Financial Services Segregation: Improving Access to Financial Services for Recent Latino Immigrants

Sarah Stookey, PhD
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Forward by Sheila Bair

The Inter-American Development Bank
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Foreword

I have found that perhaps the most rewarding aspect of being an academic is the ability to work with and encourage smart, up-and-coming graduate students. At no time have I found this to be more true than during the last four months as I have helped and advised recent PhD graduate Sarah Stookey on her paper “Financial Services Segregation: Improving Access to Financial Services for Recent Latino Immigrants”. In this fresh, innovative look at the efforts of banks to serve the Latino immigrant community, Dr. Stookey provides important new insights into the challenges which confront depository institutions who wish to make serious inroads into this vast, yet-untapped market. Candid, forthright, and at times provocative in her assessment, she challenges institutions to credibly examine their motivations in reaching out to the Latino community, finding that such efforts will only be successful if “motivated by deep-rooted commitment to a vision of their social and financial responsibilities.” New England banks in particular will find her observations regarding the complex, multi-cultural aspects of the Latino market instructive as they strive to serve the diverse nationalities which characterize the immigrant population in the Northeast.

Whether one agrees or disagrees with all of Dr. Stookey’s conclusions, there can be no doubt that this paper represents one of the most comprehensive efforts to analyze and dissect business and policy issues associated with providing financial services to the burgeoning Latino immigrant population. I commend it to all who have an interest in this subject, be they bank management, consumer advocates, or government officials.

Sheila Bair
Amherst, MA
June 2006
Financial Services Segregation: 
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Executive Summary

Immigrants from Latin America play an increasingly important role in the United States, representing one of the fastest-growing sectors of the U.S. population and a dynamic economic force. Latino immigrants also provide financial resources to their families throughout Latin America and the Caribbean that have become critical to these countries’ economies and social stability.

Latino immigrants’ economic participation and contributions, both in the U.S. and abroad, require the use of financial services ranging from checking accounts and remittances to personal and business loans. Although recent Latino immigrants represent important new markets for U.S. banks and credit unions, many institutions have little experience serving these customers and are unsure how to tailor products and services to best meet their needs. Political issues surrounding immigration may also inhibit initiatives. Immigrants therefore often depend on a variety of non-depository alternative financial service providers. The resulting “financial services segregation” produces increased financial and transaction costs for the customer, reduces family and community security, and diminishes public oversight.

This paper outlines elements of demand for financial services among recent Latino immigrants, summarizes key factors contributing to their financial segregation, and describes products, services and administrative practices that have been used successfully by depository institutions. Throughout the research and paper particular attention has been paid to the New England region.

Financial services integration does not hinge on any single legal or technical element or initiatives by any one sector. Rather, successful efforts by depository institutions to serve recent Latino immigrants involve multi-faceted approaches that include:

- Deeper understanding of the particular social characteristics and financial needs of each of the diverse sectors of this population than currently exists.
- Institutional commitment to providing service and to a process of learning, collaboration and adaptation.
- Increased clarity in governmental guidance and more focused regulatory and supervisory oversight and support.

It is important to recognize that financial services integration is not the proverbial “magic bullet”. In and of itself it will not transform the lives of individuals and communities. But it is an important building block and a demonstration of our society’s commitment to opportunity.
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1. INTRODUCTION
The project of improving access to financial services for Latino immigrants is motivated by three major areas of concern: government responsibility for security and legal compliance, the interest of for-profit institutions in adapting to changing market conditions, and desire of the Latino immigrant community to improve their quality of life. Depository institutions are at the center of the process of establishing better access and more appropriate services. As they respond to the significant pressures created by these dynamics, banks and credit unions must integrate a variety of complex and often unfamiliar external and internal demands. This paper provides a summary of these demands and the experience of financial institutions as they seek to respond to these demands, with particular attention to the New England area.

2. FRAMING THE ISSUES

2.1 Who?
Efforts to provide financial services to Latino immigrant communities must be based on clear definition of the target populations. Who are Latino immigrants and what are the demographic characteristics that affect their use of financial services?

Immigrants constitute the fastest growing sector of the Latino/Hispanic population, now the largest minority population in the U.S. “According to the U.S. Census, the Hispanic population in this country is projected to triple between 2000 and 2050, from 35 million to 102 million; it is estimated that Hispanics will comprise 25% of the total U.S. population by 2050.”¹ In the last two decades areas of Latino settlement have expanded beyond the traditional urban centers such as Los Angeles, Chicago and New York to areas that previously had virtually no Latino population.² As part of this trend the Latino immigrant population in New England increased by 54% from 1990 to 2000 (as compared to 5% for the population as a whole).³

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Collectively the Latino community is increasingly significant economically, with purchasing power expected to reach $926 billion by 2007.\(^4\) By 2010 the disposable income of Hispanics will exceed $1.08 trillion, or 9.2 percent of total purchasing power nationwide, according to the Selig Center for Economic Growth at the University of Georgia.\(^5\) Hispanic-owned businesses are an extraordinarily dynamic sector of the economy, growing at three times the national rate for all companies from 1997 to 2002.\(^6\) In terms of homeownership, by 2010 Latinos will account for nearly one third of the total home buying pool.

The economic significance of recent Latino immigrants is also seen in the magnitude of remittances to their countries of origin. Estimates for the total amount of remittances from the U.S. to Latin American countries in 2005 range from $42.4 billion\(^7\) to $53.6 billion.\(^8\) In 2005 remittances by Latin American immigrants in Massachusetts totaled $448 million.\(^9\) Remittances to Latin America represent not only supplements for daily living expenses there but also important sources of investment and economic growth.\(^10\)

The social, economic and political significance of the growth of the Hispanic population is now generally recognized. However, what is often overlooked is

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\(^5\) Associated Press. March 16, 2006 “Banks retool to meet needs of new market segment, the Latino immigrant”.


\(^7\) The World Bank, Global Economic Prospects 2006: Economic Implications of Remittances and Migration.

\(^8\) International Flows of Remittances: Cost, competition and financial access in Latin America and the Caribbean – toward an industry scorecard. M. Orozco, Inter-American Dialogue 5/12/06.


