

# Profitwise

## News and Views

### Special Edition

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## Financial Assimilation of Immigrants Conference

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*On June 24, the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago convened, "An Informed Discussion of the Financial Assimilation of Immigrants" in Des Moines, Iowa. The conference was part of the larger, long-term program by the Chicago Reserve Bank to study the ways and means by which immigrants to the United States access mainstream financial services. This Special Edition of PNV comprises summaries of each of the conference presentations.*

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## Profitwise News and Views

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## Overview

**O**n June 24, the Consumer and Community Affairs (CCA) division of the Federal Reserve Bank of Chicago convened, "An Informed Discussion of the Financial Assimilation of Immigrants" in Des Moines. The conference was part of a larger program promulgated by the Chicago Reserve Bank to study the ways and means by which immigrants to the United States access mainstream financial services.

The co-sponsor for the conference was Proteus, Inc., a nonprofit corporation that provides various services to low-income lowans, primarily farmworkers. Proteus has three Iowa offices where clients can receive education assistance, vocational training, childcare, and health service referrals, as well as homebuyer education.

Helen Mirza, the Chicago Fed's Community Affairs Program Director for the state of Iowa, opened the conference with some background on the role of the CCA division at the Fed. She mentioned that members of the division provide technical assistance to financial institutions regarding consumer regulations such as the Community Reinvestment Act (CRA), Fair Lending and Fair Housing Acts. CCA also conducts outreach to community economic organizations, government agencies, and the academic community, in addition to financial institutions.

Steve Kuehl, the Chicago Fed's Consumer Regulations Director for the CCA division, provided some background on the Emerging Consumer and Compliance Issues unit, and the series of forums that have taken place since the unit was formed in 2000. Primarily, the forums address issues facing disadvantaged communities and populations, and in the past have specifically addressed the Earned Income Tax Credit, provisions of the Gramm, Leach, Bliley Act of 1999, and identity theft.

*Note: There has been considerable debate on use of the terms "Hispanic" and "Latino" (or "Latina") when referring to the Mexican, Central and South American residents of the United States. The terms Hispanic and Latino are used interchangeably in the following conference report reflecting usage by the speakers at the conference during their presentations.*

Visit the website of the Federal Reserve Bank of Chicago at:



# Financial Assimilation of Immigrants Conference

Des Moines, Iowa  
June 24, 2003

## Morning Session

Sandra Charvat Burke

José Luis Cuevas

Jim Elliott

Leo Prieto

Andria Macias-Castillo

### SANDRA CHARVAT BURKE

#### Examining Immigration Trends: Census 2000

*Ms. Charvat Burke is a sociologist and researcher at the Community Vitality Center in the Economics Department of Iowa State University, where she focuses her activities on rural community society, development, entrepreneurship, and population. The Center focuses on non-metropolitan community issues. Ms. Charvat Burke provided an overview of demographic trends in the state of Iowa related to immigration.*

Ms. Charvat Burke discussed the four basic components of population change: births, deaths, move-ins and move-outs. She noted that since the 1950s, the height of the baby boom, the annual number of deaths has remained relatively constant, while births have steadily declined, though still exceed deaths by a significant margin. During the 1990s, net migration to Iowa was positive for the first time since the 1920s, with 49,000 more moving into Iowa than out. Population change due to births and deaths resulted in a net increase of just over 100,000 during the same period, the net population increase for the state was just under 150,000 for the decade.

Ms. Charvat Burke went on to discuss trends in foreign-born Iowa and U.S. residents. In 2000, there were just over 91,000 foreign born Iowa residents versus 42,000 in 1990. In the century between 1890 and 1990, the number and ratio of foreign-born in Iowa steadily decreased. The year 2000 was the first census year in which an increase in foreign-born residents over the prior decade occurred. In contrast, the ratio of foreign-born U.S. residents (nationwide) has ebbed and flowed in response to immigration policy since the mid-nineteenth century, peaking in the 20 years from 1890 to 1910 at roughly 14 percent, but was just under 5 percent by 1970. The ratio has been in ascent since 1970 and was over 10 percent in the decade prior

to the 2000 census year. The number of foreign-born residents nationwide shows a more dramatic increase beginning in 1970, increasing from just under 10 million to over 30 million by 2000.

In contrast to 1990 when Asian and European immigrants made up the largest segments of foreign-born residents, by 2000 Latinos represented the largest ethnic group, Mexicans being by far the most prevalent nationality among foreign-born residents of Iowa. The number of foreign-born residents of Iowa by 2000 was more than double the number in 1990, increasing from just over 40,000 to roughly 90,000. More than one-third of foreign-born Iowa residents present in 2000 had arrived in the previous five years, and just over two-thirds of the foreign-born in 2000 were not U.S. citizens. However, among the immigrant population that had arrived in Iowa during the prior decade, approximately 10 percent have achieved U.S. citizenship.

Among other key findings, in the early 1990s, the refugee population in Iowa tended to originate from Southeast Asia (Laos, Cambodia, Vietnam), but by the mid '90s, a significant proportion emanated from eastern Europe. By 1997, Bosnia was the main source of refugees in Iowa. Ms. Charvat Burke noted that seven of Iowa's 99 counties experienced more than 1000 percent growth in Latino population during the 1990s; several of these were counties with large meat and/or poultry processing operations. The number of Iowa residents that speak a language other than English at home grew by 60 percent from 1990 to 2000, from roughly 100,000 to 160,000. Not surprisingly, the number of Iowa residents enrolled in English language learning programs rose steadily during the same period, and the vast majority were Spanish speakers. Finally, Ms. Charvat Burke showed that the age distribution among Hispanic, Asian and all minority residents of Iowa, in contrast to majority residents, is heavily weighted toward younger age groups, suggesting that industry in the state will rely more heavily on an immigrant and minority labor pool in the coming decades.

**JOSÉ LUIS CUEVAS**  
Heartland: A New Horizon

Mr. Cuevas is the Consul General, Mexican Consulate in Omaha, Nebraska. Mr. Cuevas has over 30 years of diplomatic service in the United States, South America and the Caribbean. Mr. Cuevas has served as Deputy Consul General at the Consulate General of Mexico in Chicago, Illinois and San Diego, California. Mr. Cuevas served as the Deputy Chief of Mission at the Embassy of Mexico in Jamaica and then as Technical Director of Human Resources for the Mexican Foreign Service. Mr. Cuevas received a B.A. in Political Science from New York University.

