. This highly publicized effort included dozens of financial institutions in Illinois and Wisconsin, along with community organizations and regulators. The purpose of this task force was to bring affordable financial services to immigrant populations, with a heavy emphasis on Latin American groups. Banks that participated in the task force created new checking account programs, remittance products, and alternative identification requirements. As a result, it became quite common for banks in the Chicago area to accept Matricula Consular cards and Individual Taxpayer Identification Numbers (ITINs) as identification to open bank accounts. These nontraditional identification methods were used in lieu of traditional materials, such as social security numbers.⁵

Given the local efforts of financial institutions described above, in our focus groups we sought to determine if there was still a discrepancy in immigrants' access to mainstream financial institutions based on immigration status, whether perceived or real. Documented immigrants were still expected to make more use of mainstream financial institutions, and to rely less on alternative financial products and companies, to use debit and credit cards more extensively and, therefore, function with less cash. In contrast, undocumented immigrants were expected to operate more heavily in the

cash economy, to be more likely paid in cash, and to spend and save in cash.

Another hypothesis was that within the city of Chicago, immigrants may have more and more formal financial industry resources available to them. A greater presence and array of financial institutions may affect financial behavior, just as fewer choices and branches in suburban and exurban areas may have an impact.

To evaluate these assumptions, we conducted four focus groups – two in the city of Chicago and two outside of the city (one in Rolling Meadows, a northwest suburb, and the other in the city of Aurora). Two groups – one in the city and one outside – consisted of documented residents or U.S. citizens; the other two consisted of undocumented immigrants. The focus group meetings were held between January and May 2008. All meetings were 90-minute sessions conducted entirely in

immigrant population, we sought greater representation from this cohort, but made sure to include individuals from other Latin American countries in each group. Also, a range of ages and genders was represented. The focus group respondents were fairly evenly split gender-wise; 21 women and 17 men took part. Participants' (ranges in) age, education, years in the U.S., and household income appear in Table 1.

The educational attainment of the focus group participants was higher than the national level; 68 percent of the respondents reported achieving a high school diploma or higher, while the Census estimated only 49.1 percent of Latin American immigrants at this level in 2003.⁶

With respect to household composition, most (about three-fifths) live in households with one or two adult persons; over three-quarters of the households that participated have children living with them. At the time of screening,

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Spanish. Participants were individuals who responded to newspaper advertisements or were recruited with the assistance of community organizations. All potential participants completed a screener form so their eligibility could be assessed. A total of 38 individuals participated in the four focus groups: nine undocumented immigrants in Rolling Meadows, nine documented immigrants in Chicago, 11 undocumented immigrants in Chicago, and nine documented immigrants in Aurora.

Participant demographics

Given the concentration of Mexicans within the local Latin American

18 reported working full-time, six part-time, and 14 were not working. All but six participants had access to automobiles owned by household members.

Findings

In order to better understand the demand for and use of cash by this population segment, the groups were questioned about their financial decisions. The focus groups revealed much information about perceptions related to financial transactions and payments services. Questions and observations were parsed into five categories focused on financial stability, money management,

Table 1: Participants' Demographics

Age	Number	Education*	Number	Years in the U.S.	Number	Household Income	Number	Ratio
18-25	9	Less than H.S.	12	1-5 years	7	Under \$20K	13	34%
26-40	18	H.S. diploma/ GED	16	6-10 years	10	\$20K - 40K	15	39%
41-55	9	Some College	7	11-15 years	3	\$40 - 60K	4	11%
56-64	2	College graduate	2	16-20 years	2	\$60K - 80K	4	11%
		Missing	1	20+ years	16	\$80K +	2	5%

*Some participants did not volunteer this information.

financial institutions, financial transactions, and savings. The following paragraphs summarize the findings.

Financial stability

To get a sense of the economic realities facing our respondents, they were asked how financially stable they felt, including the impact of employment trends and recent economic shocks. Across all focus groups, respondents reported negative effects from the current economic downturn. Most participants felt the pain of what they referred to as a “recession,” either through fewer work opportunities or work hours, or smaller, less frequent, or no wage increases. Many also have been greatly impacted by the increase in gas prices and felt that this was among their top financial concerns.