\(^10\) According to Luis Moreno, President of the Inter-American Development Bank, remittances “…not only continue to provide resources for personal consumption and investment, but also precious foreign currency to bolster macroeconomic stability… IDB research estimates that about 20% of remittances to Latin America and the Caribbean, or US $11 billion annually, is available for savings, housing, and other forms of investments such as family owned small businesses. That is about as much as the IDB and the World Bank combined typically lend to Latin America and the Caribbean every year.” “Creating Posterity in Latin America”. Speech by L. A. Moreno, 4/28/06. Business Forum, *Poder* magazine, Miami, FL.
perhaps the most important consideration for financial institutions trying to reach this population and immigrants in particular: their heterogeneity. Although Spanish is the language of many (but not all) Latino immigrants, it is a critical and common mistake to assume that all Spanish-speakers share some monolithic culture or background any more than all English-speakers do. Latino immigrants represent an impressive variety of cultural, linguistic and historical traditions and socio-economic characteristics. There is no homogenous “Hispanic” customer, no monolithic profile of the “Latino immigrant.” Instead, there is an immense variety of identities that are often – mistakenly – grouped in a single demographic category. A first step in the process of increasing financial integration is better understanding of the many kinds of demographic differences.

One of the most basic differences between Latino immigrants is their country of origin. U.S. residents of Latino background represent all of the countries of Latin America and the Spanish-speaking Caribbean. Of the total U.S. population, 7.3% of the population is Mexican, 1.2% Puerto Rican, 0.4% Cuban, and 3.6% other nationalities. The distribution of nationalities also varies across the country. While Mexican immigrants dominate the Latino population in many areas of the country, Puerto Ricans predominate in the Northeast, followed by immigrants from the Dominican Republic, Central America and Brazil. For example, the population of immigrants from El Salvador in Massachusetts has increased 137% between 1990 and 2000. Massachusetts has also become the primary destination in the United States for immigrants from Brazil, who represent the fastest-growing immigrant group in Massachusetts.

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12 As U.S. citizens, Puerto Ricans do not confront the same documentation issues as do other Latino populations, though they do confront language and cultural barriers in accessing financial services on the mainland.


Table 1 - Distribution of Latino Immigrants in New England – 2005

<table>
<thead>
<tr>
<th></th>
<th>% of population foreign-born</th>
<th>Latinos as % of total foreign-born</th>
<th>Hispanic</th>
<th>Mexican</th>
<th>Puerto Rican</th>
<th>Cuban</th>
<th>Other (Central &amp; South America)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CT</td>
<td>10.9</td>
<td>34.7</td>
<td>320,323</td>
<td>23,494</td>
<td>194,443</td>
<td>7,101</td>
<td>95,295</td>
</tr>
<tr>
<td>MA</td>
<td>12.2</td>
<td>30.0</td>
<td>428,729</td>
<td>22,288</td>
<td>199,207</td>
<td>8,867</td>
<td>198,387</td>
</tr>
<tr>
<td>NH</td>
<td>14.3</td>
<td>14.3</td>
<td>20,489</td>
<td>4,590</td>
<td>6,215</td>
<td>785</td>
<td>8,899</td>
</tr>
<tr>
<td>VT</td>
<td>5.2</td>
<td>5.2</td>
<td>5,504</td>
<td>1,174</td>
<td>1,374</td>
<td>310</td>
<td>2,646</td>
</tr>
<tr>
<td>RI</td>
<td>36.8</td>
<td>36.8</td>
<td>90,820</td>
<td>5,881</td>
<td>25,422</td>
<td>1,128</td>
<td>58,389</td>
</tr>
</tbody>
</table>

Source: U.S. Census, 2000

While national identities among Latino immigrants are very significant, considerable differences also exist between immigrants from within any country. As in any society, national, racial, class, cultural and sometimes linguistic differences are powerful forces shaping individual and collective identities. For example, Latino immigrants from Guatemala may have lived in highly developed urban areas with many of the hallmarks of U.S. cities or in rural areas where agriculture still involves oxen and wooden-wheeled carts. As a result, the experiences and personal resources Latino immigrants draw on as they settle in the U.S. are quite varied. Many are highly educated professionals well versed and skilled in the workings of complex and bureaucratic institutions, including financial services. Some may not have had the opportunity to learn to read and...
have always been outsiders of modern economic and social organizations, unused to having a voice or exercising choice. And many, like U.S.-born citizens, fall somewhere in the middle of this range. Because of the strength of these distinctions and identities, nationality does not necessarily convey much information about an immigrant’s background and interests. It is quite likely, for example, that an upper class Nicaraguan professional may feel a far greater affinity with U.S. (or Costa Rican or Argentinean) professionals than with the majority of Nicaraguans. Attempts to characterize a particular Latino community in terms of nationality alone are not likely to be very useful.

Immigration status also contributes to distinctions between Latino immigrants. Whether an immigrant is in the U.S. legally has profound effects on many aspects of work, family, and their experience of living in the U.S. While the vast majority of all immigrants in the U.S. have legal immigration status, a significant percentage (between 30% and 41%) do not. Among Latino immigrants, the percentage that do not have legal status is greater. A recent report by the Pew Charitable Trust estimated that unauthorized immigrants from Latin America represented 78% of the total population of unauthorized immigrants in the United States.

The multiple identities of Latino immigrants are often affected by their experience in the U.S. of identifying (and being identified) as a generic “Latino”. But the diversity does not disappear. National, cultural, class and racial differences continue to play significant roles in the lives of individuals, families and communities. Awareness of these complex dynamics is basic to the effort to increase the use of financial services by Latino immigrants. As depository institutions reach out to new customers it is very important to avoid generalizations. The standard dictum to “know your customer” demands education and thoughtful attention on the part of bank management and personnel.

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16 “Approximately 35 million, or 70 percent, of the foreign-born population in the U.S. are naturalized citizens and/or have permanent status…. The remaining 30 percent, or 11 million, are undocumented immigrants.” Grow, B., Carter, A., Crockett, R. O. & Smith, G. July 18, 2005. “Embracing Illegals.” BusinessWeek.


18 For example, one Florida banker described the Latino population served by her institution as divided between “high-end” and “low-end” customers.
2.2 Financial Segregation – The Unbanked

Incidence of the unbanked
Participation in the formal financial system is a central requirement for full social and economic development in the United States. However, 22 million households (approximately 10% of the population) are considered “unbanked,” that is, they do not maintain either a checking or a savings account at a depository institution. As a result of concerted efforts by the financial services industry, government and advocacy groups, some progress is being made in reducing the incidence of the unbanked. However, the problem continues to be a focus of public policy and advocacy.

While the majority (83%) of the general unbanked population in the U.S. earn less than $25,000 a year, poverty is not necessarily the primary factor in being unbanked. According to a recent study by Visa Co., the “unbanked, underbanked and unregistered immigrants receive almost $1 trillion a year from employers, government, insurers and so forth.” Market research in one area of Houston documented annual household income of $758 million, 20% in often-overlooked cash payments. Certainly limited income and assets can make it more difficult to be “banked”, but education levels, the number of children, being a renter or a member of an ethnic or racial minority are also significant factors. A disproportionate percentage (33% to 44%) of Latinos in the U.S. are unbanked. Recent immigrants are even more likely to be unbanked than the general Latino population. For example, over half of all Mexican immigrants lack bank accounts and 75% of Mexican remittance senders are unbanked.