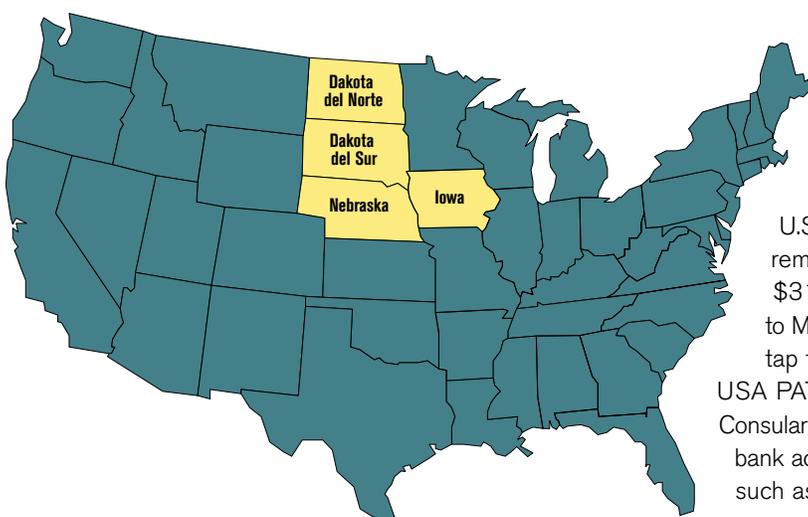


Mexican Consulate Office, Omaha Nebraska

Mr. Cuevas began with a discussion of the decision by the Mexican government to open a consular office in Omaha. The consulate serves the Midwest states of Nebraska, Iowa, North Dakota and South Dakota. The decision of the Mexican government to open its forty-fifth U. S. based consulate in Omaha was due to on the large number of new immigrants arriving in the American heartland, either as new immigrants or migrating from other states. At the time the consulate opened in 2000, the Midwest Mexican population was approximately 320,000; presently it is well over 3.5 million. With the growing Hispanic population becoming the largest minority group in the United States, an estimated 38.8 million, representing 13 percent of the U.S. population, the need for consular representation has increased.

The majority of Mexican immigrants come from Mexico City and the states of Michoacán, Jalisco, Guerrero and Zacatecas. The trend within the Mexican immigrant population is to move out of the traditional receiving states of California, New Mexico, Arizona and Texas, and increasingly into states that until recently were not associated with

**Jurisdiction of Mexican Consulate, Omaha, NE**

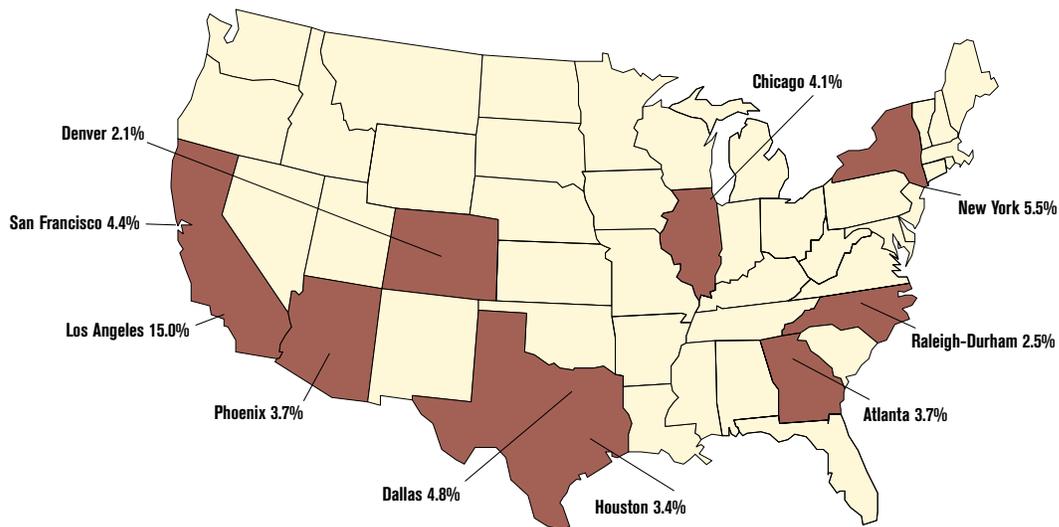


large immigrant arrival including Iowa, Nevada, Colorado, North and South Dakota. To better serve the growing Hispanic populations in these new areas, the Mexican government has opened offices in Las Vegas and Indianapolis, and relocated the St. Louis office to Kansas City, Missouri.

Mr. Cuevas continued by discussing the economic contributions made by immigrants in the United States. Citing Federal Reserve Board Chairman Alan Greenspan in testimony to Congress in 2001, Mr. Cuevas stated that immigrants contribute \$27 billion dollars to state and local economies annually, the difference between what immigrants pay in taxes, \$70 billion, and what they receive in the form of services, \$43 billion. Referring to the controversy surrounding the issue of undocumented workers, Mr. Cuevas noted that studies by various institutions show that undocumented workers nationwide pay billions of dollars in state and local taxes, as well as Social Security and unemployment insurance, from which they will realize no benefits. For example in 2001, contributions to local and state taxes amounted to \$732 million in California, and \$547 million in Illinois. Referring to a *Fortune* magazine story from November 26, 2001, Mr. Cuevas stated that in the year 2000, undocumented immigrants contributed more than \$200 billion to the national economy.

Mr. Cuevas stated that banks in the United States are aware of the burgeoning immigrant population and the market they represent. In addition to an existing substantial consumer lending market and deposit service, U.S. banks are going after an increasingly large remittance market. With an average transaction of \$310 per Mexican national in the U.S., remittances to Mexico reached \$10 billion last year. In order to tap this market, U.S. banks, in compliance with the USA PATRIOT Act<sup>1</sup>, are accepting the Matrícula Consular identification cards to allow Mexicans to open bank accounts and take advantage of other services such as remittance programs.

## Top 10 Main U.S. Markets for Remittances to Mexico (Average Transaction: \$310 for each Mexican National)



Source: SEC OFI (Secretariat of Commerce and Industrial Development, Mexico)

Mr. Cuevas provided some history on the Matricula Consular. The Matricula Consular is an identity document issued by a Mexican consulate to Mexican Nationals living abroad. Begun in 1871, the Matricula Consular is an official record for the Mexican government to track citizens who have received services at a consular office, such as notary, birth, death and marriage registration services. In 2002, Mexican consular offices issued over 1.4 million Matricula Consular cards in the United States. Mexican nationals living in the United States must present an original birth certificate and official photo identification that is recognized either by the Mexican government (e.g., Mexican passport), or by the U.S.

**“Undocumented workers pay billions of dollars in local and state sales taxes when they purchase appliances, furniture, clothes and other goods.”**

federal or state government, such as driver’s license or green card (permanent residency and work visa), in order to receive a Matricula Consular. Proof of residence for at least six months in the consular jurisdiction is also required. The

new cards have been updated to include several sophisticated security features to prevent counterfeiting. Future cards will include a codified fingerprint in the bar code.

Proof of identity to law enforcement agencies and bona fide identification in the U.S. are seen as the major reason for issuing the cards. The Matricula Consular is currently accepted by: police departments in four states, most airports,

many U.S. banks including; Wells Fargo, U.S. Bank, and Bank of America; and the Departments of Motor Vehicles in Nebraska and South Dakota.

