ESSAYS ON ISSUES

THE FEDERAL RESERVE BANK OF CHICAGO

AUGUST 2003
NUMBER 192

Chicago Fed Letter

Changing Hispanic demographics: Opportunities and constraints in the financial market

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From 1990 to 2000, the Chicago metropolitan statistical area's (MSA) Hispanic population grew by 600,000, or 68.7%. This population segment is young and relatively low-income—this means that financial literacy programs may be very important in opening this market to mainstream financial services.

Hispanics are the largest minority group in the U.S., accounting for over 12.5% of the population (35.3 million people).

Participation in the mainstream financial market is critical for people's success and the viability of the communities where they live. Yet various ethnic minority groups have relatively limited access to and use of financial services. A case in point is the Hispanic population, the fastest growing minority group in the U.S. While the Hispanic population represents a significant market opportunity for financial institutions, some of the group's socioeconomic characteristics may affect its ability to participate in mainstream financial markets.

This *Chicago Fed Letter* presents an overview of recent demographic trends and socioeconomic characteristics of Hispanics with a focus on Illinois and the Chicago region. It provides information on unbanked Hispanics (those who do not have a transaction account at a financial institution). It also discusses the implications of these trends and characteristics for the use of financial services by the Hispanic population.[1]

The U.S. Hispanic population

Recently released data from the year 2000 Census show that Hispanics are the largest minority group in the U.S., accounting for over 12.5% of the population (35.3 million people). In other words, approximately one in eight people in the nation is of Hispanic origin. Blacks were the second largest minority group in 2000, at 34.7 million.[2]

Hispanics are also the fastest growing demographic group. While the overall U.S. population increased by 13.2% between 1990 and 2000, the Hispanic segment increased by 58%, a gain of about 13 million people. The majority came from Latin America. The number of documented immigrants from Latin America increased by close to 45% from the 1980s to the 1990s.[3] In the year 2000, 12.8 million documented Hispanics, or one-third of all Hispanics in the United States, were foreign born.

Hispanics are from a wide range of countries. For the year 2000, 66% of Hispanics were Mexicans, 9% Puerto Ricans, 4% Cubans, and the remainder were from Central and South America and other regions. The Hispanic population is largely concentrated in the South, the West, and in a few large metropolitan regions in the Northeast and the Midwest, especially New York and Chicago. Various Hispanic groups tend to be regionally concentrated. For example, most Cubans live in Florida. A substantial population of Puerto Ricans is found in the Northeast, especially in New York. Half of all Hispanics live in just two states, California (11 million) and Texas (6.7 million). New York and Florida had 2.9 million and 2.7 million Hispanics, respectively. The next three states with more than 1 million Hispanics include Illinois, with 1.5 million, then Arizona and New Jersey.

Hispanics in Illinois

Illinois is the third most popular state of residence after California and Texas for Mexicans, the largest Hispanic group in the U.S., with a little over 1 million in 2000.[4] During the 1990s Hispanics increasingly dispersed throughout Illinois, in metropolitan as well as non-metropolitan counties. In 1990, Hispanics represented less than 5% of the population in 95 out of the 102 counties in Illinois. By 2000, this was the case in only 38 of the state's counties. In 1990, Hispanics accounted for 5% or more of the population in seven Illinois counties. By 2000, 63% of all counties in the state had a Hispanic population of 5% or more.[5]

From 1990 to 2000, the Chicago metropolitan statistical area's (MSA) Hispanic population grew by 600,000, or 68.7%.[6] In the City of Chicago, the non-Hispanic White population and, to a smaller extent, the Black population, declined while the Hispanic population increased by 220,000. In Cook County, the largest county in the MSA, the net loss of more than 350,000 Whites was primarily offset by gains from Hispanics and, to a lesser degree, from others including Asians and Blacks (U.S. Census Bureau).