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20 From 2001 to 2004, the share of families without a checking account fell 2.1 percentage points to 10.6%. Federal Reserve Survey of Consumer Finances 2004.

21 “Into the fold; Americans without bank accounts.” The Economist, May 6, 2006.

22 The Houston Chronicle, April 9, 2006. Business; Pg. 1 Retail; The immigrant dollar: a driving force at Gulfgate; Customers step up to spend as center builds on success. J. Moreno.


24 Wiles, R. 2006.


26 Ibid.
The informal financial system
Although people who are unbanked do not have accounts at depository institutions, they do use financial services, relying instead on a network of alternative service providers sometimes referred to collectively as the “fringe banking industry” (Caskey, 1994). Check cashing is a key financial service required by virtually all immigrants on a regular basis. Check cashing and money orders are available at a variety of check-cashing outlets. Although 42% of Latinos do not have a savings account, savings does occur, often in the form of cash under the proverbial mattress. Savings held as cash can often be substantial. For example, when “El Centro”, a Kansas City nonprofit offering financial services to Latino immigrants launched its mortgage product it found that “the first four families that qualified had stashed between $18,000 and $34,000 at home.” Savings also occurs through remittances, in the form of investment in housing, education or small businesses in the country of origin.

Remittances are a key aspect of Latino immigrants’ financial lives. In 2003 immigrants in New England sent approximately $775 million in remittances to Latin America. These remittances tend to be sent monthly and average between $200 and $300 dollars.

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27 In one study 65% of Mexican immigrants reported being paid with checks, with 50% being paid biweekly and almost 40% being paid weekly, resulting in two to four checks to be cashed each month. Federal Reserve Bank of Chicago/The Brookings Institute. Financial Access for Immigrants: Lessons from Diverse Perspectives. May 2006.


30 Marcus, M. International Remittances: Information for New England Financial Institutions. Federal Reserve Bank of Boston, 2005. http://www.bos.frb.org/commdev/discussion/2005/remittances.pdf. Estimates of the amount of remittances can differ dramatically according to the methodologies used. For example, In a comparison of remittances to Latin America in 2003, the Inter-American Development Bank’s estimate was $30.8 million while the estimate of the Bureau of Economic Affairs was $16.3 million (International Remittances: Different Estimation Methodologies Produce Different Results, Report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, GAO, 3/06).
Remittances from the US to Latin America, 2004

<table>
<thead>
<tr>
<th></th>
<th>MASSACHUSETTS</th>
<th>CONNECTICUT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total amount of remittances</strong></td>
<td>$527</td>
<td>$129</td>
</tr>
<tr>
<td><strong>to Latin America (in millions)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Number of Latin American</strong></td>
<td>211,537</td>
<td>$57,850</td>
</tr>
<tr>
<td><strong>adult immigrants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average amount sent</strong></td>
<td>$2,491</td>
<td>$2,230</td>
</tr>
<tr>
<td><strong>annually per Latin American</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>adult immigrant</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Percentage of immigrants</strong></td>
<td>80%</td>
<td>68%</td>
</tr>
<tr>
<td><strong>that send money regularly</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average number of times</strong></td>
<td>13.9</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>sent per year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average amount sent with</strong></td>
<td>$225</td>
<td>$255</td>
</tr>
<tr>
<td><strong>each remittance</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: The Inter-American Development Bank

Despite the volume and importance of remittances, most depository institutions have not made major inroads into this market. Instead, the vast majority of the 100 million remittances that are sent each year to Latin America still occur through money transfer operators (MTOs). The larger MTOs such as Western Union have extensive and well-established networks and substantial marketing budgets.

The cost of sending remittances to Latin America through money transfer operators has fallen significantly in the last several years due largely to improved technology and increased competition (in part as a result of the entry of more depository financial institutions). From 2001 to 2005 the average cost of sending $200 to Latin America (excluding Cuba) fell from $8.60 to $5.60. However, even where the cost of sending remittances through MTOs is relatively high, other factors that distinguish MTOs from depository institutions such as

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33 For example, Western Union, the leader in remittances “has agents in 225,000 locations across more than 200 countries that allow remittances to be sent and received in cash, and it spends more than Dollars 450m a year on marketing to ethnic communities. R. Menon. The Financial Times. March 29, 2006. “Banks are exploring online channels for a share of the pie.”


hours of operation, and accessibility (including being available where other transactions such as shopping occur) often outweigh the financial costs.36

Alternative service providers also offer credit for a variety of purposes and in forms that recent immigrants appear to find more attractive and accessible than similar products offered by depository institutions, notwithstanding their higher costs. For example, purchases of furniture and household appliances may be financed through sellers such as Rent-A-Centers and cars through independent car dealerships, while cash can be made available through pawnshops and payday lenders.37 While Latino homebuyers rely on savings to finance down payments and closing costs,38 they are almost three times as likely to use sub prime lenders for financing as non-Latino Whites.39

Together alternative service providers constitute a “poverty industry” the impressive growth of which suggests the magnitude of demand for financial services not met by depository institutions.40 This industry is becoming increasingly sophisticated in terms of its ability to use technology and package financial services with “ancillary” services such as calling cards and lottery tickets.41 For example, Info Touch Technologies Corp. has created “Tio” (“uncle”,


39 The national percentage of Latinos using sub prime lenders in 2002 was 19.6% as compared to 7.8% for non-Latino White buyers. ACORN, “Separate But Equal 2004: Predatory Lending in America.” 2004.

40 For example, “pawnshops today number between 12,000 and 14,000, up from about 5,000 in 1985” (Analysis of Alternative Financial Service Providers, K. Temkin & N. Sawyer, The Fannie Mae Foundation and the Urban Institute, 2004). Similarly, in 2003 MSN Money reported “Loans at Cash America of Fort Worth Texas, with more than 460 shops in the United States and abroad were up 13.5% from a year earlier in the most recent quarter. That supported healthy revenue growth of 14% a year. Meanwhile, loans advanced 27% at First Cash Financial Services, which has more than 270 pawnshops and check cashing outlet in the United States and Mexico.” M. Brush, “3 ‘fringe financiers’ turn a profit on poverty”, 8/6/03 retrieved 5/14/06, http://moneycentral.msn.com/content/P57042.asp?Printer.