Mr. Cuevas concluded with a discussion of the need for current and future Mexican immigrant workers in the U.S. By the year 2005, the state of Iowa is expected to lose 40 percent of its workforce as people reach retirement age. New immigrants seeking work can fill blue-collar jobs no longer desirable to most working class Americans. These new immigrants bring with them their culture, but also an eagerness to learn, work and “an urgency to belong.”

### Notes

1 See USA PATRIOT Act on page 12.

## JIM ELLIOTT

### Civil Representation for Immigrants

Mr. Elliott is the Deputy Director of Litigation for Iowa Legal Aid (ILA), a statewide legal aid program for civil legal representation of low-income persons. Mr. Elliott also serves as project manager for Iowa Legal Aid's Migrant Farm Worker and Assistive Technology projects, Low-Income Tax Payer Clinic, and on the board of Proteus, Inc. He managed several earlier projects on behalf of Iowa Legal Aid for the benefit of migrant workers and other disadvantaged Iowa residents. He received a B.A. from the University of New Haven, and a J.D. from the Franklin Pierce Law School in New Hampshire. He was admitted to the Iowa Bar in 1980.

Mr. Elliott began by describing the responsibilities of the organization. ILA provides representation to victims of domestic violence, people who lose shelter through eviction or foreclosure, and those who are trying to access disability benefits. ILA represents people who would otherwise represent themselves, causing a significant burden in the court system. The goal is to provide "access to justice" for all Iowans, though most clients fall below 125 percent of the area median income by U.S. Department of Housing and Urban Development (HUD) standards.

Mr. Elliott went on to describe the mission of ILA in the context of aid to immigrants. He stated that the organization receives funding from approximately 50 sources, and that federal funding places restrictions on the group. It cannot provide direct representation to non-documented immigrants, but can advise those individuals of their legal rights and responsibilities. The only exceptions among the undocumented are certain victims of domestic violence.

ILA's work with immigrant households has revealed that many are a mix of U.S. citizens, documented and undocumented residents. Many are migrant workers simply looking to improve income and opportunities for their families. Mr. Elliott indicated that for each attorney in his organization, there are approximately 7,000 eligible clients, and that there is much more need than ILA can address. ILA must prioritize its areas of assistance. Critical needs include access to healthcare (particularly among elderly), housing, consumer education, employment, income maintenance, and individual rights. Family law is the most frequent need for ILA clients; most of these cases involve domestic violence. Almost 60 percent of cases that go to trial involve family law; most are domestic violence cases. Housing related issues are another key area for which ILA provides services.

Housing is a frequent area of concern on several fronts. Iowa has a large proportion of older housing stock, and many immigrants live in substandard housing. According to Mr. Elliott, and noting that landlord-tenant laws apply regardless of the immigration status of the renter/occupant, some landlords have used tactics such as threatening to report individuals to the Immigration and Naturalization Service (now the Bureau of Immigration and Customs Enforcement) to intimidate renters. Migrant work camps must meet certain state standards, but according to Mr. Elliott the standards are low. Overcrowding, unfair rental practices and questionable landlord practices are common issues that ILA addresses. The Survivors and Families Rural Access Project is targeted to survivors of domestic violence and provides services ranging from restraining orders to assistance in accessing public benefits, and assistance with other civil matters such as tenant/landlord grievances and debt management.

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**ILA's work with immigrant households has revealed that many are a mix of U.S. citizens, documented, and undocumented residents.**

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Housing discrimination, according to Mr. Elliott, remains a major issue in Iowa. ILA has been involved in housing related litigation periodically. A case that ILA litigated involved Hispanic immigrant residents of a mobile home community. The town government where the community was located bought the mobile home park and decided to shut it down, citing poor conditions, but also effectively displacing half of the town's Hispanic immigrants. Mr. Elliott stated that the poor conditions stemmed from the town's negligence of the roadway, water and sewer infrastructure around the mobile home community. ILA sued the town government and prevented the closing of the community. The court recognized the disparate impact of the closing of the park on minority residents of the town.

Capacity is an ongoing issue for ILA. Ten regional offices allow ILA to further serve residents in outlying areas of the state. Two statewide programs improve the scope and effects of ILA's outreach. One is the "Statewide Intake for Callers Using English as a Second Language" program. The other is the "Statewide Services for Iowans 60 and Over."

Other special projects include the Low-Income Tax Payer Clinic. ILA provides information to low- and moderate-income residents and immigrants about their rights and obligations under the tax code, and assistance in accessing the earned income tax credit to eligible recipients. ILA also advises clients about refund anticipation loans, as they tend to be very high cost loans with little net value to taxpayers expecting refunds. The services are offered in a variety of languages aside from Spanish, including Russian and Bosnian. Another program targets migrant and seasonal workers, *Justica Para Todos* (Justice for All), and provides assistance related to problems that arise due to high employee turnover. These workers are involved in seed corn, poultry and meat processing industries.

Immigrants in Iowa, in addition to being low-income, have language access problems, and they are largely undocumented. Often, in many contexts, doctors' offices, or the courts, for example, children are relied upon as interpreters for their parents or relatives. This remains a barrier in Iowa to a greater extent than in larger metropolitan areas. State agencies, local governments and schools do not "think creatively" about providing services to non-English speaking

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**ILA provides information to low- and moderate-income residents and immigrants about their rights and obligations under the tax code, and assistance in accessing the earned income tax credit to eligible recipients.**

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immigrants. Title VI of the Civil Rights Act applies to any entity receiving federal funds, and provides that discrimination based on language is discrimination based on national origin, and is illegal. Title VI covers limited English proficiency, but according to Mr. Elliott, the state

does not do an effective job of enforcing its provisions. A recent Supreme Court ruling stated that individuals could not sue based on Title VI provisions.<sup>1</sup>

In the course of "Feeding Iowa's New Immigrants" program, a research initiative, ILA discovered that in the context of food stamps, school lunches and WIC (Assistance for Women, Infants and Children), people who would access these programs had mixed households. That is, some in the household were documented and some were not. Applicants reported all household income, including that of undocumented workers. When the Department of Human

Services seeks to verify income of undocumented workers with an employer, that worker is usually discharged. Title 19, HAWK-I (Healthy and Well Kids in Iowa), provides medical insurance to low-income Iowans, but are not available to undocumented workers. Some meat packing plant workers that may not have complete documentation may still be eligible for the employer's health insurance. Initially, the worker may have some health insurer through that source, but the high turnover rate at meat packing plants, with workers moving on for various reasons to other types of work, results in many workers simply having no health insurance at all.

Another benefit program, the General Relief Program, which represents the most basic safety net for low-income Iowa residents, is administered at the county level and each Iowa county has one. It does not provide cash for beneficiaries, but will provide assistance with rent, health care and other relief. Even though there is a residency requirement in most ordinances, there is no citizenship requirement. General Relief is not available to undocumented residents.

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#### Notes

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<sup>1</sup> *Alabama Dept. of Public Safety v. Sandoval*, 532 U.S. 275.

