

Profitwise

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Towards Financial Literacy: Program Leaders Comment on Evaluation and Impact



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Profitwise News and Views

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Achieving Sustainability, Scale, and Impact in Community Development Finance – SRI and Community Investing

Boston, Massachusetts

Thursday, November 3 and Friday, November 4, 2005

The Federal Reserve Bank of Boston and the Aspen Institute will host a two-day conference at the Federal Reserve Bank of Boston. The goals of the conference are fivefold: introduce a new framework for scale and sustainability for the community development finance field; discuss new business models and practices with potential for promoting scale and sustainability in the field; provide a forum where socially responsible investors (SRI), bankers, community economic development professionals, foundation representatives, other funding entities, and those involved in related public policy areas can share ideas about the future of the CDFI/community development industry; encourage future dialogue and action on measuring the social and financial returns from investment in community development initiatives; and explore obstacles and challenges to SRI participation in community development investment.

This conference is intended for the following audience: community development financial institutions, socially responsible investors, banks and other financial institutions, foundations and other funding entities, community development corporations, policy-oriented researchers in the community investment field, and representatives of relevant government agencies.

For more information, visit www.bos.frb.org/commdev.

The Future of Economic Development in Rural America

Des Moines, Iowa

Thursday, November 17, 2005

The Federal Reserve Bank of Chicago, Consumer and Community Affairs division, and the Iowa Department of Economic Development invite you to attend the conference, which will be held at the Marriott Downtown in Des Moines, Iowa.

Participants will gain valuable insights from experts who will address issues and opportunities surrounding the future of economic development in rural America. The target audience is community development professionals, financial industry practitioners, small business owners, researchers, policymakers, representatives of government agencies, foundations, and academics. Topics include: an overview of Midwest agriculture and rural development issues; rural depopulation and what it means for the future economic health of rural areas and the community banks that support them; infrastructure in rural areas – including telecommunications, rural quality of life and economic opportunities; twenty-first century agriculture and energy; new state initiatives of the State of Iowa; and an update on the Community Reinvestment Act (CRA) and its impact on rural America. Iowa Governor Thomas J. Vilsack will be the keynote speaker.

Space is limited; please register early. For more information, visit www.chicagofed.org/community_development or call (312) 322-8232.

Visit the Web site of the Federal Reserve Bank of Chicago at:

 **chicagofed.org**

Around the Seventh District



Illinois

Chicago Neighborhood Bank Rolls Out Alternatives to Payday Loans

The Austin Bank of Chicago (ABC) has rolled out new products as alternatives to high-cost (non-bank) payday and other loan programs. The *Ready Cash NOW* program is a fixed rate loan with a repayment term of up to 12 months. Applicants for the *Ready Cash NOW* loans can request a loan amount from \$300 to \$999.99. ABC Bank is also offering *Ready Cash Personal and Business Lines of Credit*. These programs offer fixed interest rates for up to three years. Consumer and business customers can request lines of credit between \$1,000 and \$10,000. Sam Scott, President and CEO, stated, "Our overall objective is to not only eliminate the dependency on payday loans, but to introduce and educate our clients about low-cost banking services and products, so they do not have to rely on higher-cost currency exchanges."

For additional information on the programs, contact Austin Bank of Chicago at (773) 854-2900, extension 106.

Indiana

Indiana Strategic Skills Initiative

The Indiana Department of Workforce Development has announced the introduction of the Indiana Strategic Skills Initiative (SSI), a new \$23 million initiative designed to create new jobs and raise Hoosier income.

"Historically, Indiana has struggled to effectively address skill shortages, and this has resulted in a loss of jobs and wages lower than the national average," said Indiana Workforce Development Commissioner Ron Stiver. The "Strategic Skills Initiative will enable us to anticipate shortages, identify their root causes, and implement realistic strategies for prevention of job loss, retention of regional talent, and attraction of jobs paying competitive wages."

For more information, visit www.in.gov/dwd/newsroom/news_releases/NR_6-6-05.pdf.

Iowa

Iowa Enacts "Iowa Values Fund"

\$50 Million for Economic Development for 10 Years

On June 9, 2005, Iowa Governor Tom Vilsack signed a law creating the Iowa Values Fund, providing \$50 million dollars for 10 years for business assistance and marketing, regents funding, community college job training, regional assistance, cultural trust fund, and state parks.

In addition, \$21.6 million in tax credits are provided for new jobs, historic tax credits, regional tax credits, and endowment tax credits.

Michigan

Detroit Multifamily HUB Announces Developments

The Detroit Multifamily HUB closed on six developments in the month of June. The HUB provided \$245 million in loans to facilitate the creation of 718 multifamily units. The projects are Teal Run (76 units in Battle Creek), Ziegler Place (141 units in Livonia), Somerset Apartments (100 units in Lansing), Our Savior's Manor (50 units in Westland), Madison Heights Cooperative (151 units in Madison Heights), and Park Plaza Apartments (200 units in Lincoln Park).

For further information on these projects and other Detroit Multifamily HUB information, call (313) 226-7900.

Wisconsin

Pilot Aims to Boost Regional Economic Growth

The Wisconsin Department of Commerce recently announced a pilot program, the *Regional Non-Profits Initiative*, with the goal of combining an estimated 200 local revolving loan funds into larger regional pools in order to increase use of underutilized funds. The pilot will create a single economic development fund for the ten counties and five tribal nations that are members of the Northwest Regional Planning Commission.

For more information, visit <http://commerce.wi.gov/NEWS/releases/2005/101.html>.

Devon Bank, Freddie Mac Announce Expanded Financing Opportunities for Muslim Homebuyers

Devon Bank announced it has begun selling its Islamic home financing products to Freddie Mac, effectively expanding opportunities for Muslims living in Illinois and nine other states to become homeowners while observing traditional Islamic restrictions on paying interest on mortgages and other types of debt. Based in McLean, Virginia, Freddie Mac is one of the nation's largest investors in mortgages and Islamic home financing products.

Devon Bank's Islamic housing finance model uses carefully tailored real estate financing documents, in accordance with state and local law, and functions similarly to a conventional Freddie Mac mortgage. They employ the Islamic *murabaha* trade model to avoid religiously objectionable concepts present in traditional loans.

"For the past two years, Devon Bank's Islamic financing programs have enabled observant Muslims throughout the Chicago area and some other states to acquire homes and businesses in a manner consistent with their faith," said Devon Bank Chairman Richard Loundy. "Freddie Mac's agreement to purchase many of our Islamic home financing contracts will enable Devon Bank to assist more observant Muslims everywhere we do business."

Devon Bank's suite of Islamic financing products comply with both Islamic and U.S. law, and include residential and commercial real estate financing, financing for business equipment and trade goods, stand-by letters of credit, and some construction financing.

"The agreement with Devon Bank further demonstrates Freddie Mac's commitment to help America's newest communities realize the traditional benefits of the American dream of homeownership," said Dave Stevens, senior vice president of Single Family Sourcing at Freddie Mac. "By working together with Devon Bank, Freddie Mac is fulfilling its mission to make homeownership possible in new and exciting ways."

Freddie Mac's agreement to invest in the mortgages underscores its mission to expand homeownership opportunities for all of America's households, including the nation's estimated 2.5 million Muslim households. In March 2001, Freddie Mac became the first major U.S. mortgage

investor to contract to purchase Islamic homeownership products.

Approved by *Shari'ah* Supervisory Board of America

Like its other Islamic financing products, Devon Bank vetted its new Islamic home financing initiative through the *Shari'ah* Supervisory Board of America and worked closely with numerous other U.S. and overseas Islamic scholars. The Board advises people and institutions across the country on products for the nation's estimated six million Muslim consumers.

"America's Muslim consumers are forced almost daily to choose interest bearing products because of a terrible lack of affordable, *Shari'ah* compliant financial products," said Salman Ibrahim, a *Shari'ah* Board member and a Chicago-based CPA who worked closely with Devon Bank on these products. "Devon Bank and Freddie Mac are providing a significant new opportunity for Muslim homebuyers seeking a way out of this dilemma."

"With the support of Freddie Mac we look forward to meeting the needs of a broad U.S. community unable to find suitable home financing alternatives, and to our becoming the premier provider of religiously acceptable financing in the United States," says David Loundy, corporate counsel for Devon Bank.

Chicago-based Devon Bank, headquartered in an ethnically diverse neighborhood, understands the needs of those coming from diverse cultures. Collectively, the bank's staff speaks more than 35 languages. Additional information on the program is available at www.DevonBank.com/Islamic.

Freddie Mac is a stockholder-owned corporation established by Congress in 1970 to support homeownership and rental housing. Freddie Mac purchases single-family and multifamily residential mortgages and mortgage-related securities, which it finances primarily by issuing mortgage-pass through securities and debt instruments in the capital markets. Over the years, Freddie Mac has opened doors for one in six homebuyers and more than two million renters in America.

Towards Financial Literacy: Program Leaders Comment on Evaluation and Impact

By Michelle Coussens

This article is the second in a series by the author examining the topic of financial behavior and the impact of financial education programs. See the January 2004 edition of Profitwise News and Views at www.chicagofed.org/community_development/01_2004_profitwise_news_and_views_beyond_financial_education.cfm, for the first article in the series, "Beyond Financial Education: Changing Financial Behavior."

Introduction

This article reports the results of a qualitative survey of 40 financial literacy programs in the United States, conducted by Michelle Coussens of the Federal Reserve Bank of Chicago, Research Department, and relates these results to three hypotheses of program evaluation and impact.

Hypothesis 1: Programs predominantly focus on financial access and education, with a goal of increasing understanding, but with little emphasis or adequacy regarding consumer interest, attitude, and practice.

Hypothesis 2: While programs are intended to be effective, due to the "missionary" mindset of community development (including financial literacy programs), making these programs efficient as well as effective does not tend to be a priority.

Hypothesis 3: Program evaluation often consists primarily of program leader perceptions, rather than quantitative measurement of effectiveness and efficiency.

What is Financial Literacy?

Financial literacy goes beyond knowledge. It represents the culmination of financial access, education, and understanding, as well as an individual's interest, attitude, and practice that directly benefits the financial efficiency and effectiveness of that individual, and indirectly and ultimately benefits that of society at large. From access to practice, these components can be thought of as interconnected steps to financial literacy that often overlap and

should repeat. In addition, each individual may enter the paradigm with different experiences and abilities.

"Reaching the financially illiterate is not simple. Many in society are intimidated by financial services and are too embarrassed to get help. Others do not fully understand the financial planning mistakes they are making and the true costs of those decisions. Others, simply wrapped up in their busy lives, never take time to assess their financial situation, and consequently they lose thousands of dollars unnecessarily to their creditors..."