While it is heavily publicized that the U.S. population increase is due to immigration, it is important to note that natural increase (number of births exceeding deaths) also played a key role over the decade. Johnson (2002) noted that for the City of Chicago, the Hispanic population experienced a substantial natural increase of 156,000, as well as a net migration gain of 65,000. Therefore, more than two-thirds of the growth in the Hispanic population in the city was a result of natural increase. Nevertheless, net migration of Hispanics played a significant role in increasing the population, particularly in suburban Cook County and the remainder of the consolidated MSA.[7]

Socioeconomic characteristics

The Hispanic population is relatively young. Half is under 25 compared with around one-third of the non-Hispanic White population.[8] One critical implication of this is that a substantial proportion of tomorrow's labor force will be Hispanic. Indeed, in 2000, Hispanics had the highest labor force participation rate in the U.S. (at 68%). In the Chicago MSA, similarly, 74% of Hispanics were in the labor force, compared with 71% of the White population (U.S. Census Bureau).

Formal educational attainment is fairly low for the Hispanic population. In 1999, close to 44% of Hispanics did not have a high school diploma, compared with 18% for all households in the Chicago MSA.[9] In addition, close to half of Hispanics reported that they do not speak English well (U.S. Census Bureau). This is not surprising, given that so many are immigrants. From 1991 to 1998, the average number of documented immigrants to settle in the Chicago area was more than 40,000 per year. Over that period, cumulative admissions for documented immigrants were close to 333,000 from countries in Latin America; immigrants from Mexico alone accounted for nearly one-third of the total.[10] Hispanics who lack education and the ability to speak English and who are more recent immigrants may be at a competitive disadvantage with respect to access to and understanding of consumer information. These data reinforce the case for financial literacy and consumer education programs that increase access to the ever more complex financial environment.[11]

In spite of the growing importance of the Hispanic population in the labor force, earning disparities and greater incidences of unemployment are likely to hamper the ability of many Hispanics to utilize financial services. As a whole, the Hispanic household population has a relatively low level of income, and Hispanic workers tend to earn less than their non-Hispanic White counterparts. In 1999, more than twice as many non-Hispanic White workers earned $35,000 as Hispanic workers (American Housing Survey). The average income for Hispanic households was $33,676 in 2000, compared with $41,994 for the total population and $45,367 for non-Hispanic Whites (U.S. Census Bureau).

Data for the Chicago MSA show that the median income for Hispanic households was $41,494, compared with $51,680 for all households in the Chicago MSA, and $59,903 for White households. If we take an arbitrary cut off of $35,000 or more for household income, less than half of Chicago's Hispanic households had $35,000 in income, compared with close to 60% of all households in the Chicago MSA (U.S. Census Bureau). Similarly, Hispanics were more likely than non-Hispanic Whites to live below poverty level. In 1999, 22.6% of Hispanic households in the nation lived in poverty, compared with 8.1% of non-Hispanic Whites. In the Chicago MSA, 16.3% of Hispanic households lived below poverty level, compared with 4.4% of non-Hispanic White households (U.S. Census Bureau).

Close to half of Hispanics in Chicago live in low- to moderate-income (LMI) census tracts, which account for 36% of all census tracts in the Chicago MSA.[12] While 28% of the entire MSA population reside in LMI census tracts, 49% of Hispanics live in these areas.[13] In Cook County, which has the largest population of Hispanics in the MSA, over 60% of Hispanic households live in LMIs, compared with 39.6% of the total county population.

The relatively low income status of the vast majority of Hispanic families and the proportion of Hispanic households living in LMI neighborhoods are among the most significant factors affecting their ability to access financial services. They are more likely to use alternative services such as check-cashing outlets and payday loans, often with exorbitant transaction costs.[14] This suggests that low-cost and flexible financial product offerings can play a key role in addressing the needs of the working poor in the Hispanic community.