in Spanish) bill paying kiosks that also sell prepaid stored value cards.\textsuperscript{42} No Borders Inc. in California offers remittances, cash storage, video teleconferencing, and joint medical plans in storefront locations\textsuperscript{43} and Rent-A-Centers is entering the check-cashing and payday lending businesses.\textsuperscript{44} New variants of stored value cards such as the RushCard allows consumers to have their paychecks and income tax refunds directly deposited to the card at no cost, make purchases, pay bills online, and send money orders.\textsuperscript{45} Retailers are becoming an ever-more important financial service provider, especially to the unbanked. At least one provider of stored value cards,\textsuperscript{46} NetSpend, even allows users to deposit money in interest bearing savings accounts.\textsuperscript{47} These new forms of alternative service providers open the possibility that users will be able to build credit histories without using a depository institution.\textsuperscript{48}

\textsuperscript{42} “Info Touch Technologies Corp continued its recent string of deal announcements yesterday, reporting it would deploy its Tio kiosks at 27 Sunoco Inc.’s APlusR convenience stores in the Pittsburgh area. The touch-screen kiosks allow consumers to pay bills to providers such as utilities and cable companies, view accounts, and buy and reload prepaid products. Consumers insert cash into the Tio to pay bills. Last week, Info Touch reported it would install its kiosks at an unnamed retailer in Milwaukee to offer payment services for We Energies, an electric utility with 1.1 million customers in Wisconsin”. Cardline, March 10, 2006. “Info Touch Grows into Pittsburgh, Milwaukee.”


\textsuperscript{44} Alan Fisher, executive director for the California Reinvestment Coalition, sees the use of prepaid cards as a detour from establishing oneself in the financial mainstream. S. Tompor. “Those who don’t bank need solutions to fee suffocation”. Detroit Free Press. March 24, 2006.

\textsuperscript{45} RushCard charges a onetime activation fee of $19.95, $1 for purchases (capped at $10 a month) and $1.50 for ATM cash withdrawals. https://www.rushcard.com/.

\textsuperscript{46} Jacob, K. May 2005. “Retailers as Financial Services Providers: The Potential and Pitfalls of This Burgeoning Distribution Channel.” Center for Financial Services Innovation.

\textsuperscript{47} “The savings program is offered for free to all new and current NetSpend prepaid debit cardholders who originate their accounts through a FiSCA member financial service center location. There is no minimum deposit to enroll in the program, no minimum monthly balance to maintain and no monthly service fee. Cardholders can enroll in the program online at www.netspend.com or by calling 1-86-NETSPEND to link their prepaid debit card to an interest-bearing savings account. Once this happens, cardholders can add funds to their savings account via free transfers from their prepaid debit card. Funds can be transferred conveniently between the debit card and the savings account via the Web, automated phone system, or a live customer service agent. Cardholders can also set up automatic, recurring transfers from their debit card to their savings account to encourage and facilitate easy savings. Funds in the All-Access savings accounts earn an annual percentage yield of 0.75\% and are insured by the Federal Deposit Insurance Corporation (FDIC)”. Business Wire. November 28, 2005. Business Editors. “Innovative FiSCA Savings Program Hits $5 Million in Deposits; Nearly 20,000 Unbanked Americans Join the Ranks of the Banked.”

\textsuperscript{48} Cardline, March 10, 2006. “Prepaid use could help build credit for unbanked.”
Although many customers express satisfaction with alternative service providers, the perceived benefits can come at significant financial cost:

- In the Boston area the high APR mortgage-lending share for Latinos purchasing homes was calculated to be 5.0 times greater than for whites.\(^{49}\) Latinos were 1.6 times as likely to use a high APR loan for refinancing, with additional annual costs of $2,100 - $5,700.\(^{50}\)

- “A family with $18,000 in take-home pay that (uses check-cashing outlets) can easily spend $400 or more of its limited annual income just to obtain basic payment services.”\(^{51}\)

- “An investigation by the New York City Department of Consumer Affairs in 2001 found that local Rent-A-Centers’ “cash prices” were as much as 225 percent above normal retail and that some of their long-term rental charges were equivalent to a 392 percent annual interest rate.”\(^{52}\)

- Annually payday borrowers caught in a “debt trap” may pay “$1,170 in finance charges for the use of $255 in cash while nationwide annual payday lending fees equal $3.4 billion.”\(^{53}\)

**Conclusions**

The financial products and services of the alternative service sector may be perceived by recent Latino immigrants as more accessible, easier to use, and sometimes even more economical than those offered by depository institutions. These non-depository providers are often able to create a more hospitable-seeming environment and more satisfactory interactions than most depository

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\(^{49}\) High APR loans (or HAL) are defined as those loans with an interest rate three points (or more) greater than the rate of Treasury securities (five points for a secondary-lien). Perhaps even more striking, the differential increased to 7.8 times for purchase loans for upper-income Latinos. Campen, J. 2006.

\(^{50}\) Perhaps even more striking, the differential increased to 7.8 times for purchase loans for upper-income Latinos. Campen, J. 2006.


\(^{53}\) “Quantifying the economic cost of predatory payday lending”. Center for Responsible Lending. February 24, 2004.
institutions. In many cases these attributes may compensate for the relatively higher fees they may charge.54

The rapid expansion of financial services and products available from alternative service providers specifically tailored to the needs of recent Latino immigrants underscores the need for increased innovation and commitment by depository institutions. Banks and credit unions would do well to become more familiar with the delivery systems and products offered by alternative service providers in order to identify strategies worth pursuing. Some of the factors contributing to their success, such as being able to combine financial services with retail and other commercial functions, cannot be replicated by depository institutions. However other factors can be appropriate, including location of outlets, hours of service, and closer day-to-day relationships in the community. Where depository institutions have tailored themselves to the needs of recent Latino immigrants in such ways they have been quite successful.

3. MOTIVATION FOR CHANGE
The multiple reasons and sources of motivation to seek financial integration correspond to a variety of strategies. In order to choose the correct strategies institutions and policy makers need to be clear about the specific nature of their motivation.

3.1 Individuals and Families
Individuals and families want access to the full range of financial services offered by depository institutions. Financial segregation reduces the possibilities to accumulate and build financial assets, makes everyday financial transactions more difficult, and in general contributes to social, economic, and civic marginalization. Advocacy groups working with Latino immigrants frequently cite access to banking services as one of three key needs, along with housing and health services.

Specific aspects of participation in mainstream financial services that individuals and families perceive as valuable include:

Reduced costs of financial transactions
By shifting their financial transactions to depository institutions immigrants may be able to significantly increase the income available for consumption, investment and remittances.

54 The attractiveness of these other attributes is underscored by research indicating the majority of alternative service providers are located in areas served by at least one bank and also by the very high percentages of Latino immigrants who express satisfaction with the businesses they currently use to remit money. Orozco, M. 2004.
Credit histories
Credit histories are fundamental personal attributes used in a variety of settings and for a variety of purposes. While the existence of a negative credit history can be more damaging than no credit history, a positive credit history can be a valuable asset in establishing reliability even outside the financial arena. A positive credit history is a prerequisite to procuring financial credit in the form of credit cards, personal, car and business loans. The ability to access credit is fundamental for many individual and family efforts to improve social and economic conditions.