As Senator Debbie Stabenow stated during a 2002 financial literacy Senate hearing, "There is a wealth of information out there, but... it is not always reaching the communities most in need."² The first step toward financial literacy requires access to the financial system through vehicles such as bank accounts and the awareness of information resources. The responsibility lies largely at the feet of society and not the individual. Training and other advocacy vehicles may push information out to consumers; however, there is a difference between the provision of information and education. Education involves exposing consumers to and teaching them about financial terms, concepts, and consequences. However, it does not automatically guarantee that a consumer will have increased knowledge or act on such knowledge.

While access to, education about, and understanding of information are necessary for financial literacy, informed consumers may still need to learn how to translate these lessons into action. Informing consumers only leads to financial literacy if consumers behave differently. Knowledge must be exhibited through behavior. As Susan Molinari, national chairperson for Americans for Consumer Education and Competition has said, "Being financially literate is essential to controlling, rather than being

controlled by one's financial circumstances throughout life."³

Benefits of Financial Literacy

Improving household financial behavior benefits both the consumer and the financial system at large. The consumer benefits in many ways. The most significant benefits are: reduced likelihood of falling victim to predatory lending or credit-related fraud; a better understanding and awareness of options in the marketplace for financial services; decrease in credit risk and/or unintended investment risk; lower vulnerability to economic shocks such as unexpected job loss; and improved planning and balance between current expenditures and future financial needs.

Financial institutions and the financial system also benefit. Such effects include: improved efficiency of market operations and competitive forces; decrease in bankruptcies, defaults, and their effects; and increase in investment for future economic development.

As concern over financial literacy has grown in recent years, programs have proliferated. While in principle, this heightened attention is positive, Michael Moskow, president and CEO of the Federal Reserve Bank of Chicago noted that, "Organizations, all with the best intentions, still compete head-on for the same scarce resources."⁴ Only through the leveraging and extending of the most efficient and effective practices will the impact to the economy and its constituents be maximized.

In addition, program sponsors are requiring better impact assessment to justify expenditures.

Survey Overview

As Alan Greenspan noted in his 2003 address to attendees of the 33rd Annual Legislative Conference of the Congressional Black Caucus, "Government agencies, major banking companies, grassroots consumer and community groups, and other organizations have developed a wide variety of financial education programs. Some are tailored to specific products such as credit cards and home equity lines of credit, and others are focused on specific consumers, such as military personnel, college students, or first-time homebuyers. Other programs adopt a more comprehensive approach, teaching broad audiences about savings, credit, budgeting, and similar topics."⁵ Additionally, emphasis on financial education as a means toward homeownership has increased, as Peter Werwath observed, "The proliferation of prepurchase homeownership counseling and training programs represents one of the most successful recent developments in the affordable-housing industry. While these kinds of services were offered sporadically to low-income homebuyers as far back as the 1970s, they have spread like wildfire in the past few years."⁶

Sandra Braunstein and Carolyn Welch (2002) note that "A study commissioned by Fannie Mae found that two-thirds of the ninety financial literacy programs that it examined were begun in the 1990s and that three-fourths of those were initiated in the late 1990s or 2000."⁷ They also point out the high degree of variance of content and audience for such programs. According to testimony given by Don M. Blandin regarding the Fannie Mae study, associated survey respondents indicated that their organizations offered such programs to empower consumers, to help people avoid or recover from financial hardships, to satisfy regulatory or similar requirements, and/or to meet a broader goal, such as improving employee job satisfaction. The curriculum tended to concentrate on basic budgeting and money management, saving and investment, credit and debt, and other financing issues, such as health care and education. Program representatives identified challenges related to resource deficiencies, inexperience regarding "sociocultural" consideration in program design, and the need to increase program reach.⁸

Survey Purpose

Much of the evidence presented in the literature consists of output-related statistics (number of participants completing a program) or is anecdotal in nature. While there are concerns regarding the true effectiveness of existing programs, some behavioral changes have been documented. However, it is not known to what extent these behavioral changes are directly attributable to particular programs.

Therefore, a survey was created and distributed to a sampling of program leaders representing the financial education community. The survey was open-ended in order to solicit program leaders' own perceptions about their programs' costs and benefits.

Methodology

Representative program leaders from a variety of programs were informally identified through literature and Internet searches and networking. Participants were contacted via phone to introduce the project and its purpose. Subsequently, 80 surveys were distributed via e-mail, resulting in 40 responses. The survey questions can be viewed at www.chicagofed.org/community_development/profitwise_news_and_views.cfm.

By its nature, this survey is a subjective assessment of program leaders' general sentiment and not a quantitative census of financial education's current state. It is important to acknowledge potential bias regarding the choice of those included in the sampling and the results, as participation was dictated by both the availability and willingness of the persons involved to cooperate rather than by scientific principles of selection. In addition,

the lack of anonymous reporting may have influenced responses.

Survey Findings

Program Characteristics

Emphasis

The majority (60 percent) of program leaders indicated that their programs were both preventive and remedial. While another 30 percent felt their programs were strictly preventive in nature (and 10 percent did not respond), no one indicated that their program was exclusively remedial. Five of the preventive programs concentrated specifically on educating youths, two on investing, and one on retirement planning.

Program Topics

While the vast majority of the programs surveyed emphasized such basic financial skills as budgeting, understanding credit, and general money management topics, a few programs focused on more advanced issues related specifically to investing. One program covered the spectrum of consumer economics.

Homeownership topics often played a prominent role in the curriculum. While three of the six financial institutions in the sample concentrated on homeownership almost exclusively, numerous other programs also highlighted various elements of homeownership. Such topics included mortgage basics, buying a home, and choosing a reputable contractor.

Other specific topics included: taxes, consumer rights and responsibilities, shopping for an automobile, identity theft and fraud, legal concerns, farm family retirement issues, divorce implications, and use of a risk management estimator. Notably, some programs discussed low- to moderate-income assistance mechanisms, such as Individual Development Accounts (IDAs), Volunteer Income Tax Assistance (VITA), Low-Income Taxpayer Clinic (LITC), and Welfare-to-Work.

Nature of Organization

The survey sample was relatively diverse in terms of the size of the organization running the program. Roughly half of the programs appeared to represent just one aspect of the respective organization's enterprise. For instance, six financial institutions are included in this survey, as well as numerous other community entities. While the other half of the programs seemed to be run by smaller, grassroots organizations, just 20 percent of the programs focused solely on the one financial literacy program surveyed.

Twenty-five of the 40 programs were run by nonprofit organizations. Nine program leaders indicated that their programs were for-profit, with six of these programs being run by financial institutions. Five other programs were

run by government agencies. One program leader did not indicate its nature. One for-profit organization indicated that, "(While) we are a subchapter S, for-profit corporation, we strongly believe in supporting our community... as evidenced by our about-to-be launched fundraising program to raise money for nonprofit organizations while raising financial literacy at the same time."

While it appears that most program leaders surveyed used their own curriculum or a hybrid of their own and others' curricula, a few program leaders made specific mention of "standard" curricula used, such as those offered through the Federal Deposit Insurance Corporation (FDIC), Freddie Mac, and the Jump\$tart Coalition. Some program leaders actually provided their own curriculum to other organizations via their train-the-trainer approach to training.

Staff Composition

The vast majority of respondents indicated that they had one to two full-time equivalent staff members involved with their program. Typically, however, employees involved may have held sole responsibility for the program, but were not solely devoted to the program. They often had other consumer and community development duties. For instance, financial institutions' staff members usually managed their financial literacy programs, along with other means of fulfilling Community Reinvestment Act (CRA) requirements.

In addition, many respondents noted that there were other staff members providing support through consolidated functions in their organization. Often there were also independent contractors hired as needed, and there were reporting staff members and graduate students who assisted. It also appeared that the employees involved in these programs developed, supported, and maintained them, but often volunteers were then heavily involved in service delivery. These volunteers were typically part-time workers putting in hours based on their availability and interest. The survey responses did not provide information on the extent of their knowledge and experience of financial literacy and teaching.

Primary Clients

Program partnerships with neighborhood associations/ groups often dictated the demographic characteristics of participants through referrals and word of mouth. However, many program leaders also identified a target niche that crossed one or more categories. Because some program leaders train trainers rather than consumers, responses often described both the training attendees and the ultimate training recipients or targets. Trainers attending the programs were characterized as being teachers, community development representatives, or volunteers. While some respondents indicated that they

did not solicit information from attendees, one respondent noted that “one can form a pretty good opinion based on the questions and/or comments that are raised.” Survey respondents’ answers regarding the characteristics of programs’ ultimate clients (i.e., the consumer) can be categorized by:

Income: While only 25 percent of the program leaders specifically identified low- to moderate-income consumers as their main target, the descriptions of program topics, benefits, and locations indicated such predominance. In fact, only one program indicated definitive targeting to even moderate- to middle-income consumers. None exclusively targeted higher income individuals.

Sex: Four of the 40 programs worked almost exclusively with women while the others did not identify gender as a distinguishing participant characteristic.

Age: Sixty percent of those surveyed did not narrow their focus to one particular age group. Eight programs were designed specifically for minors, plus two more were primarily for college-aged adults. Four programs catered just to adults, and two honed in on those middle-aged and/or senior citizens.

Ethnicity: Two of the 40 programs focused on Latinos, and one program served clients from various backgrounds with limited English, providing materials in Chinese, English, Korean, Spanish, and Vietnamese.

Occupation: Occupation was not really differentiated in terms of program targets. There were two exceptions to this — several programs catered specifically to teachers, primarily to reach children and young adults. In addition, a couple of programs targeted farm workers and others in rural areas.

Geographical range: Programs varied widely in scope, ranging from highly localized (towns, cities, counties), to state, regional, and national. Drivers of geographic concentration included: location of community perceived to be in greatest need of financial assistance/education, location of the organization, size and/or nature of the organization, program delivery vehicle, and similar characteristics of the program sponsors. For instance, relatively small grassroots organizations tended to concentrate their programs within a small geographic area near the organization’s location. Programs sponsored by large financial institutions were typically more regional or national in scope, while programs relying on Internet training (as opposed to in-person training) reached a broader population.

None of the program leaders mentioned any international efforts.

Sophistication: Programs seemed to focus primarily on explaining basic money management principles. A few programs concentrated on clients currently in financial trouble (i.e., significant credit card debt, bankruptcy, etc.),

and a few emphasized investment principles for novice investors.

