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Financial access for immigrants: Highlights from the national conference

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The enormous economic potential of immigrants, both established and recently arrived, represents a significant source of new business for many financial institutions. For immigrants, access to the services of mainstream financial institutions represents an important step on their road to economic success.

Between 1990 and 2000, the number of foreign-born in the United States grew by 57%. One in nine individuals now living in the United States was born abroad, as was one out of eight labor force participants. Immigrants account for billions of dollars in consumer spending and remittance transactions to the country of origin. In addition, many immigrants live in areas with little or no history of twentieth century migration. The size of the immigrant population and the growing diversity of settlement destinations ensure that the economic progress of immigrants will continue to be a crucial component of economic progress in U.S. cities, suburbs, and rural areas.

To pursue the immigrant market, banks are hiring personnel that speak the language of the neighborhood and forming partnerships with community-based organizations.

Despite its importance, immigrant financial market participation has been a somewhat overlooked piece of the larger process of immigrant integration. On April 15–16, the Federal Reserve Bank of Chicago's Center for the Study of Financial Access for Immigrants and the Brookings Institution Center on Urban and Metropolitan Policy hosted a conference, *Financial Access for Immigrants: Learning from Diverse Perspectives*, to provide a forum for representatives of financial institutions, community development professionals, immigrant advocates, and researchers to interact and learn from one another. Conference sponsors included the Pew Hispanic Center and the Ewing Marion Kauffman Foundation. With over 200 people in attendance, the conference was a key component of a multiyear initiative by the Federal Reserve Bank of Chicago to focus research and outreach activities on financial access for immigrants.

The conference sessions were organized around financial services—basic banking, homeownership, innovative practices, entrepreneurship, and remittances—but the broad agenda and mixture of research, banking, regulatory, and community perspectives were designed to identify the themes that unify this area of interest. This *Chicago Fed Letter* summarizes some highlights of the conference by addressing five basic questions:

- What institutions offer services to immigrants?
- Who are the current and potential immigrant customers?
- What challenges do institutions face in reaching immigrant customers?
- What practices have proven effective?
- How can success be measured?

What institutions offer services to immigrants?

Many small banks with large immigrant customer bases have entered these markets for reasons of survival. As James Maloney of Mitchell Bank noted, if you as a banker do not address this market, the world will pass you by. Bank owners do not necessarily share the ethnicity of their dominant customer base. For example, Yman Huang Vien of the Chinese-owned American Metro Bank operates bank branches in Chicago's Chinatown as well as in a predominantly Hispanic community. Those who wish to pursue the immigrant market have hired personnel that speak the language of the neighborhood community.

They also partner with community-based organizations to reach out to new customers. Bankers emphasize the business potential of working with immigrants, even though, as Jeremiah Boyle of the Chicago Fed explained, outreach to underserved communities can also help banks meet their community reinvestment obligations.

Given the bureaucratic process for project approval and the need to standardize products and services, large banks have been slower to enter this new market compared with smaller banks. They too tend to invest in the immigrant market as a means of business expansion. With their marketing power and established networks, large banks also seek to compete for a share of the remittance business, which is currently dominated by money transfer firms. In addition, large banks benefit from being able to offer a wider portfolio of products to immigrant customers. Some immigrant customers take their business to a large bank after having established a credit history with a small bank or credit union.

Credit unions pursue the immigrant market to recruit new customers as well. John Herrera of the Latino Community Credit Union reported that his credit union began in June 2000 with one branch. Today, the institution consists of five branches, $14.1 million in assets, and 16,000 members. Credit unions also target the financially underserved remittance market in both the U.S. and receiving countries. According to David Grace, the World Council of Credit Unions has been actively involved in an initiative to create a lower cost remittance product.