In the undocumented groups, where respondents tended to be younger, there was a more intense feeling of financial instability. The most common occupations in these groups were construction and restaurant work, and several respondents were unemployed or had experienced recent bouts of unemployment. Many were worried about losing their jobs or having hours severely reduced due to the downturn in the real estate market (for construction workers) or in the service industry (for restaurant workers). The suburban undocumented group expressed the most concern over possible deportation and job loss. This group tended to have the shortest tenure

in the country and the lowest skilled jobs of all the groups. These respondents were more likely to try to keep cash at home, even in small amounts, as a safety net in case of an emergency.

“I think that sometimes, because one is illegal, you can be caught, and deported... I saw on TV that one can claim their money, but you never know.”

“Something else about having cash is that if you have an emergency in the middle of the night, you can go to an ATM, but you will not be able to withdraw enough.”

Money management

To fully understand why Latino immigrants use cash more than others, one must have a sense of financial aptitude and money management preferences, and learn how individuals discover and make choices about their financial options. The undocumented immigrants in the suburban group – the group more isolated from information sources – tends to rely on friends and family for financial advice. On the other hand, documented immigrants reported relatively more sources of financial information, such as employers, the newspaper, TV, direct mail, and the Internet. These respondents felt that, while employers give some information on direct deposit, 401(k)s, and credit unions, they still desire more information from unbiased sources. There were a few individuals across the focus groups who preferred not to talk about money

with family and friends, citing a desire for privacy, and/or concern that others might take advantage of that knowledge.

“...Given my situation...my family is in the business of lending money, so they have guided me; they have recommended me to people that I can trust.”

“I do not like to talk about my finances... It's very personal.”

It is a common presumption that undocumented immigrants are paid primarily in cash. When discussing sources of financial information, including employers, many respondents also provided information about how they are paid. The majority of respondents in all groups are paid by check; direct deposit was somewhat more common among the documented individuals (that had accounts). When respondents did report cash payments, it was often for secondary or side jobs; tips, among those working in restaurants, were also noted as a source of cash payments. Side jobs included construction work, car repair, and (door-to-door) cosmetic sales, among others. Many individuals who were paid via check cashed their checks immediately, while others put a portion of funds directly into savings accounts or other savings vehicles.

Frequently, respondents shared perceptions of money management habits of Latinos that differed from their own. Several respondents across the focus groups believed that Latinos

Table 2: Payment Type for Employment*

Group	Direct Deposit Only	Cash Only	Check Only	Cash and Check	Check and Direct Deposit
1 – Rolling Meadows (undocumented)	0	5	4	0	0
2 – Chicago—south (documented)	2	0	5	2	0
3 – Chicago—north (undocumented)	0	0	6	3	0
4 – Aurora (documented)	2	1	3	1	2

*Some participants did not volunteer this information.

manage their money less responsibly than other population groups. However, many of the respondents reported saving or remitting significant portions of their incomes.

“I think that Latinos, well, we spend money on things that are not necessary.”

“I think that we Latinos are a little bit show offs, because if you have a lot of money you want everyone to know that you do. If I buy a car I try to make it look the prettiest so that people can see that I have money.”

Some of both the documented and undocumented immigrants stated that they had issues with impulsiveness and self-control, and that a banking relationship helps prevent rash spending. (Some stated that keeping only small bills on hand helps achieve the same end.)

“I think that the bank is best to keep your money, because if you have it with you, you spend it.”

“With cash you have less control of your expenses. Instead, when you use your checkbook, you can keep track of how much you spend and where you spent it.”

“We are naïve, because if you go to the store with \$20, you buy just what you need; but if you bring a \$100, you spend it all instantly.”

Financial institutions

Because of the ease with which undocumented immigrants in Illinois can now open bank accounts (using a Mexican Matricula, a passport from

another country, or an ITIN), bank relationships are not exclusive to documented immigrants. In the focus group study, all participants expressed confidence in the U.S. banking system, regardless of immigration status. There was also broad awareness that deported immigrants can still access their bank accounts from abroad. The majority of

Almost all, including the unbanked and undocumented, felt that it was easy to get a bank account in the Chicago area, despite lower participation by the undocumented in the sample, and the perception across the groups that financial institutions in both the city and suburbs have trained staff members to be helpful to first-time customers.

Table 3: Access to Financial Institutions

Group	Banked*	Unbanked
Rolling Meadows	6	3
Chicago South	8	0
Chicago North	6	5
Aurora	8	1

*Banked = either current savings or checking account

respondents have bank accounts, though the undocumented were less likely to, and some respondents have only savings accounts.