## LEO PRIETO

### Marketing to the Latino Community

**Mr. Prieto is the Latino Business Development Officer for Wells Fargo Home Mortgage Emerging Markets Department in Des Moines. Mr. Prieto worked previously with GMAC Mortgage Corporation as the National Hispanic Project Coordinator and Emerging Markets Regional Manager. He holds a B.A. in Anthropology and History from Pacific Asian Christian University in Kona, Hawaii.**

Mr. Prieto began by drawing on personal experiences of being a new immigrant, and pointed out that all immigrants go through a learning process to understand and function in American society. This learning process can be long, stressful, intimidating and at times embarrassing for immigrants. The learning process for newly arrived immigrants encompasses everything from understanding speed limits to how to order food at a restaurant. During the learning process, Mr. Prieto emphasized that established Americans need to “have patience with the newcomers, and having a sense of humor can only help during encounters. Immigrants have to learn how things work in a host community, and many Americans need to learn that a different way of doing things is not right or wrong, it's just different.”

Hispanics are used to a different style in conducting business, and understanding those differences goes a long way in creating successful businesses. For instance, Hispanics are not accustomed to the American idea of “personal space” of approximately three feet. Hispanics are used to being up close to the person with whom they are conducting business. “The closer you are in, the more trusted you are.” When an American stands away from a Hispanic (unfamiliar with American customs) while conducting business, the Hispanic interprets this as a signal the American does not want to do business, or doesn't trust them.

Likewise, Hispanics are not used to the impersonal atmosphere of banks and branches where customers wait in line behind a rope for the next available teller to assist them. Hispanics by contrast are generally used to someone approaching and greeting them when they enter a business. In this way, business owners are stating their interest in the customer and his/her potential business.

Mr. Prieto also reminded the audience that there are 24 countries in Latin America, and they have differing cultures. A demographic analysis of the market area is essential to know who potential customers will be; not all Hispanics can be treated as if they come from Mexico. A successful business owner needs to be interested in knowing the community first, before expecting customers to walk into a storefront.

Mr. Prieto defined emerging markets as “a new philosophy in conducting business transactions throughout the mortgage and banking industry...fueled by the demographic changes in our society.” The new emerging market is the first-time homebuyer or bank customer, who is from a low- or moderate-income households and belongs to a minority, immigrant or ethnic group, but primarily immigrants, especially Hispanics.

The growth in the Hispanic population in the last few years represents a market that businesses ignore at their own peril. There are currently 38.7 million Hispanics in the United States, exceeding the United States Census expectations. If the trend continues, by the year 2020 there will be 82-85 million Hispanics in the United States—one out of three U. S. residents will be of Hispanic origin.

Mr. Prieto outlined a few steps Wells Fargo has undertaken that support the immigrant community, and that are used to attract potential bank customers:

- Wells Fargo recently started a homebuyers club. Instead of turning away customers who don't qualify for a home loan, they are referred to the homebuyers club where they resolve credit issues and receive homebuyer counseling through local nonprofits.
- Wells Fargo accepts the Matricula Consular identification card issued by the Mexican government to its nationals outside the country. From January to June 2003, the Des Moines office of Wells Fargo opened over 600 bank accounts for customers using the Matricula Consular as identification. Nationally, Wells Fargo has opened over 150,000 of these accounts.
- The bank has jumped into the remittance market. In association with Bancomer in Mexico, Wells Fargo charges \$10 for the transfer of up to \$1,000 to Mexico.
- Throughout the state of Iowa, Wells Fargo has joined with nonprofit housing groups and local municipalities to develop affordable housing. Vacant or abandoned land is donated by cities, and with a nonprofit group, Wells Fargo builds an affordable home that is sold to new residents in the community.
- Wells Fargo is also looking at nontraditional forms of credit. Many immigrants do not have credit histories, so Wells Fargo has started looking at rental payments and/or utilities for at least 12 months to assess creditworthiness.

Mr. Prieto ended by noting that the greatest advantage any company can have in reaching out to the immigrant community is an interest in its people. Finding out what they are interested in and understanding how they conduct business in their home country goes a long way to attract and retain customers.

**ANDRIA MACIAS-CASTILLO**  
Financing & Savings Issues for Undocumented Workers

*Ms. Macias-Castillo is the Executive Director of Hispanic Educational Resources (HER), Inc., the largest Latino community-based nonprofit in the state of Iowa. The organization's mission is to promote the strength of Latino families in Des Moines, programs include early childhood education and social services. Ms. Macias-Castillo has worked in the corporate insurance industry and in higher education. She currently serves on a variety of boards and advisory groups in Central Iowa. Ms. Macias-Castillo holds a B.A. in Business Management with an emphasis in Marketing and a minor in Spanish from Central College in Pella, Iowa, and is near completion of an MBA degree at the University of Iowa.*

Ms. Macias-Castillo discussed the difficulties undocumented workers encounter accessing traditional bank products and services, and noted the demographics of families that use HER services. Most parents are in their twenties and have three to five children. Households frequently include grandparents, aunts, uncles and cousins. Families typically pay for services with cash; check use is rare. Ninety-eight percent of families are either at or below poverty level.

Ms. Macias-Castillo answered the question, "why don't Latinos worry about financing?" by explaining that Latinos do save, but in ways different from Americans. Latinos usually have cash stored at home, which is perceived as safer than a bank. This attitude stems from mistrust of banks in many Latin American countries, and the lack of understanding of the secure nature of the U.S. banks and concepts such as compound interest. Latinos also do not

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**The proximity to Mexico and ease and travel south of the border, and the accessibility of information in Spanish makes English proficiency a low priority to many immigrant families.**

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save for retirement, she stated, relying on extended family care for relatives in old age. "We provide for each other as a family," Ms. Macias-Castillo noted.

Because of the differences in perception, Ms. Macias-Castillo pointed out that to penetrate the Latino

market, financial institutions must adapt their products and services. Financial institutions need to appeal to the family as a whole, as individuals in the family rarely adopt new methods independently.

Ms. Macias-Castillo also pointed out that financial institutions need to recognize that Spanish, as the dominant language spoken in immigrants' homes, will not diminish even in

successive generations. The proximity to Mexico and ease of travel south of the border, and the accessibility of information in Spanish makes English proficiency a low priority to many immigrant families.

Ms. Macias-Castillo concluded with a list of five aspects of the Hispanic culture that must be considered to succeed in penetrating the Latino immigrant market:

- The Hispanic population is growing and settling in areas with previously few or no Latin American immigrants.
- Hispanics are very family oriented and major decisions are made by reaching consensus among family members.
- Customer service must involve taking time and getting to know the customer, and is essential to lasting business relationships. Hispanics expect to talk about many other things before conducting business.
- Hispanics respond to promotions, such as raffles and sweepstakes, in greater numbers than other groups.
- Hispanics need financial education to understand banking terminology and the benefits banks bring to customers.

