Financial Access for Immigrants:

Lessons from Diverse Perspectives

Federal Reserve Bank of Chicago • The Brookings Institution

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THE BROOKINGS INSTITUTION

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SETTING THE SCENE

Why is Immigrant Financial Access so Important?

Why is Immigrant Financial Access so Important?

> "Full economic integration of immigrants requires that they have access not only to the informal financial sector but also to the formal one, including banking, insurance, pension funds, and other institutions. Only by using such institutions will immigrants successfully expand their range as entrepreneurs, become homeowners, build credit histories, save for retirement, and insure against financial and other risks."
>
> ***Ben S. Bernanke, Member, Board of Governors of the Federal Reserve System, remarks at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, April 16, 2004, Chicago Fed***

Introduction

The United States has long benefited from the aspirations, talents, and hard work of the many immigrants who have settled here. Each generation has debated the costs of immigration and its benefits and grappled with how best to incorporate immigrants into U.S. society. The unparalleled size and growth of the contemporary immigrant population means that these conversations and debates continue today in communities throughout the country. The well-being of the nation increasingly depends on whether immigrants' economic progress keeps up with their demographic growth.

Whether they come seeking economic opportunity or fleeing political turmoil, immigrants are united in the desire to create a better life for themselves and their children. Immigrants and the native-born also find common ground in their shared wish to create a safe, secure, and prosperous future for themselves and their children. Along the path to achieving their economic goals, immigrants must make many choices about how to navigate the U.S. financial system. These choices can accelerate the integration process or slow it down.

Financial access—knowing what one's financial options are and having products and services to choose from—is fundamentally linked to economic prosperity. Study after study shows that across countries and across states, financial development enhances economic development and growth. A key measure of success for the millions of immigrants who come to the U.S. seeking economic prosperity is the extent to which they participate in the financial mainstream. The degree to which immigrants use mainstream financial services is also an important indicator of how successful we, as a society, are in profiting from the ambition and hopes that bring many immigrants to the United States. Strategies that help immigrants become productive members of society benefit not just immigrants, but all residents of the communities where they live.

Immigration Continues to Transform the United States

Immigration in the United States is at a 70-year high

In both absolute and relative terms, immigration in the United States is at a 70-year high. Between 1990 and 2000, the immigrant population grew by 57 percent. Today at least one in nine American residents, or 35 million people, was born abroad. Immigrants make up 12 percent of the overall population; children of immigrants account for 22 percent of the population younger than six and 20 percent of the population ages 6 to 17.[1] Not since 1930 has the percentage of the U.S. population that is foreign-born been higher.

*In this publication, "**immigrant**" refers to individuals living in the United States who were born elsewhere, with the exception of Americans born abroad to U.S. citizen parents and people born in U.S.-owned territories. In official parlance, the Bureau of U.S. Citizenship and Immigration Services (formerly the Immigration and Naturalization Service) uses the term "immigrant" to denote a person admitted to the United States for permanent residence.*

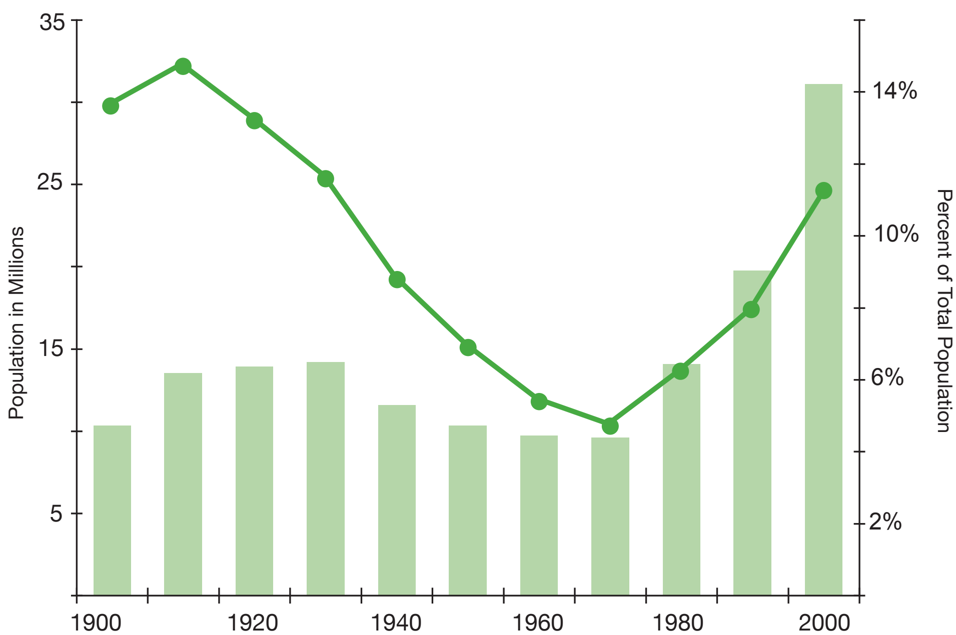


FIGURE 1.1

Total Foreign-Born and Percentage Foreign-Born in the United States, 1900–2000

Foreign-Born Population (in millions)

Percent of Total Population

Source: U.S. Census Bureau.

Immigration affects virtually every community

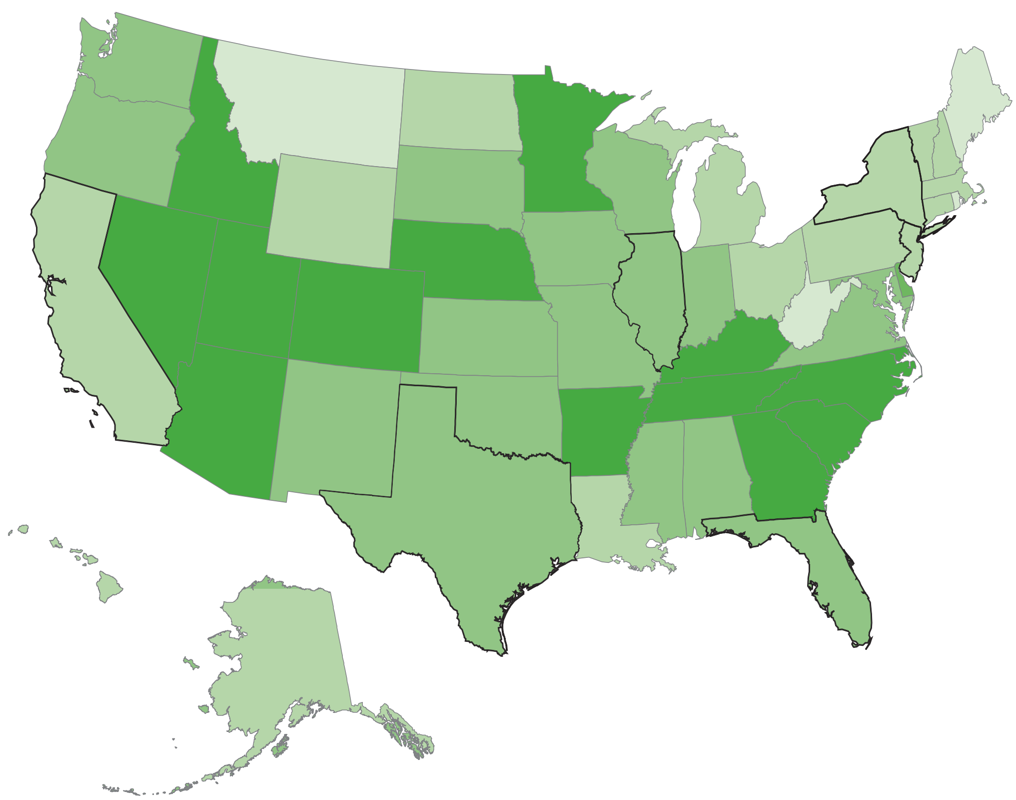
In the 1990s, immigration changed from a phenomenon that had a major impact on just a few places to one that influences nearly every community in the United States. States with virtually no 20th century experience of immigration have seen the most rapid growth in their immigrant populations since 1990. While a few states — California, Texas, New York, New Jersey, Illinois, and Florida — continue to host the majority of immigrants, growth in the immigrant population has been highest in states like North Carolina, Georgia, and Tennessee. Immigrants have been drawn to areas with strong economic growth across a diverse set of industries that employ many foreign-born workers.

FIGURE 1.2

Growth in Immigrant Population, 1990–2000

- States with largest immigrant population
- Less than 25.5% growth (5 states)
- 25.5% to 57.4% growth (15 states)
- 57.5% to 114.5% growth (18 states)
- Over 114.5% growth (13 states)

Source: U.S. Census Bureau.

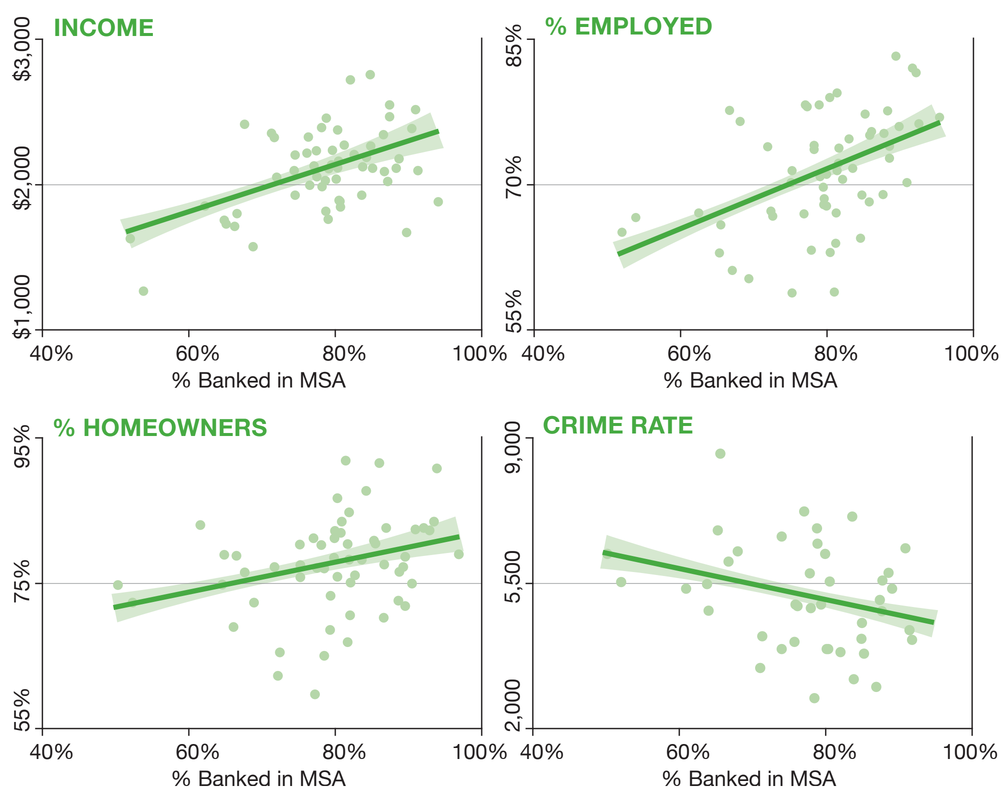


Widespread Participation in the Financial Mainstream Characterizes Thriving Communities

Healthy communities offer broad financial access to all residents

In cities where a greater share of residents have a bank account, income, employment, and homeownership rates are higher, while crime rates are lower. Whether having a bank account causes socially desirable outcomes, like greater income and higher homeownership rates, has not been determined. It is clear, however, that the extent of financial access is an important indicator of the overall economic and social well-being of a community.

Bank *is used throughout the document as a catch-all term for mainstream financial institutions, including banks, thrifts, and credit unions.*



FIGURES 1.3–1.6

The lines represent a linear relationship between income, employment, home-ownership, crime, and the percentage of Metropolitan Statistical Area (MSA) residents who have a bank account.

Source for Income (monthly per capita household income), Employment, and Homeowner-ship: Authors' calculations from 1996–2000 Survey of Income and Program Participation (SIPP) data.

Source for Crime: Authors' calculations from 1996–2000 SIPP data and Federal Bureau of Investigation 2000 Unified Crime Reports data.

Restricted to MSAs with at least 200 individuals 18 and over in the 1996–2000 SIPP data.

Immigrants and immigrant communities lack broad financial access

Compared to individuals who were born in the United States, immigrants are much less likely to be connected to the financial mainstream. While 76 percent of native-born household heads have a checking account, only 63 percent of immigrant household heads have a checking account. This pattern is repeated for savings accounts, homeownership, and stock ownership, with the gap between immigrant and native-born connections to the financial mainstream increasing with the sophistication of the financial product. While 27 percent of the native-born own stock outside a retirement account, less than half as many immigrants, only 13 percent, own stock. In addition, communities with large numbers of immigrants have lower rates of overall bank account ownership, for both immigrants and the native-born.

FIGURE 1.7

Financial Activities of Immigrants and the Native-Born

Immigrants
Native-born

Source: Authors' calculations using 1996–2000 SIPP data.

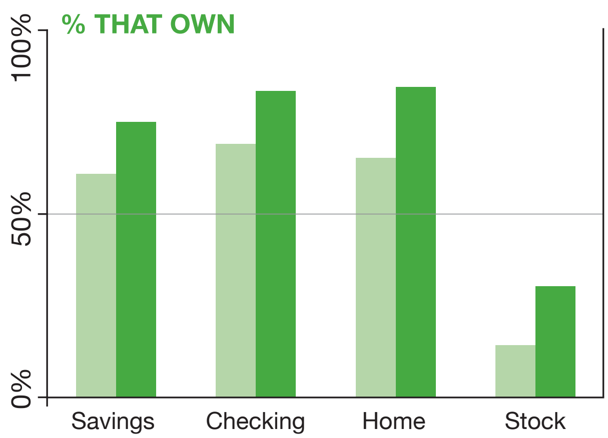
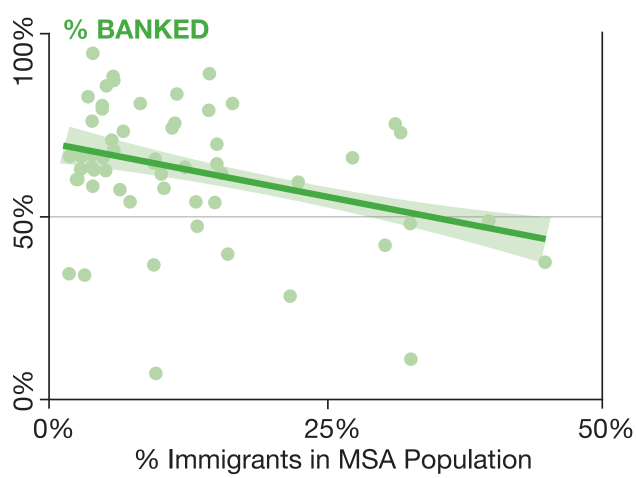


FIGURE 1.8

The line represents the linear relationship between concentration of immigrant population and the percentage of residents who have a bank account.

Source: Authors' calculations using 1996–2000 SIPP data.

Restricted to MSAs with at least 200 individuals 18 and over in the 1996–2000 SIPP data



Many Players Have a Stake in Immigrant Financial Access

Together with the size and the distribution of the immigrant population, the link between social and economic well-being and financial access, at both an individual and at a community level, makes it clear that connecting immigrants to the financial mainstream is a concern shared by many including:

Financial Service Providers. Immigrants constitute a new growth market for the financial industry. They are potential buyers not only of traditional products like transaction accounts and loans, but also of services like international money transfers. Banks and other financial institutions are reaching out to immigrants by implementing strategies to attract and serve immigrant customers. Chapter 3 contains a detailed discussion of financial industry initiatives aimed at the immigrant market.

Public Safety Officials. Law enforcement officials and residents of communities with large immigrant populations are also concerned about immigrant access to banks. In several large cities, law enforcement officers have noted that immigrants are attractive targets for thieves who expect them to carry cash and to be reluctant to report crime.[2] In some cases, this concern has led to partnerships like one in Austin, Texas, where the police force and local banks created a program to help immigrants open bank accounts. This program, along with other examples of innovative partnerships that address immigrant financial access, is highlighted in Chapter 4.

Regulators and Lawmakers. Regulators and lawmakers shape the environment in which immigrants and financial institutions interact. Laws that govern who can legally immigrate to the United States influence the characteristics of the immigrant population, which directly affects the ease with which immigrants can make use of U.S. financial institutions.

Fair lending laws[3] prohibit banks from discriminating on the basis of race, religion, or national origin. The Community Reinvestment Act (CRA)[4] encourages banks to help meet the credit needs of the communities in which they operate, including those of low- and moderate-income individuals and neighborhoods. In addition, financial institutions can receive CRA credit for providing low-cost remittance products for immigrants. The USA PATRIOT Act sets guidelines for financial institution Customer Identification Programs, which allow the acceptance of identification issued by foreign consulates. On the other hand, many legislative initiatives, at both the state and national level, are aimed at restricting access to U.S. financial institutions for immigrants who have entered the country illegally.

A discussion of the evolving relationship between the regulatory and legal environment and immigrant financial access is integrated throughout the entire document.

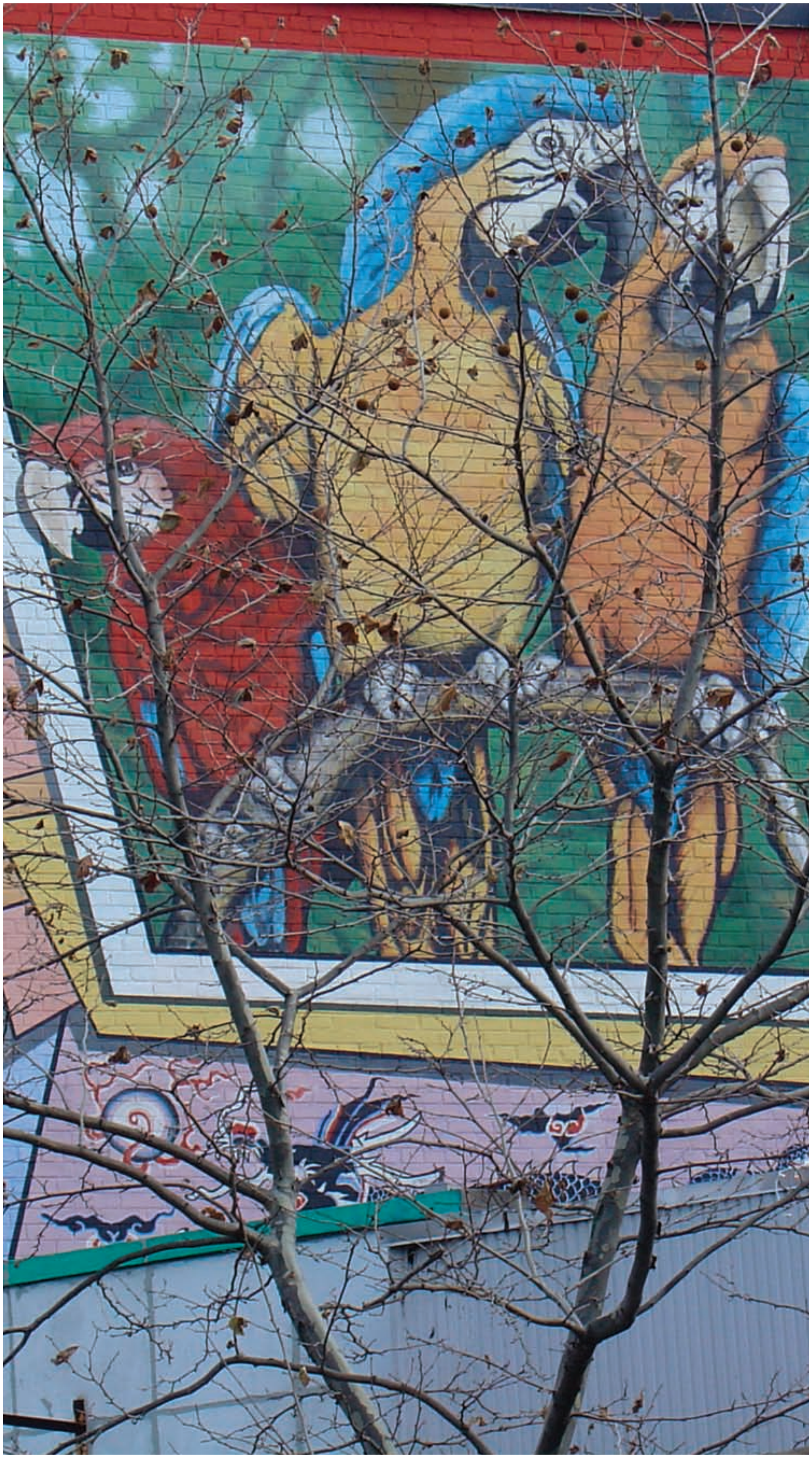
Individuals and Organizations Concerned with Immigrant Well-Being. Individuals and organizations that are involved in the economic and social integration of immigrants also have an interest in immigrant financial access. These organizations include social services agencies whose main mission is to work with the immigrant community, as well as employers, schools, and labor unions. The important ways in which these organizations have become partners in programs to promote financial access are underscored in Chapter 4.