Community-based organizations (CBOs) play a central role in connecting immigrants to institutions that provide financial services, as well as providing a range of other services to help with the process of integration. Norma Polanco of the Humboldt Park Economic Development Corporation highlighted her organization as an example of a CBO that solicited banks to open a branch in its predominantly Hispanic neighborhood. This organization made a commitment to prospective financial institutions to provide financial literacy training and free marketing and publicity. In more remote areas, such as the unincorporated cities along the U.S.–Mexican border, CBOs not only offer services, but also act as translators and mediators for newly arrived immigrants learning to navigate U.S. institutions and markets, according to Barbara Robles of the University of Texas–Austin. Additionally, some CBOs are lenders themselves. Cheng Fu Hang of The Neighborhood Development Center in Saint Paul, MN, explained that his organization offers both debt and equity financing in addition to extensive technical assistance to potential entrepreneurs from distinct ethnic groups, including Hmong, Somali, Oromo, and Latino immigrants.

Who are the current and potential customers?

More immigrants entered the United States in the 1990s than in any previous decade. As Audrey Singer of the Brookings Institution explained, immigration is no longer a phenomenon affecting a handful of states. Today's primarily non-European immigrant population is settling in places where immigrant communities were virtually nonexistent two decades ago. The metropolitan areas of "emerging gateway" cities, such as Atlanta, Washington, DC, and Dallas–Ft. Worth, saw their immigrant populations increase fivefold between 1980 and 2000, from just over half a million people to 2.7 million.

The enormous economic potential of immigrants, both established and recently arrived, represents a significant source of new business for many financial institutions. Hispanics accounted for some $653 billion in purchasing power in 2003, and Asians another $344 billion, according to a study cited by Federal Reserve Board Governor Ben Bernanke at the conference. In 2003, remittances to Latin America and the Caribbean totaled $38 billion. Lindsay Lowell of Georgetown University estimated that remittances sent from the United States to Mexico and Central America were $19.3 billion in the same year. Additionally, over half of all minority-owned businesses are owned by immigrants, explained Maude Toussaint-Comeau of the Chicago Fed. On a regional level, 50,000 bank accounts have been opened by formerly "unbanked" customers, according to a survey of more than 30 banks that operate in the Midwest. These new accounts carried more than $100 million in deposits.

Immigrants bring with them a wide variety of attitudes and experiences that affect their level of trust in financial institutions, observed Una Osili of Indiana University–Purdue University. For example, on the question of transaction account ownership, Sherrie Rhine of the New York Fed found that immigrants from Mexico who are U.S. citizens and have lived in the U.S. longer are more likely to have a savings or a checking account. Interestingly, however, citizenship status and length of stay in the United States do not affect the likelihood of having a savings or checking account for immigrants from Latin America, Europe, or Asia. In the area of homeownership, Sherrie Kossoudji of the University of Michigan found that naturalized citizens are significantly more likely to behave like the native-born in terms of homeownership rates. However, immigrant non-citizens lag behind in homeownership regardless of how long they have lived in the United States.

In terms of variation of home country experience, Anna Paulson of the Chicago Fed found that an individual who emigrates from a country with low institutional quality (in terms of protection of private property) is less likely to participate in U.S. financial markets than someone from a country with higher institutional quality. When home country institutional quality is controlled for, being an immigrant has no further statistical impact on financial market participation. Immigrants who migrated from their home country at age 16 and older are most affected by the institutional quality of their home country. Only immigrants who have lived in the U.S. for more than 32 years are unaffected.

The number of years the immigrant has lived in the United States creates an additional dimension of diversity within the immigrant community. Alice Perez of US Bank described a three-tier marketing system to respond to Hispanic immigrants' gradual adjustment to the U.S. financial system. The first tier of the US Bank marketing system involves establishing banking and credit relationships with immigrants who arrived less than two years ago. The second tier uses a strategy of cross-selling mortgage, business, and personal banking products. The third tier markets more sophisticated lines of credit and loans to immigrants living in the United States the longest amount of time.

What challenges do institutions face?