Partners

There were 32 program leaders who commented on whether they had alliances with external partners. Of those, 27 indicated having such partnerships and five noted that they did not. One respondent noted that while she didn’t currently partner with external entities, she was seeking financial institutions that have an interest in her program. Another respondent commented that at various times he had reached out to partner with the financial services firms, schools, and others with little success.

In some cases, national programs were affiliated with local partners, and, conversely, there were some relatively local programs affiliated with national partners. Partners could be classified as federal agencies (six), state/local agencies (seven), university and university-organized (four), national coalitions or similar (five), national nonprofits (nine), philanthropic foundations (five), private corporations (eight), and miscellaneous other entities (four).

Training Features

Almost 60 percent of the respondents indicated that they trained both trainers and consumers. The remaining respondents were split evenly between only training trainers and only training consumers. Programs designed for high school students were often executed through training teachers, and some other leaders delivered their programs by training volunteers, who in turn trained consumers.

Over 40 percent of the programs surveyed used internal professional staff members to deliver their programs. Twenty percent used industry subject matter experts from various agencies, such as the FDIC. The rest of the programs relied on internal and/or external volunteers, external professionals, and/or vendor partners. One respondent noted that those who “have an interest in demonstrating their products to the agency and its partners” were often used.

At least one-third of the time, training sessions were held in community organization locations, such as churches, schools, and other public buildings. Some respondents also indicated that other locations, such as partnering organizations’ headquarters, hotel conference rooms, colleges and universities, and the workplace were also used. Ten of those surveyed did not provide a response regarding location. Some of the non-response may have been due to a few programs being offered exclusively online or through self-study. Respondents generally seemed to show flexibility in where the training was held, based on the specifics of the audience.

Delivery Methods

Sixty-five percent of the respondents indicated that delivery occurred primarily through instructor-led lectures in the form of classes or workshops. Typically, program media included printed take-home materials, sometimes supplemented by videos, manuals, and online information.

Several respondents noted their use of multiple delivery methods, including classroom, self-study, personal counseling, Internet, and/or phone delivery. A few respondents said that bilingual instruction was available.

A couple of programs used simulation exercises either online or in the classroom. The online programs appeared to offer discussion boards for participants to converse.

Participant Recruitment

There were varying degrees of recruitment activity, ranging from proactive solicitation to general advertising, to simple accessibility. It is likely that the specific approach taken relied in part on whether the program sought to train the trainer or to reach out to the consumer directly.

Based on survey feedback, direct solicitation methods involved direct communications, such as e-mails, mailings, faxes, phone calls, and "knocking on doors." More general marketing methods included efforts such as delivering presentations, having booths at conferences, and networking with other community development-oriented organizations. Advertising spanned the gamut of television, radio, and newspaper to places of employment, schools, church bulletins, and magazine articles. Accessibility was offered through the acceptance of referrals, reliance on word-of-mouth, and Web sites located through an Internet search.

It appears that 15 of the 40 program leaders were highly proactive in seeking participants, while seven were highly reactive, predominantly accepting referrals. The remaining 28 respondents fell somewhere in between.

Participation Fees

Sixty percent of the programs (24 programs) did not charge participants a fee. However, nine program leaders conceded that while most of the time their programs were free, there were situations where a fee was charged. Additionally, seven programs did explicitly charge a fee to all participants. Some respondents did note that required fees were sometimes covered by various third parties, not necessarily by the participants themselves.

Those consistently charging fees did so based on materials, workshop sessions, and/or user access. Charges for materials ranged from three to thirty dollars. Workshop fees ranged from five to one hundred dollars, based on the program's emphasis, duration, and attendee characteristics. For example, one program had a different

fee for adults than for children. In addition, some programs offered volume discounts for attendance and/or materials.

Examples where programs charged fees under certain circumstances included:

- A minority of volunteer instructors charging a materials fee;
- Decisions varying by state, particularly based on economic conditions;
- Charging fees if the course was offered for university graduate credit;
- Charging fees only when necessary to recover costs;
- Requiring fee payment for certain seminars, with the proceeds going to scholarships and further educational programs;
- Charging fees contingent upon referral sources;
- Requesting donations, with donation size left to participant discretion and/or ability to pay.

One program leader noted that not only were his program workshops offered free of charge, but many grants provided a stipend for teachers who attended. Another program leader indicated that while fees were not currently charged, his organization was exploring the use of fees for the future.

Total Annual Budget

Many programs were funded directly or indirectly by external sponsors. Contributions often came from: public and private foundations and corporations; federal, state and/or local funding; tax dollars; and/or a mix of contracts from corporations and government entities. One program (concentrated on saving and investing) was funded specifically by administrative assessments levied against violators of securities laws.

Twenty-six of the 40 program leaders provided specific program budget totals, amounting to almost \$9 million per year in all. Figures varied significantly from program to program for many reasons, such as the scope and reach of the program, how recently the program was implemented, whether the program was stand-alone or part of a larger financial literacy and/or community development initiative, etc. In addition, some respondents indicated that their budgets varied significantly from year to year.

Of the almost \$9 million budgeted annually for the 26 programs, four programs each allocated under \$10,000; nine allocated between \$10,000 and \$100,000; nine allocated more than \$100,000 but less than \$1,000,000; and four allocated between \$1 million and \$1.2 million.

Of these 26 program leaders, ten indicated the size of their budget relative to that of their entire organization. Four of these programs allocated 5 percent or less of their organization's budget to their financial literacy program. Two allocated 10-15 percent, and four allocated 20-30 percent. Of the remaining 16 programs, it appears that some of the organizations' entire budgets were devoted to the program; other respondents chose not to provide this information. Some did indicate that their budgets weren't amenable to carving out program-specific expenses.

Some respondents provided details of the types of costs included in their budgets. Examples of budgeted expenses included those supporting: printing and mailings; call centers; refreshments; program maintenance, enhancement and updates; travel-related costs; publication preparations; and Web site maintenance.

None of the respondents included soft costs, such as sweat equity, nor did they differentiate between fixed-and variable-cost considerations. And only one respondent provided actual expenses relative to those budgeted, indicating that while almost \$60,000 was budgeted for the program, the program was operating with a \$35,000 deficit.

Initial Funding

Twenty-eight respondents noted the sources of initial funding. Of these, 22 programs were initially funded by external sources; six were initiated with internal funds. External funding appeared to have been most often obtained through grants from foundations and corporations. However, a couple of program leaders indicated fundraising efforts provided initial funding.

Often an outside foundation or corporate organization provided seed money and/or other developmental resources for program initiation. Of the 28 who responded to the survey question about ongoing support for their program, eight indicated that initial funders continued to sponsor the program after inception; ten indicated that ongoing costs were not necessarily covered by the originating sponsor(s); six programs were started with internal funds; and four respondents did not elaborate on whether initial funders stayed involved past the program's initial implementation.

In addition, two respondents funded program initiation through their own personal savings and loans, and a third respondent indicated that his program was completely self-supported after inception.

Program Impact

Below is an analysis of how the survey results relate to the three hypotheses outlined in the introduction to this article.

Hypothesis 1: Programs predominantly focus on financial access and education, with a goal of increasing

understanding, but with little emphasis or adequacy regarding consumer interest, attitude, and practice.

Based on survey results, while these programs may indeed provide real benefits, they typically may fall short of affecting consumer behavior. Program leaders implied or even stated that acquisition of knowledge itself was equivalent to improving financial literacy. One respondent stated, "Financial fitness is information, and knowledge is empowering." Another expressed that the program's benefit was "enlightened awareness."

Often the programs appeared to provide tools to participants, "equipping them... to make sound choices," rather than trying to actually influence their financial decision-making. Such findings were consistent with Chairman Greenspan's comments in 2003 that, "All of these programs are designed to give individuals tools to manage their personal financial affairs and make responsible decisions about products that can improve their economic well-being."⁹

The provision of information and disclosure of options and barriers were intended to place consumers in a better-informed position when making financial decisions, versus actually influencing how they make those decisions. One typical respondent remarked that the goal of the program was to provide consumers with the "ability to make their own changes in their finances."

Hypothesis 2: While programs are intended to be effective, due to the "missionary" mindset of community development (including financial literacy programs), making these programs efficient as well as effective does not tend to be a priority.

Questions relating to costs and benefits gained responses focused primarily on anecdotal, qualitative benefits. Although cost/benefit and net impact questions were asked, information about costs was provided only in the context of questions asked regarding annual and start-up budgets. It did not appear that costs and benefits were considered in combination for determination of net impact.

Several respondents did indicate that although a cost/benefit analysis (CBA) had not been done, they intended to do one in the future. Some indicated that their programs were too new to have begun such evaluation. Such respondents indicated that contemplation of program evaluation takes place at some point after program completion, rather than considering evaluation methods and objectives at program inception.

Those who had done CBAs seemed to weigh the cost of putting on the training against the costs recovered through fees charged. This analysis focused on net execution and delivery costs, not on evaluation of the program's net impact. In addition, hidden costs, such as the value of volunteers' time as well as other opportunity

costs associated with time devoted to the program's development and execution, did not appear to be considered.

Hypothesis 3: Program evaluation often consists primarily of program leader perceptions, rather than quantitative measurement of effectiveness and efficiency.

Based on the answers received, many respondents felt that their program's virtues spoke for themselves and did not see a need for further evidence of both effectiveness and efficiency. It is certainly possible that program leaders had more direct cost/benefit evidence of efficiency, but that evidence, for whatever reason, was not provided. In other cases, they may not have realized that this information existed or had not made use of it. A couple of program leaders did indicate that they were in the process of evaluating hard data on longer-term behavioral changes, but did not yet have results available. However, no information was provided regarding the methodologies used or the rigor applied.

Paul Clements has summarized the need for both activity and impact evaluation in saying, "Changing what we measure and report on can have a big influence on how we carry out our work... Focusing only on inputs and outputs can lead organizations... to miss some of the indirect effects that their development programs are having. We often rely on informal assessments, feelings, or anecdotes to assure ourselves and funders that we are on the right track. There is value in those informal assessments, and they should never be skipped or ignored. But sometimes when we are asked to identify program impacts, we jump too quickly to things that are easy to quantify, or we ask questions so broad and vague that we're not sure what the answers really mean."¹⁰

Activities

While responses varied, benefits (typically perceived and not necessarily proven) were often characterized in terms of activities, rather than in terms of actual impact.¹¹ While activity evaluation is important in considering program evaluation, such emphasis evaluates outputs, not outcomes. This approach is typical within the community development field. As Sawhill and Williamson have indicated in *The McKinsey Quarterly*, "Most nonprofit groups track their performance by metrics such as dollars raised, membership growth, number of visitors, people served, and overhead costs. These metrics are certainly important, but they don't measure the real success of an organization in achieving its mission."¹²

As defined by Menendez, activities refer to "data on what a project does or offers."¹³ Not only did respondents often misconstrue such outputs as outcomes, but the associated descriptions of such benefits were relatively broad. Responses emphasized providing everyday

language to consumers that is easy to understand; tailoring programs to diverse groups; providing access to free and low-cost resources; providing unique assistance in Spanish; distributing information; providing accurate and non-biased information; and providing recourse vehicles if confronted with fraud. One respondent indicated his program's benefit to be the provision of a "safe, comfortable place to get financial information."