Immigrants Themselves. Financial access is of utmost concern to immigrants themselves. Checking and savings accounts are indispensable tools in financial planning and security. Banks offer many benefits, including:

- Safer alternatives to cash, like checking accounts,
- Secure and insured ways to save,
- Lower fees for services like check-cashing and international money transfers,
- Access to home and small business financing,
- Competitive interest rates on loans,
- A means to build a financial identity and plan for the future, and
- Coverage under consumer protection and fair lending laws.

In addition to these very immediate and often very tangible benefits, financial access for immigrants conveys benefits to future generations – the children of immigrants who make up the fastest growing segment of the U.S. population. Children often mimic the financial behavior of their parents, so increasing bank account ownership among immigrants will likely lead to increased bank account ownership among the children of immigrants as well.[5] Conversely, if the current generation of immigrant adults continues to have low rates of bank account ownership, their children are likely to as well.

The financial practices of immigrants, along with a detailed analysis of the factors that influence bank account ownership among the immigrant population, are discussed in the next chapter.




SEND
YOUR MONEY
HERE
Ria
MONEY TRANSFER
PHILIPPINES

2

THE CUSTOMER

Financial Practices of Immigrants

Financial Practices of Immigrants

Immigrants could benefit enormously from better access to low-cost, convenient, and efficient financial services. Although immigrants are more likely to be employed than native-born individuals, they are also more likely to be working in low-wage jobs. Despite their relatively low incomes, in 2004 immigrants managed to send $34 billion in remittances to their families in Latin America and the Caribbean, at a cost of approximately $2.4 billion in fees. Less noted, but of potentially equal or even greater importance for both immigrants without bank accounts and the financial industry, is that immigrants rely heavily on the alternative financial services sector — check-cashers, in this case — to cash their paychecks. Immigrant fees for check-cashing total approximately $2 billion annually. Cutting the fees paid for remittances and check-cashing in half could put an additional $155 in the hands of each immigrant family every year.[1]

Introduction

The multi-billion dollar **alternative financial services sector** *includes check-cashing outlets, money transfer firms, payday lenders, and pawnshops.*

Immigrants' decisions to avoid banks on one hand and patronize the alternative financial services sector for check-cashing and remittance services on the other hand find their roots in three broad factors.

First, socioeconomic and demographic characteristics like age, education, ethnicity, and income play a role in immigrant as well as native-born choices regarding financial services. These characteristics are only part of the story, however. Immigrants are less likely to have checking and savings accounts compared with the native-born, even after taking into account differences in socioeconomic and demographic factors.

Second, characteristics that are unique to immigrants – time spent in the United States, language barriers, intentions of returning to their native country, an orientation toward country of origin institutional norms, legal status, and the tendency to cluster in neighborhoods with other immigrants from the same country – shape their financial choices as well.

Finally, these choices are influenced by the features of products and services offered by banks compared with those offered by the alternative financial services sector including: cost, anonymity, documentation requirements, minimum balance requirements, and convenience – both in the United States and, in the case of remittances, in the country of origin. Less tangibly, but of enormous importance, the "culture" of the institution determines how welcoming and familiar it feels to a potential immigrant customer.

Immigrant Characteristics

Nearly half of the immigrant population arrived in the United States after 1990, and the immigrant population grows by about one million people each year

Thirty-five million immigrants, representing virtually every country on the globe, currently live in the United States.[2] More than half of the immigrant population was born in Latin America. Mexico is the single largest source country, accounting for about 30 percent of all immigrants. Twenty-five percent of immigrants were born in Asia, and another 14 percent were born in Europe.[3] Although most immigrants come to the U.S. seeking economic opportunity, approximately 7 percent of immigrants are refugees.[4] Political turmoil in their countries of origin drives their decision to emigrate.

TABLE 2.1
Top 10 Source Countries for U.S. Immigrants, 2000
Source: Malone et al., 2003.

Country	Percentage of U.S. Immigrants who come from:
Mexico	29.5
China	4.9
Philippines	4.4
India	3.3
Vietnam	3.2
Cuba	2.8
Korea	2.8
Canada	2.6
El Salvador	2.6
Germany	2.3

Two-thirds of all immigrants live in just six states: California, Texas, New York, Florida, Illinois, and New Jersey. However, growth in the immigrant population is highest outside of these states

Growth in the immigrant population is highest in new destination states: Arizona, Nevada, North Carolina, Georgia, and Colorado.[5] Immigrants are more likely to live in metropolitan areas and less likely to live in rural areas than the native-born. Within metropolitan areas more than half of immigrants now live in the suburbs rather than the central city.

The majority of immigrants, about 71 percent, are living in the United States legally

About 32 percent of immigrants have become naturalized U.S. citizens and another 29 percent are legal permanent residents. In addition, another 10 percent entered the U.S. legally as refugees, or they are temporary legal residents. Undocumented

Two-thirds of all children with undocumented immigrant parents are U.S. citizens.

immigrants make up approximately 29 percent of the total immigrant population.[6] The majority of undocumented immigrants, about 57 percent, come from Mexico. Many immigrant families are of mixed legal status. For example, two-thirds of all children with undocumented parents are U.S. citizens.[7]

Immigrants are younger than the native-born, and the children of immigrants are a large and growing fraction of the U.S. population

Seventy percent of immigrants are between 18 and 54 years old, compared with 50 percent of people born in the United States.[8] Although immigrants account for 12 percent of the overall population, children of immigrants account for about 20 percent of children 17 and younger living in the United States.[9] The number of children with immigrant parents grew 15 percent from 1999 to 2002. Over the same time period, the number of children whose parents were born in the United States fell by 2 percent.[10]

Immigrants are over-represented among those with very little education and as likely as the native-born to have high levels of education

Thirty-three percent of immigrants have less than a high school education compared with only 13 percent of the native-born. However, about 27 percent of both immigrants and the native-born have a bachelor's or more advanced degree.[11]

Immigrants are a large and growing part of the U.S. labor force, but they are more likely to work in low-wage jobs

Immigrants account for half of the growth in the labor force since 1995, and they make up 15 percent of the work force.[12] Eighty-three percent of immigrant men ages 20 to 64 are in the labor force compared with 80 percent of U.S.-born men in the same age group. However, immigrant women are less likely to work than women born in the United States. Working immigrants are over-represented in blue collar and service sector jobs compared with workers born in the United States. This difference is driven almost entirely by immigrants from Latin America. Asian immigrants are more likely to be in professional occupations compared with the native-born.[13] Meanwhile, nearly one-half of immigrant workers earn less than 200 percent of the minimum wage, compared with one-third of native-born workers.[14]

Compared with native-born households, a higher percentage of immigrant households live below the poverty line

Seventeen percent of immigrants live in households with incomes below the poverty line, compared with 12 percent of the native-born.[15] The median income of a family headed by an immigrant is $42,980, compared with $54,686 for families headed by someone born in the United States.[16] The median income of a family headed by an immigrant from Latin America is just $34,798.

Factors that Drive Checking Account Ownership

The figures cited in this section come from the authors' analysis of the 1996–2000 Survey of Income and Program Participation (SIPP) data. The analysis includes immigrants who live in metropolitan statistical areas and are 18 years or older.[17]

Immigrants are less likely to have checking accounts than the native-born

While the gap in participation rates between immigrants and the native-born is striking for a broad range of financial services, the focus of this discussion is on checking accounts. Checking accounts provide a safe and insured place to put money and allow an individual to write checks, pay bills, and participate in direct deposit payment opportunities. Seventy-six percent of the native-born have a checking account, while only 63 percent of immigrants do.

For most people, including immigrants, checking accounts are their first point of contact with the banking industry

Because checking accounts are the main point of entry into the U.S. banking system, the factors that influence checking account ownership also reveal something about how immigrants integrate into the U.S. financial system more generally.

Several key factors influence account ownership for both immigrants and the native-born

Education. High school graduates are 13 percentage points more likely to have a checking account than those who have not completed high school. People with some college coursework are 19 percentage points more likely to have a checking account compared with those who have not completed high school, and people with college or advanced degrees are 21 percentage points more likely to have a checking account.

Race. Whites are 15 percentage points more likely to have a checking account than non-whites. Seventy-one percent of immigrants are non-white compared with 23 percent of the native-born.

Marital status. Married couples are 13 percentage points more likely to have a checking account than single people.

Children. Each additional child decreases the likelihood of having a checking account by two percentage points.

Employment. An individual who is unemployed or out of the labor force is three percentage points less likely to have a checking account than someone with a job.

Income. An individual whose monthly income is $1,500 is more than two percentage points less likely to have a checking account than someone with monthly income of

Having an account matters. Although immigrants are less likely to have any kind of bank account, those who do have about the same amount of money in them as people born in the U.S. To the extent that having a bank account facilitates wealth accumulation and savings, this benefit of account ownership is experienced equally by the native-born and immigrants.

Keep in mind that the impact of each of these characteristics measures the effect of changing the characteristic in question while other factors are held fixed. These factors have a similar influence on the likelihood of having a savings account.

Even after taking into account socioeconomic and demographic factors, immigrants are six percentage points less likely to have a checking account and eight percentage points less likely to have a savings account than otherwise similar native-born individuals.

$2,000. Average per capita monthly household income, in the SIPP data, is $2,000 for households headed by individuals who are 18 years or older.

A Closer Look at Immigrant Characteristics

There is something about being an immigrant that makes having a checking account less likely that goes beyond socioeconomic and demographic characteristics

Even after taking into account the effects of income, education, race, and other variables, immigrants are 6 percentage points less likely to have a checking account compared with similar groups of the native-born population. In order to better understand what is driving this difference in behavior, it is important to look more closely at the characteristics of the immigrant population.

There is a lot of variation in financial market participation within the immigrant population

As shown in Table 2.2, among the top ten immigrant source countries, the percentage of immigrants who have a savings or a checking account ranges from a high of 78 percent (Chinese immigrants) to a low of 40 percent (Mexican immigrants). Checking account usage is also highly variable, and only 27 percent of Mexican immigrants have a checking account compared with 75 percent of Canadian immigrants. The numbers, however, do not fit neatly into a developed versus developing country story: 63 percent of immigrants from the Philippines and 65 percent of immigrants from India have checking accounts.

TABLE 2.2

Immigrant Account Ownership in the U.S.

Source: Authors' calculations from 1996-2000 SIPP data. The sample size ranges from a high of 4,534 observations for Mexico to a low of 403 for Germany.

Country	Share of Immigrant Heads of Households who have:		
	Checking Account	Savings Account	Checking or Savings Account
Mexico	27%	26%	40%
China	48%	61%	78%
Philippines	63%	52%	76%
India	65%	56%	77%
Vietnam	49%	28%	56%
Cuba	49%	34%	59%
Korea	56%	38%	68%
Canada	75%	57%	85%
El Salvador	34%	25%	44%
Germany	72%	66%	87%

Immigrants who arrive as children are more likely to have a checking account

Integration is more complete the younger an immigrant is when he or she arrives in the United States. This applies to language, earnings, education — and participation in mainstream financial markets. Immigrants who arrived in the United States before they turned 15 are as likely as similar native-born individuals to have a checking account. However, only a small minority of immigrants arrive as children: 84 percent are 16 or older when they come to the United States.

English proficiency facilitates checking account ownership

Immigrants who are more likely to speak English, who come from countries where English is an official language, and who are likely to speak English at home are more likely to have checking accounts.[18] In fact, coming from one of these countries undoes the negative effect of being an immigrant for having a checking account. However, only 12 percent of immigrants come from one of these countries.

The longer an immigrant resides in the United States, the more they resemble the rest of the population in terms of having a checking account

Immigrants who have lived in the United States for ten years or less are nine percentage points less likely to have a checking account than the native-born; those who have lived in the United States for ten to 15 years are five percentage points less likely; and those who have lived in the United States for 15 or more years are as likely as the native-born to have a checking account.

It takes longer for immigrants to open savings accounts and longer still to own stock

Immigrants who have lived in the United States for less than five years are 18 percentage points less likely to have a savings account compared with the native-born; those who have been in the United States for six to ten years are 14 percentage points less likely to have a savings account; and those who have lived in the United States for 11 to 15 years are five percentage points less likely to have a savings account. After living 25 years in the United States, immigrants are still 8 percentage points less likely to own stock than otherwise similar individuals who were born in the United States. See Textbox 1 for more information on opening and closing accounts.

1. Does Lack of Information Explain Lower Account Ownership?

Could lower participation be driven by lack of information about the U.S. banking system? The evidence suggests that the answer is no. Opening and closing accounts is also affected by immigrant status. Immigrants close their accounts at about double the rate of the native-born. The difference in exit rates is important: it means that lower rates of account ownership among immigrants cannot be explained solely by lack of information about the U.S. banking system.

SOURCE:

Osili, Una Okonkwo, and Anna Paulson, "Prospects for Immigrant-Native Wealth Assimilation: Evidence from Financial Market Participation," Federal Reserve Bank of Chicago Working Paper, 2004, available at *www.chicagofed.org/publications/workingpapers/wp2004_18.pdf*.

Ethnic concentration decreases the likelihood of having a checking account

__Ethnic concentration__ is defined for each metropolitan area and country of origin pair. For example, for immigrants from Guatemala living in St. Louis, ethnic concentration equals the percentage of the St. Louis population that was born in Guatemala. For German immigrants living in St. Louis, it is equal to the percentage of the population that was born in Germany.

Some immigrants live together in cities or neighborhoods with many other immigrants from the same country. This tendency to cluster is called "ethnic concentration." A typical Cuban immigrant lives in a metropolitan area where 17 percent of the population is also from Cuba, and a typical Mexican immigrant lives in a metropolitan area where 9 percent of the population is also from Mexico. By contrast, immigrants from Vietnam and India are much less likely to cluster. The former account for only 0.7 percent of their typical metropolitan area and the latter just 0.3 percent.

Higher levels of ethnic concentration decrease the likelihood of having a bank account. For example, Mexican immigrants in Chicago account for 4.2 percent of the population, but Mexican immigrants in Milwaukee only account for 0.5 percent of the population. If an immigrant from Chicago were to move to Milwaukee, the likelihood of having a checking account would increase by 5 percentage points and the likelihood of having a savings account would increase by 2 percentage points. High levels of ethnic concentration might point to the availability of informal substitutes for savings and checking accounts within an immigrant community.

If Mexico had stronger institutions, institutions that were similar to Portugal's for example, savings account ownership among Mexicans in the U.S. would be about 10 percent higher.

Strong institutions in the country of origin lead to higher participation in U.S. financial markets

In addition to their hopes for a better future, immigrants bring with them attitudes that are shaped by their past experiences. In particular, they bring their perspectives on the trustworthiness of institutions like banks. In some countries, banks are not a safe place to put money, especially for relatively poor people. Immigrants who grow up in places where inflation, fraud, financial crises, and lack of transparency are common often distrust banks. For example, the banking crisis that crippled

Mexico in the mid-1990s heightened suspicions that banks were unreliable.[19] This distrust can extend to credit unions as well. In certain countries, credit unions have a reputation for absconding with depositors' funds.[20]

Not all immigrants come with negative perceptions, however. Immigrants who come from countries that do a better job of protecting private property and providing incentives for investment are more likely to participate in U.S. financial markets. The quality of home country institutions can explain one-half to five-sixths of the gap in financial market participation that remains between immigrants and the native-born after characteristics like income, education, race, and marital status have been taken into account. For example, the gap between immigrant and native-born checking account usage drops from 6 percentage points to about 1 percentage point once the quality of home country institutions is included in the analysis. The gap in savings account usage falls from 6 percentage points to about 2 percentage points, and the gap in stock market participation falls from 6 percentage points to 3 percentage points. The effect of home country institutions is extremely persistent, affecting account ownership even after an immigrant has lived in the United States for 18 years.

The effect of the home country institutional environment is magnified for immigrants who live in cities where ethnic concentration is high

The effect of home country institutions is stronger for immigrants who live in metropolitan areas with many other immigrants from the same country. For these immigrants, attitudes toward institutions that were forged in the country of origin are likely to be reinforced through interactions with other immigrants from the same country who share exposure to that country's institutions.

Other Factors that Affect Immigrant Account Ownership

These conclusions are drawn from both the academic literature and discussions with practitioners.

Minimum balance requirements discourage immigrants from owning bank accounts

Minimum balance requirements are among the most burdensome barriers to opening a bank account. Among lower income households, an increase of $100 in the initial minimum balance requirement lowers the probability of owning a checking account by 1.5 percentage points.[21] Survey responses among Latin American immigrants show that negative views about banks are related to perceptions of high minimum balance requirements.[22]

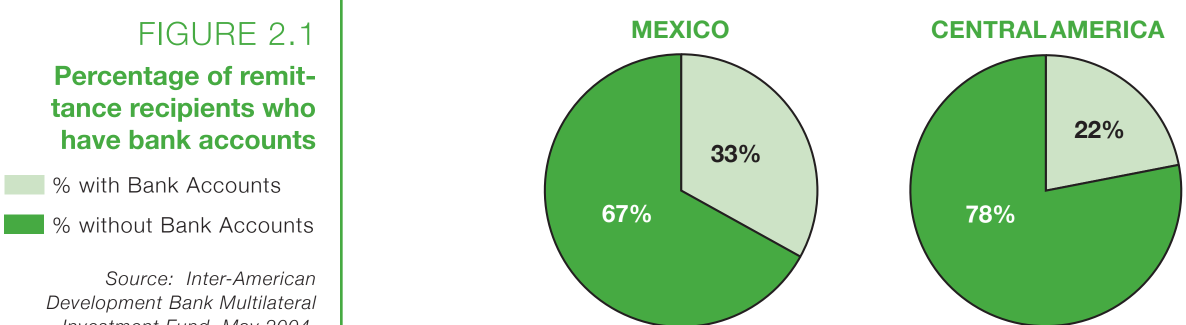
In practice, bank accounts are often very expensive for immigrants

A full comparison of costs does not necessarily favor the use of banks over check-cashers and other alternative financial services providers.[23] In a direct cost comparison, banks often charge less for similar services. For example, a bank may charge nothing for an account holder to cash a check, but check-cashers will provide this service only for a fee. Capturing these savings, however, requires careful management of a bank account in order to avoid high overdraft or other additional fees.[24] Many immigrants are likely to be vulnerable to such fees because they live paycheck to paycheck, have incomes that fluctuate frequently, and may lack knowledge about how to properly manage their finances. As a result, many, very sensibly, avoid opening bank accounts.

Many immigrants view banks as being for the wealthy. The formal appearance of banks and the reserved manner in which customers are sometimes treated can intimidate immigrants.[25] This perception is similar to that felt by many native-born, low-, and moderate-income individuals. In addition, immigrants often come to the U.S. with little experience with banks. In many immigrant source countries, few individuals have bank accounts.

FIGURE 2.1

Percentage of remittance recipients who have bank accounts



Source: Inter-American Development Bank Multilateral Investment Fund, May 2004.

Lack of documentation contributes to immigrant distrust of banks

For some immigrants, concerns about proper documentation contribute to a more general distrust of banks. Many fear that the failure to produce valid immigration papers at a bank will jeopardize their ability to stay in the United States.[26] A nationwide survey of Latin American immigrants living in the United States found that 25 percent believe opening an account requires a Social Security number or a driver's license.[27] Immigrants also mistakenly believe that they will lose access to the funds in their account when the documentation they used to open an account expires, or that the funds in their accounts will be liquidated if they are deported.[28]

Although Mexican immigrants, in particular, have embraced the *Matricula Consular* card, and many have used it to open bank accounts, the card is less available to Mexican immigrants living far from a consular office. In addition, not all countries issue similar documentation. See Textbox 5 in Chapter 3 for a discussion of the *Matricula Consular* card.

2. Immigrant Homeownership

More than 5.7 million immigrant homeowners live in the United States, representing nearly 8 percent of all homeowners. As of 2005, 55 percent of immigrants and 76 percent of the native-born owned homes — the highest levels since the data were first collected in 1994. The desire to own a home and achieve the American dream is shared by the native-born and immigrants. This goal is an important reason to establish a relationship with a bank.

Non-citizen immigrants have far lower homeownership rates than naturalized citizens, whose homeownership rates are largely comparable to those of the native-born. Compared to the native-born, a far higher proportion of immigrant households live in areas with high housing costs, and immigrants are much more likely to spend in excess of 30 percent of their income on housing.

As with transaction accounts, a number of demographic factors affect immigrant homeownership. These include age, race, education, marital status, and household income. For example, immigrant heads of households who are older, married, and more educated are more likely to own their own homes. In addition, immigrants who have lived in the United States longer and are proficient in English have higher homeownership rates. Country of origin also plays a role in homeownership for immigrants. Immigrants from Europe, Canada, East Asia, and Southeast Asia lead all other immigrant groups in homeownership rates.

Undocumented immigrants and those without a credit history or evidence of timely bill-paying are not eligible for many mortgage programs. The mortgage market for holders of Individual Taxpayer Identification Numbers (ITINs) is in its infancy. Relatively few banks make ITIN loans and the secondary market for these loans is almost non-existent. The ITIN is a nine-digit tax processing number issued by the Internal Revenue Service to individuals who do not qualify for an Social Security number but earn income in the United States.

For more information on immigrant home-ownership, including recommendations to financial institutions that are seeking to extend homeownership opportunities to immigrants, see *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans,* Schoenholtz, Andrew I., and Kristin Stanton, Fannie Mae Foundation and Georgetown University's Institute for the Study of International Migration, 2001, available at *www.fanniemaefoundation.org/programs/pdf/rep_immigrant.pdf.*

SOURCES:

Bureau of the Census, Current Population Survey, 2005 March Supplement.