Working with first-generation immigrants often means working with people whose home-country financial experiences remain influential. As Paulson noted, the very act of purchasing some financial products or services may involve overcoming lessons about the trustworthiness of institutions that people absorbed early in life. If financial institutions wait for first-generation arrivals to adapt to the host country, then they may miss out on an important and growing segment of the market. To reach this market, they may need to structure their products or service delivery methods differently to appeal to recently arrived immigrants.

Similarly, lack of familiarity with the U.S. credit system is a barrier standing between many immigrants and access to mortgages, business loans, or consumer credit, according to James Ballentine of the American Bankers Association. Many new immigrants have no credit history, some ethnic groups avoid debt as a cultural practice, and many of the conventional tools used by financial institutions do not adequately measure the creditworthiness of certain immigrant groups. As Toussaint-Comeau reported, personal assets, rather than bank loans, are the main source of business financing for many immigrants. According to Pyong Gap Min of the City University of New York, a common misconception is that Japanese and Korean immigrant entrepreneurs rely on ethnic rotating credit and savings associations (ROSCAS) to obtain funding for business start-ups. His research shows that Asian immigrants rely mainly on personal assets to start businesses.

An emphasis on human interaction rather than digital service delivery is also helpful in serving new immigrant customers. This runs counter to recent innovations in financial service delivery. Automated services are not only designed for customers with financial knowledge, but customers who manage their money digitally are rewarded with lower fees. In contrast, as Roberto Suro of the Pew Hispanic Center points out, if you are the first person in your family ever to open an account, it is difficult to establish a banking relationship without human contact.

There are also regional differences in the available infrastructure to integrate recent arrivals. Some new immigrant destinations have weaker community networks relative to destinations with a longer history of immigrant settlement. Financial institutions with branches in new immigrant cities also have greater difficulty hiring multilingual staff.

Larger financial institutions face a unique set of challenges in terms of convincing managers and directors to modify products and services to reach the immigrant market. Noting that decisions at small banks "can be made on a dime," Martin Heldring of Harris Bank Glencoe spoke of the need to receive approval from a myriad of bank departments before introducing even small changes at a large bank.

No financial institution, regardless of its size, has fully broken into the remittance market, according to David Grace of the World Council of Credit Unions. Competition comes from traditional wire services with extensive distribution networks and, increasingly, from "mom and pop" stores often operated by first- or second-generation immigrants. Manuel Orozco of Georgetown University found that in many cases, neither the sending nor receiving households are connected to the financial system. Nonbank competition represents a challenge to financial institutions that are investing in remittance products.

Political risk also plays a part in serving the immigrant market. As Michael Frias of the Federal Deposit Insurance Corporation and Nina Olson of the Internal Revenue Service each emphasized, there are competing definitions of what constitutes acceptable identification under immigration, tax, and banking laws. Some conference participants expressed the concern that, going forward, new policies might restrict the use of alternative forms of identification such as the Mexican Consulate's *Matricula Consular,* or more drastically, require financial regulators and/or financial institutions to become involved in implementing immigration laws. Perhaps not coincidentally, the financial institutions most concerned about this prospect are located in cities where extensive immigration is a new phenomenon. Institutional familiarity with alternative identification methods also varies greatly by region, with financial institutions in some areas opening hundreds of accounts with the *Matricula Consular* and Individual Tax Identification Numbers (ITINs, tax filing numbers for workers without social security numbers), and others just entering this market. Proximity to regional consular offices impacts both the publicity about these alternatives and the speed at which applications are processed.

Gathering information on immigrant financial markets and behavior has its own set of challenges. One issue is the limited availability of national data that include large samples of foreign-born respondents as well as local geographic and financial market information. To obtain data about immigrant markets and financial practices, financial institutions and researchers must often patch together information from several sources, including the *INS Statistical Yearbook*, local government housing offices, school systems, the Census Bureau, and regulators. A related challenge is to demonstrate the relevance of the available data, particularly for practitioners whose scope of interest is often the most local geography. Obtaining funds for evaluating programs is another challenge, particularly for community-based organizations.