One respondent did note that he tracks knowledge and attitude change, as well as how participants did actually change their behavior. However, specifics regarding how this was done were not provided.

Application

When asked how they expected consumers to apply their knowledge, many program leaders responded that the training would help people make better financial decisions and be "less likely to be duped."

A couple of respondents noted that, over the long term, their program should promote the "acquisition of assets that stabilizes a family's status" and should "increase net worth and income levels."

Impact

When asked questions regarding program impact in the broader context of society, respondents answered both abstractly in terms of the common good, as well as more specifically, regarding financial institutions, other businesses, and other beneficiaries.

Cultural effects cited in the responses included: "helping people move from poverty to self-sufficiency"; improving school attendance — "students who can handle finances are more likely to be able to stay enrolled in school"; reducing crime or the impact of crime — "if participants are less likely to carry large amounts of cash"; making people "better employees"; providing a "connection to the financial mainstream"; and promoting "wiser voting on tax and spending issues, leading to better government."

The economy at large was viewed as benefiting in several ways — one respondent suggested, "The higher confidence investors place in themselves and the regulatory agencies regarding investing, the better the economy." The impact on future generations was emphasized as well, such as when one respondent felt that participants would set a better example for their children, and another said, "When young people especially are shown that over time investing can positively impact their lives, they will be encouraged to save more and spend less, thereby improving the financial health of our next generation." The perceived power of changing even one person's behavior was reflected in the response, "Anytime you get even one person to spend responsibly, save regularly, and invest wisely, there is a positive impact

on the economy.” Other examples included reduction in the number of people without bank accounts, fewer bankruptcies and foreclosures, lower unemployment, and better U.S. savings rates.

Positive effects on the local economy were often cited, described by one respondent as a “win-win situation for everyone (attendees, bankers, and community).” Specific examples included: demand for (and resulting supply of) more reputable businesses, more investment in community organizations, new homeowner purchases; new customers for financial institutions; increase in lending to those communities traditionally ignored; lower loan default rates; and more savvy customers in general.

Other examples included consumers being more likely to pay their bills on time and reduction in processing garnishments for corporate human resource departments. No one offered any adverse effects – intended or unintended.

Participant Registration Data

Most respondents indicated that they collected only very basic demographic contact information at the time of registration, such as names, addresses, telephone numbers, and perhaps income level. One program leader did ask participants whether they had financial and retirement plans and associated legal arrangements. Financial literacy programs focused on homeownership also asked for annual income, family size, and whether one had a bank account and already owned a home. Many respondents stressed the value of indiscriminate access and participant anonymity. It was often stated that participants were asked for information about themselves but such disclosure was strictly voluntary.

Some programs did not solicit any participant information. In response to whether he collected information from participants, one respondent said, “Not really... We don't do any ‘data collection’, per se.” In fact, some program leaders only solicited participant information in order to execute the program's logistics. For example, one respondent said, “Participation includes name for generation of username and password.” Another said, “The only information we collect about the participants is the possible need for a translator in the classroom.”

When training trainers, program leaders did often request information regarding the participant's organization and its interest in the program. One respondent noted that, “All participating educators are added to our database, with name, address, e-mail, grade, subjects taught, etc.” and that the organization kept track of all programs the participant attended.

Beyond those who actually participate in these programs, it appears that little has been done to capture or track information on those in the target population who do

not complete the program or participate at all. However, this survey did not explicitly ask whether or how any information collected is obtained, validated, and/or whether it is kept confidential. Additionally, the survey did not ask about costs associated with participant and/or non-participant data collection.

Conclusion

Because we live in a world of finite resources, it is important for program leaders and sponsors to optimize the efficiency and effectiveness of their training programs in order to achieve the greatest impact at the lowest cost. Program leaders should consider both qualitative and quantitative measures of short-term and long-term effects in order to determine whether they are meeting their objectives.

Notes

- 1 Prepared statement of Senator Debbie Stabenow, 2002, *The State of Financial Literacy and Education in America*, Hearing Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Seventh Congress, Second Session on the State of Financial Literacy and Education in America, February 5/6, p. 114.
- 2 Ibid.
- 3 Prepared statement of Susan Molinari, national chairperson, Americans for Consumer Education and Competition, 2002, *The State of Financial Literacy and Education in America*, Hearing Before the Committee on Banking, Housing, and Urban Affairs, United States Senate, One Hundred Seventh Congress, Second Session on the State of Financial Literacy and Education in America, February 5/6, p. 115.
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- 9 EFT Report, “Fed Officials Speak Out on Financial Literacy”, *Phillips Business Information, Inc.*, Vol. 27; Issue 20, 10/01/03.

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- 11 Further information about the differentiation between activities, data collection, application, and impact can be found in *The Thinking Tools Group* "Levels of Evidence" paper, authored by Fernando Menendez, who can be reached at info@thinkingtools.org.
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Childhood Obesity: An Issue for Public Health Advocates, Researchers, and Community Development Practitioners¹

By Robin Newberger and Kristin F. Butcher

Obesity rates for U.S. children have risen precipitously over the past 20 years. According to data from the National Health and Nutrition Examination Surveys from 1999–2002, 15 percent of children on average, ages 2–19 are obese. With little evidence that individual weight loss programs can solve the problem, attention is increasingly turning to the environment in which children live, in an effort to understand both the causes of and potential solutions to childhood obesity. Drawing on recent research, this article provides an overview of childhood obesity trends from the 1970s to 2002, explains briefly why obesity is a matter of concern, and discusses why this issue may overlap with the interests of community development practitioners. Many of the potential causes explored in the research literature involve topics that relate to community development. These topics include school budgets, lack of access to supermarkets in certain neighborhoods, the location of public buildings and amenities, and the increase in dual-career and single-parent working families. These issues suggest that community development practitioners have a role in understanding the social and institutional forces that may have contributed to the surge in childhood obesity. Along with public health advocates, city planners, and researchers, community development experts also have a role in developing policies that address the problem.

Trends in Childhood Obesity

Between 1974 and 2002, the share of obese children rose from about five to about 15 percent. This increase affected girls and boys alike, as well as all age categories between two and 19. Obesity and overweight in children are typically defined as having a body mass index (BMI) above a certain percentile cut-off for a given age and gender.² These cut-off points reflect the 85th and 95th percentiles of the BMI distribution for a population that was surveyed in the early 1970s before obesity began to rise. Individuals who are considered obese today have

BMI at or higher than that original 95 percent cut-off mark for their age and gender. As Figures 1 and 2 show, more children (aged 2–19 years) and adults (aged 20–70 years) have a BMI above the overweight and obese cutoff points since 1980.³

It is worth noting why obesity is a problem. Many overweight and obese children suffer from a range of physical and mental health problems, such as Type 2 diabetes, hypertension, low self-esteem and depression. Recognizing that the health consequences of obese adults await many of the obese children – obese children are more likely than normal-weight children to be obese adults – it is worthwhile to review some of the implications for adults as well. Obese adults are at greater risk for a range of illnesses including diabetes, heart disease, and stroke. Obesity is one of the main reasons for the rise in disability among adults ages 30–49.⁴ According to one estimate, obesity-related medical payments and lost productivity for U.S. companies amount to more than \$12 billion a year.⁵ In addition, taxpayers pay more than half of the \$75 billion in obesity-related medical costs in the Medicaid and Medicare programs.⁶

Importantly, it is not the case that everyone in 2002 had a body weight 10 percent higher than the equivalent age-gender cohort from 30 years earlier. Rather, the obese today are much heavier than obese persons in previous decades. Between 1974 and 2002, BMI at the 95th percentile of the distribution increased by about 17 percent. In contrast, BMI at the median, where half the population has a higher BMI and half the population has a lower BMI, increased by less than half of this rate, some six percent. Figures 1 and 2 illustrate this point. The histograms show the fraction of the population that is overweight (but not obese) and the fraction of the population that is obese, for children and adults. The BMI distributions of two populations, one surveyed in 1971–1974, and another in 1976–1980, are basically identical.

However, the BMI distribution of the population surveyed in 1988–1994 shows a shift, with both more overweight and more obese individuals. By 1999–2002 this change is even more pronounced. The information in the figures on BMI at the median and at the ninety-fifth percentile of the distribution shows that not only is a higher proportion of the population past the “obese” cutoff point, but the obese weigh more than they did in the past.

Further, obesity is not evenly distributed across all economic and demographic groups. Obesity is a particular problem for minorities and children in low-income households. Over the past 30 years, the fraction of Blacks that were obese rose by about 13 percentage points, from six percent of all Black children in 1971–1974 to about 19 percent in 1999–2002. Among low-income children, there was a 12 percentage point increase, from six percent of all low-income children in 1971–1974 to 18 percent in 1999–2002. Obesity rates are also higher among Hispanic children than among White non-Hispanic children. The heaviest Black children, and the heaviest low-income children, are also heavier than the average obese child in the general population. These differences are important to bear in mind since the population groups most affected by obesity are likely to be the same groups most affected by the costs of obesity.