Callis, Robert, "Moving to America—Moving to Homeownership: 1994-2002," *Current Housing Reports,* U.S. Census Bureau, September 2003, available at *www.census.gov/prod/2003pubs/h121-03-1.pdf.*

Drew, Rachel Bogardus, "New Americans, New Homeowners: The Role and Relevance of Foreign-born First-Time Homebuyers in the US Housing Market," Joint Center for Housing Studies, Harvard University, 2002, available at *www.jchs.harvard.edu/publications/homeownership/drew_N02-2.pdf.*

Papademetriou, Demetrios, and Brian Ray, "From Homeland to a Home: Immigrants and Homeownership in Urban America," *Fannie Mae Papers,* vol. 3, (March 2004), available at *www.fanniemae.com/commentary/pdf/fmpv3i1.pdf.*

Credit history problems may make it hard for immigrants to open accounts

Since access to transaction accounts is in part governed by past credit behavior, the lack of a credit history, or a poor credit history, may be a barrier to opening a checking account. Studies of ethnic minorities show that they have significantly lower credit scores compared with whites.[29] This is also an issue for immigrants, many of whom are ethnic minorities.

Immigrants' perceptions about the likelihood of getting future loans can deter them from opening an account

One of the reasons that many people open bank accounts is to establish a financial record and begin to develop a credit history. Anecdotal accounts reveal that immigrants tend to lack information about the requirements for getting a loan.[30] Therefore, immigrants may believe that they will not be eligible to receive credit even if they have not actually applied for a loan and been denied. If immigrants believe they will be barred from more sophisticated banking products like mortgages, there is less incentive for them to open a transaction account in the first place (see Textbox 2).

Return migration plans affect the decision to open a bank account in the U.S.

The likelihood that an immigrant will return home affects the incentives for opening a bank account in the U.S. For example, refugees who are very unlikely to return to their countries of origin have stronger incentives to adapt to U.S. society than immigrants who plan to return home after a short stay. This is one factor that could help to explain the relatively high rates of account ownership among Vietnamese immigrants and the lower rates of account ownership among Mexican immigrants (see Table 2.2).

Factors that Affect How Immigrants Cash Checks

Most working immigrants are paid in checks, regardless of whether they have a bank account

While immigrants have relatively low rates of bank account ownership, most receive their wages in the form of a check. It is estimated that more than $500 billion of paper payroll checks are written each year to employees without bank accounts.[31] In a survey of Mexican immigrants, a substantial proportion of whom were undocumented, more than 65 percent reported being paid with checks.[32] These checks come frequently. Half of immigrants receive their wages every two weeks, and nearly 40 percent are paid on a weekly basis.[33] The norm, therefore, is for working immigrants to receive between two and four paychecks every month.

Immigrants cash checks primarily at check-cashing outlets

The primary place that people without bank accounts go to cash checks is the alternative financial services sector. Estimates indicate that between 59 and 75 percent of people without bank accounts use check-cashers to cash their checks.[34] The typical fee is 1 to 2 percent of the face value of the checks.

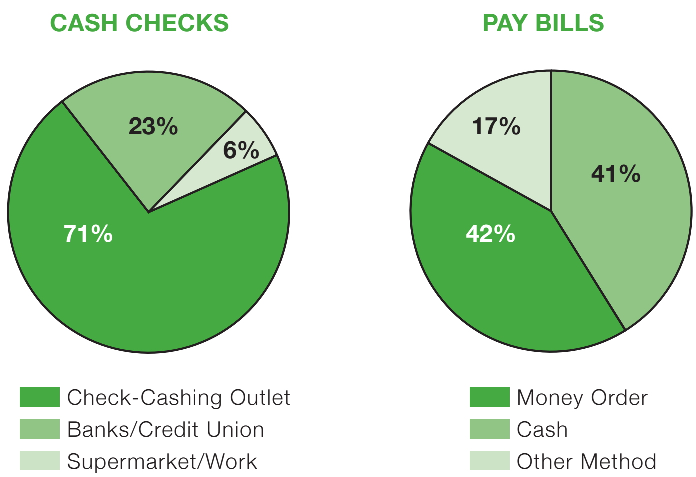


FIGURE 2.2

How low-income people without bank accounts (a) cash checks; and (b) pay bills

Source: Dunham, 2001.

Sample includes low-income people without bank accounts in New York and Los Angeles; 59 percent of the sample are immigrants.

Some immigrants without bank accounts use banks to cash checks

A sizable percentage of people without bank accounts also use banks to cash checks. According to one study, more than a third of people without bank accounts use a bank to cash checks.[35] Many immigrants visit banks or credit unions to cash checks, only to turn around and use alternative financial services providers to buy money orders or send remittances.

Many immigrants pay bills using cash and money orders

A handful of studies, largely qualitative in nature and based on regional populations, suggest immigrants use cash and money orders to make all kinds of payments. This behavior is driven, in part, by the neighborhoods where immigrants live. In many low- and moderate-income communities, checks are not accepted by landlords, businesses, or even friends and family.[36] This means that many immigrants regularly go through the process of converting their paychecks into cash.

Factors that Affect How Immigrants Send Remittances

Sending remittances is one of the most common and important financial practices of immigrants

Another basic financial practice of immigrants is sending remittances. More than 40 percent of immigrants send remittances to family living in their countries of origin. Remittances are sent by the entire range of immigrants: documented and undocumented; permanent and temporary; upper- and lower-income; middle-aged and young; married and single; and male and female.[37]

Most immigrants and their families use money transfer operators, not banks, to send and receive remittances

Like bill-paying, the process of sending money home takes place largely through the alternative financial services sector. Money transfer operators, like Western Union and MoneyGram, many of which are located in check-cashing outlets, account for 70 to 80 percent of all remittances sent.[38] Between 3 and 11 percent of remittance transactions from the United States to Latin America are sent through banks.[39]

Even immigrants with bank accounts do not necessarily use banks to send remittances

Immigrant families that have bank accounts are unlikely to use banks to send money home. In one survey, just 22 percent of remitters who had a bank account used a bank to send remittances.[40] Part of the reason relates to lack of information. In another study, only a fraction of the remittance senders with bank accounts understood that they could use the bank to remit money to their native countries.[41]

> “Many Latinos withdraw money from their banking institutions to walk across the street and remit money via money services businesses on a monthly basis. Even documented, banked Hispanics tend to remit money through money services businesses rather than banks.”
>
> ***Patrick Contreras, Research Associate, Consumer Affairs, Federal Reserve Bank of Kansas City, Innovation in Banking the Unbanked Part III, Federal Reserve Bank of Kansas City, August 2005.***

The cost of sending a remittance typically ranges from 4 to 8 percent of the amount sent

It costs about $16 to send $400 to Mexico, or about 4 percent of the value of the remittance, regardless of whether the remittance is sent via a bank or a wire transfer firm.[42] In less competitive markets, the cost of sending money through money transfer operators is about 8 percent of the amount sent. Banks usually charge less than wire transfer firms in less competitive markets.

For immigrants, cost is not the main factor in deciding how to send remittances

Several surveys show that cost is not the overriding concern for many immigrants in deciding how to send remittances. Other factors that influence immigrants' decisions about how to send remittances include the convenience of and familiarity with the service provider, the availability of payment locations in the receiving country, and the legal status, income, and education levels of the senders. Some of these factors make immigrants more likely to use money transfer operators, while others make them more likely to use banks. The process of choosing how to send money is a joint decision in which both the remitter and recipient determine the most favorable mechanism for both parties.[43]

Money transfer operators have the advantage of being geographically convenient in both sending and receiving locations

One of the most important considerations for both remittance senders and recipients is the geographic convenience of money transfer operators.[44] Money transfer operators are often located in immigrant neighborhoods and close to public transportation.

Location is equally important for remittance recipients.[45] Many remittance recipients live far from bank branches or ATMs. This is especially true of families in rural areas, where the absence of bank infrastructure in the receiving country is most pronounced and bank account ownership tends to be lowest.

In contrast, the largest money transfer operators have invested heavily to establish extensive distribution networks that serve both rural and urban areas in sending and receiving countries. Most use a network of distribution points in sending and receiving countries that, in addition to banks, consists of their own offices, independent agents, and third-party establishments such as grocery stores, drugstores, travel agencies, and large retailers like Wal-Mart.

Reliable service, extended hours, and staff that speaks the language of customers are other reasons why immigrants send remittances via money transfer operators

In addition to location, many immigrants report a host of other reasons for preferring money transfer operators. Money transfer operators have a proven track record of transmitting money, and they have quick delivery times, extended hours, and staff who speak the language of immigrant customers.[46]

Remittance recipients often prefer money transfer operators over banks

Referrals from family members and friends in the U.S. are often given more consideration than bank advertising and marketing.[47] According to one set of focus group participants, some families insist that their sending relative use a specific company or remittance method outside of the banking sector because they are accustomed to receiving the funds in a particular manner.[48]

Undocumented remittance senders use wire transfer services because they perceive the alternative financial services sector as being more welcoming

Immigrants are more likely to use wire transfer services when they lack immigration documents. Wire transfer firms do not require Social Security numbers, and no identification is needed for transactions less than $1,000. This anonymity is often welcomed by immigrants who are wary of doing business with institutions that they fear will report them to immigration authorities.[49] Even controlling for the length of time in the United States, undocumented immigrants are more likely to send remittances via money transfer operators.[50]

“Seventy percent of the total volume of remittances to Latin America is transferred to areas with little or no banking services.”

Enrique V. Iglesias, President, Inter-American Development Bank, comments at "Remittances as a Development Tool: A Regional Conference," Inter-American Development Bank, May 17–18, 2001.

Immigrants with higher levels of education and income are more likely to choose banks to send remittances

Among Mexican remitters, those who are more educated, have a higher level of skills, and who send a larger fraction of their earnings to their country of origin are more likely to use banks.[51] Wealthier families also tend to send money to relatives that have access to a bank in the receiving country, making account-to-account transfers a viable and less expensive option. The positive relationship between wealth, education, and bank account usage extends to immigrants from other countries as well.

Conclusion

Immigrants are a young and growing part of the population in cities and suburbs across the United States. Even though immigrants — Latin Americans in particular — are often employed in low-wage jobs, and many immigrant households are living in poverty, immigrants still have a great need for financial services — especially when it comes to cashing checks, paying bills, and sending money abroad. Immigrants typically use alternative financial services providers to conduct their financial business.

Immigrants do not use banks for socioeconomic, cultural, and institutional reasons

For a variety of reasons, immigrants are significantly less likely than the native-born to use banks. This is partly due to characteristics that are shared with many native-born individuals, like low incomes and low levels of education. For immigrants, legal status and a lack of English language proficiency undermine bank participation as well. In addition, immigrants who live in metropolitan areas with high concentrations of other immigrants from the same country are less likely to have checking and savings accounts. Immigrants who come from countries with weak institutions are also less likely to participate in U.S. financial markets.

Anecdotal studies suggest that immigrants also avoid banks because of fees and minimum balance requirements. In addition, the formal culture of many banking institutions intimidates some immigrants. A poor credit history also keeps some immigrants from opening accounts.

Many immigrants prefer using the alternative financial services sector to cash checks, pay bills, and send remittances

Many of the disadvantages noted by immigrants with respect to banks, such as inconvenience and lack of accessibility, are directly related to what immigrants perceive as advantages of alternative financial services providers. Indeed, the services offered by many alternative financial service providers drive immigrants' decisions on where to "bank." Extended hours and convenient locations are seen as very important for immigrants who will use services like check-cashing as often as every week. An immigrant can both cash a check and send remittances through the same clerk at the check-cashing outlet.

Some immigrants use banks and the numbers are likely to grow as immigrants gain experience in the United States

Some immigrants make use of banks to conduct transactions, build savings, and send remittances. Highly educated Mexican immigrants who are wealthier use banks to send remittances. Immigrants from other countries who share those characteristics are also more likely to have checking and savings accounts. In addition, the likelihood of bank account ownership increases with time spent in the U.S.

Additional Resources:

- "Banking the Poor: Policies to Bring Low-Income Americans into the Financial Mainstream," Michael S. Barr, research brief, The Brookings Institution Metropolitan Policy Program, September 2004, available at *www.brookings.edu/metro/pubs/20041001_Banking.pdf.*

- "Billions in Motion: Latino Immigrants, Remittances and Banking," Pew Hispanic Center and Multilateral Investment Fund, 2002, available at *www.pewhispanic.org/reports/report.php?ReportID=13.*

- "Individuals and Institutions: Evidence from International Migrants in the U.S.," Una Okonkwo Osili and Anna Paulson, Federal Reserve Bank of Chicago, working paper, 2005, available at *www.chicagofed.org/publications/workingpapers/wp2004_19.pdf.*

- "On the Remitting Patterns of Immigrants: Evidence from Mexican Survey Data," Catalina Amuelo-Dorantes, Cynthia Banska, and Susan Pozo, *Economic Review*, Federal Reserve Bank of Atlanta, First Quarter 2005, available at *www.frbatlanta.org/invoke.cfm?objectid=DB713B3A-5056-9F06-99B871CDE2BB8570&method=display_body.*

- "Prospects for Immigrant-Native Wealth Assimilation: Evidence from Financial Market Participation," Una Okonkwo Osili and Anna Paulson, Federal Reserve Bank of Chicago, working paper, 2004, available at *www.chicagofed.org/publications/workingpapers/wp204_18.pdf.*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3

THE INDUSTRY

Financial Sector Efforts to Reach Immigrant Customers

Financial Sector Efforts to Reach Immigrant Customers

Banks of all sizes are reaching out to immigrants. In order to better capture this rapidly growing market segment, banks are positioning themselves to gain credibility in immigrant communities, accepting alternative forms of identification, entering the fast-growing remittance market, and rolling out other new products and services. The regulatory environment sometimes looks favorably upon bank efforts to generate greater immigrant participation in the formal financial sector. However, regulation sometimes lacks clarity and this can frustrate innovation in reaching immigrant customers.

Introduction

Banks are revamping strategies in order to attract immigrant customers. They are redirecting practices, products, and services to entice new immigrant clients to their doors and away from alternative financial services providers that traditionally serve the immigrant market. Widespread bank initiatives include working to build trust in immigrant communities and accepting nontraditional forms of identification. Banks are also adding products and services, especially remittances, typically provided by the alternative financial services sector. While many banks are concentrating on establishing basic connections with immigrant clients, others are working to deepen these relationships by matching customers with higher-end financial products like housing and small business loans.

Building immigrant acceptance of banking institutions is a gradual and multi-stepped process. It takes time to understand the cultural backgrounds and diversity of immigrant populations. Outreach often requires making large up-front investments in marketing, staffing, and training – investments whose returns may take years to realize. The time line may even extend to the children of immigrants. Tapping into the financial services opportunities offered by the growth in the immigrant population, therefore, requires mainstream institutions to be patient and flexible. They must also be willing to take on a complex and evolving regulatory environment.

Banks of all sizes are marketing to immigrants, and many are making this part of their core strategy

Immigrants represent a growing share of the financial marketplace for all types of banking institutions, from large conglomerates to small neighborhood banks and credit unions. According to a 2003 survey by the American Bankers Association, close to half of banks are either active in multicultural marketing or plan to market to different ethnic groups. Many of these banks view providing services to immigrants as part of their core business strategy.

Small banks have strong connections to their neighborhoods and can respond quickly to changing markets through experience and innovation

Small banks, or community banks, are well-suited to serve immigrant customers. They tend to have more staff per customer and, in general, a more high-touch, person-to-person approach than large banks.[1] The small bank strategy typically includes providing differentiated, individualized products rather than standardized, commodity-type offerings. In addition, small banks typically have in-depth knowledge of their local markets.

As the neighborhoods that they serve experience dramatic demographic changes, reaching out to immigrant customers can be matter of survival for small banks. On average, community banks finance 40 to 65 percent of their assets using local household and business deposits, compared with about 30 percent for large banks. This gives small banks an added incentive to develop products for neighborhood residents who may not carry traditional forms of identification or speak English well.

Since small banks tend to be more nimble and less bureaucratic, they can make quick decisions about new practices and products without having to win approval from layers of bureaucracy. As a result, community banks are often a source of innovation in the industry. Some neighborhood banks have decades of experience in specific business niches such as Asian trade or Latino mortgage lending. Immigrant-owned financial institutions figure prominently among this group, sometimes serving customers of many different ethnicities rather than a particular immigrant group.

Large banks have substantial marketing budgets and a national presence that can reach millions of potential clients

Large banks are also responding to changing demographic trends. They leverage nationally, and in some cases internationally known brands and vast resources to craft strategies that target multiple markets across the nation. By virtue of their many points of sale, networks, and influence on the banking sector, big banks have the ability to open the financial sector to larger numbers of immigrants.

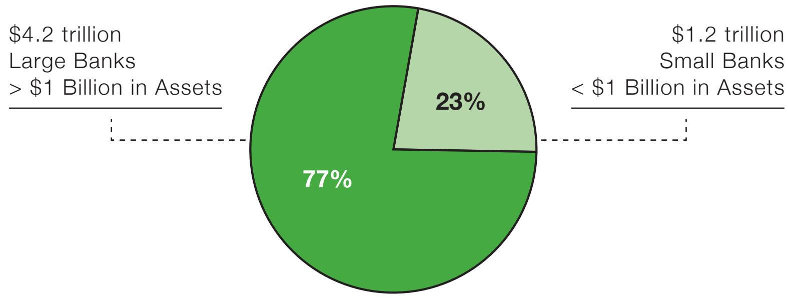
> "The kind of customer service and business relationships we establish with customers are very time consuming… Every customer who walks in the door, I am able to call them by their name and say hello to them …I cannot emphasize enough the importance of the individual and personal contacts and community connections."
>
> ***Yman Vien, Chairman, American Metro Bank, presentation at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, Federal Reserve Bank of Chicago, April 16, 2004.***

FIGURE 3.1

Deposits Held by Large and Small Banks in 2004

There are 9,066 banking institutions in the United States. Of those, 434 or 4.8% are large institutions. Large banks hold more than three-quarters of all bank deposits.

Source: Authors' tabulations of 2004 Federal Deposit Insurance Corporation Summary of Deposits.



Notes: A banking institution consists of all the bank branches operated by a banking entity under the same name. For example, all of the JPMorgan Chase banks across the United States make up one banking institution. Most bank holding companies consist of one banking institution with multiple branches. In some cases, they are made up of multiple banking institutions, as is the case with JPMorgan Chase.

Some have created domestic business units devoted to outreach in immigrant and minority communities; others have opened branches that cater to the needs of immigrants. Branches of foreign banks, like *Banco Bilbao Vizcaya Argentaria* (using Mexico as its entry point), have also moved into the U.S. market. These branches leverage similarities in language and culture to mitigate immigrants' lack of familiarity with U.S. banking institutions.

Cross-border acquisitions are another way for large banks to attract immigrant clients

Some large banks use acquisitions or partnerships with Mexican financial institutions to expand their markets in the United States. For example, Citibank bought Mexico's Banamex outright in 2002, and Bank of America purchased approximately 25 percent of Santander Serfin, a Spanish-owned bank with a strong presence in Mexico. These partnerships represent multi-billion dollar investments to market financial services to Mexicans, Mexican-Americans, and the U.S. Hispanic population.

Providing products typically available only through alternative financial services providers is another strategy for reaching the immigrant market

A number of banks are adopting the successful practices of the alternative financial services sector to win a share of the immigrant market.

Another way banks build financial relationships with immigrants is though "hybrid" entities, where depository institutions (both banks and credit unions) combine the services usually associated with check-cashing companies, including wire transfers and short-term loans, with the products associated with depository institutions. Hybrids offer an alternative for immigrants who do not want to use traditional banks. They pair the services that immigrants already use with financial counseling or basic banking products that help move people into depository and credit relationships. While hybrids are still experimental, they represent a fundamental shift in the format of bank service delivery.

Hybrids take many forms, in terms of the financial services offered and the type of partners involved. Some hybrids are partnerships between community-based organizations and check-cashing companies. Some are located in existing bank or credit union branches, while others are in separate offices (see Textbox 3 for examples).

As an alternative to the hybrid model, some banks make themselves more attractive to immigrant customers by offering services that complement and also compete directly with those of the alternative financial services sector. In addition to remittances, these include low-cost savings and checking accounts, automatic bill payment, money orders, check-cashing and nonfinancial products like stamps, copies, and phone cards.

3. Banks Providing Alternative Financial Service Sector Products

The Latino Community Credit Union: Chartered in February 2000, the Latino Community Credit Union (LCCU) is the first and fastest-growing federally insured financial institution to focus on low- and moderate-income Latinos. LCCU offers services typical of the alternative financial services sector like check-cashing. In addition, LCCU offers bank accounts, ATM cards, and mortgage and consumer loans. Customers must be credit union members to make use of LCCU's products and services.

El Banco: El Banco is a Georgia-based bank that has broken ground in hybrid banking by developing a web-based risk management application, *Conexion al Banco,* that allows banks to operate a professional check-cashing business in tandem with standard bank services. Designed to fit on a bank teller's desktop computer, this application permits a seamless delivery of bank and check-cashing services for the variety of customers that El Banco serves.

SOURCES:

White, Kristin, Coordinator of Marketing and Financial Education, The Latino Community Credit Union, interview with authors, October 2005.