# Banking the Unbanked: What the Mexican Government is Doing in Mexico



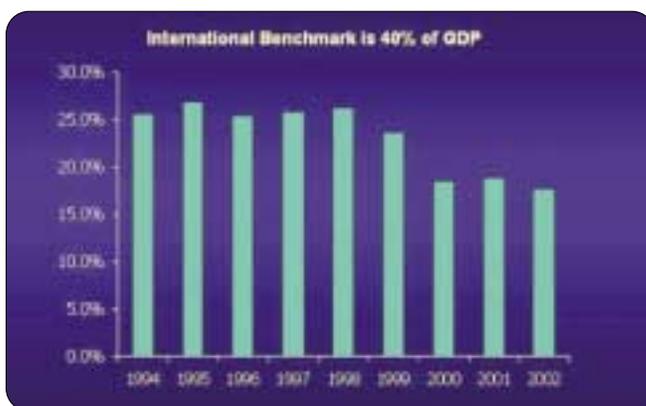
## KEYNOTE SPEAKER: JAVIER GAVITO MOHAR

Mr. Gavito is Chief Executive Officer of the National Savings and Financial Services Bank (BANSEFI), formerly Mexican Trust for National Savings (Patronato del Ahorro Nacional.) Formerly, Mr. Gavito was Executive Manager of Banking and Savings in the Mexican Ministry of Finance and Public Credit (Secretaría de Hacienda y Crédito Público). He was Vice Chairman of Financial Analysis and Development of the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores). Prior to working in the banking industry, Mr. Gavito was a Professor of Finance at the Mexican Autonomous Technological Institute (Instituto Tecnológico Autónomo de México, ITAM), and was also head of the Academic Department of the School of Business and Coordinator of the Finance Department of ITAM. Mr. Gavito has published several articles, papers and essays dealing with financial issues, participating organization systems, development and supervision of financial services and institutions, and the impact of the North American Free Trade Agreement. Mr. Gavito holds an M.B.A. degree from Tulane University and a Bachelors Degree in Business Administration from Universidad Anáhuac (Mexico City).

Mr. Gavito began his remarks by acknowledging that Mexicans emigrating to the United States largely do not bring experience with or detailed knowledge of financial systems in Mexico. Formal financial systems in Mexico do not reach the lower-income strata of the population. The Mexican government has begun a wide reaching program to bring financial services to Mexicans around the country, even the most remote rural areas.

The international target for money supply, meaning essentially bank deposits, as a percentage of GDP is 40 percent, compared with roughly 60 percent for the U. S.<sup>1</sup> In contrast, deposits in Mexico have been below 20 percent of GDP since 2000. Loans have decreased steadily since the 1994 banking crisis, and are currently below 20 percent of GDP. “The population has limited access to banking services because of their low-income level, their geographical dispersion and the high cost of the available information,” Mr. Gavito stated. “This unattended demand for financial services by the formal sector...has promoted an array of options, mostly informal.”

## Deposits at Mexican Financial Institutions as a Percentage of GDP



Source: Banco de Mexico, INEGI (National Institute of Geography, Statistics and Information, Mexico)

The informal financial service sector includes credit unions<sup>2</sup> (of the 256 total, only 32 accept deposits), savings and loans associations, cooperative associations, solidarity savings institutions and popular savings entities. This Association for Popular Colinas (ACP), as it is collectively known, consists of 657 intermediaries, providing financial services to over 2.6 million people around the country, with assets over 17.8 billion pesos (approximately \$1.65 billion United States dollars (USD)).

Not all agents in the ACP are authorized to mobilize savings. Of the 657 intermediary enterprises around Mexico, only 43 are regulated. This generates insecurity regarding the deposits taken, resulting in a limited development of the ACP, and keeping deposits and inclusion into the financial sector low.

The potential market is tremendous. It is estimated that formal financial intermediaries serve only 35 percent of the economically active population. The potential market is at least 20 million people (including those formal financial services intended for Mexican immigrants in the United States).

A new legal framework to give security to depositors and investors was approved by the Mexican congress in April 2001, which passed two new laws: the Popular Savings and Credit Law (LACP) and the Organic Law of the Bank

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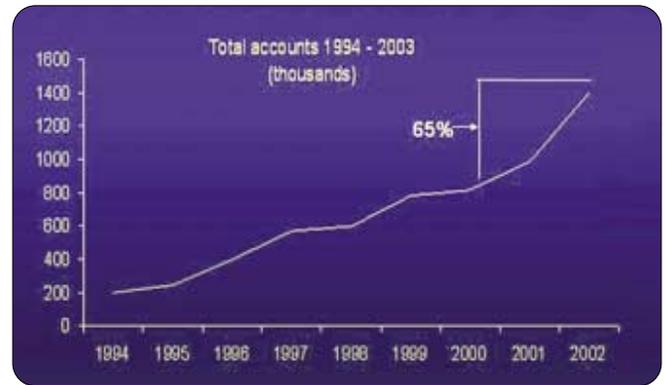
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for National Savings and Financial Services. The principal goals of the LACP are: organizing, regulating and promoting the popular banking sector in a way that is consistent

with its nature and functions; strengthening operations; and providing protection for depositors. Many of the intermediary enterprises (known as *cajas*) that provide financial services to low-wage earners in Mexico have operated for decades, and range from small rural operations to a cooperative of 600,000 members with 350 branches around the country.

It is important to understand that the new banking model was not a government design, but one of people involved in the *cajas* who have long provided services to low-income customers. Essentially, the goal was to formalize (legally) the existing practices of the *cajas*. The *cajas* work very closely within the community. Because most are cooperatives run by members, the *cajas* are aware of key information (such as which members pay dues and installments on time) that the formal banking sector would find difficult to obtain. Accordingly, banks could not allocate credit efficiently. Evidence that the *cajas* are viable enterprises is the fact that they survived the banking crisis of 1994. While the Mexican government provided fiscal support for the formal banking sector, the *cajas* generally continued to do business without government assistance.

## Increase in Number of Savings Accounts Opened in Mexico



Source: Banco de Mexico, INEGI (National Institute of Geography, Statistics and Information)

### Achieving a New Model

To support and coordinate the development of the popular savings and credit sector, in November 2001, the National Savings Patronage was transformed into BANSEFI, with three objectives:

- Promote a savings culture
- Become the bank of the popular savings sector
- Coordinate government aid.

**Promote a savings culture:** the target population is low-income people with an anticipated account size in the range of \$200 to \$220 USD. From 2000 to date, BANSEFI increased its customer base by more than 65 percent. Total accounts are close to 1.5 million. Roughly 300 new accounts are opened daily. Any account can be opened with as little as \$5 USD, with no fees charged.

**Become the bank of the popular savings sector:** BANSEFI distributes through its branches to qualified recipients, payments from the government benefit programs Oportunidades and Procampo. This distribution method ensures transparency and visibility of the programs while promoting use of bank accounts.

Oportunidades and Procampo have proven to be successful programs in providing health care, food and educational support to the poorest families, including those in remote rural areas. Deposit of funds through BANSEFI has brought several advantages for the beneficiaries such as: immediate availability of resources, competitive interest rates on savings, no commissions, access to financial services, financial education, and even a popular and traditional monthly raffle. Ninety-four percent of the beneficiaries have a positive balance in their account, and an estimated 500,000 receive benefits.