Unbanked Hispanics

National data show that Hispanics have one of the lowest rates of financial market participation. For the nation as a whole, less than 10% of individual households are unbanked. In contrast, the percentage for Hispanics hovers around 24%.[15] Data for the Chicago six-county area show that 69% of banked consumers were White, 17% Black, and only 8% Hispanic. Among the unbanked, 15% were White, 22% Hispanic, 59% Black, and 3% other groups.[16]

Unbanked Hispanics are overwhelmingly low-income households. According to Dunham (2002),[17] over 50% of the unbanked Hispanics in the U.S. have income of less than $15,000 a year; 25% have income between $15,000 and $30,000; 8% have income between $30,000 and $45,000; and 2% have income over $45,000. Focusing on three urban areas, New York City, Los Angeles County, and Cook County in Illinois, she notes that the majority of unbanked Hispanics tend to be immigrants (both recent, less than ten years since migration, and non-recent). In Cook County, 67% of the 150,000 unbanked Hispanics were immigrants. These Hispanic immigrants tend to live overwhelmingly in LMI neighborhoods in these three regions. In Cook County, over 80% of recent Hispanic immigrants who are low income and who live in LMI neighborhoods are unbanked. Over 50% of non-recent Hispanic immigrants are also unbanked. In contrast, less than 40% of non-Hispanics and U.S.-born Hispanics who are low-income and who live in LMI neighborhoods are unbanked.

Finally, an issue that is gaining increasing consideration concerns the impact of attitudinal factors on Hispanics' participation in the mainstream financial market. Particularly for recent immigrants, evidence suggests that Hispanics may have a greater aversion toward banks and financial institutions than other population groups. Bad experiences with losing their deposits at a bank in their country of origin or devaluation of the currency in a weak home economy are some of the reasons why some Hispanic immigrants may hold such attitudes about financial institutions.[18]

Policy implications

The growth of the Hispanic population provides a great opportunity for the financial services sector to reach into what by most indications is still an untapped market. Recently, the Federal Reserve Bank of Chicago, the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) held *The Hispanic Banking Forum*,[19] where practitioners and senior representatives from the banking industry convened to share their experiences in successfully reaching their Hispanic markets. An important point from the various discussions was that programs need to be innovative and responsive to the specific needs of Hispanic customers. As an example, one bank discussed its experience in accepting the Matricula Consular card as a form of identification to open a deposit account. The Mexican Consulate issues the card to Mexican nationals who present documentation of Mexican citizenship. The card is generally used to obtain a U.S. taxpayer identification number, allowing individuals who do not have a Social Security card to open a bank account.

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Another bank identified liquidity and safety as important account features for its Hispanic market. The bank's representative noted that while passbook savings accounts are considered outdated by many, the majority of the bank's Hispanic customers preferred this type of documentation of their money.

Another banker said that in response to large demand among Mexican nationals, they offer a wire transfer service. This service allows Mexicans to transfer up to $1,000 (for a flat, competitive fee) from the bank branch in the U.S. to a bank in Mexico. While it is not necessary to have a transaction account at that bank, the representative noted that they expect to attract Hispanic customers to use other services and become regular customers.

Several of the bankers said that it was essential to be involved in community outreach efforts and in partnerships with community organizations. They noted that it is important for bankers to have a personal relationship with the community. This connection is facilitated through outreach in partnership with community organizations, in sponsoring neighborhood events, and in offering financial literacy programs.

In order to reach the Hispanic market, as with any other underserved market, a comprehensive approach to services through community engagement, as well as a strong educational component, seems to be the most promising. For recent immigrants in particular, Spanish-language product brochures and telephone services are essential. In addition, greater affordability constraints in low-income neighborhoods suggest that financial institutions might direct their efforts toward promoting more affordable products and services.