Hodges, George, Executive Vice President, Chief Marketing Officer, El Banco, interview with authors, October 2005.

Getting Immigrants in the Door

Building trust is a critical first step

Many immigrants enter the United States with negative perceptions about financial institutions. Banks, therefore, have focused on creating a reputation for trustworthiness within immigrant communities. Some of the ways in which banks work to build trust include adding bilingual staff, providing in-house multicultural training for bank workers, offering classes like English as a second language or homebuyer education for potential customers, and sponsoring activities like ethnic festivals.

“Reaching out is a bank-wide effort. I'm talking from the receptionist up to the CEO. It cannot be an initiative because initiatives come and go. It has to be part of the infrastructure of the institution.”

James Ballentine, Director, Grassroots and Community Outreach, American Bankers Association, presentation at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, Federal Reserve Bank of Chicago, April 16, 2004.

"Sunday is the busiest day of the week at United Commercial Bank's branch in Chinatown, where tellers speak Cantonese or Mandarin. Loan officers serve oolong tea. During the Chinese New Year, the bank offers dim sum and suckling pig."

Erica Brown, "Strike! Tommy Wu's game is different from those of bigger banks: He targets immigrants who can't get loans elsewhere," Forbes, May 14, 2001.

As part of a comprehensive set of changes designed to make banks more attractive to immigrant customers, they have modified their marketing and customer service delivery methods. These changes include adding or switching advertising channels, designing multilingual websites and ATMs, expanding business hours to better serve the nontraditional work schedules of many immigrants, and reconfiguring bank lobbies to make them less formal and more inviting.

Banks have also revisited some standard procedures that make it difficult for immigrants to open bank accounts. Rather than the standard practice of requiring a Social Security number, some banks accept Individual Taxpayer Identification Numbers, driver's license numbers, or even names and addresses for verifying credit histories of potential customers, using the ChexSystems database. About 80 percent of U.S. bank branches use the ChexSystems database to screen potential customers before opening accounts.

While such changes are important for banks, they do not guarantee success. Changing an image or a marketing strategy will not result in new customers, unless the change is thorough and reflects a comprehensive understanding of immigrant culture. Achieving success requires the commitment of the entire organization.

Partnerships with community groups facilitate trust-building

Although immigrants may not trust banks, they often trust churches, schools, and other community organizations. These organizations can mediate the relationships between financial institutions and immigrant clients. Banks partner with these organizations in the hope that immigrant trust of the church or nonprofit, for example, will transfer to the bank. These partnerships exist with social services organizations, police forces, schools, employers, and other community actors.

Accepting New Forms of Customer Identification

Existing legislation allows banks to decide whether to accept identification issued by foreign governments

One of the most important steps that many banks have taken to reach immigrant customers is accepting alternative forms of identification to open accounts. The regulatory environment has played a pivotal role in bolstering this trend. Anti-money laundering and anti-terrorism legislation, the main legislation that impacts this area, make it clear that Social Security numbers are not required to open bank accounts (see Textbox 4).

The legislation establishes the rules that a Customer Identification Program must follow. Within these guidelines, banks can choose which types of identification to accept.

4. New Forms of Customer Identification and the USA PATRIOT Act

Section 326 of Title III of the USA PATRIOT Act*, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, requires financial institutions (or third-party agents performing services on their behalf) to keep and report accurate records that verify the identities of their "customers," particularly as those records pertain to money laundering, terrorism, identity theft, and fraud. Customer Identification Programs (CIPs) require banks to collect the name, address, date of birth, and tax identification number of a prospective customer in addition to any other information that a bank's particular account-opening procedure requires. A bank's CIP must: (1) specify the identifying information that will be obtained from each customer; (2) verify the identity of each customer; (3) retain the identifying information obtained at account opening for five years after the account is closed; and (4) determine whether a customer is on any federal government list of terrorists.

Under the Treasury Department's final rules for implementation of this part of the USA PATRIOT Act, acceptable forms of identification include Social Security numbers and driver's licenses, as well as foreign government-issued identification and consular identification cards. Whether a bank chooses to accept alternative forms of identification depends on the amount of risk it is willing to assume with respect to its ability to verify the identity of each customer. The USA PATRIOT Act requires that institutions that accept the *Matricula Consular* card take reasonable steps to ensure that they have verified the identity of the customer through documentary or non-documentary means.

**The formal title is the Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act. The Act was signed into law in October 2001.*

SOURCE:

Kuehl, Steven W., "Conference Series: An Informed Discussion of Financial Access for Immigrants—Des Moines, Milwaukee, Detroit, Indianapolis, Springfield, Lisle, and Appleton," Profitwise News and Views, Special Edition, Federal Reserve Bank of Chicago, August 2005, available at *www.chicagofed.org/community_development/files/pnv_aug2005.pdf*.

In established immigrant areas, identification cards issued by foreign consulates are widely accepted

One of the most important alternative forms of identification is known by its name in Spanish, the *Matricula Consular* (see Textbox 5). This identification card is issued to Mexican migrants by Mexican consular offices in the United States.

Hundreds of banks in the United States now accept the *Matricula Consular* card to open bank accounts either as a unique source of identification or in conjunction with a second piece of documentation.[2] These banks include the largest U.S. financial institutions, as well as many community banks and credit unions.

Although the number of institutions that accept the *Matricula Consular* is just a fraction of the total number of banks in the United States, they represent about 80 percent of the total deposit base.[3]

5. Matricula Consular

The *Matricula Consular* card is an official national identity card issued by the Mexican government through its network of consulates in the United States. In 2002, security enhancements were made to the card and it was redesigned as the High Security Consular Registration Card. The card provides a name, address, and identification number for bank customer identification programs. While other Latin American governments have begun to issue similar cards, the *Matricula Consular* is the most widely circulated, carried by more than 4 million Mexicans in the United States as of 2005, according to the Mexican government. Of these, 2.2 million carry the high security version of the card. Although the *Matricula* allows immigrants to open accounts at many banks in the U.S., it must be used in conjunction with a Social Security number or an Individual Taxpayer Identification Number to open an interest-bearing account or to engage in other taxable bank activities.

SOURCES:

Bruno, Andorra, and K. Larry Storrs, Consular Identification Cards: Domestic and Foreign Policy Implications, the Mexican Case, and Related Legislation, Congressional Research Service Report for Congress, The Library of Congress, March 31, 2005, available at *www.fas.org/sgp/crs/misc/RL32094.pdf*.

Kuehl, Steven W., "Conference Series: An Informed Discussion of Financial Access for Immigrants—Des Moines, Milwaukee, Detroit, Indianapolis, Springfield, Lisle, and Appleton," Profitwise News and Views, Special Edition, Federal Reserve Bank of Chicago, August 2005, available at *www.chicagofed.org/community_development/files/pnv_aug2005.pdf*.

Tax numbers issued by the Internal Revenue Service are also used to open accounts, but obtaining them has become more difficult

A growing number of financial institutions also accept Individual Taxpayer Identification Numbers, known as ITINs, as documentation for opening interest-bearing accounts. Again, this group includes both small neighborhood banks and the largest financial institutions in the United States. ITINs must be used in conjunction with other identification due to regulatory requirements.

The ITIN is a nine-digit tax processing number issued by the Internal Revenue Service (IRS) to individuals who do not qualify for a Social Security number but earn income in the United States. In general, only non-citizens who have permission to work from the Department of Homeland Security can apply for a Social Security number. The IRS issues ITINs in order to encourage foreigners to file income-tax returns, regardless of whether they have a Social Security number. The IRS began issuing ITINs in July 1996. Since 1996, the agency has issued more than eight million of these numbers.[4]

As part of major changes to the ITIN program since 2003, the IRS has made the rules for applying for an ITIN more stringent. The agency reduced the number and types of identification that can be used to apply for an ITIN from 40 to 13.[5] In general, applications are no longer accepted without a completed Form 1040 (an individual tax form) and Form W-2 (a wage and tax statement). However, there are exceptions to having to file a Form 1040 with the ITIN application for individuals who have interest income from a bank account or pay interest via a home mortgage. An Acceptance Agent screening function was also introduced in 2003 where current and prospective Acceptance Agents, organizations authorized by the IRS to assist individuals in obtaining ITINs, must undergo Federal Bureau of Investigation background checks, credit checks, and a review of their IRS filing history and compliance.

Barriers to universal acceptance of alternative forms of identification remain

There are several barriers to broader bank acceptance of alternative forms of identification. One has to do with conflicts over the treatment of immigrant status in banking, tax, and immigration law in the United States. Different government agencies give banks conflicting signals about the acceptability of courting immigrant customers, particularly undocumented immigrant customers. Financial institutions are not required to consult with the U.S. Citizen and Immigration Service to verify the identity of foreign nationals until there is a single database that is accessible by financial institutions and contains the relevant information.[6] Yet the Treasury Department has stated that, "…because ITINs are issued without rigorous verification, financial institutions must avoid relying on the ITIN to verify the identity of a foreign national."[7]

Banks may also be reluctant to accept alternative forms of identification because of the perceived risks of working with clients without Social Security numbers. Many U.S. banks routinely use Social Security numbers to run credit checks before opening accounts for prospective customers. Banks also shy away from lending to individuals whose loans cannot be sold in the secondary market and who may be subject to deportation.

In addition, some banks have closed the accounts of alternative financial service providers after determining that the potential costs of working with these "high-risk" companies that warrant "enhanced customer due diligence," according to the Office of the Comptroller of the Currency, are greater than the bank is willing to assume.[8] These banks are concerned that they will come under increased regulatory scrutiny if they work with alternative financial service providers which generally have less stringent identification requirements than banks.

Competing for Immigrant Clients in a Growing Market: Remittances and the Alternative Financial Services Sector

Banks face stiff competition for the financial business of immigrants. That competition comes largely from the alternative financial services sector. The number of check-cashing outlets and other alternative financial services in the United States increased from 25,000 to 35,000 between 1995 and 1999.[9] Meanwhile, the number of payday lenders grew nationwide from virtually no establishments in 1994 to

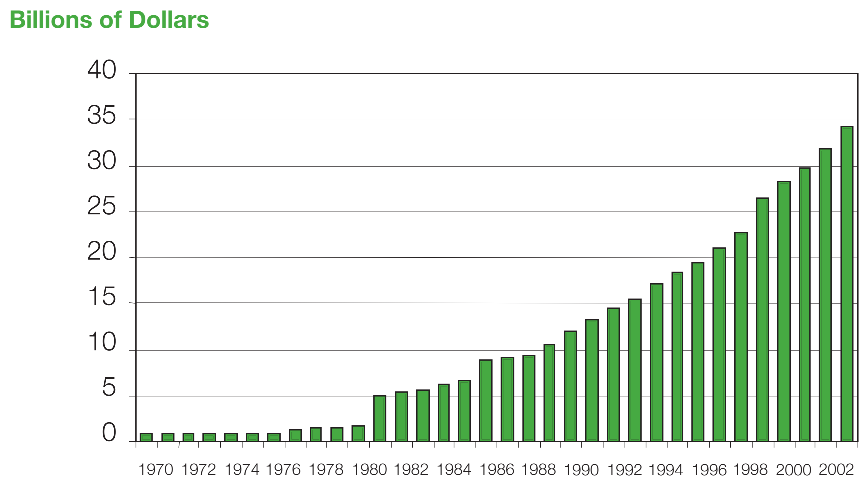
9,000 establishments in 2000. The growth of these and other kinds of alternative financial services demonstrates the high demand for financial services outside of the mainstream banking sector. That demand is creating new markets, and one of the most highly competitive is remittances.

World-wide estimates of remittances to developing countries range from $93 billion to $156 billion in 2003, and the number is growing

The volume of international money transfers has expanded tremendously in the past decade and continues to grow rapidly. For 2003, the World Bank estimated that the total value of remittances to developing countries was $93 billion; other estimates put the total as high as $156 billion.[10] Remittances sent from the United States alone, primarily to Latin America, totaled about $34 billion in 2003, making the United States the largest source of money transfers in the world, nearly double that of the next largest source country, Saudi Arabia.[11]

FIGURE 3.3
Remittances Sent from the U.S. 1970–2003

Source: Data provided by Dilip Ratha, World Bank, 2004.



The remittance industry consists of many distinct markets, each with its own prices, delivery methods, and competitiveness

Rather than one market, or even a series of regional markets, the remittance industry comprises many individual corridors between sending and receiving countries.[12] The characteristics of a particular "corridor" vary significantly. The cost of sending money, the number of money transfer firms, the types of products offered, and the importance of informal channels all depend on the location of the sender and recipient. For example, two immigrants living in the same New York City apartment building have different sending options and pay different prices, depending on whether they want to send money to the Dominican Republic or Mexico.

The industry has evolved over the past decade or so from one in which many transfers were conducted with paper (checks, money orders, mail) to one in which most transfers are electronic[13] (details in Textbox 6). New methods of interfacing with customers have developed as well. Remittances used to be conducted exclusively through face-to-face transactions. Now, immigrants can send money using the Internet, debit and stored value cards, and even with cell phones in some markets.[14]

Although numerous additional formal options for sending remittances through banks or through alternative financial services providers have been developed in recent years, some immigrants continue to use informal, and sometimes illegal, mechanisms to send money to support family living abroad. Since the events of September 11, 2001, tighter controls have been imposed on informal money transfer businesses in the United States. As a result, U.S. immigrants increasingly rely on formal channels to send remittances.

A few large firms account for close to three-quarters of money transfers conducted outside banks

The remittance industry is dominated by a small number of big money transfer operators. In 2004, according to one study, the top four firms — Western Union, MoneyGram, Vigo, and Dolex — accounted for roughly three-quarters of the remittances sent from the United States via money transfer firms.[15] In some markets, this figure is much higher. The big companies have clear competitive advantages for several reasons. They have bilingual employees, extended hours of operation, and rapid, reliable service. In addition, they have made enormous investments in networks for sending remittances from the United States and for receiving them abroad.

Large profits have attracted many new competitors to the remittance industry, including banks

As the level of remittances sent from the United States exploded in the late 1990s, high profit margins attracted numerous new players, including banks, credit unions, and small money transfer firms. This increase in competition has driven down prices in certain markets, like remittances to Mexico, but they remain high in others.

Money transfer firms control about 70 percent of the remittance market and the market share for remittances conducted through banks may be as low as 5 percent

The combined value of the remittances handled by banks may account for less than 5 percent of the total remittances sent from the United States in 2004.[16] Other estimates are slightly more optimistic, putting the figure between 3 and 11 percent.[17] Whatever the actual share, even with rapid growth it may take many years for banks to establish a significant presence in the market.

6. Remittance Products

Cash-to-Cash Transfers: This is the basic product used by most money transfer operators and some banks and may account for as much as 95 percent of all transfers.

Debit or Dual ATM Cards: These can be used both in the United States and abroad, where the card is linked to an account at any bank and withdrawals are made through ATMs. The recipient is not required to have a bank account, but draws funds from the remitter's account in the United States.

Credit Cards: The cardholder abroad and in the United States can make purchases as well as withdraw money. This product subjects the U.S. cardholder, but not the second cardholder abroad, to a credit check.

Account-to-Account Transfers: Participants on both sides of the border must have a bank account. A U.S. accountholder transfers money to the recipient's account with a partner bank. The receiving party can access funds at bank branches or at ATMs in the home country.

IR*net*: The IR*net* is a product for credit union members that was created by the World Council of Credit Unions in partnership with two private international money transfer companies. Funds on the receiving side are paid in cash at money transfer agents, telecommunications offices, post offices, and participating credit unions, or they can be deposited directly to the recipient's local credit union account.

Stored Value Cards (SVCs): The sender purchases a card, loads a dollar value onto it, and sends it to the remittance recipient. The card is linked to one of the major international card networks (such as Cirrus® or Plus®). The card can be used for withdrawals at ATMs or for payment at point of sale terminals (i.e., stores) linked to the network. SVCs can usually be purchased from banks by both account and non-account holders. They can also be purchased from money transfer operators. The card does not require the person in the United States or in the receiving country to have a bank account.

SOURCES:

Hilgert, Marianne et al, "Banking on Remittances: Increasing Market Efficiencies for Consumers and Financial Institutions," Paper prepared for April 15, 2005, Federal Reserve System Community Affairs Research Conference, available at *www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf*.

Evans, Cora A. and Janette Klaehn, "A Technical Guide to Remittances: The Credit Union Experience," WOCCU Technical Guides no. 4, World Council of Credit Unions, March 2004, available at *www.microfinancegateway.org/files/26599_file_8.pdf*.

Banks have developed an array of remittance products targeted to specific niches

A 2004 study found that at least 60 U.S.-based depository institutions, including the largest banks as well as community banks and credit unions, offer remittance products.[18] Like the remittance market more generally, the selection of products offered by banks and money transfer operators for remittances is complex and has a great deal of overlap. Banks have designed various products to attract different niches of the immigrant market.

Some of these, including direct transfers through the Federal Reserve or via The Society for Worldwide Interbank Financial Telecommunications (SWIFT),[19] require senders and recipients to have bank accounts. Money transfers via debit or ATM cards require the sender to have a bank account. The recipient household needs access to an ATM terminal or the ability to use the debit card at the point of sale. Consequently, these products tend to attract wealthier, more established immigrants. Products such as stored value, or "smart," cards, do not require either the sender or the recipient to have a bank account.

Some banks also act as agents of money transfer operators to avoid the costs of building in-house services.[20] Many banks offer more than one remittance product. One bank may offer an in-house wire transfer and a debit card, while another has a stored value card and acts as an agent of a money transfer operator.

"Directo a México" offers an inexpensive remittance system for banks interested in serving the Mexican market

Launched in 2004, "Directo a México" is an automated clearinghouse money transmission option available to virtually every depository institution in the United States. Developed by the Federal Reserve, the service provides direct access to all bank and most credit union accounts in Mexico.[21] It requires both remittance senders and recipients to have bank accounts. To date, only a few small- and medium-sized banks have used the system. In a pilot program begun in April 2006, "Directo a México" is experimenting with allowing remittance senders to set up bank accounts for remittance recipients at participating bank branches in Mexico.

Among depository institutions, credit unions have played a pioneering role in the growth of the remittance industry

Beginning in 1997, the World Council of Credit Unions (WOCCU) began working with its member credit unions both in the United States and abroad to facilitate remittance transfers among credit unions. In July 2000, WOCCU launched the IR*net* money transfer service. The service is currently limited to seven countries in Latin America and is offered through participating credit unions branches and offices and agents of the money transfer operators.[22]

Although credit unions have not captured a significant share of the market, their early entrance and public efforts to draw attention to the high costs of sending remittances through money transfer operators helped attract other competitors. Moreover, credit unions were among the first institutions to focus on the importance of transforming remittance senders and recipients into account owners. Their work in promoting banking relationships among remittance recipients is particularly groundbreaking.

Bank and credit union remittance products tend to cost less than those offered through money transfer operators

Bank account-based remittance products tend to be priced lower than those offered by money transfer operators. To send $300 to Mexico, for example, money transfer operators typically charge $21, 7 percent of the total amount sent. About $12 of this is a service fee, and the remaining amount covers the cost of the foreign exchange conversion.[23] The charge for sending the same remittance via a bank is about $17. The difference is largely due to lower service fees. The credit unions' IR*net* service costs $10 per transmission for amounts up to $1,000.[24] Prices are even lower for card-based products offered by banks and credit unions. For example, the average fee for a $400 remittance withdrawn via a debit card at an ATM in Mexico is $6, or just 1.5 percent of the percent of the amount sent.[25]

Bank of America offers free remittances up to $3,000 per month to Mexico for any client with a checking account.

A handful of large banks offer free remittance products. These products require the remittance sender to have a bank account with the institution in question, and, in some cases, to maintain a designated minimum balance in the account. The remittance recipient does not necessarily have to have a bank account.

In very competitive remittance markets, where banks and many money transfer firms are active, prices have fallen across the board. In part, this is due to the entrance of banks who initially undercut money transfer firm prices. For example, the cost to send a remittance of $400 from the United States to Mexico is about the same whether it is sent via a bank or a money transfer firm. In less competitive markets, the cost of sending money through money transfer operators remains higher and banks are typically more affordable.

Bank regulators take a positive view of the entry of banks and credit unions into the remittance industry

Regulators have been very supportive of banks and credit unions entering the remittance industry. In June 2004, bank regulators authorized Community Reinvestment Act (CRA) credit to institutions offering low-cost international remittance services aimed at low- and moderate-income individuals.[26] Federal credit unions are authorized to provide remittance services to nonmembers if the transfers are provided on a limited basis in order to promote membership.[27] State-chartered credit unions may also provide remittance services to nonmembers with approval from state regulators. It should be noted, however, that banks and credit unions have entered the remittance industry seeking a business opportunity, not as a means to get credit under the CRA.

The lack of bank infrastructure in other countries is a significant barrier to the expansion of bank-based remittance products

While bank-based products are generally competitive in terms of price, a significant deterrent to their use is limited bank infrastructure in remittance-receiving countries, particularly outside of urban areas.