The findings from the focus groups support the notion that documented groups continue to make greater use of mainstream financial services than undocumented across both the city and suburban groups. The group from Rolling Meadows felt that relatively few area banks accept the Matricula to open an account, supporting the second hypothesis that both the quantity and policies of city-based financial institutions foster broader account ownership among Latino immigrants.

How hard was it to open an account?

“It’s easy, even with a voter card from Mexico.”

“I have a cousin and I told him, ‘open a bank account.’ And he said ‘no, because if they catch me, then I am going to leave.’ No, I tell him, nothing happens. And he went and got his Matricula and at all the banks with the Matricula you can open an account.”

“Now banks are more flexible, which they weren’t before.”

Some studies have shown that immigrants and lower-income households are more likely to use currency

exchanges or check cashing outlets for many financial services, even if they are banked. Conversely, a 2004 study reveals that many unbanked consumers occasionally transact at banks or credit unions for various reasons.⁷ The use of currency exchanges is, not surprisingly, more frequent among those without bank accounts. In this study, the undocumented suburban group used currency exchanges because they are more conveniently located and open late, compared with banks. This group also has less income than the city-based undocumented group, and has little savings. They reported keeping hardly any cash at home, although a third of the group is unbanked.

Some analysts have argued that fees charged at currency exchanges are not only excessive, but confusing, stating that consumers are not aware of the true costs of services performed at check cashers. Despite the perceptions of the habits of this population, most of the Latin American immigrants in our study (other than the undocumented suburban group) do not use currency exchanges extensively.

"We are fine like this. It is better to go to the bank rather than the currency exchange, because it is nicer and it costs less to cash the check."

Furthermore, they were all quite aware of the higher prices of these services relative to financial institutions. Most people admitted to using these establishments occasionally for things like purchasing city stickers and paying bills that are due immediately. Those who did use check cashers mentioned convenience as the primary motivating factor.

"Sometimes if you have an emergency, you can cash your check at the currency exchange. At the bank you deposit it, but you cannot withdraw your money right away."

"A few (currency exchanges) are open 24 hours a day, and that is the advantage."

"Because of lack of English, one prefers the currency exchanges; they speak Spanish there."

Despite the convenience of currency exchanges, most participants, including the undocumented and unbanked, expressed a great deal of trust in U.S. banks and believed that banks were a better option than currency exchanges. Many had negative experiences with financial institutions in Mexico, but those experiences did not lead to a distrust of the U.S. financial system.

"It is safer to have a bank account here. We had a problem in Mexico with my husband...well, we had a business and he had to have a checking account. And we had a bank account at a bank that closed down overnight because of bankruptcy, and we did not get our money back."

"That is the bad thing over there, because here we can get our money back, but not in Mexico."

Financial transactions

Access to bank accounts and participation in financial services should have a large influence on the type of payment instrument used for transactions. The respondents in these groups verified this idea to an extent. The majority of the respondents who held checking accounts reported using debit cards on a regular basis for everyday purchases. Cash was used infrequently for transactional purposes by those with checking accounts. When cash was used for purchases, several respondents expressed a preference for smaller bills. Contradicting their own behavior, however, these respondents generally felt that Latinos were culturally inclined to be heavy cash users.

"No, but this is their... it is their idiosyncrasy, of the Americans. They are very different from the Hispanic and Latino. There is no American, it is very rare, that carries \$50 in their wallet. It is their idiosyncrasy. They carry \$10 maximum in their wallet. And the cards,

that is why they call it here 'the plastic currency' for the cards."

"Because it is from the culture. Because of tradition, the way in which mentality is raised, let's say. Almost, as many people said, many people do not believe in that, in the bank, on the cards, all of that. Rather, they prefer more money in cash."

"I think also it's a matter of habit... I think that we have different customs in each country, but you need to see how you save and how you handle your finances. Regarding specifically the use of and handling money, I think that we are different than Americans."

"Since I arrived here, I've noticed that they hardly use cash, they almost don't use any cash, they use the minimum they can; the whole time, they use the cards. We come with the habit of using cash and it is only now that we are learning the habit of using the card or keeping the money in the bank."