Security
The incidence of robberies targeting immigrants assumed to be holding large amounts of cash is a major problem in communities throughout the U.S. Depository institutions offer security for money otherwise vulnerable to destruction, theft or the instability of less regulated services, including deposit insurance, transaction security (provided by checks ATM and credit cards), and reduced susceptibility to foreclosure by predatory lenders because of the high level of regulatory oversight.

Wealth accumulation
Use of depository institutions provides greater opportunities to accumulate wealth as a result of diminished transaction costs, interest payments on savings, and opportunities to borrow and invest in business, housing and education.

Documentation
Account holders are able to provide documentation of important financial transactions such as deposits (important in case of disputes over wages, workplace abuse, etc.) and payments (rent, child support, etc.) that is key to establishing legal rights in critical situations.

Ease of payments
Although alternative service providers offer an increasing variety of payment mechanisms, depository institutions generally provide a wider range including checking, point-of-sale electronic, credit, online and telephone payments.

Remittances
The reduced cost of remittances that may be provided by depository institutions can have appreciable impact on both the net amount received and the disposable income of remittance senders (Orozco, 2004).

Mortgages
The personal benefits of obtaining a mortgage include the ability to build equity for children’s education, retirement or business purposes. Other benefits are more broadly social: researchers have pointed to the homeownership as a significant factor in reducing crime in certain predominantly Latino immigrant
According to recent reports there is very substantial demand for mortgages among Latino immigrants. According to the National Association of Hispanic Real Estate Professionals there is a potential $44 billion market for homes among 6 million undocumented Latinos.

3.2 The State
Federal, State and local governments are motivated to increase financial integration of Latino immigrants for a variety of reasons.

Banking the Unbanked
The state maintains very strong policy interest in reducing the number of unbanked households in the population as a whole. As one government official recently stated, “Bringing un-banked residents into the financial mainstream and raising financial literacy of U.S. residents are priorities for the U.S. government.” In 2003 Wayne Abernathy, Assistant Secretary for Financial Institutions, U.S. Department of The Treasury testified before the House Subcommittee on Financial Institutions and Consumer Credit Of The Committee On Financial Services, stating:

“The Treasury Department strongly believes that everyone should have the opportunity to establish a banking relationship with a regulated and insured financial institution. An account at an insured depository institution is a basic tool for individuals to build their own financial security.”

Improving Regulatory Oversight
The responsibility to protect against illegal activity requires the availability of information about financial transactions. When transactions occur outside the formal financial system information about participants, amounts and destinations is less complete, less readily available and less reliable. As Governor, current Federal Reserve Chairman Bernanke cited the “unevenness” of regulatory oversight of nonbank remittance services as a concern.


58 For example, “none of the top 25 HAL (high APR loan) lenders in Boston were subject to regulatory oversight of their Boston-area lending under the federal or state Community Reinvestment Act.” Campen, J. 2006, p.6.

Banks and credit unions have a long history of dealing with the Bank Secrecy Act, are heavily regulated by highly trained bank examination staff, and devote considerable resources to monitoring account activity in the fight against terrorist financing and money laundering.\(^{60}\) The Customer Identification Program (CIP) regulations promulgated under Section 326 of the USA Patriot Act stipulate that financial institutions collect significant information for: (i) verifying the identity of any person who opens an account; (ii) maintaining records of the information used to verify a person’s identity; and (iii) consulting government lists of known or suspected terrorists or terrorist organizations.\(^{61}\) The customers of alternative service providers are not subject to the same level of scrutiny as are bank account holders. Nor do alternative service providers have the same level of anti-money laundering resources and expertise as banks and credit unions.\(^{62}\) Financial integration therefore strengthens the audit trail of financial transactions, making it much more accessible to law enforcement officials.

**Addressing Public Safety Concerns**

Immigrants who do not use checking and savings accounts and do not have access to automated teller machines are more likely to carry around large sums of cash and to keep their savings hidden at home. Numerous studies and press accounts have documented how muggers may target customers of check-cashing outlets. The incidence of check-cashing-related theft was a primary motivation for the creation of the Latino Community Credit Union (Durham, NC) Areas with higher rates of bank usage have been found to have lower crime rates.\(^{63}\)

**Increasing Economic Benefits**

Access to interest-bearing savings accounts can increase the savings rate and the funds available for investment in a community, while the cost savings afforded by use of depository institutions can increase disposable income. The increased competition created by the entry of depository institutions in remittance, lending and other financial service markets can force alternative service providers to lower their fees.\(^{64}\)

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\(^{60}\) Response of S. C. Bair to questions from Congressman Hinojosa, Hearing on serving the underserved: initiatives to broaden access to the financial system, June 26, 2003. House Subcommittee on Financial Institutions and Consumer Credit.

\(^{61}\) Report to Congress in Accordance with Section 326(b) of the USA Patriot Act, Submitted by the Department of the Treasury, October 21, 2002.

\(^{62}\) S.C. Bair, Hearing on serving the underserved: initiatives to broaden access to the financial system, June 26, 2003. House Subcommittee on Financial Institutions and Consumer Credit.


\(^{64}\) Orozco, M. 2006.
Strengthening International Relations and Development

Remittances are a primary source of revenue in a number of Latin American countries. The increasing reliance of many Latin American countries on remittances from the U.S. has intensified inter-governmental pressures to provide more secure and less costly mechanisms in the U.S. for effecting those transfers. At a Special Summit of the Americas in 2004 President Bush committed to support the region’s efforts to lower remittance costs.\(^65\) The World Bank has also concluded that “reducing the cost of personal remittances is the most promising area of policy intervention.”\(^66\) Maximizing the net amount of these transfers can increase the positive effects of consumption and investment in Latin America and, as a result of economic development in these countries, reduce the flow of immigration to the U.S. According to a recent editorial in *The Wall Street Journal*, remittances “…are a force for economic and political good. As an economic matter, they flow directly from individuals in the U.S. to private individuals or businesses south of the border. This cuts out the government middleman and provides capital immediately for private investment or consumption.”\(^67\)

3.3 Financial Institutions

Nationwide, banks are recognizing that branch banking provides significant opportunities for offering profitable products.\(^68\) The demographic trends referred to at the beginning of this paper and the explosive growth in alternative financial services suggest the opportunities associated with serving the Latino immigrant market. The experience of institutions that have made concerted efforts is indicative. For example:

- “Wells Fargo opened more than 400,000 new accounts for Mexican immigrants, using the *matricula consular*, between November 2001 and May 2004. In recent months Wells Fargo has averaged 22,000 new accounts per month, many of which feature the bank’s remittance product.”\(^69\)

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• “Since the launch of the Hispanic outreach effort in late 2002, EFS (a community bank in Elgin, IL) has witnessed impressive growth: approximately 500 new households as customers, a 31 percent increase in bank accounts, and deposit balance growth of more than $2 million or 10 percent. Loan balances have changed even more dramatically – up 42 percent, representing $3.7 million in new loans. The bulk of these increases are due to the bank’s burgeoning Hispanic customer base.”