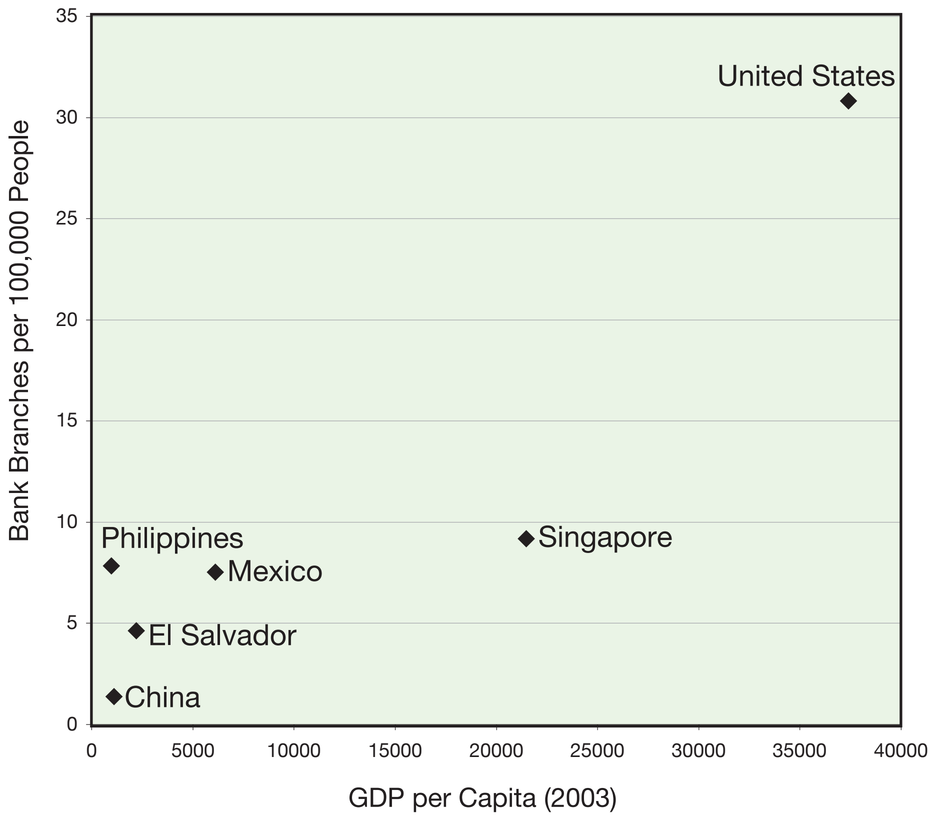


FIGURE 3.4

Bank Branches per 100,000 People v. GDP per Capita

Source: Authors' calculations using data from Beck et al., 2005.

Mexico, for example, has about one-quarter the number of bank branches and about one-fifth the number of ATMs per 100,000 people as the United States. Countries with higher per capita income tend to have more bank branches and more ATMs, both on a per-square-kilometer and on a per-person basis.

Many bank-based products require both the remittance sender and the recipient to have an account at a financial institution. Even remittance products that do not require the recipient to have an account, like debit or dual ATM cards, do require minimum bank infrastructure of ATMs or retail locations that accept cards. In contrast, remittances sent through money transfer operators can be collected in cash at any location that is part of the operator's network, including pharmacies, retail stores, post offices, and participating bank branches. Recognizing that remittance recipients prefer to receive cash, particularly in rural areas, Bank of America recently replaced debit cards with cash payments in its SafeSend remittance product.[28]

Banks want to use remittances to cross-sell other products

Banks acknowledge that they will not achieve the level of profitability they hope to attain unless they can cross-sell additional products to remittance customers.[29] Remittance products are seen as a way to draw immigrants into the banking system. Marketing campaigns designed to encourage immigrants to open accounts with banks and credit unions, often with remittance services as an enticement, have

"We want to make people comfortable walking in the door, and once they trust us we can talk about additional services as in opening a checking account and obtaining a line of credit."

Rebecca Vargas, Vice President of Hispanic Markets for Citigroup in NY, from Sana Butler, "A Handful of Options," Marketing Y Medios, September 1, 2005.

had some success to date. For the long term, banks are betting that as remittance senders and recipients become more familiar with the banking system, their use of other financial services will grow.[30]

Moving Clients up the Financial Ladder

Banks build on their relationships with immigrant clients by matching customers with appropriate higher-end products

So far, marketing transaction accounts and remittance products has been the first crucial step that many banks have taken to get immigrants in their doors. The next step, cross-selling higher-end products, has received less attention from bankers and policymakers and is being undertaken by a smaller number of banks. It is not always necessary to develop new products and services to reach immigrants; in fact, in many instances it is more a case of matching immigrant clients to existing products and services. Textboxes 7 and 8 outline the strategies of two banks.

7. U.S. Bank — Moving Clients up the Financial Ladder

U.S. Bank, the eighth largest bank in the United States, pursues a segmented marketing approach to reach Hispanic customers. It divides the Hispanic market into three separate groups. The first segment includes recent immigrants whose primary language is Spanish and who have very limited financial resources. This group needs information about the banking system and a place of business it can trust. U.S. Bank offers education on the basics of banking to this population, including information about when it makes sense to use a bank rather than a check-cashing facility. Along with offering first-time checking accounts, the bank also works to gain the trust of new immigrant customers through education programs.

The second segment consists of Hispanics who already have bank accounts. This group tends to have an average level of knowledge about banking. They might already be using some elementary banking products, but the opportunity to sell homeownership products to this group has not been fully developed. The bank offers credit building products such as secured loans, secured credit cards, and loans that can be issued with alternative forms of identification to help applicants without a credit bureau file or limited bureau data. For some products, applicants must be U.S. citizens or have permanent residence status. Products and services in addition to those geared specifically to Hispanic customers are also marketed to this segment.

The third segment is made up of fully-integrated immigrants and their children. These individuals already use the banking system. They have a sophisticated understanding of financial products and services. The products that appeal to this segment include lines of credit, investments, and homeownership products.

SOURCE:

Perez, Alice, Vice President, Hispanic Market Manager, U.S. Bank, "U.S. Bank Hispanic Banking Segment: Usted tiene amigos en U.S. Bank," presentation at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, Federal Reserve Bank of Chicago, April 16, 2004, available at *www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_perez.pdf.*

Banks are developing mortgage products for immigrants as part of broader minority homeownership initiatives

Homeownership is one area beyond basic banking and remittances where financial institutions have been able to take advantage of growing demand by immigrants. Many immigrants rank buying a home as a very high priority. Although more than 5.7 million immigrants own their own homes in the United States, immigrant homeownership lags behind that of the native-born, with 55 percent of immigrants owning homes compared with 76 percent of the native-born.[31,32] This represents an important opportunity for banks that wish to serve the immigrant community. The number of immigrant households is projected to increase by nearly seven million from 2000 to 2020 and will account for approximately one-third of all new households over this period.[33]

Banks have tremendous depth and breadth of experience in making home loans. This is an area where banks have an advantage over the alternative financial services sector in attracting immigrant clients. Check cashers and payday lenders simply do not make home loans.

8. Wells Fargo Home Mortgage — Lending to Lower Income Borrowers with No Credit History

Since the late 1990s, Wells Fargo Home Mortgage, which originated $298 billion in mortgages in 2004, has been involved in a multi-product initiative to reach the minority and immigrant markets. At the Denver branch of Wells Fargo Home Mortgage, the most popular of these products is a $30 million Community Development Mortgage Program (CDMP). Begun in 1998, the CDMP is aimed at potential homebuyers who have no credit history and incomes that are below 80 percent of the Metropolitan Statistical Area median. Borrowers must be documented immigrants or U.S. citizens.

Homeowners who qualify for the CDMP receive a 30-year fixed-rate mortgage priced at one-half point below the market rate. Borrowers are not charged for mortgage insurance. Loan-to-value ratios can be as high as 98 percent. The remaining 2 percent can be acquired from a community grant, gift from third party, or from the borrower's savings. The underwriting criteria for this product allows Wells Fargo to accept alternative proof of a credit history based on regular payments of telephone, rent, cable TV, or utility bills. The loan has no savings requirement and no minimum credit score. Upon approval, homebuyers are required to attend classes and debt counseling sessions provided by an outside nonprofit organization.

Loans made under the CDMP satisfy Federal Housing Administration guidelines. The CDMP loans are kept in Wells Fargo's portfolio and matched against long-term Certificates of Deposit. Immigrants make up a significant portion of CDMP participants.

SOURCE:

Evans, Timothy, Area Manager Denver, Wells Fargo Home Mortgage, interview with authors, October 26, 2005.

Flexible underwriting standards encourage immigrant access to home loans

Mortgage programs for immigrants often represent an extension of larger multiyear, billion-dollar minority lending initiatives created as part of CRA agreements. These consist mainly of first-time homebuyer programs delivered through regular bank channels.

The hallmark of these home loan products tends to be flexible credit underwriting standards that permit financial institutions to accept alternative credit records and take into account the contribution of the extended family in determining the income of a prospective borrower. Common ways of creating alternative credit histories include verifying rent and utility payments, analyzing checking and savings account histories, verifying repayments of informal loans from friends and relatives, and checking professional and personal references.[34] Evidence of regular remittance payments can also be used to establish creditworthiness.

A different type of barrier to homeownership for some immigrants is religious or cultural restrictions on borrowing. Textbox 9 highlights some innovative approaches to home financing for Muslims.

Secondary market programs by Fannie Mae, Freddie Mac, and the Federal Housing Administration support bank initiatives to lend to the immigrant market

Since most mortgage loans are bought by Fannie Mae and Freddie Mac, their policies have a large impact on how banks make mortgages. Both Fannie Mae and Freddie Mac have programs to purchase mortgages underwritten with modified guidelines aimed at making it easier for low- and moderate-income individuals to buy homes. Freddie Mac has done away with requirements for higher downpayments that had been applied uniquely to non-citizens. It has also permitted cross-border credit files to be used in establishing credit histories. Other federal programs are important as well: Federal Housing Administration loans are recognized as the most successful product for immigrant communities in many parts of the country.[35] To be eligible for any of these programs, immigrant borrowers must be U.S. citizens or legal residents.

Some lenders are beginning to offer mortgages for immigrants without Social Security numbers

Although the movement is in its infancy, a small number of banks have pioneered home mortgages using ITINs for people without Social Security numbers. Small banks have been the innovators in this arena, but large banks and sub-prime lenders have begun to issue ITIN mortgages as well (see Textbox 10). Some banks are motivated by the strong demand for home loans from undocumented immigrants. Others view ITIN mortgages as a mechanism for expanding their businesses if demand for traditional mortgages begins to slow.

9. Home Financing Products for Muslims

Although there is no official count of Muslims in the United States, surveys put the number between two and nine million, and Islam is one of the fastest growing religions in the United States. Islamic religious tenets prohibit paying or receiving interest, so standard home loans will not work for many Muslims. About two-thirds of the Muslim population are considered potential consumers of customized financial products. The demand for home financing products has proved to be strong in areas with high concentrations of Muslims, including recent immigrants as well as second and third generation Muslims.

A small number of U.S. banks have developed a specialized set of products for Muslims. Three banks, two finance houses, and two nonprofits in the United States currently advertise formal Islamic, or *Shar'iah*, finance products. Another two offer models of *Shar'iah* products to bank and nonbank institutions.

The products most commonly offered in the United States consist of financial arrangements for home purchase known as *Murabaha, Ijara,* and *Musharaka* transactions.

In a typical *Murabaha* transaction, the financial institution acts as a middleman and purchases the home requested by the customer. The financial institution then turns around and sells the home to the customer at the acquisition cost plus a profit to be paid over a stated number of installments.

The *Ijara* is a leasing agreement where the financial institution purchases the home and leases it to the customer. The financial institution owns the home throughout the lease period, and the customer pays the financial institution a monthly rental fee during the leasing period.

The *Musharaka* is a declining balance or shared equity purchase. The financial institution provides a percentage of the capital needed to purchase the home as a business investment. The homebuyer makes monthly payments to the bank (investor) so that each month's payment increases the homebuyer's equity.

SOURCE:

Chiu, Shirley, Robin Newberger, and Anna Paulson, "Islamic Finance in the United States: A Small but Growing Industry," *Chicago Fed Letter*, Federal Reserve Bank of Chicago, May 2005, available at *www.chicagofed.org/publications/fedletter/cflmay2005_214.pdf*.

The lack of a secondary market for ITIN loans limits growth in this area

Currently, most banks must hold ITIN-issued mortgages on their balance sheets and bear the extra risks associated with this. These costs are passed on to the customer.[36] Neither Fannie Mae nor Freddie Mac purchases mortgages issued with ITINs. A small secondary market for ITIN mortgages existed from March 2004 to December 2005 through an arrangement with the Wisconsin Housing and Economic Development Authority and six local banks. State legislation ended this program. The Illinois Housing Development Authority has recently begun another pilot program for ITIN mortgages. In January 2004, Mortgage Guaranty Insurance Corporation became the first company to offer private mortgage insurance to ITIN mortgage borrowers.

"In the course of one year, the Bank of Bartlett in Bartlett,TN, went from making its first ITIN-mortgage loan to becoming an aggregator for ITIN-mortgages issued by other banks. The Bank of Bartlett buys and services the loans once the mortgage insurer gives its stamp of approval to the underwriting for each mortgage."

Robert Byrd, Chairman of the Board, Bank of Bartlett, interview with authors, October 17, 2005.

Some banks view ITIN loans as good business; others remain skeptical

Many bankers and community-based organizations view the development of ITIN mortgages as consistent with good business practice and with good community development policy. These loans offer banks an opportunity to increase the size of their lending portfolios. Critics of ITIN mortgages condemn the practice of making it easier for immigrants who have violated federal immigration law to own homes in the United States.[37] The fact that most of these loans cannot be sold on the secondary market has also made many lenders skeptical about issuing them. Both sides of the debate are looking to lawmakers and regulators to provide greater clarity on this issue.

10. Second Federal Savings: ITIN Mortgages for Borrowers Without Social Security Numbers

Second Federal is the oldest existing Savings and Loan association in the city of Chicago. It is headquartered in Little Village, a predominately Latino neighborhood on the West Side of the city.

While not the first bank to offer Individual Taxpayer Identification Number (ITIN) mortgages to borrowers without Social Security numbers, Second Federal has been extremely aggressive in building the ITIN segment of its loan portfolio. As of September 2005, about five years after launching this product, the bank had made approximately 780 ITIN loans valued at about $90 million.

Second Federal's traditional and ITIN mortgage borrowers look similar in terms of their demographic backgrounds, household incomes, and employment histories. What makes ITIN-mortgage lending unique is the additional work that the bank must do to verify customer identity and document creditworthiness. The credit underwriting procedure takes into consideration regular bill and rental payments that might not make their way into a traditional credit report. The procedure also takes into account the income of multiple wage earners who plan to continue to live together in the home. Given the unusual verification methods, ITIN loans take about three times as long to process as conventional mortgage loans. The Mortgage Guaranty Insurance Corporation, which offers mortgage insurance on these loans, also requires ITIN borrowers to have filed two years of tax returns.

Most of Second Federal's ITIN loans have been on its books for one to two years. The bank stepped up its ITIN-lending following the re-design of the high security Mexican *Matricula Consular* card. With the exception of a few loans, they are all performing well. Prospective borrowers attend training through a neighborhood nonprofit. The bank further ensures repayment by requiring borrowers to open deposit accounts. The bank then "sweeps" the deposit accounts when mortgage payments are due. This procedure gives the bank advance warning if a borrower is likely to have difficulty making a payment. The bank's collection process has no grace period and begins even if a payment is one day late.

Demand has been extremely strong both in Chicago's Hispanic neighborhoods and in the surrounding suburbs. However, the near absence of a secondary market for these loans has curbed the growth of Second Federal's ITIN mortgage lending. The bank holds all of these loans in its own portfolio and is actively seeking a secondary market.

SOURCE:

Doyle, Mark, President, CEO, and Chairman, Second Federal Savings, interview with authors, October 27, 2005.

Small business lending products can attract immigrant customers

About one in 11 immigrants is self-employed, a rate comparable to that of the native-born.[38] By emphasizing products and services for small business owners, banks are likely to attract immigrant customers. Although banking services and access to credit for starting and expanding businesses are directly relevant to a relatively small fraction of the immigrant population, entrepreneurship is a path to economic well-being that previous generations of immigrants have followed with great success.[39]

Conclusion

As demographic trends continue to reshape neighborhoods across the country, both small banks and large enterprises with national brands are working hard to realize the opportunities offered by the immigrant market. Small and large banks bring distinct advantages to attracting these potential new customers. Less bureaucracy at a small bank, for instance, means speedier decision-making. The greater number of branches of a large bank can be leveraged to create greater access to financial services.

Banks are transforming their culture to earn the trust of immigrant clients

From the various changes in practices, products, and services that banks have implemented over the last few years, it is clear that the banking sector is responding to changing demographics in a variety of ways. Banks are transforming their culture by hiring bilingual staff, partnering with community organizations, and even changing their décor, all in an effort to earn the trust of immigrants.

Banks are accepting new forms of identification

In addition, banks are accepting new forms of identification that allow immigrants to conduct simple and more complex banking transactions that would otherwise have been out of their reach. Rather than being tied to the use of Social Security numbers to conduct transactions and open accounts, banks are accepting ITINs and identification cards issued by foreign consulates.

Not all banks, however, accept alternative forms of identification. Some find the legal issues confusing, while others fear that increased business with immigrants will increase scrutiny from governmental agencies.

Competition with alternative financial services providers can be fierce, especially with new banking products like remittances

In addition to transforming their styles and accepting new forms of identification, banks are adding new products and services in order to expand their immigrant business. Many have focused on creating remittance products to bring customers in their doors. Banks have to compete with an increasing number of alternative financial services providers for immigrant business.

Even though money transfer operators dominate the remittance market, banks of all sizes offer remittance options that showcase a variety of products and services that cater to specific immigrant and market niches. Some of these include debit and stored value cards, in-house wire transfers, and account-to-account transfers.

While U.S. regulators have generally responded positively to bank efforts to enter the remittance industry, banks are finding that the lack of financial infrastructure in other countries can be a barrier to expanding these types of products and services.

Even so, developing remittance products is important in both establishing and building relationships with immigrant customers, because once banks have attracted these new customers, they can then begin to cross-sell other more traditional banking products.

Banks reinforce relationships by introducing immigrants to higher-end financial products

As immigrants improve their standards of living and integrate further into U.S. society, banks have an opportunity to sell immigrants other products such as loans for education, automobiles, houses, and businesses.

Mortgages facilitate the desire of immigrants to become homeowners. Business loans are ideally suited for this population that values entrepreneurship.

Not all banks are realizing the opportunities with immigrants, and some are looking to lawmakers for help

Of course not all banks are responding to the immigrant opportunity in the same way. In regions that have a long history of immigration, financial institutions have taken the initiative to reach out to immigrant customers. In markets without a recent history of immigration, many local banks do not know how to make inroads into immigrant communities. Some banks simply perceive the risks of banking to immigrants as outweighing the benefits. Bankers are hopeful that lawmakers and regulators will address these concerns.

Additional Resources:

- "Access of Migrants to the U.S. Banking System," Sheila Bair, in *Beyond Small Change, Making Migrant Remittances Count* (preliminary version), Donald F. Terry and Steven R. Wilson (eds.), Inter-American Development Bank, Washington, DC, 2005.

- "Banking on Remittances: Increasing Market Efficiencies for Consumers and Financial Institutions," Marianne A. Hilgert, et al., Paper presented at Federal Reserve System Community Affairs Research Conference, April 2005, available at *www.chicagofed.org/cedric/files/2005_conf_paper_session3_hogarth.pdf.*

- "Best Practices in Immigrant Lending," Lauren Moser and Esther Park, Paper prepared for the American Bankers Association, May 25, 2004, available at *www.shorebankadvisory.com/resources/ImmigrantLendingPaperMay2004_Finalrevised0624.pdf.*

- "From Unbanked to Homeowner: Improving the Supply of Financial Services to Low-Income, Low-Asset Customers," Ellen Seidman and Jennifer Tescher, Paper presented at Building Assets, Building Credit: A symposium on Improving Financing Services in Low Income Communities, organized by Joint Center on Housing Studies at Harvard University, February 2004, available at *www.jchs.harvard.edu/publications/finance/babc/babc_04-4.pdf.*

- "Meeting the Financial Service Needs of Mexican Immigrants: A survey of Texas Financial Institutions," by a collaboration of Texas Appleseed, Community Resource Group, and the Appleseed Foundation, July 2004, available at *www.texasappleseed.net/inprint/pdf/english_financial_brochures/MeetingFinancialNeeds.pdf.*

- "Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans," Andrew I. Schoenholtz and Kristin Stanton, Fannie Mae Foundation and the Institute for the Study of International Migration, Georgetown University, 2001, available at *www.fanniemaefoundation.org/programs/pdf/rep_immigrant.pdf.*

4

THE COMMUNITY

Leveraging Organizations that Have a Stake in Immigrant Success

Leveraging Organizations that Have a Stake in Immigrant Success

Financial access is just one component of the general process of social and economic integration of immigrants. Many individuals, immigrants and non-immigrants alike, have a stake in the immigrant population's progress toward full incorporation into the economic and social fabric of the country. No single organization or program best represents the range of work being done to promote immigrant access to mainstream financial services. Although the examples presented in this chapter are far from exhaustive, the profiled organizations range from governmental agencies and city law enforcement to mutual assistance associations and community-based nonprofits. This diversity reflects the variety of challenges that immigrants confront and the varying issues that communities face by virtue of being home to burgeoning immigrant populations. This diversity also highlights the many creative approaches that help newcomers integrate into U.S. society, a society in which economic well-being depends on access to financial services.