There is also an important role that community leaders and educators can play to help unbanked Hispanics make informed financial decisions. Community leaders and government agencies in tandem

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ISSN 0895-0164

with financial institutions can help bridge the language/cultural gap by organizing financial literacy programs targeted to Hispanic immigrant households. Given the relatively large proportion of youth in the Hispanic population and the importance of introducing children to good financial practices, consumer educators could help educate this audience within or outside the school environment.[20]

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1 The author would like to thank Robin Newberger for valuable research assistance.

2 Population data in this section are primarily from the U.S. Bureau of the Census, 2000 Decennial Census Data of the U.S. Population, www.census.gov, and the March 2000 *Current Population Survey* (CPS).

3 Author's calculations based on U.S. Census Bureau, CPS, March 2000 and information reported in Therrien and Ramirez (2001), "The Hispanic population in the United States: Population characteristics," U.S. Census Bureau, *Current Population Reports*, March.

4 Population Resource Center, "Executive summary: A demographic profile of Hispanics in the U.S.," www.prcdc.org/summaries/hispanics/hispanics.html.

5 Author's calculations based on U.S. Census Bureau data for 1990 and maps based on 2000 census data from the Center for Governmental Studies, Northern Illinois University.

6 Here, the Chicago MSA includes nine collar counties, Cook, Lake, Will, DuPage, Kane, Kendall, McHenry, Grundy, and DeKalb.

7 K. M. Johnson (2002), "The changing face of Chicago: Demographic trends in the 1990s," *Chicago Fed Letter*, No. 176, April. The CMSA reported in the study by Johnson includes Chicago, Kenosha, WI, and Gary, IN.

8 Author's calculations based on U.S. Census Bureau, 2000 Census data.

9 American Housing Survey, available at www.census.gov/hhes/www/ahs.html.

10 Immigration and Naturalization Service (INS), www.immigration.gov/graphics/shared/aboutus/statistics/index.htm. The number of immigrants is underrated because it does not include undocumented immigrants. Undocumented immigrants may not have proper identification and therefore may not be eligible for all types of services, including financial services.

11 A. Greenspan (2001), "The importance of education in today's economy," speech given at the Community Affairs Research Conference of the Federal Reserve System, April 6, www.federalreserve.gov/boarddocs/speeches/2001/20010406/default.htm.

12 According to the Federal Reserve Board, Regulation BB, Community Reinvestment (12CFR 228), census tracts are classified by income as follows: low-income tracts are those in which the median family income is less than 50% of the median family income for the MSA. Moderate-income census tracts are those with median family income of 50% to 80% of the median. Middle-income tracts have median family income of 80% to 120% of the MSA median; and upper-income tracts have median family income of 120% or more of the MSA median.

13 Author's calculations based on data from U.S. Bureau of the Census.

14 Woodstock Institute (1997), "Currency exchanges add to poverty surcharge for low-income residents," *Reinvestment Alert*, No. 10, March.

15 A. B. Kennickell, M. Star-McCluer, and B. J. Surette (2000), "Recent changes in the U.S. family finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, January.

16 The six counties are Cook, DuPage, Lake, Kane, McHenry, and Will. The figures are from S. L. W. Rhine, M. Toussaint-Comeau, J. Hogarth, and W. Greene (2001), "The role of alternative financial service providers in LMI neighborhoods," *Federal Reserve System Community Affairs Research Conference Proceedings*, Washington DC, April.

17 C. R. Dunham (2002), "Hispanic financial activities in three urban areas," presentation to the Hispanic Banking Forum, Federal Reserve Bank of Chicago, July 31.

18 See A. Friedrich and E. Rodriguez (2001), "Financial insecurity amid growing wealth: Why healthier savings is essential to Latino prosperity," National Council of La Raza, *Issue Brief*, No. 5, August.

19 The conference was held on July 31, 2002. For information, go to www.occ.treas.gov/ftp/release/2002-62.doc.

20 See M. Toussaint-Comeau and S. L. W. Rhine (2001/2002), "Delivery of financial literacy programs," *Journal of Consumer Education*, Vol. 19/20.

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