Most participants expressed an aversion to debt, although the more acculturated (Chicago documented group) had relatively high amounts of credit card debt. Participants were very aware of the high cost of credit and felt that terms and conditions on credit card contracts were confusing. Respondents often preferred to use debit cards to avoid spending money that they did not yet have. Some that did use credit cards extensively were quick to point out that they made sure not to revolve balances.

"I think it is like... it depends on the person. So, I cannot use it, I don't think so; I have never applied, and I am not interested in applying for a credit card, because I know I will go bankrupt."

"That is why I use the debit card, because I know the money that I can spend is already there."

"So, I took this goal... I do not spend more money than I can enter to my account. Why? Avoid paying interest to the bank. If I spend \$2,000 this month, at the end of the month I know that I will

not be able to respond with \$2,000. It means I am spending money from the bank, but without paying interest."

Respondents often expressed fear of being robbed as a deterrent to using cash for both transactional and savings purposes. The fear was not necessarily that having cash would lead to being robbed, but rather that one would have much more to lose if robbed of cash rather than "plastic currency." This feeling was much more prevalent in the city groups. Fear of loss went beyond being mugged by strangers, to include family members and the police. Family members sometimes stole large sums of money that respondents were saving for special circumstances; sometimes family members fail to repay debts.

"Sometimes, let's say most Latinos, we carry our money with us so it will never be a problem with your credit card and all that, because if a Latino is mugged they take all your money, but if an American gets mugged they only take their cards and he can report the card stolen and that's all."

"We were robbed by my own brothers. We saved to start a business and we had gotten up to \$20,000."

Some participants claimed that police officers are suspicious of Latinos that carry large sums of cash, question where the money originated, and stated they knew of cases where police officers had confiscated cash from Latinos.

"Nobody has money in their house, but the police know that Latinos always have cash, that is why they rob them because they always have cash instead of using cards."

"In any case, if the police come to your house and they find more than \$1,000, you have to justify why you have that money."

"Now if the policeman stops you and you are carrying quite a bit of cash, say you are going to purchase something, right? That's one reason why people sometimes

don't take cash alone... you are a little scared, if you are an undocumented person you'll say there is discrimination and they see you with money even if you just cashed your paycheck and it is clean money, but a policeman stops you and they take it away."

Savings

A large portion of the focus group participants and their families were able to save large sums of money at various points in their lives (ranging from several hundred to almost \$50,000). Often, this money was saved in the form of cash at home. Respondents cited a variety of reasons for saving up these large cash stockpiles – the most prevalent being emergencies, travel, and large anticipated purchases. When storing large amounts of money, they often preferred large denomination bills for efficiency of space. Smaller sums of cash are saved on a more regular basis by participants who regularly remit money to relatives in their countries of origin. In general, it was much more common for participants to report using cash for savings than for common purchases.

"Well, when I have more than 500 (in cash savings) I start saving in 100s."

"If you want to save money, large bills are better."

"For me only when I am going to send money to Mexico, its only then and when I am going to deposit money in the bank, those are the only times when I handle large bills."

Questions for future research

With the limited nature of this study, a number of questions remain unanswered, and might be explored with a different design in which groups are not segmented by city versus noncity residence or by documented/undocumented status. In urban and suburban northern Illinois, access to banks for the undocumented does not seem to present serious difficulties, as

our participants confirmed, although discrepancies in bank usage remain. Comparing groups of relatively recent immigrants versus more established and acculturated participants might offer more and different insights. Screening might allow researchers to select groups of bilingual versus monolingual immigrants, or groups of participants that receive some cash income versus those who do not, for example.

The group findings can also be analyzed along a number of different dimensions. If use of the banking system is not limited to documented immigrants, then what makes some undocumented and documented behave more similarly between them in terms of use of cash (or lack thereof) compared with others in their own groups? Possible factors include acculturation levels, level of education, household composition, and income level. Nonetheless, in a qualitative study – and one with a small overall sample – it is not possible to establish with certainty any strong association or correlation.

Acculturation is a construct that is difficult to define and to measure. Possible proxies for acculturation are number of years since immigration combined with age at immigration, language proficiency and use, and intention to stay in this country. Both in the documented and undocumented groups, there were some participants who appear more detached from their country of origin than others of similar characteristics. They are the ones learning English, not sending money to their home country, and not thinking of returning there if they suddenly received a large sum of money. However, there is no uniformity of behavior regarding cash use in this group.