A commercial alliance has been established between BANSEFI and the regulated ACP called L@Red de la Gente. An Internet system that integrates the branch offices with BANSEFI to provide real time connection for network services. The alliance provides access to and distribution of government services, benefits, and basic financial services, including means to access remittances from abroad, in many rural areas where commercial bank have no presence. The L@Red de la Gente is seen as particularly useful in transferring remittances from the United States. The program will enable rural residents, in particular those receiving regular remittances, to access an array of financial, social, and healthcare services.

**Coordinate government aid:** BANSEFI will coordinate government aid and provide training and technical assistance

**The L@Red de la Gente is seen as particularly useful in transferring remittances from the United States. The program will enable rural residents, in particular those receiving regular remittances, to access an array of financial, social, and healthcare services.**

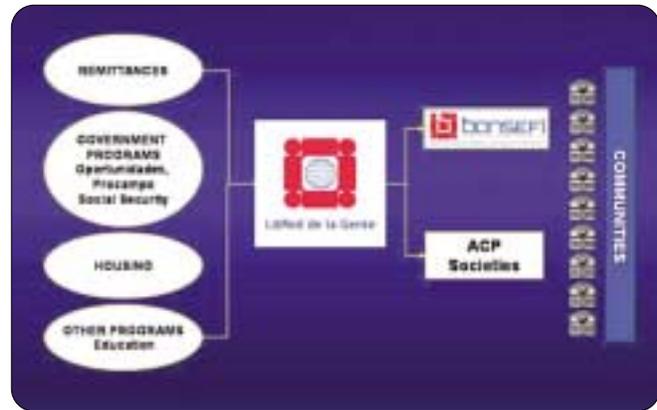
Further (and importantly), it will develop the necessary methodology to evaluate and assess the impact that distribution of aid among the entities will have in the sector.

BANSEFI is responsible for coordinating support to the ACP provided by the Mexican government and the international community, including a credit from the World Bank of \$45 million USD, and donations from the governments of Germany and the United States for technical assistance.

### In Summary

The ACP is destined to play an important role in the future financial system of Mexico. The new legal framework is the first step to provide protection for depositors and investors and to provide new opportunities through the financial services for their families, businesses and communities. The ACP's new distribution network through the L@Red de la Gente will cover the areas where commercial banks have no presence or knowledge of local markets, especially rural areas of Mexico, a powerful tool to bank the Mexican people. The transformation and formalization of the ACP will help broaden and develop the Mexican financial system, allowing more Mexicans, particularly those at low-income levels, to have access to financial products and services and hence new opportunities.

### Programs and Products Distributed Through L@Red de la Gente



Source: Banco de Mexico, INEGI (National Institute of Geography, Statistics and Information)

### L@Red de la Gente Network Coverage, Including Rural Areas



Source: Banco de Mexico, INEGI (National Institute of Geography, Statistics and Information)

### Notes

1 Bank usage is an indicator of level of economic development.

2 While these terms generally connote “formal” banking institutions in the U.S., in Mexico they are largely unregulated, and are considered informal for purposes of this article, and by U.S. standards.

## Afternoon Session

Terry Meek

Julie A. Williams

### TERRY MEEK

#### Open Access to Workforce Assimilation

Ms. Meek is the Executive Director of Proteus, Inc., the Migrant and Seasonal Farmworker(s) grantee for the state of Iowa. She has served in that capacity since 1983, and worked for the organization since its inception in 1979. Ms. Meek served as President of the Association of Farmworker Opportunity Programs from 1995 to 1996, and served on the Executive Committee as an officer or at-large member. She is a frequent trainer at the Department of Labor supported conferences, and also at conferences supported by regional associations and individual grantees. She holds a B.A. from the University of Iowa with majors in Social Work, Spanish and Education.

Ms. Meek explained the role of Proteus. Proteus is an Iowa-based nonprofit corporation that serves low-income people by providing services to promote self-sufficiency through personal and social growth. Proteus primarily serves migrant and seasonal farmworkers and their families, but also serves refugee, immigrant and other minority populations. Proteus offers a wide range of services including: childcare, English as a second language training, workplace safety, pesticide use training, homebuyer assistance, and food pantry operation.

Ms. Meek pointed out that each year several thousand migrant farmworkers arrive in Iowa, and that most are from southern Texas. These Latino families work on farms from sunrise to sunset, and most Iowans are unaware of their presence or the impact they have on Iowa's agricultural economy. The farmworkers are what Ms. Meek called "the true example of the working poor." Most migrant farmworkers are employed in seasonal jobs that offer few, if any, benefits. Most of their earnings are spent on transportation costs from their home bases, usually southern

Texas, and the states where the jobs are located. They have a strong sense of family and family unity, and they seek the "American dream" and financial security for their children.

Ms. Meek went on to highlight numerous newspaper headlines from around the country regarding the various issues facing Iowans and the growing Latino population. Articles have drawn attention to issues such as the need for English proficiency among job seekers, a declining Iowa work force, and minority students becoming the majority in many areas of the state. The media articles have focused on the issue that immigrants fill a need in the declining workforce for low-skilled, low-paying jobs, and are reversing the declining Iowa population in general in many small towns and cities.

These "new Iowans," as Ms. Meek refers to them, require initial development aid, that will have positive returns to Iowa's economy and communities. The training opportunities for youths and adults in English language proficiency, basic skills education and GED preparation, school drop-out prevention, occupational skill training, and financial

literacy education.

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**"In order for New Latino Iowans to develop their potential, they need our initial investment that will result in a greater return of wealth and economic growth to the state."**

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Immigrants are eager to learn English and participate in education and job training when it is available. Ms. Meek noted that school children who take part in adjusted curriculums that meet their

needs, are more likely to remain in school, raising the quality and skill level of the state's labor force. Financial education orients immigrants to the nation's secure and beneficial banking system.

Ms. Williams is the managing examiner of the Bank Secrecy Act/Anti-Money Laundering (BSA/AML) unit of the Federal Reserve Bank of Chicago. Ms. Williams directs a team of specialized examiners responsible for assessing compliance with the anti-money laundering regulation including the BSA, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act, and Office of Foreign Assets Control requirements. Prior to joining the Federal Reserve Bank of Chicago, Ms. Williams served as a National Bank Examiner with the Office of the Comptroller of the Currency, and later worked as an associate with a bank consulting firm.

Ms. Williams' team specializes in money-laundering legislation, which can affect sectors of the immigrant population that lives and works in the U.S., and which has new emphasis in the post-September 11 environment. The USA PATRIOT Act was passed by Congress on October 26, 2001. Ms. Williams pointed out that for most bankers, money-laundering provisions have changed little. However, what regulators "expect banks to do to comply with the legislation is very different from what was expected in the past." Bank compliance has changed and financial institutions must now observe the Bank Secrecy Act/Anti-Money Laundering (BSA/AML), USA PATRIOT Act and Office of Foreign Assets Control requirements.