Potential Explanations for the Rise in Obesity Rates

The strongest evidence to date of a causal connection between calories consumed and childhood obesity comes from studies on sweet beverages. Research has found a positive relationship between being overweight and drinking soft drinks for preschoolers, grade schoolers, and older children alike.⁷ The data also suggest that the consumption of sweet beverages has increased in step with rising obesity rates. Thirty-seven percent of children

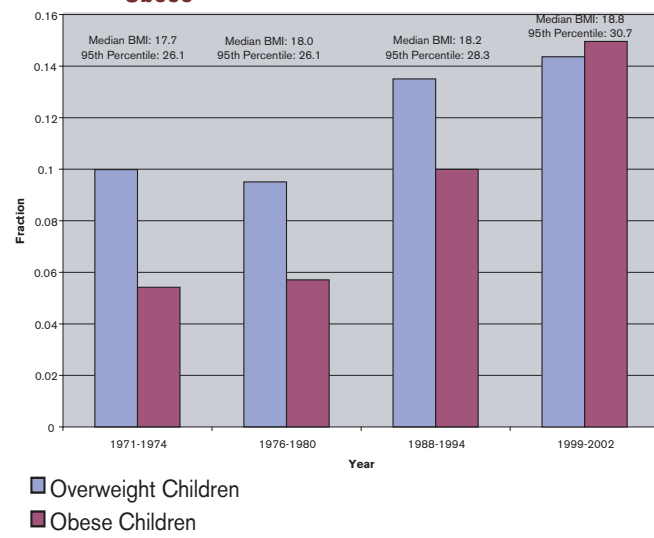
drank soft drinks in 1977–1978, compared to 56 percent of children in 1994–1998. The amount consumed rose by 50 percent between each of these periods, from 14–21 ounces per day.⁸

Reductions in energy expenditure contribute to rising childhood obesity rates as well. While studies focusing on the relationship between physical activity and obesity have found mixed results, perhaps because it is difficult to accurately measure exertion during physical activity, research has established an empirical link between sedentary activities and obesity, especially watching television. By one account, each additional hour of television viewing per day increases the prevalence of obesity by two percent.⁹ The number of minutes per week spent watching television has increased from about 355 in 1970 to just over 440 in 1999.¹⁰ Since television has been around for many years, the challenge is to understand why viewing time has increased, and how children and adults can be encouraged to spend more time in active pursuits.

Some of the potential reasons for the rise in sweet beverage consumption and the drop in physical activity have nothing to do with community development per se. These reasons may include large portion sizes, an increase in advertising to children, and changes in the technology of food preparation that have made it cheaper and more convenient for people to eat outside of their homes.¹¹

Other possible explanations relate more directly to community and economic development issues. For example, the few studies that examine the relationship between school food policies and obesity find a positive and often significant correlation between the availability of snack foods and beverages and increased BMI among students. Researchers estimate that a 10 percentage point increase in the availability of junk food in schools produces an average increase in BMI of one percent in adolescents.¹² For adolescents with an overweight parent, the effect is twice as great. Facing financial pressure, schools have increasingly made junk food available to children as a way to supplement their general budgets. Between 1977/78 and 1994/98, the fraction of soft drink consumption that comes from vending machines increased by 48 percent.¹³ Between 1994 and 2000, there was an increase in students’ access to vending machines in schools. For example, for high schools, access to vending machines increased from 88 percent to 96 percent.¹⁴ In addition, in 2000, nearly three-quarters of high schools, more than half of middle schools, and about 40 percent of elementary schools had “pouring rights” contracts with soft drink companies – contracts giving vendors exclusive rights to sell products in schools. The increased availability of junk food in schools may explain about a quarter of the increase in average BMI of adolescents over the 1990s.¹⁵ Additionally, school

Figure 1: Fraction of Children Who are Overweight or Obese



lunches may have a hand in increasing children's obesity. Recent work finds that for children entering kindergarten with similar obesity rates, those eating school lunches (compared to those who bring their own lunch) are about two percentage points more likely to be overweight at the end of first grade.¹⁶

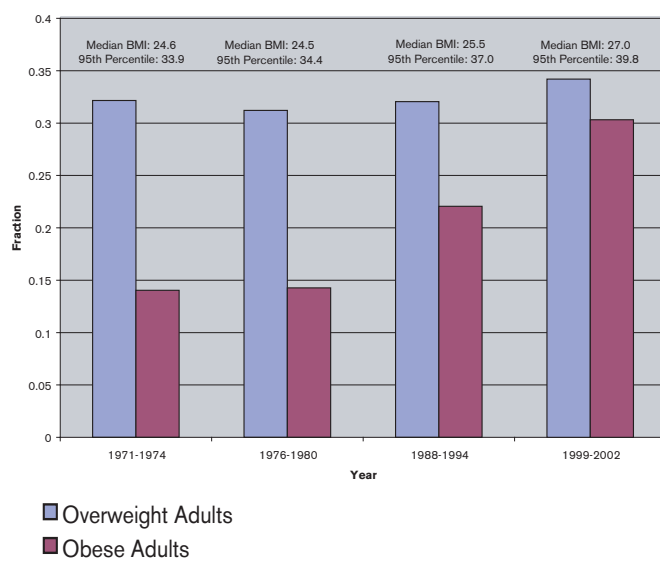
School policies may affect the energy expenditure side of the obesity equation as well. With growing budgetary pressures, many schools have narrowed their focus to academic accountability, squeezing out other areas of study such as nutrition and physical education (PE), and even reducing the time available for lunch (USGAO, 2003; USDA, 2001).¹⁷ Since the late 1970s, children have seen a 25 percent drop in play and a 50 percent drop in unstructured outdoor activities.¹⁸ Data collected at the elementary school level shows that 40 percent of elementary schools reduced, deleted, or considered deleting recess since 1989, when 90 percent of schools had some form of recess.¹⁹ The trends in high school physical education (PE) are less clear, with about 42 percent of schools reporting daily PE classes in 1991, and 29 percent reporting it by 2003.²⁰ However, no empirical work has made the causal connection between changes in school physical education or play policies and obesity rates.

Another potential explanation that has received consideration is the development of businesses that promote the consumption of snacks or fast foods. Fast food restaurants and other establishments selling inexpensive snack foods are more prevalent today than they were 20 years ago. The argument here is one of both price and availability. Some researchers find that the decline in the relative price of food has led to increased intake, and hence to increases in obesity.²¹ If, as some argue, energy-dense foods cost less than whole grains, fruits and vegetables, then demand for such foods may be particularly strong among people looking to economize on their food budgets.²² At the least, prepared foods eliminate the time-related cost of having to cook meals from scratch. A number of studies also document a so-called "grocery gap" in inner-city neighborhoods. This describes a situation where supermarkets do not locate in certain areas, residents of these areas find fewer healthy food choices at their neighborhood stores, and when fresh produce is offered at these stores, it is more expensive than at large supermarkets.²³ Given that many residents of lower-income neighborhoods lack cars or access to convenient public transportation, traveling to a distant supermarket imposes another set of costs. While factors like the ready availability of fast foods and lack of access to "nutritious" foods has the potential to increase obesity, it is difficult to rule out that the changes are coincidentally related. For example, if consumer tastes change such that they want more fast foods, then obesity

and fast food availability could both rise in response to this change in tastes. Addressing this issue may take some experimentation with, for example, explicitly encouraging access to supermarkets carrying nutritious foods in certain neighborhoods, and careful evaluation of the effects of such policies on health outcomes. Such experimentation would require coordination from community advocates, researchers, and others.

Changes in the built environment is another potential cause of obesity under investigation by researchers. The built environment refers to all buildings, spaces, and products created or modified by people, including housing, schools, workplaces, and transportation systems. While many aspects of the built environment may be involved in lowering physical activity levels, researchers have focused much attention on the proliferation of urban sprawl. With people living farther and farther from commercial centers, "vehicle miles" traveled per household have jumped from about 33 miles daily between 1977 and 1983, to 41 miles in 1990.²⁴ Given the design of many newer communities, that has also meant less travel by walking or bicycling than in earlier periods. A lack of walkways and/or bicycle lanes along many roads creates a further disincentive. The location of new schools farther from people's home has also created a greater reliance on cars and buses. According to one study of South Carolina schools, children are less likely to walk to a school that was built more recently.²⁵ At schools built in the 1990s, over 25 percent of students were eligible for bus transportation because the walking route to school was deemed hazardous. While research has not confirmed a causal link between urban sprawl and obesity, the built environment has become an integral part of the debate on people's health.

Figure 2: Fraction of Adults Who are Overweight or Obese



Finally, the rise in dual-career families may impact both the energy consumption and expenditure sides of the obesity equation. While studies show it is not the act of working per se that affects childhood obesity, a 10-hour increase in a mother's average hours worked per week over a child's lifetime increases the probability that the child is obese by about one percentage point.²⁶ One story that might fit this result is that when parents both work long hours, there is less time to prepare nutritious meals. In addition, when both parents work, there may be less time to supervise active play. Children may be encouraged to stay inside when they come home from school, while those who live in neighborhoods with fewer outside play spaces may have less opportunity to get to more distant recreation areas. The increase in employment among the mothers of preschool-age children over the past 30 years has also led to greater use of third-party child care. While the quality of child care varies, the increasing number of children in third-party care may be another source of a drop in physical activity and increasing consumption of less nutritious foods. Third party caregivers may be more intent on meeting children's immediate needs, rather than promoting long-term health. For example, it may be important in schools or child care settings that a hungry and disruptive child eat something, and the expedient choice may be to offer French fries instead of broccoli.

Summary

Given the limited success of individual weight loss programs, a change in the environment may be needed to address increasing childhood (and adult) obesity. Unfortunately, research does not point to a single causal factor as its source. Childhood obesity is associated with many changes that have simultaneously upset the balance between children's energy intake and expenditure over the past 20 years. Even if the research did point to a particular factor or set of factors, it may not be possible to put the so-called genie back in the bottle. Instead, the approach increasingly followed by anti-obesity organizations, such as the Consortium to Lower Obesity in Chicago's Children (CLOCC),²⁷ consists of a multi-pronged public health/community development response. These organizations address both the influences on the energy consumption side, like access to healthful foods, as well as the influences on the energy expenditure side, like access to safe play spaces. Fighting childhood obesity has become a collaborative effort that unites medical, academic, government, and community organizations to attack the problem on various fronts. As these efforts progress, it will be important to evaluate which are the most efficacious in addressing childhood obesity.

Notes

- 1 Much of this article is based on the following forthcoming review piece: Patricia M. Anderson and Kristin F. Butcher, "Childhood Obesity: Trends and Potential Causes," in *The Future of Children: Child Overweight and Obesity*, Vol. 16, No. 1, Spring 2006, Brookings Institution Press. Interested readers are referred to that article and the other articles in the same journal, for a more thorough discussion.
- 2 BMI is defined as weight in kilograms divided by height in meters squared (kg/m²). In Imperial units, this is equivalent to (weight in pounds/height in inches²) x 703. For adults, one is considered overweight with a BMI greater than or equal to 25 and obese with a BMI greater than or equal to 30.
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- 13 Simone A. French, Bing-Hwan Lin, and Joanne Guthrie, "National Trends in Soft Drink Consumption Among Children and Adolescents Age 6 to 17 Years: Prevalence, Amounts, and Sources, 1977/1978 to 1994/1998," *Journal of the American Dietetic Association* 103 (2003):1326-1331.
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- 15 Patricia M. Anderson and Kristin F. Butcher, "Reading, Writing and Raisinets: Are School Finances Contributing to Children's Obesity?" *NBER Working Paper* 11177, 2005.
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- Also see Morland K., Wind S., Diez Roux A., Poole c. 2002, "Neighborhood Characteristics Associated with the Location of Food Stores and Food Service Places." *American Journal of Preventive Medicine* 22(1) 23:29.
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Financial Access for Immigrants: Two Articles Exploring the Remittance Market and Its Implications for Moving Immigrants Toward Mainstream Financial Products

By Harry Pestine

A key measure of success for the millions of immigrants who come to the U.S. seeking economic security for themselves and their children is the extent to which they participate in the U.S. financial services market. It is also an important indicator of how successful we, as a society, have been in benefiting from the ambition and hopes that bring many immigrants to the U.S.