Introduction

Many organizations are interested in promoting financial access, including those that are primarily focused on immigrants and those that are not. These organizations include schools, churches, employers, unions, as well as non-profits and financial institutions. For some, their main purpose is the provision of financial services, and for others the provision of these services is a means to an end. This collection of organizations, each with their particular motivation, can together be labeled "the community."

This chapter highlights some striking examples of how the community is involved in immigrant financial access. Through a series of examples, the chapter emphasizes the diversity of organizations that are involved, the assortment of motives that has gotten them involved, as well as the variety of methods, some more successful than others, they are using to connect immigrants with the financial mainstream. In addition, the chapter underscores the variety of ways in which efforts to promote immigrant financial access are initiated, ranging from those started within the immigrant community to those that are introduced by a financial institution.

Boat People SOS: Providing Tools to Promote Financial Integration is a Crucial Component of Immigrant Integration

Boat People SOS of Falls Church, Virginia, offers an array of programs for Vietnamese immigrants and refugees related to education, health, economic development, housing, and small business development. Many social service and mutual assistance associations that work with immigrants help people integrate and succeed in American society. While financial education is not part of the core agenda of Boat People SOS, teaching fundamentals of the financial system is increasingly viewed as a building block of the integration process.

Boat People SOS (BPSOS) is a community-based organization that provides health, social, and community development services to Vietnamese refugees and immigrants.[1] BPSOS began in 1981 as an all-volunteer nonprofit to respond to the waves of refugees coming from Vietnam. The focus of BPSOS changed in the 1990s from rescue and resettlement to helping Vietnamese immigrants in the United States become more economically self-sufficient. With 14 offices across the country and a budget of $4 million, it is the largest national nonprofit helping Vietnamese immigrants in the United States. BPSOS's target population is low-income Vietnamese immigrants and refugees who have lived in the United States 15 years or less. About 30 percent of BPSOS's programming concerns financial market participation.

As of 2000, there were approximately 1.1 million immigrants from Vietnam in the United States, making them the fifth largest immigrant group in the country.

BPSOS branch offices offer a wide array of programs and services to assist the Vietnamese-American community

Programs that focus on improving financial access for Vietnamese immigrants include:

- **Tax Assistance to Vietnamese Immigrants with Low Incomes** helps in tax preparation and educates taxpayers about their tax rights.
- **Road to Independence through Savings and Education** helps Vietnamese refugees and victims of human trafficking establish Individual Development Accounts (IDAs).
- **RISE-Home** provides education in homeownership and micro-enterprise to Vietnamese refugees and immigrants in the Washington, DC, area.
- **Community Assets Building** employs AmeriCorps' VISTA members to develop new funding streams in support of community projects.

IDAs *are specialized savings accounts designed for lower income consumers. Individuals make regular savings deposits in their IDAs that are matched on a one-for-one or higher basis by foundations, the government or private sector donors. Savings must be used for specific purposes, typically to make a down payment on a home, pay for higher education, or capitalize a small business.*

Lack of English proficiency and negative attitudes toward banks – and sometimes institutions in general – are barriers to financial integration

Low English language proficiency is one important barrier to Vietnamese immigrants' participation in the financial system. Almost 90 percent of BPSOS's clients have little or no English language skills. Many are also illiterate in Vietnamese. English language skills are important not only for demystifying the U.S. banking system, but also for helping immigrants avoid unscrupulous financial intermediaries and make sound financial choices.

Distrust of financial institutions is another impediment to financial market participation.

Most Vietnamese arrive with no knowledge of the U.S. financial system. Many have also had negative personal experiences with financial institutions in Vietnam. In addition, many Vietnamese have an aversion to debt, which has negative connotations in Vietnamese culture. This combination of factors keeps many Vietnamese immigrants from using the financial system.

BPSOS homeownership and IDA programs are a bridge to financial institutions

While BPSOS provides a host of services that do not relate to financial services, its community development department depends largely on collaboration with financial institutions. In the past, BPSOS has taken the lead in initiating these relationships. For example, BPSOS approached Citibank with the prospect of becoming involved in its IDA program. In exchange for BPSOS's commitment to keep IDA deposits and government match funds at Citibank, Citibank agreed to wave all charges and pay interest on deposits. Once this relationship was established, representatives from Citibank and other banks sent staff to volunteer at BPSOS and also helped support BPSOS's general operating budget.

BPSOS also mediates relationships between its clients and the banking sector. In some cases, the connection established between BPSOS clients and the banking system is straightforward. IDA participants, for example, keep their deposits at a bank. In other cases, the relationship is forged through classes that present information on the banking system, or BPSOS-sponsored forums in which bankers come to speak to clients. In financial education classes, for example, financial experts from Citibank, Sun Trust Bank, Bank of America, and other banks serve as instructors, while BPSOS translates and interprets the information for class participants. Clients sometimes refer family members and friends to the banks.

BPSOS programs help clients achieve financial goals

Over the past four years, BPSOS's community development department has helped 1,500 low-income taxpayers claim $3 million in tax credits and tax refunds. The organization helped 162 clients open their first bank accounts and enrolled 200 clients in an IDA program, with resulting total savings of $1.5 million, half of which came from a federal match. BPSOS trained 98 individuals in housing issues and 300 individuals in general financial issues. Twenty-five clients got help with mortgage applications for first-time purchases or refinancings.

BPSOS is a trusted source of information for immigrants

BPSOS is an established and trusted source of information on a range of issues for immigrants. Collaboration between BPSOS and banks has allowed BPSOS's clients to 'transfer' the trust they have in BPSOS to various banking institutions, and thereby overcome their reluctance to participate in the financial mainstream. In turn, these relationships have created an avenue for banks to tap into demand in unconventional ways. This collaboration has led to a self-reinforcing relationship between BPSOS and the banking sector.

Nonprofits across the country offer programs to help immigrants integrate into the mainstream financial system

BPSOS is one of many multi-service nonprofits that immigrants across the country depend on to help foster a relationship with the U.S. financial system. Some of these organizations, like El Centro in Kansas City, incorporate financial education into programs for all age groups, including day-care and after-school programs, English as a second language classes, and activities for seniors. Some, like Neighborhood Housing Services in Minneapolis/St. Paul, work with a team of organizations including banks, state housing finance agencies, and government-sponsored enterprises, to develop appropriate home ownership programs for immigrant clients. And some, like the Committee for Hispanic Children and Families in New York, invite bank personnel to serve as instructors in their training programs.

The Center for Economic Progress: Paying Taxes Can be the First Step in Mainstream Financial Market Participation

The Chicago-based Center for Economic Progress operates a range of tax-assistance programs that help clients gain access to the financial mainstream. Paying taxes offers an avenue into the financial mainstream that is appropriate for many immigrants given their high rates of employment.

The Center for Economic Progress is a nonprofit organization with a mission to increase economic opportunities for low-income families and individuals through direct services, education, and advocacy.[2] Established in 1990, the organization operates a variety of tax-compliance and financial education programs throughout the Chicago area. One of the Center's main goals is to help qualified taxpayers access the Earned Income Tax Credit (EITC),[3] a refundable federal income tax credit for low-income working individuals and families.

Immigrants and Spanish-speaking populations are a growing part of the Center's client base

While the Center does not target immigrants directly, immigrants and Spanish-speaking populations are a growing part of the Center's client base. One reason is that immigration authorities consider paying taxes a sign of good moral character and an important factor in granting citizenship. This can be a powerful incentive for immigrants who plan to apply for U.S. citizenship. The Center's immigrant client base has also been bolstered through intensive marketing by the Internal Revenue Service (IRS) that encourages immigrants to pay taxes. The IRS encourages immigrants who are not eligible for Social Security numbers to apply for Individual Taxpayer Identification Numbers (ITINs) as part of an effort to improve tax compliance within the immigrant population. In addition, the Center operates tax assistance clinics in immigrant-dominated neighborhoods.

During tax season at one Center for Economic Progress tax counseling site, Citibank employees work alongside tax preparers to help clients from the immigrant neighborhood open bank accounts.

The Center has a variety of programs that help immigrants navigate the tax system and transition to participation in the banking system

Many of the Center's programs are designed to encourage clients to participate in the nation's mainstream financial system. These programs include the Tax Counseling Project, the Midwest Tax Clinic, the Financial and Community Education Program, and the National Community Tax Coalition.

- **The Tax Counseling Project** is one of the nation's largest free tax preparation services for low- and moderate-income families. The program serves many immigrant clients. It offers electronic filing and works with financial institutions to help clients open bank accounts for the direct deposit of their refunds.
- **The Midwest Tax Clinic** specializes in helping people resolve federal income tax problems. As part of its mandate, the Clinic helps immigrants obtain ITINs to permit tax filing, and assists immigrants with mistakes or IRS queries related to ITIN returns. The Center is also a Certified Acceptance Agent for the Internal Revenue Services' ITIN program.
- **The Center's Financial and Community Education** program provides credit counseling and financial workshops in collaboration with banks, credit unions, government agencies, employment-related agencies, and other community-based organizations. It runs courses in English and Spanish about tax filing, refund anticipation loans, budgeting, the alternative financial services sector, and credit rehabilitation. The Center evaluates banking products to ensure they are appropriate for its clients.

- **The Center** helped launch the National Community Tax Coalition, a 500-member coalition that works to develop and advocate public policy solutions for low-income taxpayers.

The Center uses the tax system to teach people financial skills

The Center considers the point when an individual comes in to file an income tax return a "teachable moment," an opportunity to introduce important and useful financial concepts. For example, Center staff members contrast the advantages of electronic refunds deposited into bank accounts versus waiting for a paper check in the mail, and outline the often high costs associated with refund anticipation loans. They also provide information about how the tax system can be used to accrue savings for those who do not have savings accounts by over-withholding taxes. Center staff discuss debt management, ways to improve or establish a credit history, and the dangers of under-withholding and owing money to the government.

The Center's tax assistance programs have helped thousands of taxpayers file tax returns and recoup millions in refunds

In 2005, more than 900 Center volunteers prepared 25,000 federal income tax returns, yielding refunds in excess of $35 million. Since 1994, the Tax Counseling Project has assisted more than 100,000 families, generating more than $157 million in refunds. While ITIN holders are not eligible for the EITC, ITIN filers may qualify for refunds when excess taxes have been withheld and when they are eligible for Child Tax Credits.

Tax preparation clinics across the U.S. work with banks to expand access to mainstream financial services

Through its work with the National Community Tax Coalition, the Center cooperates with tax assistance organizations from across the country to increase access to tax credits and to create asset-building opportunities for low- and moderate-income families. The National Community Tax Coalition also works to market selected financial products to a wider audience. Chase Bank, for example, works with the Coalition to promote its "Direct Benefit Card," a debit card for government transfers, including tax refunds connected to a Federal Deposit Insurance Corporation (FDIC) insured bank account. Nonprofit tax preparers can provide this card and open an account directly without going through a bank representative. The main challenge that the Center faces in helping even more clients use the mainstream financial system is the unpredictable and fragmented nature of its funding. Few "one-stop" funding sources, particularly sources that provide unrestricted or general operating funds, exist for organizations offering comprehensive financial services programs.

Humboldt Park Economic Development Corporation: Neighborhood Residents and Grassroots Organizations Can be the Catalyst in Attracting Banks to Their Local Communities

The Humboldt Park Economic Development Corporation's effort to attract a bank branch to its Chicago neighborhood highlights the role of community residents in demonstrating demand for bank services. Attracting a bank branch to the neighborhood was a critical part of Humboldt Park's community development strategy.

Established in 1996, the Humboldt Park Economic Development Corporation (HPEDC) promotes economic revitalization in Chicago's Humboldt Park neighborhood.[4] The population of Humboldt Park consists of roughly 60,000 mostly lower-income Puerto Rican, Mexican, and African-American residents. HPEDC is a community-based nonprofit with a mission to facilitate employment, training, and entrepreneurship opportunities.

HPEDC began a revitalization project by asking residents for input about needed services

In the 1990s, HPEDC began the North Avenue Revitalization Project. The project was designed to strengthen the neighborhood's commercial corridor, attract businesses, and stabilize the community. HPEDC began the project by surveying local residents and businesses to identify what services were needed along the main commercial corridor. HPEDC worked with West Town Leadership United, a community organizing agency, to help administer the survey. The partnership was designed to ensure that neighborhood residents would take an active involvement in the project and embrace the end results.

Residents identified a bank as a vital missing ingredient

Nearly 500 households reported that the two most important services missing from the neighborhood were a post office and a bank. Despite the proliferation of check cashers and payday lenders in the area, there were few bank branches in Humboldt Park. Two banks had branches in the area, but one was located outside the neighborhood HPEDC had targeted for its programs. The other bank branch had an uneven reputation among neighborhood residents. Residents preferred to use check cashers rather than the bank.

HPEDC approached several banks with the results of their survey and offered to serve as a liaison between the bank and the community

Once the survey results became clear, HPEDC went to work on attracting a bank to a centrally located commercial strip. The organization set up a series of meetings with banks in order to present their findings. They provided printed materials with key demographics and statistics on the neighborhood. They demonstrated community support through petitions and testimonials from local residents. HPEDC committed to offering financial education classes to prepare residents to use the bank's services. They offered to act as a liaison between the bank and other community organizations and to help publicize the bank throughout the neighborhood.

Community residents provided input on the design of the branch and the financial products to be offered

About eight months after the initial presentations, Charter One Bank agreed to open a branch in Humboldt Park. Charter One is a part of Citizen's Financial Group, which has more than $150 billion in assets. HPEDC worked with the bank to ensure that its products and services were applicable to the community. The community also became involved in choosing design features of the branch and determining the branch location and hours of business. They worked on security features, such as making sure that the ATM lobby would be enclosed with a key card entry after business hours. They also ensured that the bank would offer low-cost bank accounts, wire transfer services, first-time homebuyer programs, and business loans.

The branch is now an integral part of the Humboldt Park neighborhood

While Charter One does not report the number of accounts opened at the branch, the volume of business from its Humboldt Park branch has grown every year. The bank has staffed the branch with predominantly Latino employees, drawn in part from the neighborhood population. The bank also partners with community organizations and elementary schools to provide financial education classes.

Community residents have an important role to play in demonstrating demand for bank services

The community's involvement in the Humboldt Park revitalization project provided tangible evidence to banks of the demand for their services. The community put pressure on financial institutions to offer services in the area and also kept public and policymaker attention focused on the issue. The "bottom up" mobilization got the entire community behind the cause. Surveys asking residents and businesses to share their views helped secure community support since the ultimate outcome reflected their views and ideas. According to one project organizer, the new branch might not have realized the same level of success without the backing of community residents. Spreading the message at the grassroots level was particularly important for individuals who rely heavily on other people from the community for information about financial services.

Banks are a crucial element of community revitalization programs

Providing financial service options was a vital part of Humboldt Park's community development strategy. HPEDC aided the redevelopment of Humboldt Park's commercial corridor, and the economic development of the neighborhood more generally, by creating greater competition between banks and alternative financial services providers, and among banks themselves. The presence of a local bank that people trust encouraged financial market participation among residents who might not otherwise have used the banking system. Local bank capital was seen as a way to attract and sustain neighborhood businesses and encourage investments in infrastructure and neighborhood improvements. Charter One, along with HPEDC, has received inquiries from other community organizations about strategies for attracting banks to their communities.

Mitchell Bank: Bank Branches in Schools can be a Powerful Way to Connect the Children of Immigrants, and their Parents, with Banks

> *In an effort to reach the next generation of clients, a number of banks and credit unions have opened bank branches in high schools. The children of immigrants can be an important point of contact for financial institutions. Children can introduce their parents, who may have little or no experience with banks, to mainstream financial services. By working through the local high school, Mitchell Bank in Milwaukee, Wisconsin has achieved a position of trust within the immigrant community.*

Mitchell Bank was founded in 1907 as a community bank in Milwaukee, Wisconsin.[5] In the past two decades, as the pace of immigration to the city increased rapidly, Mitchell Bank found itself with a shrinking customer base. The local community that it served was transformed from one made up predominantly of people of German ancestry to one dominated by Hispanic immigrants and their children. In response, Mitchell Bank overhauled its marketing and services and opened a bank branch in the local high school, Cardinal High School. Well over half of the student body at the school is of Hispanic origin. The high school branch of Mitchell Bank serves a segment of the population that might not otherwise visit a mainstream financial institution.

The children of immigrants are a large and growing segment of the population

Demographic data show that the number of second generation immigrants is growing. Growth in the children of immigrants far outpaces the growth rate of children of native-born parents. The number of children born to immigrant parents in the Milwaukee area grew by 6.3 percent between 1995 and 2005.[6] Over the same time period, the total population declined by 0.1 percent. In addition, the children of immigrants tend not to be encumbered by the same issues that limit financial system participation among their immigrant parents: they are much more likely to be citizens, they are more likely to be proficient in English, and by virtue of that skill have experience bridging the language gap for their parents in a range of situations.

Students run a full-service bank branch inside the high school

The Cardinal Bank branch is a full-service bank operated by high school students. The students receive training in the skills required to manage the branch, including marketing, opening accounts, balancing the vault, and completing various customer transactions. Student employees of the bank branch also offer financial education support to students in the classroom, allowing the entire student body to learn about banking services, the importance of savings, and general money management issues. The students provide financial training to school employees and members of the community as well. Teachers are actively involved in these efforts. The school leadership views financial topics as an important adjunct to the curriculum.

Cardinal Bank attracts entire families to the mainstream financial system

The students are a point of contact to reach other members of immigrant households. Students cash their parents' paychecks through their accounts at the school bank. Cardinal Bank offers English as a second language classes, home mortgage seminars, and other information to the families of students. The bank is open during evenings when parents are at the school for various events. Since it began, Cardinal Bank has opened over 500 new accounts for families in the neighborhood, representing 90 percent of the students whose families previously did not have a bank account. The high school branch's success has spilled over to Mitchell's main branch as well. Activity at the main branch, located three blocks from the high school, has increased fourfold since the school branch opened. The staff of Mitchell bank maintains direct contact with the school-based branch.

"Mitchell Bank's branch in the largely Hispanic South Division High School does more than produce good will; it is making money."

James Maloney, Chairman, Mitchell Bank, from Joel Berg, "Despite Losses, Banks Still Run School Branches," American Banker, vol. 170, no. 237, December 13, 2005.

Cardinal Bank helps community members overcome their lack of trust in banks

A cornerstone of the bank's marketing strategy is fostering and maintaining relationships with civic, religious, and social institutions that have broad membership and acceptance in the immigrant community. Mitchell Bank crafted the partnership with Cardinal High School in recognition of the fact that schools are well positioned to connect immigrant families to the mainstream financial system and schools are trusted institutions. Placing a bank branch in the school created a way for the bank to share the school's position of trust within the immigrant community. The students bring home, literally, the benefits of establishing a relationship with a financial institution, and the school's familiar environment helps attract parents to the branch.

By working through the school, Mitchell Bank has set a virtuous circle in motion. Since children tend to mimic the financial behavior of their parents, increasing bank account ownership among adult immigrants is expected to increase bank participation by their children. At the same time, working with children helps ensure that low levels of immigrant participation in the financial mainstream are not passed on to future generations.

Joint programs between schools and banks are increasingly common

Banks and credit unions across the country have been opening branches in schools for decades. Most are financial institutions looking to stay competitive by attracting more local customers. These branches generate good will in the community, train future employees, and earn customer loyalty. Most of these programs have also been initiated by the financial institution, and often they have been part of a broader effort to build a network of branches. SunTrust Bank of Atlanta has a total of nine "youth banks." Wells Fargo has operated a branch at East High School in Anchorage Alaska since 2000 and is in discussions to open a branch at a high school in Denver. A somewhat different model is the partnership between Curie Metropolitan High School in Chicago and Park Federal Savings Bank. Begun in March 2005, this program was developed under the auspices of a community-based nonprofit, which recruited the partners, secured the financial resources, and worked with the Chicago Public Schools and the FDIC. There are currently about 150 credit union branches in high schools.

"Easy Banking" in Austin, Texas: How the Police Led an Effort to Get Immigrants Banked

In Austin, Texas, a proactive approach to solving a crime problem became an innovative partnership to build financial access for immigrants. The local police department led the effort to convince banks to accept alternative forms of identification for opening accounts.

Immigrant workers without bank accounts are often victims of crime

Austin is a city of approximately 660,000 people with a large Hispanic immigrant population. According to police statistics, nearly half of Austin's robbery victims in 2000 were Hispanic, although Hispanics made up only about 30 percent of the city's residents.[7,8] The police determined that a root cause for the elevated rate of robbery was the large amounts of cash that immigrant laborers, who typically did not have bank accounts, carried on paydays. Immigrants had little choice other than to carry cash. Most financial institutions in Austin required a state-issued identification card and a Social Security number to open an account.

Police officials worked with local banks to develop a program to allow foreign-issued identification for opening accounts

The Austin Police Department approached several area banks to discuss whether they could accept alternative forms of identification, including the *Matricula Consular*, to open bank accounts. Although there were regulatory issues to consider, the reasoning was straightforward: immigrants who have access to a safe place to keep their earnings are less likely to be victims of crime.