• Latino Community Credit Union (Durham, NC) is currently the fastest-growing credit union in the United States.

• The RTN Credit Union (Waltham, MA), which, as a result of three years of focused efforts, has seen a steady rise in Latino members (many of them immigrants) reports a 71% loan rate for Latino members in February 2006, as compared to 40% for all members.

Financial institutions may also be motivated to expand their service to Latino immigrants by a desire to improve CRA evaluations. A variety of products and services tailored to meet the needs of Latino immigrants may be used to satisfy community development requirements. For example, remittances, Access Accounts and prepaid debit/payroll cards may all qualify as community development services.

3.4 Conclusions – The Nature of Motivation
The project of improving the financial integration of Latino immigrants is complex and wide-ranging. Success requires initiatives on a variety of fronts, by many different sorts of participants, each motivated by particular interests and responsibilities. The different motivating factors will shape each institution’s and each sector’s analysis of obstacles, orientation of strategy and measures of success. It is important to acknowledge that the resulting agendas may not necessarily all be compatible. For example, the state’s desire for increased documentation and supervisory controls may conflict with financial institutions’ efforts to provide convenient, accessible account opening procedures and may increase regulatory costs in providing international remittance products. Productive collaboration between partners in this effort entails recognizing differences in motivation and committing to new ways of working.

70 K. Jacob, 2005.
71 Interview, M. Zayas, RTN Federal Credit Union, Waltham, MA. March, 15, 2006.
4. OBSTACLES TO FINANCIAL INTEGRATION

A wide variety of obstacles stand in the way of greater financial integration of recent Latino immigrants. These obstacles fall into two basic categories: weak customer demand and limited supply, marked by insufficient or ineffective effort on the part of some financial institutions.

4.1 Weak customer demand

Lack of banking experience and financial education

Many recent Latino immigrants have never had a bank account and of these a large number do not see themselves as potential bank customers. This unfamiliarity is in large part due to the fact that in many Latin American countries only rich people have access to bank accounts, says Teresa Garcia, director of development at Manhattan-based Asociacion Tepeyac de New York, which educates new immigrants on financial matters. When she encourages clients to think about forming a relationship with a bank, many are flummoxed. 'People can't believe they can open accounts,'' Ms. Garcia says.\(^73\)

In its broadest sense financial education can be understood in terms of four different 'domains': 'managing money', 'planning ahead', 'making choices' and 'getting help'.\(^74\) In terms of banking, lack of financial education suggests unfamiliarity with the benefits of banking, basic structure of the banking system, (for example, one New York bank reported instances when immigrants assumed they had to make deposits and withdrawals from the branch where they had opened their accounts), terminology, maintaining a checkbook, how to fill out paperwork (including deposit and withdrawal slips), how to use ATMs, etc.

Immigrants’ attitudes towards banks

Negative attitudes towards depository financial institutions have been identified as a key obstacle to banking the unbanked.\(^75\) These attitudes may arise from personal experience or the experience of friends or family members or from generalized rejection of banks and banking. A desire to keep financial information private and/or distrust of depository institutions may also be very powerful.\(^76\)


\(^{74}\) “Levels of financial capability in the U.K.” Financial Services Authority, http://www.pfrc.bris.ac.uk/completed_research/fincap_baseline.html.


\(^{76}\) Ibid.
For recent Latino immigrants distrust may have been fostered by their experience (direct or indirect) of banking in their home country. Throughout Latin America the lack of effective financial supervision, regulation and deposit insurance fosters bank failure and contributes to a sense that financial institutions are not secure or reliable. For example, “In Mexico, banks are not federally insured as they are in the United States. Legends abound among immigrants about a friend or relative who deposited his or her life savings into a bank only to find the doors locked and the business gone the next day.”

Recent Latino immigrants may also have had (either directly or indirectly) negative experiences with depository institutions in the U.S. Statistics show that among the general unbanked population approximately half have had bank accounts in the past, suggesting that past experience has been discouraging. In many immigrant communities negative experience may be based on reports of banks being unwelcoming and/or discriminatory toward potential customers. Other negative influences are “failed” bank experiences involving accounts being closed by the institution due to misuse or by the customer due to high fees for overdrafts, etc. Given the close-knit nature of many immigrant communities “bad news travels fast” and even a few instances of these sorts of negative experiences can create resistance to banking.

**Fear of deportation**

Immigrants, especially those without documentation, may fear that contact with depository institutions could result in deportation or other consequences. These fears can be heightened by the sense that banks are state institutions (for example, advocacy groups report that immigrants may see the “FDIC” signs posted throughout as indicators of government status). Fear of deportation may also affect willingness to use depository institutions if immigrants are concerned about their access to funds in case they are forced to leave the country.

**Lack of income for saving**

Poverty is a basic factor affecting the ability and disposition to save. Because Latinos in the United States are three times as likely to be poor as non-Latino Whites (U.S. 2000 Census), they are also more likely, on average, to have insufficient disposable income to save. Financial surplus, when it exists, may also be spent on a variety of investments, including education and improved housing. Importantly, financial surplus dedicated to remittances is often also a form of saving. Money sent to family is often used to finance small businesses or

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otherwise invested with the goal of building a financial nest egg for the immigrant or their family.

**Lack of interest in checking accounts**
In general people who are unbanked cite a lack of need as the principal reason for not having a checking account.\(^79\) Forty percent of Hispanics who do not have a checking account say that they do not need one.\(^80\) Among many recent Latino immigrants there is also relatively little interest in checking accounts. This lack of interest is largely a result of the lack of custom and of preference for holding money in cash. “Balancing a checkbook is nothing but drudgery to some young consumers and minorities who stay far away from traditional banking.”\(^81\)

Immigrants may have very limited non-cash payments to make and those they do have may be more readily accomplished through money-orders or other bill paying services that are often available at money transfer operators such as Western Union.