From the Chicago Fed's Center for the Study of Financial Access for Immigrants Web page at www.chicagofed.org/community_development/center_for_the_study_of_financial_access_for_immigrants.cfm.

The principal mission of the Chicago Fed's Consumer and Community Affairs division (CCA) is to support the Federal Reserve System's economic growth objectives by promoting community development, fair access to financial services, and research related to consumer and community development issues. Toward this goal, CCA established the Center for the Study of Financial Access for Immigrants (Center).

The Center was established to address barriers to economic security and the use of mainstream financial services through several related activities:

- Foster the active engagement of depository institutions in providing credit and other banking services to their entire communities, including traditionally underserved markets.
- Promote awareness of the benefits and risks of financial products, and responsibilities under community reinvestment and fair lending regulations, through technical assistance and other means.
- Encourage communication and cooperation among community organizations, government agencies, financial institutions, and other community development practitioners.
- Provide forums where bankers, policymakers, researchers, advocates, and other interested parties can share ideas, best practices, and innovative

approaches to overcoming barriers to immigrant financial market participation.

- Document and publish key findings, innovations, trends, practices, and policies that enhance financial market access for immigrants.

Among the methods used to reach our goals are active participation on the New Alliance Task Force; raising awareness of the Federal Reserve System's electronic payment delivery system (known as FedACH) International Mexico Service program – a cost-effective alternative to expensive wire transfers; and encouraging, producing, and disseminating research that adds to our understanding of the key determinants of the financial behavior of immigrants.

The New Alliance Task Force initiative focuses on the development of financial products, financial education for immigrants, and banks' compliance with the Community Reinvestment Act, applicable fair lending laws, the Bank Secrecy Act, and the USA PATRIOT Act.

As part of our ongoing commitment to exploring and sharing information on efforts to serve the financial services needs of immigrants, we present the following two articles. For more information, contact the Chicago Fed's Consumer and Community Affairs division at (312) 322-8232, or at www.chicagofed.org/community.dev.

Harry Pestine is the community affairs director for the State of Illinois at the Federal Reserve Bank of Chicago, a community and economic development specialist, and the economic development editor for Profitwise News and Views. Mr. Pestine serves on numerous task forces and is a member of the Consul General of Mexico's New Alliance Task Force. Mr. Pestine has a bachelor of science degree in economics from the University of Illinois.

Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market

Following are excerpts from an article by Michael Frias reprinted with permission of the Federal Deposit Insurance Corporation (FDIC). For the full text of the article see the Winter 2004 edition of Supervisory Insights, a journal published by the FDIC's Division of Supervision and Consumer Protection at www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/siwin04.pdf.

Introduction

The flow of immigrants from a number of countries continues to shape the economic and demographic makeup of communities across the United States. Recent rapid growth and the overall size of the immigrant population from Latin American countries, in particular, have increased this group's political and economic influence. As a result, the U.S. banking industry is becoming keenly aware of the significant business potential that the Latino market represents.

The most significant recent waves of immigrants to this country, according to the 2000 Census, are from Latin American countries. This group's purchasing power is expected to almost double from \$491 billion in 2000 to \$926 billion by 2007. The international remittance market, particularly in Latin America and the Caribbean, also is expected to grow considerably. Billions of dollars are flowing from the United States to Mexico and other countries, and a significant share of these transactions is taking place outside the formal banking system.

These impressive numbers provide a compelling incentive for U.S. banks to offer traditional services to remitters, as well as competitive remittance services. Studies show that as many as 10 million households in the United States are "unbanked" (without access to mainstream bank products and services), and a significant number of these unbanked households are Latino immigrants. This article focuses on the size and economic potential of the Latino immigrant market, the innovative approaches that some banks are using to capture this new customer base, and key risks and regulatory issues that banks should consider in offering remittance products.

Immigration and Remittance Flows

For the past decade, economic globalization has helped fuel immigration and remittance flows across international borders. More than 13 million people immigrated to the

United States during the 1990s. Data from the 2000 Census estimate that more than 31 million immigrants are living in America today, comprising nearly 11 percent of the total population. Latin Americans represent 16 million, or 52 percent, of the total immigrant population. Mexico alone accounts for nine million, or 30 percent, of this population.

A major motivation in many Latinos' decision to come to the United States is the opportunity to earn money that can be returned to their homelands. Results of the 2003 National Survey of Latinos conducted by the Pew Hispanic Center and the Kaiser Family Foundation indicate that 42 percent of adult foreign-born Latinos who live in the United States send money to their homelands regularly.

International financial flows have been as dynamic as immigration flows across national borders. According to a study by the World Bank, remittances (the portion of an immigrant's earnings returned to family members in his or her country of origin) through formal channels totaled \$93 billion worldwide in 2003. According to some analysts, remittances through informal mechanisms (e.g., hand delivery or regular mail) are roughly equal to transfers through formal channels such as wire transfer companies, banks and credit unions.

The flow of labor and the subsequent financial flows from immigrant workers to their families in the home countries are most apparent between Latin America and the United States, with the United States and Mexico being the single largest bilateral remittance market. Research by the Inter-American Development Bank (IADB) has documented that remittance flows to Latin America and the Caribbean reached nearly \$40 billion by the end of 2004. Approximately \$30 billion of these flows originate in the United States, and if current growth rates continue, the remittance market to Latin America could reach \$300 billion by the end of 2010. Remittances, for the most part, help pay for basic family needs such as food, clothing, and shelter. A recent study by the IADB reports that 10 million immigrants living in the United States send money home on average 12.6 times a year, generally a few hundred dollars at a time.

Of particular interest to bankers, many Latin American remitters living in the United States do not have a bank account. For example, 35 percent of Ecuadorians, 64 percent of Salvadorans and 75 percent of Mexican immigrants are unbanked. For many Latin American immigrants, legal status and a lack of traditional identification are the principal reasons for not having an account, causing most remitters to rely on so-called "fringe" financial service providers to cash checks and wire transfer companies to send money to their relatives in Latin America.

Wire transfer companies such as Western Union and Money Gram are among the largest beneficiaries of these financial flows. The former has 6,000 offices throughout Mexico, including branches in post offices. These two companies completed 40 percent of remittance transactions from the United States to Mexico several years ago; however, because of increasing competition from other wire transfer companies and, to a lesser extent, competition from banks and credit unions, their market share has dropped to 15 percent. The competition has reduced the cost considerably, from 15 percent of the amount remitted in the late 1990s to an average of 7.3 percent in early 2004.

Although a growing number of community and large banks in the United States are trying to capitalize on the opportunities presented by the emerging remittance market by linking them to banking services, banks capture less than 3 percent of the market. Of the 100 million separate remittance transactions every year from the United States to Latin America, almost all are outside the formal banking system. This creates an opportunity for banks to develop strategies around remittance services as a vehicle to draw unbanked immigrants into the banking system and offer a broader range of financial services.

Recognizing this opportunity, Citigroup Inc. and Bank of America Corporation have laid the foundation for future market penetration through acquisitions of two large Mexican banks, Banamex and Serfin. Citigroup recently launched a binational credit card to make it easier for migrants to send money across the border. Both the U.S. cardholder and the designated person in Mexico are issued a Banamex USA credit card. The latter can use the card anywhere it is accepted in Mexico, and the U.S. cardholder can pay the entire credit card bill in dollars and adjust the spending limit at any time. The cardholder in Mexico also is allowed to withdraw money from automated teller machines (ATMs). Bank of America announced that the number of bank transfer accounts via the U.S.-Mexico channel soared 1,500 percent in the first half of 2004.

Strategies for Facilitating Remittance Transfers

During the past several years, bilateral agreements and U.S. banking laws and regulations have facilitated remittance transfers for immigrants and helped bring the unbanked into the formal banking system. For example, in 2001, the United States and Mexico launched the U.S.-Mexico Partnership for Prosperity (Partnership), which fosters economic and labor opportunities in less developed parts of Mexico and expands access to capital in Mexico. The Partnership also addresses the high cost of sending money from the United States to Mexico and encourages banking institutions to market accounts that offer remittance features to Mexican workers. In addition, the G-8 countries are promoting programs to alleviate

poverty in developing countries, including Latin America. These programs facilitate remittances through the formal banking system at reduced cost.

In June 2004, in an effort to encourage more banks to enter the remittance market and improve access to the U.S. banking system among recent Latin American immigrants, bank regulatory agencies affirmed that financial institutions offering low cost international remittance services would receive credit under the Community Reinvestment Act (CRA). Regulated financial institutions are required under the CRA to serve the convenience and credit needs of their entire communities, including low- and moderate-income areas (and persons). Most remittance senders to Latin America are low- to moderate-income immigrant wage earners.

In addition, a growing number of U.S. banks accept alternative forms of identification to help taxpaying immigrants open bank accounts and secure other banking services, including foreign government issued identification, such as the Mexican Matrícula Consular card. The USA PATRIOT Act allows insured financial institutions to accept the Matrícula in conjunction with an Individual Taxpayer Identification Number (ITIN), enabling them to serve unbanked immigrants who live and work in the United States.

The ITIN, created by the U.S. Internal Revenue Service for foreign-born individuals who are required to file federal tax returns, is a nine-digit number similar to the Social Security number (SSN) and is issued to individuals who are not eligible for the SSN. The Matrícula Consular card is an identification card issued by the Mexican consulate to individuals of Mexican nationality who live in the United States. According to the Mexican government, an estimated four million Matrícula cards have been issued in the United States.