What practices are effective?

A recurrent theme in nearly all of the conference sessions was the importance of building and maintaining trust when reaching new immigrant customers. Often, before connections are made between immigrants and financial institutions, trust takes root between immigrants and community-based organizations. Financial institutions that have been successful in reaching the immigrant market describe working with religious, social, and civic organizations with which the immigrant community has close ties in order to promote the transfer of trust from these organizations to the financial institution.

Financial institutions also advocate examining the appropriateness of existing loan products and knowing the local character of a community before marketing to immigrants. Flexible protocols (consideration

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of pooled household income, receipts from regular remittances, etc.) are recommended to determine creditworthiness. Some banks have allowed greater latitude in documentation of identity to reach the immigrant community. US Bank, for example, created the Credit Builder Secured Loan and a Secured Visa Card to help individuals establish credit histories. Both large and small institutions have added services that compete with check-cashing outlets, either through separate initiatives like Harris Express, or via the existing organization like Mitchell Bank or the Latino Community Credit Union. Financial institutions also emphasize the importance of getting support from top management for creating a comprehensive outreach strategy.

In addition, successful institutions often offer counseling and financial education, either directly or in partnership with a CBO, to better acquaint new customers with the products and goals of the financial institution. They also incorporate financial literacy training into the marketing of basic banking and lending products. Education and financial literacy are also important in mortgage underwriting. Research reported by Andrew Schoenholtz of Georgetown University confirms that sustainable homeownership is plausible only if people are financially ready.

An under-recognized vehicle for promoting financial education and banking relationships is the tax system. As Nina Olson explained, withholding and tax filing can encourage savings and financial participation if unbanked immigrants deposit tax refunds into bank accounts.

How can success be measured?

Conference participants were asked to comment on what would represent success in the area of financial access for immigrants. For David Marzahl of the Center for Economic Progress, success would include an increase in the presence of bank and credit union branches in neighborhoods currently dominated by payday lenders and check-cashing outlets, so that these neighborhoods would more closely resemble their more affluent counterparts in proximity to low-cost banking services.

For many financial institutions with a history of serving immigrant clients, financial access as such is no longer the issue. Faced with increased competition from large banks, representatives from these institutions believe that access, though not universal, has improved greatly. The next step for institutions on the frontline is to move immigrants from being transactors to being savers and, eventually, homeowners. Success in this context could be measured by the range of financial products purchased by immigrants, the establishment of a secondary mortgage market for ITIN-issued loans, and the overall socioeconomic progress of immigrant customers.

Research clearly has a role to play in evaluating indicators of progress as well. Tracking outcomes is the basis for evaluating interventions that promote financial access. As John Weicher of the Department of Housing and Urban Development noted, one measure of successful financial access would be statistically insignificant differences in homeownership rates between immigrants and the native-born.

Many issues were raised during the conference that might also be important components of successful integration of immigrants into the financial mainstream. Among them were the quality of the housing stock purchased by immigrants; the effects of sub-prime versus predatory lending on immigrants; customer responses to stored value cards versus wire transfer products; initiatives that encourage the development of small businesses among under-represented groups; and the comprehensive effects of remittances.

Conclusion

The varied interpretations of success raised at the conference reflect the diverse backgrounds of conference participants, as well as the evolving nature of financial access for immigrants. Paraphrasing Roberto Suro, all conclusions are tentative as the changes currently underway are processed and understood. The rapid influx of immigrants between 1990 and 2000 and the establishment of new immigrant settlement areas mean we are in a time of both transition and great opportunity. As immigrants adapt to the host country, the host country will also adapt and change. In this environment, the conference demonstrated the effectiveness of a collaborative method to move the discussion forward. The exchange of perspectives among practitioners, regulators, and researchers added significantly to the current state of knowledge regarding immigrant financial access. More information about this conference and related activities is available at www.chicagofed.org/community_development/center_for_ the_ study_of_financial_access_for_ immigrants.cfm.

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