Ms. Williams explained that Title III of the USA PATRIOT Act, dealing with the International Money Laundering and Abatement and Anti-Terrorist Financing Act of 2001, was incorporated into the BSA. This Act traditionally covered drug trafficking, tax evasion and fraud. Today it also includes money laundering, terrorism and identity theft. The Customer Identification Program (CIP), Section 326 of the Act, enumerates the types of identification required from customers to open an account. "Examiners still expect banks to have 'know your customer' practices and policies in place, but [these] are not required by legislation."

The Act was published (and went into effect) on May 9, 2003. It was issued jointly by the Treasury Department, the Federal Reserve Board, the Office of the Comptroller of the Currency, National Credit Union Association, Office of Thrift Supervision and the Federal Deposit Insurance Corporation. Full compliance by the financial industry is required by October 1, 2003.

Ms. Williams went on to explain the requirements of CIP and what banks are required to do to comply:

- Verify the identity of any persons opening an account; maintain a record of information used to verify the customer's identity; determine whether the customer is on

any list of known suspected terrorists or terrorist organization provided by any government agency.

- Banks management needs to decide, based on their business lines, location, and business practices, what customer identification programs are appropriate, meaning banks will have different programs depending on their assessment of risk.
- Defining what is meant in the CIP:  
*Persons*—individuals or businesses.  
*Account*—a formal banking relationship, not an occasional wire transfer, or purchase of a money order.
- There are four types of information required from customers to open an account: name; street address; tax identification number or other number from a government-issued identification document; and the date of birth of the individual.
- The regulation specifically states that the information must be presented prior to opening an account. Banks have time after an account is open to verify the information. Verification is required "within a reasonable amount of time."
- Record Retention: CIP requires banks to establish procedures to maintain records, methods and results of any documenting verification; identification information for five years after an account is closed; all documents relied upon for verification to open an account for five years.
- Notice Requirements: financial institutions must inform customers of their identification requirements, "in a reasonable manner," including lobby notice, website postings, and written disclosures.
- CIP must be incorporated into all aspects of a bank's BSA/AML program and approved by the bank's board of directors. Banks need to be aware that implementation of procedures may require changes to daily operations and additional training for staff.

Ms. Williams addressed the topic of banks accepting the Matricula Consular (identity card issued by the Mexican government to its nationals living abroad) as appropriate identification. Ms. Williams stated that the Matricula includes a "...number from a government-issued identification card," and is therefore allowable.

In closing, Ms. Williams stated that the Anti-Money Laundering legislation and the USA PATRIOT Act, are designed to balance homeland security and effective banking regulations for anyone who lives and works in the United States, regardless of citizenship. She added that banks cannot carry the burden alone, and regulation and enforcement in other segments of the financial industry are needed.<sup>1</sup>

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#### Notes

- 1 The views expressed are those of the speaker and do not necessarily represent views of the Board of Governors of the Federal Reserve System or the Federal Reserve Bank of Chicago.

## Afternoon Panel Discussion Fundamental Services: Documentation and Tax Issues

Barbara Dempsey

Elizabeth Salinas-Newby

John A. Paletta

The forum concluded with a panel discussion about **Fundamental Services: Documentation and Tax Issues**. Julie A. Williams moderated the panel. The discussants were Barbara Dempsey, Elizabeth Salinas-Newby, and John A. Paletta.

### BARBARA DEMPSEY Individual Taxpayer Identification Number

Ms. Dempsey is a tax specialist with the Internal Revenue Service who works on stakeholder partnerships, education and communication issues. Ms. Dempsey assists taxpayers by partnering with other organizations to inform and educate the public, whose primary target audiences include low-income households and English as a second-language customers. Ms. Dempsey is a certified public accountant with more than 14 years of experience with the Internal Revenue Service. She holds a degree from the University of Iowa.

Ms. Dempsey began the panel discussion with a description of the Individual Taxpayer Identification Number, the ITIN. The IRS initiated the program in July 1996 and issues ITIN's as a tax processing number. Its sole intended use is for tax filing, and not as a form of identification. The ITIN is similar in format to a Social Security card in that it consists of a nine-digit number and always begins with "9." Ms. Dempsey stressed that tax preparers and employers should know the difference between the two cards, as the rights and benefits to which ITIN and Social Security card holders are entitled differ significantly.

Individuals who are nonresident aliens or U.S. residents that must file a U.S. tax return, but are not eligible for a Social Security number, require ITINs. ITIN holders are not eligible for benefits that are allocated to Social Security cardholders, such as the Earned Income Tax Credit, or Social Security benefits, and do not identify an individual as having a right to work in the U.S. However, an ITIN holder is eligible for the child tax credit on income tax returns.

To obtain an ITIN, an individual must provide substantiating documentation to the IRS, including a signed W-7 application form. Individuals may complete and sign a W-7 application

form for minor dependents under the age of 14, as defined by the IRS. Spouses and other dependents must sign and complete their own W-7 forms. Acceptable documents include: passport, driver's license, or identity cards issued by foreign governments. The IRS does accept the Matricula Consular or a Mexican voter registration card as acceptable documentation. See the IRS website ([www.irs.gov](http://www.irs.gov)) for a full listing of required documents. Supplying appropriate documentation can often become a problem for illegal immigrants who do not have original documents, or do not trust others, including government agencies, with their originals.

To obtain an ITIN, an individual may apply at a local IRS office, apply by mailing original documents to the Philadelphia office, at a U.S. Consular office abroad, or with a certified

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**The IRS is concerned with individuals in the U.S. who are earning wages, regardless of immigration status. Anyone who has a non-work visa or is an illegal immigrant who is working in the U.S. needs an ITIN to file a tax return.**

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The IRS is concerned with individuals in the U.S. who are earning wages, regardless of immigration status. Anyone who has a non-work visa or is an illegal immigrant who is working in the U.S. needs an ITIN to file a tax return. A registered immigrant with a visa is usually entitled to a Social Security number. No one should be issued both an ITIN and a Social Security number. Ms. Dempsey concluded by saying that because there are so many qualifications for eligibility, it is best to check the IRS website at [www.irs.gov](http://www.irs.gov), at an IRS office, or with an Acceptance Agent.

Acceptance Agent. Acceptance Agents are authorized by the IRS to assist applicants in obtaining ITINs, review the documentation and forward the application to the IRS. An Acceptance Agent may be a college or university, financial institution, accounting firm, or federal agency.

## ELIZABETH SALINAS-NEWBY

### The Importance of Identification for Undocumented Workers

Ms. Salinas-Newby, is the governor-appointed administrator to the Iowa Division of Latino Affairs of the Department of Human Rights. As the administrator, Ms. Salinas-Newby serves on several state and local committees (Lt. Governor's Diversity Committee, Civil Rights Committee, Immigration Rights Network Committee, Minority Health Committee, etc.) that work with Latino communities and populations across the state. Ms. Salinas-Newby has an M.A. from Ball State University in Counseling Psychology, and is a licensed social worker, a family development specialist and diversity and cultural consultant. Her autobiography, *A Migrant With Hope*, 1993 Second edition, details her migrant life and struggles to gain an education and her own personhood as she struggled to live within two cultures. Ms. Salinas-Newby's other publications are, *A Philosopher's Way*, 1978 and *Between Peril and Promise*, 1987.