As an example of the effectiveness of using this form of identification, Wells Fargo opened more than 400,000 new accounts between November 2001 and May 2004 for Mexican immigrants. In recent months, Wells Fargo has averaged 22,000 new accounts per month. The bank offers InterCuenta Express, an account-to-account wire transfer service that charges \$8 to transfer up to \$3,000 per day directly into a beneficiary's bank account in Mexico. Transfers can be initiated at the bank's branch or ATM in the United States, and the receiving party can access monies via the bank's sizeable remittance distribution network of more than 4,000 banking offices and 10,700 ATMs in Mexico. According to the Mexican government, 178 banks in the United States accept the Matrícula Consular card to open bank accounts; 86 of these institutions are in the Midwest.

Provision of Remittance Services: Key Risks and Regulatory Issues

According to a recent study, at least 60 U.S.-based depository institutions offer remittance products. The entry of banks into the remittance market has coincided with the growing number of institutions willing to accept foreign government issued identification and ITINs in lieu of SSNs. Remittance products can pose a money laundering risk because they allow for quick, inexpensive transmission of funds across borders and, depending on the method of transaction, provide an uncertain audit trail. Implementation of the following can help mitigate this heightened risk:

- Imposing daily or monthly limits on the amount that can be transferred;
- Limiting the number of debit or stored-value cards issued to a customer;
- Instituting monitoring programs to flag unusual remittance activity;
- Limiting the maximum balance on an account/debit card; and
- Controlling the mailing of debit cards or the distribution of funds to recipients.

Other controls that will help to minimize the risk of money laundering and terrorist financing are outlined in Section 326 of the USA PATRIOT Act. Section 326 requires that banks adopt a Customer Identification Program (CIP) for all new accounts, whether the customer is a U.S. citizen or foreign national. The CIP must establish procedures for identifying and verifying the identity of customers seeking to open an account.

The final CIP rule provides that, for non-U.S. citizens, a bank must obtain a taxpayer identification number (such as an ITIN) or a government-issued document (for example, the Matrícula Consular identity card) that shows proof of nationality or residence, and bears a photograph or similar safeguard. The CIP must have procedures in place to establish the identity of the customer within a reasonable period after the account is opened. Separately, institutions must check both purchasers and beneficiaries of remittances against the Office of Foreign Assets Control (OFAC) list, which includes known or suspected terrorists, in order to ensure both compliance with OFAC regulations and that funds are not supporting terrorists or other sanctioned groups.

The Treasury Department and the bank regulatory agencies emphasize that the final CIP rule neither endorses nor prohibits bank acceptance of information from particular types of identification documents issued by foreign governments. Essentially, the use of foreign-issued documents is a decision for banks to make and

should be based on appropriate risk factors, including the types of accounts maintained by the bank and whether the information presented by the customer is reliable. In its report to Congress, the Treasury Department recognized the need to strike a balance between law enforcement objectives and the ability of financial institutions to serve unbanked immigrants living and working in the United States.

Targeting the Unbanked Latino Immigrant Population

Several other key barriers contribute to the high number of unbanked immigrants, primarily a limited ability to understand and speak English and cultural distrust of financial institutions. These barriers create real challenges. However, in Chicago and other parts of the Midwest, organizations are bringing unbanked Latino immigrants into the financial mainstream with innovative products, financial education programs, effective outreach programs, and a strong commitment to serve the market in conjunction with a few organizations such as the New Alliance Task Force (NATF).

New Alliance Task Force

- Comprises representatives from the FDIC, Mexican Consulate, 34 banks, community-based organizations, federal bank regulatory agencies, government agencies, secondary market companies, and private mortgage insurance companies.
- Organized into four working groups that provide updates during the NATF's quarterly meetings:
 - Financial Education – educates immigrants on the benefits and importance of holding accounts, the credit process, and mainstream banking.
 - Bank Products and Services Working Group – encourages banks and thrifts to develop financial service products with remittance features as a strategy to reach the unbanked immigrant community.
 - Mortgage Products – created the New Alliance Model Loan Product for potential homeowners who pay taxes using an ITIN.
 - Social Projects – provides scholarship funds for immigrant students and fosters economic support for Plazas Comunitarias, a program that will give Mexican citizens an opportunity to finish their high school education.

The NATF was launched in May 2003 by the Consulate General of Mexico in Chicago and the Chicago office of the FDIC's Community Affairs Program in support of the U.S.-Mexico Partnership for Prosperity. The NATF

is a broad-based coalition of 62 members, including the Mexican Consulate, 34 banks, community-based organizations, federal bank regulatory agencies, government agencies, and representatives from the secondary market and private mortgage insurance (PMI) companies. The majority of the participating financial institutions are community banks in Illinois, Indiana, and Wisconsin. The coalition's programs and initiatives address the critical need among Mexican immigrants; both established and recently arrived, to successfully develop asset-building strategies to improve their quality of life in the United States. This goal is critical as Latinos continue to have lower homeownership rates and less access to mainstream financial services and credit instruments.

In addition to promoting general educational opportunities for immigrants, NATF members sponsor financial education programs and are developing financial products that include remittance features and mortgage products that help immigrants overcome barriers to homeownership.

The NATF's Financial Education Working Group educates immigrants on the benefits and importance of holding accounts, the credit process, and mainstream banking as an alternative to the "fringe" banking system. Ten thousand immigrants have participated in financial education classes and workshops using the FDIC's Money Smart, a Spanish-language adult financial education curriculum, and similar financial education programs in the Chicago area. A number of delivery channels exist, including financial institutions, churches, housing organizations, job training centers, and community colleges. In addition to these programs, the Mexican Consulate of Chicago, in collaboration with local banks, launched a financial education program in Spanish in January 2004. Several institutions donated simulated ATMs to train immigrants on banking technologies.

The NATF Bank Products and Services Working Group encourages banks and thrifts to develop financial service products with remittance features as a strategy to reach the unbanked immigrant community. In recent years, banks in the Midwest have begun to realize the significant dollar amounts generated by remittance transfers and have taken steps to break down some of the barriers to immigrants' access to the banking system. Community banks in Chicago and Milwaukee, for example, have taken the lead in offering international remittance services. Second Federal Savings and First Bank of the Americas were the first community banks in the country to accept the Mexican Matrícula Consular card and develop remittance products through dual ATM cards. Soon afterward, Mitchell Bank and North Shore Bank in Milwaukee followed suit. These institutions are aware that many immigrants, regardless of their current immigration status, will eventually settle in this country. This offers an

opportunity for banks to cross-sell other products and offer a wider range of financial services.

Fifteen of the 34 NATF banks are now offering products with remittance services that allow immigrants to open bank accounts, avoid high-cost wire services, and incur lower remittance costs for sending money back home. Dual ATM cards or stored-value cards offer the lowest transfer cost – 1.5 percent of the amount sent. In the past two years, 50,000 new accounts totaling \$100 million (with an average account balance of \$2,000) have been opened at NATF banks in the Midwest. Many of these accounts were opened using the banks' remittance services. Other NATF banks, including South Central Bank and Lakeside Bank, are using the Federal Reserve System's recently unveiled FedACH International Mexico Service as a cost-effective alternative to expensive wire transfers.

Conclusion

Recent economic and demographic trends, coupled with increased financial flows across international borders, have significant implications for U.S. banks and thrifts. As more insured financial institutions reach out to the Latino immigrant market, these institutions are expected to experience more rapid deposit and loan growth. In the Midwest, both small and large banks are capitalizing on remittance flows as a short-term strategy to draw immigrants into the formal banking system. Leveraging these relationships will help these institutions offer a broader range of financial services, positively contributing to their bottom line.

Many Latino immigrants will eventually settle in the United States and raise families. Banks in the Midwest are taking steps to capitalize on the growing presence of this immigrant group. The continued success of the NATF demonstrates that unbanked Latin American immigrants can be brought into the financial mainstream. As a result, the FDIC is considering the feasibility of expanding the NATF pilot to other parts of the country where there are significant immigrant populations. These broad-based private-public sector alliances will help immigrants increase savings, build assets, and strengthen their financial security.

Michael Frias is the FDIC community affairs officer in the Chicago region. In January 2005, he was designated as the national coordinator of the FDIC's New Alliance Task Force (NATF) initiative. He is on leave from his CAO position for the duration of the NATF initiative. As the NATF national coordinator, Mr. Frias is responsible for the implementation of regional NATF initiatives across the U.S. to increase the number of banks that offer products and services tailored to the Latino community, including products with remittance features. Mr. Frias holds a B.S. in accounting from the University of San Francisco.

Banking on Remittances: Reaching the Immigrant Market

Immigrants in the United States represent a large and growing market for financial institutions, not only in traditional ports of entry such as Los Angeles, New York, Chicago, and Miami, but also in newly emerging gateway cities across the U.S., including Dalton, Georgia, and Nashville, Tennessee.

Banks can tap into this market segment by offering new financial products that cater specifically to immigrants' needs as well as providing typical banking services.

Many immigrants regularly send money back to their families and communities in their home countries. In 2004, over \$30 billion in remittances was sent from the U.S. to Latin American countries via formal channels such as wire transfer services, banks, and credit unions. Remittance services are an example of an important new product that banks have begun to offer as an avenue for developing relationships with the immigrant market.

Gaining a foothold in this market, however, will require more than just providing remittance services. Recent focus group research exploring Mexican immigrants' remittance practices in the Federal Reserve's Sixth District (comprised of Alabama, Florida, Georgia, and parts of Louisiana, Mississippi, and Tennessee) found that the choice of a remittance service provider is based on complex, multiple factors, including cost, exchange rate, speed of transmission, delivery mechanisms in the immigrant's home country, as well as the receiver's personal preferences.

While immigrants in this study expressed interest in using remittance products at financial institutions, potential obstacles emerged such as language and cultural barriers, identification requirements, and insufficient information or misinformation about financial institutions.

Barriers to Using Banks

To gain a better understanding of Mexican immigrants' perceptions about remittance products and services available at mainstream financial institutions, the Federal Reserve Board sponsored focus groups in three cities across the Sixth District (see Research Design). The focus groups also explored immigrants' general perceptions

and experiences regarding financial institutions. Although many participants viewed U.S. banks as reliable and secure places to keep their funds, many did not have a bank account. The focus groups revealed several factors that impeded immigrants' use of banks.

Language and Cultural Barriers

Spanish-speaking personnel who can explain financial products and services and relate to a client's cultural and personal situation were primary in determining where the Mexican immigrants in the focus group conduct their financial transactions. But in addition to Spanish-speaking staff, participants also wanted good customer service and convenient access to financial services.