**Lack of financial liquidity**
Minimum balance requirements are frequently cited as a reason why people remain unbanked.\(^82\) For recent immigrants a lack of financial reserves contributes to the need to have quick access to paychecks and inadequate funds to cover cashing. Because they are often unable to wait for their checks to clear, immigrants may be willing to pay a premium for immediate check-cashing.\(^83\)

**Language and cultural barriers**
Language and cultural barriers are two of the most frequently cited barriers to financial integration for Latino immigrants. Census data suggests that in New England a relatively small percentage of Spanish-speaking households have difficulty understanding spoken English.\(^84\) The obstacles to communication reflect difficulty with the specialized vocabulary of financial services and with the written English necessary to read documentation, write checks, etc.

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\(^81\) Tompor, S. 2006.


\(^83\) *Ibid.*

\(^84\) In New England the percentages of Spanish-speaking households where English is spoken "less than very well" (2005) is as follows: CT = 3.7%, MA = 2.7%, NH = 0.6%, VT = 0.2%, RI = 4.1%. U.S. Census, 2005.
Perhaps the more significant difficulties lie in cultural differences that may be expressed in a variety of tangible and intangible ways. Several representatives of Latino advocacy groups described how banks are seen as “cold” and “unfriendly” by many immigrants. They describe immigrants’ sense that “those people (bank personnel) don’t welcome or respect people like me”, that “I will not be welcome in my work clothes”, that “I can’t bring my small children with me”, that “they won’t understand my English”, etc. Immigrants’ perception of how they are treated in the bank will also be influenced by the degree they are integrated in the larger community. Where cross-cultural interactions are more frequent and not problematic it is likely to be easier to establish productive relationships. The negative effects of strained customer service interactions and lack of familiarity with bank functions may be compounded by branches’ sometimes-intimidating physical environments.

Perhaps in part to mitigate an intimidating environment, recent Latino immigrants may be more likely than other customers or members to seek personalized interactions with bank employees. Much like “private banking” customers they may prefer to establish long term relationships with bank personnel. Unfortunately, the relatively short average tenure of key front office personnel (especially bank tellers) can inhibit the development of longer-term relationships.

**Inconvenience**

There is considerable debate over the degree to which physical access to financial institutions causes people to be unbanked.\(^{85}\) In several interviews with community advocates geographical location and hours of operation of bank branches were cited as important factors affecting Latino immigrants’ use and choice of financial service providers. Recent immigrants often have limited transportation options, as well as limited time to conduct financial transactions. The desire for face-to-face transactions can reduce their willingness to rely on ATMs, telephone, or online banking and make branch location more of a consideration than for the population at large.

Studies show that branches are less likely to be located in neighborhoods where Latino immigrants live. Similarly, employment and transportation constraints may make it difficult for recent immigrants to visit branches that might be located near workplaces during the workday.

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Limited familiarity with rights
Many immigrants assume that if they do not have legal documentation of immigration status they are not eligible to open a bank account. “A nationwide survey of Latin American immigrants living in the United States found that 25 percent believe opening an account requires a Social Security number or driver’s license.”86

Negative perception of credit unions
In some areas of Latin America credit unions exist almost exclusively in rural areas to serve farmers and therefore are seen as lower class and therefore less desirable institutions.

Relative effectiveness of alternative service providers
In some geographic areas, particularly where Latino immigrant populations are most dense, alternative service providers are able to meet demand. As described above, these providers often offer a menu of financial products and services that is closely tailored to the specific needs of recent Latino immigrants. Significantly, these areas of dense population are precisely the ones that offer the most attractive opportunities for depository financial institutions.

Conclusions
Successful efforts to address the multiple components of consumer demand require the participation of the spectrum of sectors: community and advocacy groups, schools, regulators, and financial institutions themselves. The section on Best Practices details examples of policies, actions, and strategies that have been effective in building demand for financial services among recent Latino immigrants.

4.2 Institutional disincentives
The dampening effects of relatively weak consumer demand in some markets may be compounded by a range of institutional disincentives.

Failure to recognize the Latino market
Some financial institutions may not recognize the existence of a significant Latino immigrant community. In some areas (particularly the less urbanized and smaller population centers) the presence of Latino immigrants is a relatively new phenomenon and they may not yet be “on the radar screen.”

Lack of familiarity with the Latino community
Many depository institutions tend to be more closely linked to business owners and homeowners than low-income employees and renters, groups with typically

higher representation among recent Latino immigrants.\(^{87}\) Bank personnel are unlikely to have personal relationships or be involved in social networks that include Latino immigrants, contributing to a sense of distance that inhibits outreach. Unfamiliarity may also make it difficult for bank personnel to recognize the barriers (cultural, linguistic, etc.) that restrict Latino immigrants’ use of their institutions.

**Uncertain of profitability**

Depository institutions often cite profitability concerns as the major obstacle to expanding service to the unbanked population.\(^{88}\) There is a common perception that demand is insufficient to make the investment in serving the community profitable. This is especially the case in communities where the Latino population is relatively small and/or more “hidden.” As one government researcher commented, “Banks don’t see a buck in it.”

**Lack of regulatory and supervisory incentives**

In 2004 banks’ remittance services became eligible for credit under the Community Reinvestment Act. However, according to several industry representatives, many banks feel they are able to meet “acceptable” levels of CRA compliance without much effort. Service tests (covering access to basic financial services) receive less weight than lending tests, covering important but less fundamental services than savings and checking accounts. Compounding the lack of regulatory incentives is a general perception (expressed by banking and industry personnel) that for some institutions improving CRA ratings is not considered a priority.\(^{89}\)

As the first tier of government communication financial examiners have significant influence over institutional decisions about whether and how to seek out Latino immigrant customers. As indicated by interviews with personnel at several banks, industry representatives and supervisory personnel, examination procedures may – directly or indirectly – discourage certain practices that are key to attracting recent Latino immigrants. For example, although there is no mandate requiring depository institutions to ensure the immigration status of their customers and members, cases were reported of examiners asking to see accounts by nationality, cautioning against accepting certain forms of identification, or otherwise orienting bank personnel based on examiners’

\(^{87}\) In some communities credit unions, with their history of serving employees and immigrant groups, are an important exception.

\(^{88}\) In surveys of financial institutions conducted in 2004 and 2005 60% and 43% (respectively) identified small margins and profitability as major obstacles to banking the unbanked. Results of Survey on the Unbanked Market, 2005 BAI Retail Delivery Conference and Expo. The Center for Financial Services Innovation. December 2005.

\(^{89}\) In fact, one industry spokesman described a high CRA rating as detrimental – because it could be seen as encouragement to community groups seeking funding.
personal interpretations of regulatory guidance. According to one government source, in the current political environment, bank examiner staffs often take a “fearful approach” where immigrants are concerned.