Banca Facil (Easy Banking) was launched in 2000. Accounts under the program do not earn interest but they do permit depositors to remit funds to family or friends abroad. New account holders receive two ATM cards, one of which they can send to relatives in Mexico. When a deposit is made in the U.S., funds can also be electronically transferred to branches of Banamex, the largest bank in Mexico.

Collaboration with community-based organizations and government agencies has been critical to the success of the program

Banca Facil is a broad, public–private collaborative effort. The program was developed in partnership with the local Mexican Consulate, the Texas Secretary of State, the Greater Austin Hispanic Chamber of Commerce, and Wells Fargo, the first area bank that agreed to accept the *Matricula Consular*. Staff from the police department and the Mexican consulate conducted broad-based community outreach efforts, and publicized the program through churches and social service groups that serve the immigrant community. They also broadcast public service announcements on Spanish language radio and spoke at apartment complexes and local strip malls. They encouraged people to open bank accounts as a way to protect themselves and their assets and assured people that their money would not be confiscated if or when they returned to their home countries.

Police forces across Texas are developing similar programs

The success of the program is well documented across the state of Texas and beyond. Soon after the launch of *Banca Facil*, Wells Fargo mandated that all of its locations across the country accept the *Matricula Consular* card. Police departments from other municipalities have replicated the program. In January 2002, the

Police Departments in Dallas and Fort Worth launched a similar initiative, called Communities Banking for Safety, in partnership with the Mexican Consulate in Dallas, the Bureau of U.S. Citizenship and Immigration Services (formerly the Immigration and Naturalization Service), and several banks. In November 2002, police in Arlington, Texas, launched *Seguridad Bancaria* (Security Banking) together with several Arlington banks and the Mexican Consulate. More than 1100 police departments in the United States accept the *Matricula Consular* card as proof of identity, although these departments do not necessarily do so as part of an immigrant banking program. Every major bank in Austin now accepts the *Matricula Consular* card.

Communication between the police force and the immigrant community is ongoing

Since Austin is an important destination for new immigrants, the police must deliver the same message and describe the same banking program repeatedly to newly arrived immigrants. Even for immigrants who remain in Austin, winning their trust is a slow process. For law enforcement officials, the process of establishing a rapport with the community, however challenging, is critical for encouraging immigrants to report crimes and to cooperate with the police, according to Austin Assistant Police Chief Rudy Landeros. The banks must also work to build trust in the immigrant community. Banks regularly send staff to community events to provide information about their services and work to build personal bonds with the leaders of civic, social, and religious organizations.

Tyson Foods' Workforce Home Benefit Program: Financial Services Offered Through Employers Leverage High Rates of Immigrant Labor Force Participation

Tyson Foods, headquartered in Springdale, Arkansas, provides home ownership and financial education assistance to its employees, many of whom are immigrants. Tyson and other employers increasingly recognize an opportunity to promote worker loyalty and retention, and reduce turnover, by providing financial literacy, home ownership, and asset accumulation programs for employees. While the Tyson Workforce Home Benefit Program has had limited success to date, it illustrates both the opportunities and the challenges of designing programs that target immigrant workers.

Tyson Foods is the largest meat-processing firm in the United States, operating 200 sites in 22 states.[9] Roughly one-third of the company's 115,000 employees are Hispanic, and most earn less than $25,000 per year. Many are recent immigrants.

High worker turnover is a longstanding challenge at Tyson Foods. Hourly employees have turnover rates between 60 percent and 70 percent in the first 90 days of employment.

The Tyson Workforce Home Benefit Program facilitates employee access to mortgages

In February 2004, Tyson Foods launched the Tyson Workforce Home Benefit Program to facilitate homeownership among employees. By helping people put down roots in their communities, the Home Benefit Program is one attempt to address the issue of high turnover rates. The program provides assistance towards downpayment and closing costs. To be eligible, employees must have worked for Tyson for at least two years, have household income below $54,000, and have permission from immigration authorities to work in the United States. The Tyson Credit Union, a division of the 66 Federal Credit Union, offers the mortgages and manages the program. Tyson is responsible for outreach and promotion. All loans are manually underwritten based on standards approved by Freddie Mac, which purchases the loans from the credit union. Freddie Mac requires pre- and post-purchase counseling for all borrowers under the program.

Competition from other financial services companies is one factor that limits expansion of the program

As of October 2005, the credit union had received approximately 500 applications for homeownership assistance, one hundred of which were pre-approved, though not all of the applicants were immigrants. The credit union estimates that more than 6,000 employees meet the eligibility criteria for the program.

Competition from banks is one reason for the relatively low number of program participants. Many Tyson employees have built financial relationships with banks and other financial institutions over time. In a natural response to changing demographics, many banks staff their offices with bilingual tellers, lenders, and trainers, and have simply aligned their marketing strategies with marketplace realities. They offer competitive interest rates to qualified customers. In some cases, employees find lower priced mortgages from competitors relative to those offered by Tyson's credit union.

Most of Tyson's lower-wage employees do not bank with Tyson's credit union

Tyson's lower-income employees tend not to be customers of the company's credit union. Workers earning between $75,000 and $150,000 patronize the credit union at much higher rates. While the credit union offers money orders, wire transfer services, and bilingual staff, lower-wage workers tend to use the credit union to cash their paychecks but do not keep their money in an account.

Problems with individual credit histories also limit participation in the program

For employees who do apply to the Workforce Home Benefit Program, the biggest hurdle to approving applications is often poor credit records. Approximately 80 percent of applicants either have no credit history or severely damaged credit. For clients without credit histories, the credit union accepts alternative documentation for sources of income and credit, such as car insurance premiums, rent, or utility payments, though many applicants pay bills in cash and do not have evidence of regular bill payments in their names. The credit union refers clients with poor credit histories to Balance Financial Fitness. Balance Financial Fitness is a credit counseling agency contracted by Tyson to provide financial counseling to credit union members and help with credit rehabilitation.

The Home Benefit Program is one of several programs offered by Tyson to assist immigrants with financial access

In addition to counseling provided through the Home Benefit Program, Tyson sponsors a Newcomers Financial Literacy Program. At various locations across the country, Tyson provides classes to workers on topics including checking account management, building a credit history, home purchase counseling, and participation in the company's retirement savings program. With respect to home buying and obtaining a mortgage, one goal is to help employees choose the most competitive lender and to avoid so-called fringe lenders that do not offer optimal pricing.

Workplace-based programs that promote mainstream financial access are designed to be of value to employers, employees, and banks

In addition to Tyson Foods, other employers with a large fraction of immigrant workers partner with local financial institutions, credit counseling agencies, and community nonprofits to offer financial literacy, financial planning, and homeownership programs. These employers include Iowa Beef Packing, Pollo Campero in Virginia and Maryland, North Arkansas Poultry (a subcontractor of Tyson Foods), and The Capital Grille in Washington, DC. Some programs are limited to homeownership assistance, others consist of classes on financial topics or assistance with debt management and budgeting, and still others offer naturalization or English classes. At least one employer pays bonuses to employees who complete a series of courses on financial topics. Employers often view programs that connect employees to the financial system as a way to increase worker retention and loyalty and possibly reduce costs by increasing direct deposit for payroll checks.

The New Alliance Task Force: Regulators, Bankers, Consulates, and Community Organizations Collaborate to Break Down Barriers to Banking Immigrants

The Chicago-based New Alliance Task Force unites regulators, bankers, consular officials, and community economic development practitioners around the topic of immigrant financial access. Task force members work to address the barriers that prevent immigrants from using the banking system. The range of participants, together with active involvement by government agencies and large banks, has raised the effectiveness of these efforts to promote immigrant access to the financial mainstream.

Launched in May 2003, the Midwest New Alliance Task Force (NATF) is a partnership between regulators, Mexican consular offices, financial institutions, and community organizations.[10] The purpose of NATF is to improve immigrants' access to the U.S. banking system by promoting financial education, support services, and the development of new financial products. NATF represents a community-wide effort that uses the expertise of its partners to overcome obstacles to greater immigrant financial access. Spearheaded by the Chicago office of the FDIC, NATF holds meetings, invites speakers, and incubates new ideas and banking practices that help banks improve products and services for immigrant customers. The task force has about 60 members. They are divided into subgroups that focus on four general areas: bank products and services, mortgage products, financial education, and social projects, primarily focused on education.

NATF developed from a number of separate community banking initiatives

The task force evolved from a group of smaller initiatives focused on financial education for low- and moderate-income (LMI) Chicago residents. Community-based organizations had been involved in a variety of related efforts to educate LMI households on the use of bank accounts, help families complete tax returns, access the EITC, and use tax refunds as initial deposits to open accounts. In 2001, the FDIC launched its MoneySmart financial education curriculum in an immigrant-dominated neighborhood. As immigrants cycled through the financial education classes, it became clear that many did not follow the expected transition into the banking system. "Hard barriers," including lack of acceptable identification and Social Security numbers prevented immigrants from opening bank accounts. At the time, only a small number of community banks accepted the *Matricula Consular* as a form of identification.

The banking industry showed immediate interest in the idea of a task force to promote immigrant financial access

In 2003, the Midwest office of the FDIC and the General Consul of Mexico in Chicago held a meeting of regulators and bank representatives to discuss issues related to financial education, immigrant banking, and the use of *Matricula Consular* cards to establish accounts. Banks across the region received invitations to attend. Nearly all sent a representative. Invitees were asked to indicate their interest in joining a task force. The overwhelming positive response made it clear that banks were eager to address barriers to serving the immigrant community.

NATF became a vehicle for exchanging ideas about serving immigrant customers

Members of NATF use the coalition to share opinions and hear from informed sources on a range of related and often controversial topics. Members learn how other banks have adapted their policies and practices to serve immigrant clients. Small banks have worked collaboratively to develop home loan underwriting guidelines. Bank associations, which are also NATF members, hold forums with their members on serving immigrants. NATF members meet quarterly for plenary discussions. Smaller subgroups commonly arrange private meetings to discuss more specialized or sensitive topics in further detail.

Regulators serving on NATF raise awareness of the need for vigilance in complying with the USA Patriot Act and other relevant regulations

The participation of regulatory agencies has been critical to the success of NATF. Bankers have looked to regulators for guidance on complex issues. The opportunity for dialogue with regulators has helped bankers develop a more nuanced understanding of the "know your customer" rules outlined in the USA PATRIOT Act. The regulators that participate in NATF include the FDIC, the Federal Reserve Bank of Chicago, the Office of Thrift Supervision, the Office of the Comptroller for the Currency, and the National Credit Union Association. Another important member of the task force is the IRS. The IRS publicizes the importance of and provides information on ITINs.

The involvement of the Mexican Consulate has attracted political support

NATF has also had a champion in the Consul General of Mexico, Carlos Sada. The Consul General has been a presence at banking forums across the Midwest region. He has spoken convincingly about the business rationale for reaching out to immigrants, the changing demographics of the U.S., and the massive flow of remittances to Mexico. He has made his case to law enforcement officials, who often see the use of secure alternate forms of identification as a way to reduce crime, and to mayors and governors, who have worked to encourage public and private institutions across the Midwest to accept the *Matricula Consular* card. The Illinois legislature has gone a step further to pass a law that acknowledges the acceptability of the *Matricula Consular* in all types of civic places, such as libraries. The Consul General's agenda also extends beyond the banking sector. His goal is to promote broad integration of Mexican immigrants into U.S. society.

The work of NATF has produced measurable successes

The Midwest NATF has helped make the business case for pursuing the immigrant market. In the first year of the program, more than 50,000 bank accounts were opened with *Matricula Consular* cards. The FDIC has also collected data on the issuance of consumer, auto, and home equity loans and studied the development of new remittance products and new mortgage products for immigrants. These results have been critical in convincing senior management and boards of directors at financial institutions to reorient product development, marketing, and staffing. NATF has also played a leading role in Chicago and other cities across the country in encouraging banks to accept alternative forms of identification, while promoting compliance with regulatory requirements.

The collaboration of mainstream players has helped move the topic of immigrant financial access into the mainstream

The participation of high profile institutions, both public and private, has given NATF wide recognition and validity. The sheer number of organizations involved demonstrates the interest and engagement of the banking community, community economic development practitioners, regulators, consular officials, immigrant groups, and others. The breadth of the coalition provides a broad base of expertise that allows the task force to grapple with complex issues. The task force has placed coherent treatment of these issues, which might have otherwise been avoided or addressed in a piecemeal fashion, high on the agenda of the Midwest banking industry.

The NATF model is expanding to other communities

While the Midwest NATF met its objectives and disbanded in December 2005, similar groups have formed in other cities, including New York, Boston, Los Angeles, Austin, Kansas City, Des Moines, and the Raleigh/Charlotte region. The various task forces around the country often address similar issues, although these newer committees are not organized around identical topics. The Texas NATF, for example, focuses on asset building, financial products and services, and regulatory issues. In Boston, the Bolivian, Brazilian, and El Salvadorian consulates participate, in addition to the Mexican consulate. Each regional NATF establishes its own priorities.

Conclusion

The motivations for promoting immigrant financial access are diverse

The type of organizations involved in the social and economic integration of immigrants are diverse. Some organizations have a mission to promote financial participation, and immigrants fall within the broader population groups that they serve. Some organizations have a mission to promote immigrant integration into U.S. society, and financial participation is one aspect of that mission. Some organizations operate with a mandate completely unrelated to immigrants or financial access, like police departments and schools. They serve everyone. And some, like firms that employ many immigrants, may view financial access as a means to an end, in this case worker loyalty and retention.

Members of the community work with a broad range of socioeconomic and demographic groups within the immigrant population. Some organizations assist low- and moderate-income households in particular. Others focus on a particular ethnic group or on immigrants who live in certain locations. Some organizations work with immigrants who remain in the U.S. for brief periods of time. Still others provide services to refugees who have no country to which to return. Some organizations address financial access for large groups of immigrants all at once, while others provide one-on-one assistance.

Organizations that have a stake in immigrant success use direct service, community development strategies, and advocacy to promote financial access

Direct service is one way that organizations help immigrants access the financial mainstream, offering programs such as home mortgage assistance or financial education to prepare immigrants to use the banking system. Another approach focuses on community or economic development strategies in immigrant neighborhoods. This approach is aimed at improving the quality of financial services and other economic opportunities for all residents of those areas. Advocacy is a third way that the community is involved in immigrant financial access. The goal of this work includes creating policies that address "hard" barriers to the mainstream financial system such as the types of documents that banks will accept to open an account.

A common feature of these organizations is that they are in a unique position to know first-hand what services and programs immigrants need

Despite the numerous ways that the community promotes immigrant financial access, there are some features that are common to many, if not all, of the organizations profiled in this chapter. Many of these organizations hold the trust of their immigrant clients and constituencies. These organizations are locally based and they are part of the fabric of the places where immigrants live and work. In some places, they have a long history of working with newcomers. Even where they do not, these organizations are on the front lines of the process to help immigrants integrate into U.S. society. They are in a unique position to learn first-hand what services and programs immigrants need and to know what services are available. They are able to connect immigrants with public and private institutions that can respond to these needs.

Schools, employers, law enforcement, and non-profits can be a source of reliable guidance and information about the U.S. financial system for immigrants

These organizations represent a dependable source of financial information for immigrants. They may be an important resource for immigrants who know few people who can provide knowledgeable financial advice. The community can help immigrants make informed financial choices both about mainstream financial institutions and the alternative financial services sector.

Organizations often work in collaboration with other groups to widen their impact

Many of the organizations profiled here achieve their objectives in cooperation with other institutions and organizations. Partnerships between community-based organizations and financial institutions are one obvious example of this collaboration. Organizations that help immigrants adapt to life in the United States also work in partnership with one another. This cooperation is designed to expand the impact of a single organization. It is aimed at generating more resources and helping to win the support of more community residents around a particular issue. Reaching a critical mass can be key to affecting the political climate and to achieving advocacy goals. Organizations that view financial access as a community-wide challenge logically address this issue through a community-wide response.

Additional Resources:

- Boat People SOS, *www.bpsos.org.*
- Center for Economic Progress, *www.centerforprogress.org.*
- "Bank Attraction Strategy," Norma Polanco-Boyd, Community Affairs Officer, Office of the Comptroller of the Currency, presentation at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, Federal Reserve Bank of Chicago, April 16, 2004, available at *www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_polanco.pdf.*
- "Serving Immigrant Communities: Alternative Outreach Channels," James P. Maloney, Chairman, Mitchell Bank, presentation at the Financial Access for Immigrants: Learning from Diverse Perspectives Conference, Federal Reserve Bank of Chicago, April 16, 2004, available at *www.chicagofed.org/news_and_*

conferences/conferences_and_events/files/financial_access_for_immigrants_maloney.pdf.

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- "Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market," Michael Frias, Supervisory Insights, Winter, 2004, available at *www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/latino_mkt.html.*

- "Best Practices in Immigrant Lending," Lauren Moser and Esther Park, Paper prepared for the American Bankers Association, May 25, 2004, available at *www.shorebankadvisory.com/resources/ImmigrantLendingPaperMay2004_Finalrevised0624.pdf*.

- "Meeting the Financial Service Needs of Mexican Immigrants: A survey of Texas Financial Institutions," Community Resource Group and the Appleseed Foundation, Texas Appleseed Foundation, July 2004, available at *www.texasappleseed.net/inprint/pdf/english_financial_brochures/MeetingFinancialNeeds.pdf.*


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THE FUTURE

Opportunities and Challenges

Opportunities and Challenges

This chapter describes some important opportunities for achieving broader financial access for immigrants. These opportunities address demographic trends and research findings described in Chapter 2. They draw on the most compelling examples of innovation by banks and credit unions outlined in Chapter 3. Partnerships between financial institutions, regulators, and the community of the type described in Chapter 4 will help address the complex social, regulatory, and institutional challenges that each of these opportunities present.

Introduction

There are many promising and innovative for-profit and not-for-profit efforts to help immigrants connect with the financial mainstream; examples are highlighted throughout this document. The focus here is on a select group of opportunities that could potentially be replicated more broadly because they take into account demographic trends, research findings, regulatory considerations, and market realities. However, each opportunity raises complex social, regulatory, and business concerns, and none is likely to come to fruition without meaningful dialogue and coordination between bankers, regulators, immigrant advocates, policymakers, and community representatives.

It is important to keep in mind that the vast majority of immigrants come to the U.S. legally and that for many legal immigrants low education, lack of English proficiency, and doubts about the reliability of financial institutions hamper full participation in U.S. financial markets. The emphasis here is on opportunities to foster access to the U.S. financial system for immigrants, realizing that these opportunities would expand financial access among low- and moderate-income individuals more generally.

Make the Services Immigrants Demand Available at Banks

While seemingly obvious, banks have yet to capitalize broadly on this market opportunity. Every week, hundreds of thousands of immigrants receive paychecks that they cash at check cashers across the country, generating about $2 billion in fees every year. This activity represents a significant opportunity for banks, thrifts, and credit unions. Beyond fee income, establishing check-cashing services within mainstream institutions creates frequent opportunities to cross sell or at least expose patrons to other services, to “bank” the unbanked, in other words.

For immigrants, the benefits include increased competition. Competition will lower fees for check-cashing and bill payment services, even for those who continue to use alternative financial services. Ten years ago, it was rare for banks to offer remittance services. Today, banks commonly offer this service, and increased competition has lowered the cost for all immigrants, even though many continue to remit through the alternative financial services sector. For immigrants who do choose to cash checks and pay bills through banks, there will be additional benefits, including the opportunity to open checking and savings accounts and the expanded consumer protections that come with doing business at a bank.

For some banks and credit unions, check-cashing and bill payment services could represent additional fee income *and* the opportunity to connect with immigrant customers much more frequently than they can through remittances. The vast majority of immigrants are paid with checks, rather than cash. Thirty-eight percent of immigrants are paid every week; an additional 50 percent are paid twice a month. In contrast, remittances are typically sent eight to 12 times a year. When an immigrant goes to a bank to cash a paycheck, a cycle of convenience is created which operates in favor of both the bank and the customer. The same teller that cashes the check can also arrange for a remittance to be sent to the immigrant's family. The teller can also discuss the benefits of a savings or checking account and of direct deposit. Banks that have experimented with this model report that about 40 percent of check-cashing patrons become account holders.[1]

Changing business models to offer check-cashing and bill-paying services may also help mainstream financial institutions respond to and benefit from technological innovations in the payments industry. Some of these innovations, like stored value cards and cell phone payments, have the potential to make banks increasingly irrelevant for many individuals. If banks offer check-cashing and bill payment services, with the opportunity to tie them to more traditional savings and checking accounts, the banking sector may be able to retain or even grow its customer base, despite new products working against that outcome. Innovation may also make it possible to provide check-cashing and bill payment services electronically.

For regulators, moving check-cashing and bill payment services into the banking sector can increase transparency, simplify enforcement, and facilitate broad compliance with money laundering and anti-terrorism legislation. In much the same way that regulators can better scrutinize remittance senders and recipients when these transactions take place in banks, regulatory officials will be better able to determine the legitimacy of payments when they take place in federally regulated institutions that are subject to customer identification rules and extensive recordkeeping and reporting requirements.

At the same time, offering check-cashing and bill payment services within banks raises a number of compliance issues that regulators and banks would need to address before this practice could be expanded. Some banks have tried to move in this direction and subsequently abandoned their efforts because of the compliance risks that were raised. Adding this issue to the agenda of groups that bring legislators, bankers, and regulators together to address immigrant financial access, like the New Alliance Task Force described in Chapter 4, might be a productive way to move the conversation forward and to frankly debate the potential benefits and the potential risks of offering more of the services that immigrant customers want within banks and credit unions.