Prudent financial decision making seems to be associated with acculturation, particularly as language proficiency opens doors to better understanding of products and services. Comfort with financial decisions leads to more informed and demanding

consumers generally. Both documented groups may fall in this camp. While the suburban group was more vocal in terms of their expectations of banks, the Chicago group included several members who spoke about how they work the system, taking advantage of things like interest-free credit offers.

Research on the ethnic makeup of neighborhoods might also help us understand cash usage in Latin American immigrant communities. Perhaps Latino immigrants that are more isolated from other groups are less likely to be banked or even exposed to the myriad of available financial options. Those who live in diverse neighborhoods might acculturate faster, regardless of legal status. Moreover, in order to understand remittance patterns that might explain excess cash holding, we would be interested in knowing more about respondents' closest relative in their home countries. If some immigrants are here without family, they are more likely to remit, while others might be living in the U.S. with the majority of their relatives and have little reason to hold on to cash for the purpose of remittances.

Conclusion

The findings suggest that there are complex factors influencing the Federal Reserve's 2007 finding that \$100 bills are in greater demand in areas with high concentrations of Latin American immigrants. Participants in this focus group study exhibited a range of attitudes and behaviors towards cash, both in savings and financial transactions. While some patterns did emerge – such as the proclivity for the unbanked to be heavier cash users, the overall trust and knowledge of the banking system, and the feeling that plastic currency was safer than cash – diverse perspectives were more the rule than the exception. Because the sample size is too small to be truly representative, these findings provide a flavor of what is happening in Latin American neighborhoods rather than any definitive sense of currency trends.

It was discovered that many participants had stored cash recently and in the past. Because the previous study's initial findings reported an increase of three \$100 bills over an entire year in such areas, it is not necessary for many people to store large amounts of cash or store it for long periods of time to get this result. A perpetual stockpile of \$100 bills for emergencies might be enough to attribute to this result. Also, the study used 2005 cash demand data – a time when the economy was stronger than it is currently. More recent data might reveal that these neighborhoods still have high demand for cash relative to the rest of the population.

It is difficult to gauge with certainty the extent to which Latinos as a culture, really a set of cultures, are more cash oriented consumers than the native born without more extensive survey work or statistical analysis. The findings suggest that most Latin American immigrants, including many of the undocumented, have financial service opportunities similar to those of the general population. It is interesting to note that few, if any, focus group participants reported major barriers to access to financial services in their communities, even though some participants remain unbanked. However, there is still a significant use of cash among immigrants, which presents troubling risks related to crime and even general acculturation, and warrants further investigation.

Notes

- 1 Survey of Income Program Participation, 2000.
- 2 For more information on immigrants' financial attitudes and behaviors, see Paulson, Singer, Newberger, and Smith, 2006. *Financial Access for Immigrants: Lessons from Diverse Perspectives*. Chicago: Federal Reserve Bank of Chicago and The Brookings Institution.
- 3 Information in this paragraph from the *American Community Survey*, U.S. Census Bureau, 2006.
- 4 Jankowski, Porter, and Rice, 2007. "Against the tide—Currency use among Latin American immigrants in Chicago," *Economic Perspectives*, Vol. 31, No. 2, Second Quarter.

5 For more information on banks' general interest in reaching out to underbanked consumers, see Jacob, 2006. *Highlights from The Inaugural Underbanked Financial Services Forum*. Chicago: The Center for Financial Services Innovation. Also see The Center for Financial Services Innovation 2005. *From the Margins to the Mainstream: A Guide to Building Products and Strategies for Underbanked Markets*. Chicago: The Center for Financial Services Innovation.

6 The national statistics in this paragraph come from The Foreign-Born Population in the United States: 2003, U.S. Census Bureau, August 2004. One caveat in comparing these statistics to the focus group population is that the national figures are not broken out by documented status. Also, half of the immigrants in this study are undocumented, which is a much higher percentage than would be found in the Census.

7 In the Chicago area, check cashers are referred to as currency exchanges. For more information on dual usage of banks and currency exchanges and immigrant markets, see Seidman, Habbabou, and Kramer, 2005. *Getting to Know Underbanked Consumers: A Financial Services Analysis*. Chicago: The Center for Financial Services Innovation.

Biographies

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