Identification Requirements

Many participants expressed concern over identification requirements. Immigrants cited problems related to state driver's license laws, as well as to federal and state laws governing banks' acceptance of the *Matrícula Consular* (an identification document issued by the Mexican government for Mexican nationals) for identification purposes. Even several participants with state licenses reported that they did not plan to open a bank account. Some incorrectly believed that, given their immigration status, they would lose access to funds in their account when the license expired. Others commented that when they tried to open an account using the *Matrícula*, bank employees misinformed them that they were not permitted to use the document, even though the bank's policy recognized the *Matrícula* as an acceptable form of identification.

Insufficient Information or Misinformation

Insufficient information or misinformation about financial products and services were common among the focus group participants. Among those who used banks, several felt they had not been clearly informed about services and fees associated with having a bank account. Most participants confused U.S. credit unions with the Mexican *cajas populares* and *cajas de ahorro* and, because of the reputation of these financial institutions and personal negative experiences, many were skeptical about credit unions.

Sending Money Home

When participants were queried on how they sent money home to their families in Mexico, most reported using wire transfer companies, postal money orders, and informal channels such as courier services. A few said they sent money with friends and family. Several variables influenced how remitters sent money home.

"I have a bank account right now but I don't like to keep a big amount of money in it because the license I have is about to expire, and I am afraid

that I won't have access to my money if I don't have any identification."

Local Mechanisms

Some remittance mechanisms were specific to a particular location. For example, some participants from Dalton, Georgia, used "vans" or courier services that collect the remittance from the sender and deliver it (as well as additional packages such as letters or pictures) directly to the recipient.

Senders and Receivers

Many participants indicated that both the remitter and the recipient decide upon the best remittance mechanism for both parties. Some, however, based their method of remittance entirely on their families in Mexico, who were accustomed to receiving funds in a particular manner and perceived one method to be better than another.

Market Conditions

Whether or not a bank exists in the receiving family's town of residence was another consideration. In fact, about half of the participants in Dalton and Florida City reported that they sent their remittances to rural areas, which are less likely to have banking services to receive the remittance.

Choosing a Remittance Service

Participants consistently agreed on these key characteristics for choosing a remittance provider:

- Reputation of provider;
- Total cost;
- Exchange rate;
- Assurance that the recipient will receive the funds;
- Speed of service (same day or next day availability); and
- Customer service.

Although the availability of Spanish-speaking staff was the most important condition for getting their business, focus group participants stated that service and cost, including front-end fees, exchange rate, and back-end fees were nearly as significant. Many reported that they shopped for the most favorable exchange rate. In addition they said they investigated charges by receiving institutions in Mexico, for example the money service business or bank, and used this information in deciding how to send their money.

Using Banks for Remittances

While few participants were aware of banks offering remittance services, they indicated that the availability of remittance products and services through financial

institutions could motivate them to open an account in the U.S.

Participants were particularly interested in account-to-account remittance products in which money deposited in a U.S. bank account by the remitter could then be transferred to the recipient's bank account in Mexico. The general perception among participants was that using banks — at both ends of the transaction — would be a safer way to send money to their families.

When queried about remittance products with innovative features, some of which to our knowledge have not yet been developed or offered by banks, many participants indicated that they would be interested, for example, in using a remittance product that included a "savings" feature to help accumulate funds to send back home. They also liked the idea of a product that offered the opportunity to pay their family's bills (for utilities, as an example) directly. Other participants approved of a remittance product that charged a flat fee irrespective of the value of the remittance, and a few indicated a strong preference for products with no back-end fees for their family members.

Conclusions

Banks in cities like Los Angeles, Chicago, New York, and Miami have had decades to adjust to immigrant customers, while banks in the new gateway cities have had limited experience working with immigrant communities, especially in providing products and services specifically tailored to this clientele. Banks trying to attract these potential customers will have to be innovative in responding to challenges.

Our focus group findings revealed that banks do have an advantage compared with alternative service providers, however. Despite conventional wisdom, which contends that immigrants distrust U.S. banks because they distrust banks in their home countries, our focus group participants indicated a high level of trust in U.S. banks. Furthermore, they implied that they may trust banks in Mexico that partner with U.S. banks, so that trust is in essence transferred from the U.S. bank to the Mexican-partner bank.

Although banks cannot control the receiving country's financial services infrastructure, which is often a driving force in the choice of remittance provider, they do have options. For example, banks can now use the FedACH system to transfer money to Mexico.

Banks can also reach out to immigrant communities by working with community organizations and mentors to help bridge the language and cultural gaps and ensure access to financial education resources and materials. If possible banks can also partner with appropriate financial institutions in Mexico to offer complementary products

and services for both U.S.-based immigrants and their family members in their home country.

With a little effort, banks have the opportunity to attract the growing, prospering immigrant market. But banks may need to adjust their products, services, policies, and culture to compete with alternative service providers – not just on price, but also on the quality of service and accessibility – if they want to pursue the immigrant market successfully.

This article was written by Marianne A. Hilgert and Jeanne M. Hogarth, Federal Reserve Board, Consumer and Community Affairs, with contributions from Edwin J. Lucio, Federal Reserve Board, Reserve Bank Operations & Payment Systems; Sibyl Howell, Juan Sanchez, and Wayne Smith, Federal Reserve Bank of Atlanta, Supervision & Regulation, Community Affairs; Elizabeth McQuerry, Federal Reserve Bank of Atlanta, Retail Payments Office; Ana Cruz-Taura, Federal Reserve Bank of Atlanta, Miami Branch, Community Affairs; and Jessica LeVeen Farr, Federal Reserve Bank of Atlanta, Nashville Branch, Community Affairs.

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Note

1 "Banking on Remittances" (2005). www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf; IADB (Inter-American Development Bank) (2004) "Remittances: Key Source of Capital for Latin America and the Caribbean," *Issue Briefs* at www.iadb.org/exr/am/2004/index.cfm?op=press&pg=69; Bendixen & Associates (2004) "Sending Money Home: Remittances to Latin America from the U.S., 2004," available at www.iadb.org/exr/remittances/images/Map2004SurveyAnalysisMay_17.pdf.

Research Design

These findings are based on a qualitative research study "Banking on Immigrants: Increasing Market Efficiencies for Consumers and Financial Institutions" co-authored by employees of the Federal Reserve Board and the Federal Reserve Bank of Atlanta. The study, which was presented at the Federal Reserve's 2005 Community Affairs Research Conference, is available at www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf.

To analyze immigrants' remittance behaviors, the Federal Reserve Board contracted with the Metro Chicago Information Center to conduct focus groups during the month of December 2004. Providing assistance were three community development organizations working with Mexican immigrants and based in the Federal Reserve System's Sixth District. Two focus groups were held in collaboration with each of the following community-based organizations:

- The Georgia Project in Dalton, Georgia;
- Conexión Américas in Nashville, Tennessee; and
- The Everglades Community Association in Florida City, Florida.

We chose to conduct focus groups in these cities based on the recent influx of immigrants within the Sixth District and the corresponding volume of remittances sent by these immigrants. For example, between 1990 and 2000, the foreign-born population in Georgia and Tennessee grew by 233 and 169 percent, respectively (U.S. Census). Moreover, a recent study estimated that immigrants residing in Florida and Georgia, who remitted \$2,450 million and \$947 million respectively in 2003, make these states the fourth and seventh largest sending remittances to Latin America (Bendixen & Associates, 2004). Thus, the Federal Reserve's Sixth District provides an opportunity to develop new learning and information about immigrants' use of banks as well as remittance products.

We focused our research on immigrants from Mexico (both documented and undocumented) who send money back to Mexico at least once per year. We chose this particular group for a number of reasons. First, Mexico is the largest recipient of remittances in Latin America and the Caribbean, receiving \$16.6 billion in 2004, with 95 percent of remittances originating from the U.S. in 2003.¹ Concentrating on this target group also allowed us to analyze the recent growth in financial products and services that target Mexican immigrants in the U.S. as well as their families in Mexico. Finally, the Federal Reserve System's strategic alliance with the Central Bank of Mexico, which provides international ACH services to Mexico, expanded U.S. banks' ability to serve Mexican immigrants by offering an alternative mechanism to send remittances at a low cost.

Calendar of Events



Pennsylvania Rural Summit

**Seven Springs, PA
October 25-26, 2005**

Rural Pennsylvania stakeholders including public officials, agency officials, associations, corporations, and developers, will come together to voice opportunities and concerns of rural Pennsylvania. Topics to be discussed include, but are not limited to: housing, education, health, infrastructure, community and economic development, and environmental resources. Conference attendees will have an opportunity to develop strategies and policy recommendations for the future of rural Pennsylvania to be submitted to the Office of the Governor and the United States Department of Agriculture, Rural Development.

For more information, visit www.clevelandfed.org/commaffairs/Conf2005/RuralSummit/Index.cfm, or contact Paula Warren at (800) 433-1035.

Entrepreneurship in Low- and Moderate-Income Communities

**Kansas City, KS
November 3-4, 2005**

The Community Affairs department of the Kansas City Federal Reserve Bank in partnership with the Kauffman Foundation is hosting a conference exploring opportunities for and challenges facing entrepreneurship in low- and moderate-income (LMI) communities. Topics will include: entrepreneurship's role in reducing problems unique to LMI communities, entrepreneurship's current presence in LMI communities, challenges facing entrepreneurship in LMI communities, and accounting for variation in entrepreneurial success.

For more information, please contact Jan Huckleberry at the Kansas City Fed at Jan.Huckleberry@kc.frb.org.

Microenterprise: Building Assets in a Growing Market

**Dallas, TX
November 4, 2005**

The Federal Reserve Bank of Dallas and the World Affairs Council of Greater Dallas invite you to a conference offering insight into microenterprise as an emerging market for financial institutions and investors, as well as an asset-building tool for low-wealth individuals and entrepreneurs.

Conference presenters will demonstrate how bankers, community and economic development professionals, public officials, and others contribute to the success of this industry and how microenterprise development can strengthen communities and local economies.

For conference information, visit <http://dallasfed.org/news/ca/05micro.html>, or contact Soraya Anderson at (214) 922-5377.

2006 National Community Reinvestment Conference

**Las Vegas, NV
March 19-22, 2006**

Save the date. The Federal Reserve Bank of San Francisco, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation invite you to attend the 2006 National Community Reinvestment Conference on March 19 through 22. The conference is being held in Las Vegas, Nevada, at the Green Valley Ranch Resort, and will feature sessions covering CRA examination training, innovations in community development investing, comprehensive approaches to community development, and the National Community Development Lending School.

Registration materials will be available in early January. For more information, visit www.frbsf.org/news/events/index.html, or contact Lauren Mercado-Briosos at (415) 974-2765.

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