Reach out to the Second Generation

The next wave of immigrant growth will come not from new arrivals, but from the children of immigrants already here. In some states with large immigrant populations, Arizona, Illinois, and Massachusetts, for example, the second generation is already larger than the first. By 2020, second generation Latinos are projected to outnumber their parents throughout the country.[2] Currently, the children of immigrants account for 19 percent of school age children in the U.S.[3]

As adults, the children of immigrants are at risk to have low rates of checking and savings account ownership because children learn financial behavior from their parents. When parents are unbanked, children are likely to be as well. Expanding the number of bank branches in high schools could help to diminish this possibility. More generally, bank branches in high schools could expand financial education opportunities for the nation's high school population.

In addition to representing a large and growing future market opportunity, the children of immigrants may be easier for banks to connect with than their parents. Roughly three-quarters of school age children with an immigrant parent are U.S. citizens.[4] The children of immigrants are more likely to be proficient in English than their parents. In addition to these benefits, bank branches at high schools can help banks develop future employees that add financial skills to their language and cultural skills, a combination that is in short supply in the current labor market.

By focusing on the children of immigrants, banks can reach immigrant parents as well. School bank branches are patronized by children on behalf of their parents and also by parents, especially when the branch is open at times when parents are likely to be at school – during conferences, at sporting events, and so on. By working through high schools, banks can enhance their reputation for credibility and trustworthiness within the immigrant community. This can help the bank's branches outside the school become the choice of immigrant families as well.

For schools, bank branches offer a way to augment the curriculum and to make classroom lessons tangible. Fifteen states make the completion of an economics course a graduation requirement and seven states require a personal finance course in high school.[5] Research suggests that the benefits of financial education during high school extend into adulthood in the form of higher savings rates.[6] Studies of the financial behavior of immigrants indicate that financial lessons absorbed on the brink of adulthood can affect financial behavior for decades as well.[7]

While there are several examples of high schools with bank branches, this is far from the norm. One obstacle is that many banks report that school branches lose money. However, there is at least one example of a high school bank making money. Perhaps not coincidentally this bank, Cardinal Bank in Milwaukee, WI, is located in a neighborhood with a large population of recent immigrants, many of whom did not have bank accounts. To the extent that the benefits of broader financial access accrue to society at large and not just to individual banks, it may be worthwhile to consider how to provide incentives for banks to establish branches in schools.

Leverage High Rates of Immigrant Employment

Immigrants come to the U.S. to work. One out of every two new workers between 1990 and 2000 was born abroad.[8] Immigrants make up 12 percent of the U.S. population, but 15 percent of all workers.[9] Despite high rates of employment, many immigrants work in low wage jobs, accounting for 20 percent of all low-wage workers.[10]

Working immigrants have important financial needs – for both financial education and services – that could be delivered in the workplace to the benefit of immigrant workers and their families, employers, and financial institutions. The workplace is a fundamental place for financial institutions, employers, and others to reach immigrants and to ensure that immigrants have the same opportunity to pay bills, save, invest, and achieve homeownership as their native-born counterparts.

The opportunity is particularly great for large firms that employ significant numbers of immigrants. These employers can benefit from increased employee loyalty and lower turnover rates that can be the result of employer-sponsored financial initiatives. In addition, large employers operate at a scale at which significant savings may result from having a greater proportion of their payrolls delivered through direct deposit or stored value cards.

For banks, the workplace offers the opportunity to connect with large numbers of immigrants who are ready for and in need of financial services. The trust that some immigrant employees place in their employer may transfer to the financial institution as well. While the greatest gains are probably to be made by connecting with large employers, community banks can also reach immigrants at work, by capitalizing on relationships with the bank's business customers that employ immigrants. For example, the bank can offer to educate employees about the benefits of direct deposit or sell products like payroll cards to the employer.

Beyond the benefits of access to accounts, financial education, and employer-sponsored mortgage programs, banking at work offers convenience for busy immigrants. Immigrants often cite convenience as a primary reason for using the alternative financial services sector.

It is important to emphasize that financial institutions that work through employers will still need to address issues of trust, education, and language in order to reach potential immigrant customers. Just having a bank or credit union branch at the workplace is not enough. There are many reports that employer-sponsored bank and credit union branches are patronized primarily by higher income employees.

Community organizations can serve as a trusted go-between for individuals who may not feel comfortable sharing sensitive financial information with their employers. In addition, the expertise of community organizations in areas ranging from financial education to tax preparation can usefully complement the products offered by a financial institution. Because immigrants often need basic financial education and information about how to create, maintain, and sometimes repair a credit history, community organizations can be an important partner, together with employers and financial institutions, in delivering financial services in the workplace.

Target Immigrant Neighborhoods

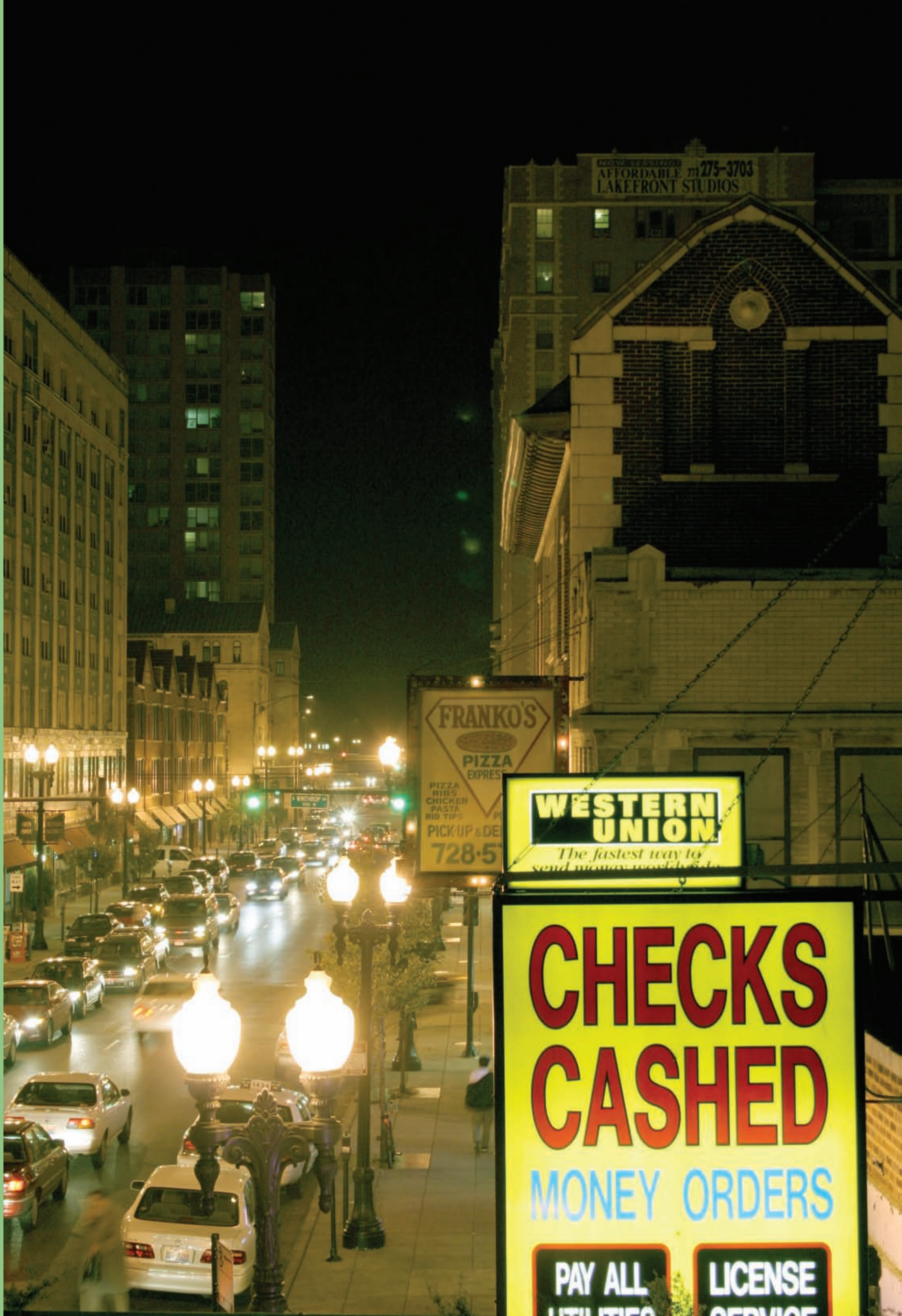
Immigrant enclaves, neighborhoods with a high percentage of foreign-born residents, usually from the same country, are often places with particularly low bank account ownership. However, inroads into account ownership in ethnic communities may be multiplied through immigrant networks and word-of-mouth among people who rely heavily on one another for information. In a neighborhood where the fraction of the population that is made up of immigrants from a particular country is very high, getting just one immigrant to open a new bank account may lead many others to do the same because they can easily learn about the process and the benefits of account ownership from an individual who shares their country of origin and language. These neighborhoods are areas of great need and areas of great opportunity.

Well-designed programs will be of enormous importance in reaching out to immigrant enclaves. Program sponsors need to be prepared to concretely address issues related to language, documentation, and trust. Partnerships among banks, ethnic community groups, and other organizations with abundant credibility in the immigrant community will be very important. The goal of these partnerships should be to inundate neighborhood residents with opportunities to use mainstream financial services. Broad partnerships that include churches, employers, and bank branches in local high schools will help to build a critical mass of bank account ownership in the community that will be self-reinforcing.

Final Thoughts

Immigrants have many different needs and banks may not be right for everyone. It is important, however, to create a financial system that offers access to those who want it. When financial access is extensive, communities are stronger. Financial access is fundamentally linked to economic prosperity. Study after study shows that across countries and across states financial development enhances economic development and growth.[11]

Efforts to connect immigrants with the financial mainstream are happening against a backdrop of unprecedented immigration to the U.S. Immigrants are changing as they adapt to the U.S., and the U.S. is in turn changing as newcomers are, to varying extents, accommodated and incorporated. The challenge is to ensure, as much as possible, that these inevitable transformations strengthen communities and families in the United States, that they benefit immigrants and the native-born, help financial institutions build sustainable business models, and take into account the wisdom and the expertise of the community. Efforts to increase access to the financial mainstream must also be sensitive to national security interests and the on-going debate surrounding immigration. Ultimately, the economic prosperity of the country is connected to how we contend with the challenge of offering immigrants full access to the nation's financial system.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Notes

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ENDNOTES

CHAPTER ONE

[1] Capps et al., 2004.

[2] Arlington Police Department, 2002.

[3] Fair Lending laws are a group of laws, including the Fair Housing Act (FHA), Equal Credit Opportunity Act (ECOA), Home Mortgage Disclosure Act (HMDA), and the Community Reinvestment Act (CRA), which bar financial institutions from withholding credit services on the basis of race, color, religion, national origin, and other characteristics. Enforcement of these statutes rests with the Federal Reserve, Federal Deposit Insurance Corporation, and other government agencies.

[4] The Community Reinvestment Act was enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by Regulations 12 CFR parts 25, 228, 345, and 563e. It is intended to encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. The CRA requires that each insured depository institution's record in helping meet the credit needs of its entire community be evaluated periodically.

[5] Chiteji and Stafford, 1999.

CHAPTER TWO

[1] The estimated cost savings of $155 per immigrant family assumes the following: that immigrants send $34 billion in remittances each year (in 2004 the Inter-American Development Bank estimated remittances from the U.S. to Latin America at $34 billion) from the U.S.; that remittance fees total 7% of the amount sent; that 37% of immigrants do not have a checking account (authors' calculations from the 1996–2000 SIPP); that 60% of immigrants without a checking account cash checks at check cashers; that the annual earnings of immigrant workers are $33,700 (Capps et al., October 2003); that all of these earnings are paid in checks, that there are 17.9 million immigrant workers (Capps et al., October 2003) and that check-cashing fees average 1.5% (Berry, 2004, estimates that fees range from 1% to 2%). Under these assumptions remittances generate $2.4 billion in fees each year and immigrants pay another $2 billion to cash checks each year for a total of $4.39 billion. Dividing this figure in half and splitting it across the 14.159 million immigrant families (source: *www.census.gov/population/socdemo/foreign/ppl-176/tab01-3.pdf)* in the U.S. yields the $155 figure. The actual savings would of course not be spread equally among all immigrant families. Families who make heavy use of check cashers and send lots of remittances would see much greater savings, while families who never use check cashers or send remittances would experience no savings.

[2] Current Population Survey, 2005 March Supplement.

[3] Congressional Budget Office, 2004.

[4] Passel, 2005.

[5] Singer, 2004.

[6] Passel, 2005.

[7] Capps and Fix, 2005.

[8] Congressional Budget Office, 2004.

[9] Capps et al., 2004.

[10] Capps et al., November 2003.

[11] Congressional Budget Office, 2004.

[12] Congressional Budget Office, 2004 and authors' calculations from Current Population Survey, 2005 March Supplement.

[13] Congressional Budget Office, 2004.

[14] Capps et al., October 2003.

[15] Congressional Budget Office, 2004.

CHAPTER TWO, *continued*

[16] Congressional Budget Office, 2004.

[17] The data cited in this section, unless otherwise indicated, are drawn from two research papers: Osili and Paulson, 2004 and Osili and Paulson, 2005. In addition, the authors report on some specialized calculations and analysis prepared especially for this publication. These papers and the specialized calculations analyze the 1996-2000 Survey of Income and Program Participation data.

[18] Countries are categorized as according to whether they have English as an official language and whether a majority of immigrants from that country spoke English in the 1980 Census. See Bleakley and Chin (2004) for details.

[19] Hernandez–Coss, 2005.

[20] See Hilgert et al., 2005. This study found that many Mexican immigrant focus group participants viewed U.S. banks as reliable and secure places to keep their funds, even if they did not actually have a bank account.

[21] Washington, 2003.

[22] Suro et al., 2002.

[23] Berry, 2004.

[24] Dunham, 2001.

[25] Hernandez-Coss, 2005.

[26] Suro et al., 2002.

[27] Grace, 2004.

[28] Hilgert et al., 2005.

[29] Belsky and Calder, 2004.

[30] Schoenholtz and Stanton, 2001.

[31] Kuykendall, 2002.

[32] Authors' calculations from the Mexican Migration Project Data.

[33] Authors' calculations from 1996–2000 SIPP data.

[34] Berry, 2004; Rhine et al., 2006; Dunham, 2001.

[35] Berry, 2004.

[36] Seidman, Habobou, and Kramer, 2005.

[37] Meyers, 1998.

[38] Marcuss, 2005.

[39] See Orozco, June 2004, and Suro, November 2003. These figures are based on two surveys: an interview with the four largest banks in the remittance field (CitiBank, Wells Fargo, Harris Bank, and Bank of America) and a survey of Latin American remittance senders.

[40] Hilgert et al., 2005.

[41] See Suro et al., 2002. Of remittance senders, more than half of whom had a bank account, less than 25% understood that banks could send remittances.

[42] Orozco, June 2004.

[43] Hilgert et al., 2005.

[44] Suro et al., 2002.

[45] Amuedo-Dorantes and Pozo, 2002.

[46] Hogarth, 2005.

[47] Suro et al., November 2002.

[48] Hilgert et al., 2005.

[49] Hernandez-Coss, 2005.

[50] Amuedo-Dorantes and Pozo, 2002.

[51] Amuedo-Dorantes and Pozo, 2002.

CHAPTER THREE

[1] DeYoung et al., 2004.

[2] Federal Deposit Insurance Corporation and *Boletin Especial Lazos*, 2004.

[3] Federal Deposit Insurance Corporation, 2004.

[4] Grow et al., 2005.

[5] Center for Economic Progress, 2004.

[6] Bair, 2005.

[7] U.S. Department of the Treasury, 2002.

[8] Frumkin, September 2004.

[9] Temkin and Sawyer, 2004. This growth includes pawnbrokers and rent-to-own businesses.

CHAPTER THREE, *continued*

[10] See Ratha, 2003, and Bezzard, 2005, for different estimates of remittances flows. Some of the recent growth may be due to better reporting and the decline of informal transfer mechanisms.

[11] Ratha, 2003.

[12] Orozco, June 2004.

[13] Orozco, June 2004. This is especially true for Latin America.

[14] For an interesting discussion of products, mechanisms, and new technologies, see Isern, Deshpande, and van Doorn, 2005.

[15] Bezzard, 2005.

[16] Orozco, June 2004.

[17] See Bezzard, 2005, and Orozco, 2004, for the different estimates.

[18] Orozco, June 2004.

[19] For more information, see *www.swift.com*.

[20] Working with licensed money transfer operators also allows banks to accept their terms of compliance under the USA PATRIOT Act.

[21] Federal Reserve Web site of financial services fee schedule: *www.frbservices.org/FeeSchedules/FedACH2005.html*.

[22] John Herrera, 2003. For more information about IR*net*, see *www.woccu.org/prod_serv/irnet/index.php*.

[23] Orozco, March 2003.

[24] See note 22.

[25] Orozco, June 2004.

[26] Interagency Letter, June 3, 2004.

[27] Ibarra, 2005. Based on an opinion letter issued by the National Credit Union Administration, 2002.

[28] *American Association of Retired Persons,* 2005, page 1.

[29] Frumkin, September 2004.

[30] For more on the marketing efforts by banks, see Orozco, June 2004.

[31] Drew, 2002.

[32] Authors' calculations from Current Population Survey, 2005 March Supplement.

[33] *www.huduser.org/periodicals/ushmc/spring03/summary_html.*

[34] Moser and Park, 2004.

[35] Schoenholtz and Stanton, 2001.

[36] Gallagher, 2005.

[37] Jordan, July 8, 2005.

[38] Toussaint-Comeau, 2005.

[39] A thorough treatment of access to capital for small businesses is beyond the scope of this document. For more information on immigrant entrepreneurship see Toussaint-Comeau, 2005.

CHAPTER FOUR

[1] This case study is based primarily on the authors' interview with Khanh Tran, Director of Community Development, Boat People SOS, November 10, 2005. Additional information comes from Elmore, 2005, and from authors' interviews with Ian Bautista, Executive Director, El Centro, October 16, 2005, and Rebecca Vargas, Vice President of Hispanic Markets, Citigroup New York, November 2, 2005.

[2] This case study is based on authors' interviews with David Marzahl, Executive Director, Center for Economic Progress, and Rolando Palacios, Assistant Director, Midwest Tax Clinic, January 18, 2005; and with Mary Ruther Herbers, Director of Programs, Center for Economic Progress, November 16, 2005.

[3] To be eligible for the credit, a tax filer must have a Social Security number as well as earned income during the year. He or she cannot be a dependent of another tax filer, and his or her income must fall short of certain thresholds that are dependent on the number of qualifying children.

CHAPTER FOUR, *continued*

[4] This case study is based on a presentation by Norma Polanco-Boyd, given at the Financial Access for Immigrants: Learning from Diverse Perspectives conference at the Federal Reserve Bank of Chicago, April 16, 2004. Additional information comes from the authors' interview with Alan Rodriguez, Senior Vice President, Charter One Bank, November 9, 2005.

[5] This case study is based on a presentation by James Maloney, Chairman, Mitchell Bank, given at the Financial Access for Immigrants: Learning from Diverse Perspectives conference at the Federal Reserve Bank of Chicago, April 16, 2004. Additional information comes from Moser and Park, April 25, 2004; the Texas Appleseed Foundation, July 2004; Berg, December 13, 2005; Gottesman, July-August 2005; and Saranow, March 8, 2005.

[6] Authors' calculations from the Current Population Survey, 1995, 2005 March Supplement.

[7] This case study is based on the authors' interview with Rudy Landeros, Assistant Police Chief, Austin Police Department, November 16, 2005. Additional information comes from Texas Appleseed Foundation, July 2004; City of Austin, News Release, May 2, 2001; Arlington Police Department, Press Release, November 25, 2002; Garcia, May 2, 2001.

[8] Brookings Institution Metropolitan Policy Program online databook, 2006.

[9] This case study is based on authors' interviews with Vickie Black, Mortgage Loan Officer, 66 Federal Credit Union, November 1, 2005; Kim Weaver, Mortgage Loan Officer, 66 Federal Credit Union, November 1, 2005; and Susan Brockway, Community Liaison, Tyson Foods, November 7, 2005. Additional information comes from Park, 2004, and Jacob, August 2005.

[10] This case study is based on the authors' interview with Michael Frias, Community Affairs Officer, Federal Deposit Insurance Corporation Chicago Regional Office, October 7, 2005. Additional information comes from authors' interview with Eloy Villafranca, Community Affairs Officer, Federal Deposit Insurance Corporation Dallas Regional Office, October 3, 2005.

CHAPTER FIVE

[1] Lindenmayer, December 19, 2005.

[2] Suro and Passel, 2003.

[3] Capps et al., September 2005.

[4] Capps et al., September 2005.

[5] National Council for Economic Education, 2005.

[6] Bernheim et al., 2001.

[7] Osili and Paulson, 2005.

[8] Capps et al., October 2003.

[9] Authors' calculations from Current Population Survey, 2005 March Supplement.

[10] Capps et al., October 2003.

[11] Claessens, 2005.

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