Ms. Salinas-Newby began her discussion with the maxim that "Latinos don't use banks." Many Hispanics don't open bank accounts because: 1) most don't have proper identification; 2) the banking system in their country of origin is not reliable, therefore they don't trust any banking system; and 3) most are afraid to enter banks to open accounts due to lack of proper identification, and lack of knowledge of the system. Because most Latinos are unbanked (without bank accounts), they cash their paychecks and carry large sums of money and often become victims of robbery. They become frequent targets of exploitation because they pay cash for goods and don't receive or keep receipts for their purchases. Also, they are often singled out and accused of crimes because they do not have proper documentation. Because of the large amounts of cash many Hispanic males have after cashing paychecks, they are often jailed as suspected drug dealers. It is important that immigrants have proper identification and establish a banking relationship to stem these types of victimization.

Ms. Salinas-Newby went on to say that immigrants contribute greatly to the economy of the U.S. It is important to have a continuous dialogue of diversity training for all workers, especially in the banking industry, to understand the complexity and issues of the immigrant community, and to deal with immigrant individuals and families without bias. "Latinos and Hispanics want to be included and be outstanding citizens and also utilize the same things that are available to everybody else. Any kind of documentation that will assist them to open bank accounts and prevent them from being victims of crime helps the community."

**JOHN A. PALETTA**  
**Foreign Workers and Social Security Numbers**

Mr. Paletta is the management support specialist for the Des Moines Social Security Administration office. Mr. Paletta began his career with Social Security in 1990 where he held positions as a telephone service representative and a claims representative. Mr. Paletta has received the Commissioner's Citation, the highest award given by the Social Security Administration, as well as nominations for the Regional Commissioner's Citation, the highest award given by the Social Security Administration in the Kansas City Region, and Federal Employee of the Year. Mr. Paletta has an Associate of Arts degree from Des Moines Area Community College and a B.A. in Political Studies from Grandview College.

John Paletta concluded the discussion with an explanation of the Social Security card, and how the government administers the card and its uses. All Social Security numbers have nine digits, and never begin with the numbers 000, 666, 800, or 900. Over the decades, there have been over 49 types of cards issued. For a full listing of features, see the Social Security Administration website at [www.ssa.gov](http://www.ssa.gov).

To receive a Social Security card, an applicant must present proper documentation at a Social Security office for a

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**“Latinos and Hispanics want to be included and be outstanding citizens and also utilize the same things that are available to everybody else. Any kind of documentation that will assist them to open bank accounts and prevent them from being victims of crime helps the community.”**

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face-to-face interview— applications are not accepted by mail. Registration within three months after the birth of a child, and enumeration at point of entry for qualified immigrants are the only other accepted methods of receiving a Social Security card in the United States.

Some forms of acceptable documentation for obtaining a Social

Security card include valid passports, birth certificates, Medicaid cards, and naturalization papers. It is best to check the Social Security website to see a full listing of acceptable documents. It should also be noted that copies of all documents should be saved, especially when handing over foreign documents, since verification will take longer— from 30 days to 3 months.

The Social Security Administration is the only agency authorized to verify Social Security numbers and to have correct information on cardholders. No other organization can issue cards, correct, or verify Social Security information.

Mr. Paletta acknowledged that while the Social Security Administration recognizes the widespread use of the Social Security card as de facto identification, its official use is only for the purpose of filing U.S. income tax returns. The administration cannot prohibit private companies or other government agencies from asking for a Social Security card as a form of identification. It is up to each individual to decide whether or not to furnish the information in order to receive services. Even when opening bank accounts, the U.S. PATRIOT Act states that the Social Security card is not the only form of acceptable documentation.

## From the Editor

The Consumer and Community Affairs (CCA) Division of the Federal Reserve Bank of Chicago, as noted in PNV September 2003, has launched the Center for the Study of Financial Access of Immigrants. This forum in part represents CCA's commitment to bringing together experts from around the Seventh Federal Reserve District in the field of immigrant financial issues. Future forums will be held around the District (Iowa, portions of Wisconsin, Michigan, Indiana and Illinois) where researchers, government agency representatives, policy makers, community development professionals, and financial service representatives can learn and interact with one another. The next Financial Access for Immigrants forum will be held in Indianapolis on December 17, 2003. For more information on future dates, go to the events web page at [www.chicagofed.org/cedric/events.cfm](http://www.chicagofed.org/cedric/events.cfm), or call (312) 322-8232.

Michael V. Berry and Kathleen Toledano summarized the conference sessions.

*Michael V. Berry joined the Federal Reserve Bank of Chicago's Consumer and Community Affairs division in December 1995 as a researcher and program manager. He is currently the Manager of the Emerging Consumer and Compliance Issues Unit. Mr. Berry is also the managing editor of (and a frequent contributor to) the Federal Reserve Bank of Chicago's Profitwise News and Views publication. Mr. Berry is a director and co-founder of the Regional Redevelopment Corporation, a nonprofit housing rehabilitation and community development organization formed in 1992. Mr. Berry holds a B.A. in Political Science from Susquehanna University in Pennsylvania and an M.B.A. from DePaul University.*

*Kathleen Toledano is an analyst in the Consumer and Community Affairs division, Emerging Consumer and Compliance Issues unit of the Federal Reserve Bank of Chicago. Ms. Toledano is currently co-chair of Amicus, the Fed's employee volunteer association. She has been a member of Amicus since joining the bank in 1997. Ms. Toledano studies community development issues and speaks on emerging consumer issues for the Fed. Ms. Toledano holds a B.A. in Anthropology from the University of Illinois Chicago, and attended postgraduate studies at the University of Pittsburgh.*

### Resources

#### BANSEFI

[www.bansefi.gob.mx](http://www.bansefi.gob.mx)

#### Hispanic Educational Resources

828 Scott Ave., Des Moines, IA 50309  
(515) 242-0225

#### Internal Revenue Service

[www.irs.gov](http://www.irs.gov)

#### Iowa Legal Aid

[www.iowalegalaid.org](http://www.iowalegalaid.org)

#### Mexican Consulates

[www.nafinsa.com/consulatedir.htm](http://www.nafinsa.com/consulatedir.htm)

#### Proteus Inc.

[www.showcase.netins.net/web/proteus](http://www.showcase.netins.net/web/proteus)

#### State of Iowa, Department of Human Rights

[www.state.ia.us/government/dhr/](http://www.state.ia.us/government/dhr/)

#### Social Security Administration

[www.ssa.gov](http://www.ssa.gov)

#### Wells Fargo

[www.wellsfargo.com](http://www.wellsfargo.com)

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