Ambiguity of identification requirements
There are no regulatory restrictions that preclude non-U.S. citizens from opening accounts and Section 326 of the U.S. Patriot Act does not assign depository institutions any responsibility for verifying immigration status. FinCEN reports no documented links between misuse of matriculas and terrorism.90

Nevertheless, because identification is necessarily intertwined with immigration status, and because illegal immigration is such a politically charged issue, identification requirements continue to be a major obstacle to serving Latino immigrants. Financial institutions, by and large do not feel confident about their ability to accept customers who may be illegal immigrants and there is significant confusion and unease among banking personnel about their role in upholding immigration law. According to one employee of a federal agency, the supervisory orientation to make “reasonable decisions” is essentially useless and banks’ desire for public training in customer identification policies is listed as a concern to be addressed by the Ombudsman of the FDIC.91

One example of the ambiguity surrounding identification requirements is that certain forms of identification (for example Social Security cards) are interpreted as indicating legal immigration status, while others (such as ITINs) are often assumed to indicate undocumented status. Reliance on such assumptions is clearly problematic. Given the availability of falsified versions of so many common forms of U.S.-issued identification, including “green” cards, Social Security cards, drivers’ licenses, etc., it is very difficult to justify treating certain forms of identification as de facto more reliable than others.92

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90 Conversation with FinCEN personnel, February 24, 2006. The Suspicious Activity Reports regulation (1996) requires financial institutions to file a SARS report only if a transaction is involved. While the Regulation refers to any violation of law and therefore could be read to include violations of immigration law, the intention of the Regulation is to prosecute cases of illegal financial transactions. However, it is unclear whether or not the suspicion of illegality is sufficient to file SARs.


92 One example of the consequences of over-reliance on certain forms of identification was provided by a customer service representative at the Latino Community Credit Union (Durham, NC) who described how potential members who are rejected at the credit union on the basis of false identification have had the same identification accepted at “the big bank down the street”. Interview, March 2006.
The lack of clear policy statements contributes to significant latitude for institutional and managerial discretion across as well as within financial institutions. For example, it was reported that while some bank managers have been willing to accept the Mexican *matricula consular*, their Presidents have rejected the policy. Conversely, the relative autonomy of bank managers and member service representatives to interpret ID requirements means that while top management may formally institute such policies they are implemented inconsistently. Decisions may reflect individual interpretations of customer identification policies and individual evaluations of identification documents. For example, one bank manager agreed that while her superiors would review any accounts she opened, especially without Social Security numbers, there were no mechanisms in place to review how many or why she rejected potential customers. Even when accounts are opened, institutional discretion may result in policies or tendencies that limit immigrants' access to certain products (such as ATM cards) or different minimum balance requirements.

The discretion accorded financial institutions to interpret public policy and the discretion accorded bank personnel to interpret institutional policy, combined with unfamiliarity with language and cultural barriers can foster excessive conservatism. In the worse cases the reactions have appeared to be race-based.

The extent of inconsistent treatment of potential customers or members is virtually impossible to document systematically. However, even isolated and/or anecdotal incidents can be significant. It's important for banks to treat customers consistently and train bank personnel in account opening procedures. News of even a single instance of deviation from established procedures can travel quickly in close-knit Latino communities and severely undermine a bank's efforts to expand outreach.

**Political pressures**

The existence of heated political debate over immigration reform has contributed to financial institutions' hesitancy to take significant steps to reach Latino immigrants. The threat of boycotts for “aiding and abetting” illegal immigrants discourages some depository institutions from initiating or expanding services targeted at Latinos, despite the fact that - according to FinCEN personnel - formal charges that financial institutions are “abetting” the violation of immigration laws have never been made.\(^93\) James C. Ballentine, the American Bankers Association's director of grassroots and community outreach, has said he does not expect banks to start any programs or promotions targeting immigrants until

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\(^{93}\) According to one employee of a supervisory agency, “having a bank account is essentially irrelevant to the law violations in that the account does not facilitate the unlawful activity. What is illegal is being done by the employer in hiring the illegal alien.” (Interview, February 2006).
Congress is done (note: with immigration reform)."94 Significantly, several institutions interviewed described a sense of the need to “be careful” about their marketing to Latino immigrants (mainly limiting their advertising of targeted financial services to Spanish-language news outlets serving the particular community) for fear of reprisals if their efforts became widely known.

Conclusions
As with any changes in “business as usual,” depository institutions must overcome substantial challenges if they are to serve the Latino immigrant population more fully. In order to successfully overcome these obstacles management at all levels must be willing to commit the necessary financial and human resources. And, as with any initiative, an institution’s ability to sustain these commitments over the course of the necessary institutional and personnel adaptations will depend largely on the nature and strength of its motivation.

5. BEST PRACTICES – ADMINISTRATIVE
Institutions seeking to increase and improve their services to recent Latino immigrants can draw on a wealth of experiences in the field. The following review of administrative practices is drawn from interviews with bank and credit union employees, industry spokespeople and government agencies.

5.1 Customer Identification Policies (CIPs)

i. Purpose
Customer Identification Policies serve multiple objectives. To ensure compliance with Section 326 of the Patriot Act a bank has to verify the identity of the customer and have a program to do that: “The Agencies wish to emphasize that a bank’s CIP must include risk-based procedures for verifying the identity of each customer to the extent reasonable and practicable.”95 Depository institutions must also collect the date of birth and place of physical residence of this foreigner customer and be satisfied in a manner that a reasonable person would be that the identity of the customer is what it appears to be.

Government guidance at the state and federal level encourages financial institutions not to rely exclusively on any one form of identification. Instead, the CIP rule

“gives examples of types of documents that have long been considered primary sources of identification and reflects the Agencies’ expectation

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95 Interagency Interpretive Guidance on Customer Identification Program Requirements under Section 326 of the USA Patriot Act (FinCEN, Federal Reserve, FDIC, NCUA, OCC, OTS, Treasury, April 28, 2005.)
that banks will obtain government-issued identification from most customers...other forms of identification may be used if they enable the bank to form a reasonable belief that it knows the true identity of the customer. 

In addition to meeting regulatory requirements, each financial institution’s CIP reflects the extent of that institution’s motivation to serve the immigrant community, its interpretation of regulatory and supervisory mandates, and the willingness of key institutional participants to seek out these customers or members.

The internal due diligence involved in establishing policies to accept new forms of identification can be substantial. Several bank personnel consulted for this report described the challenges involved in convincing Compliance Departments and others of the desirability of modifying CIPs to explicitly acknowledge the acceptability of the kinds of identification typically available to recent Latino immigrants.

**ii. United States-issued identification**

U.S.-issued forms of identification are generally understood to be more reliable than foreign identification. However, advances in technology have contributed to the proliferation of sophisticated false versions of many forms of U.S. issued identification.

**Social Security Numbers**

Social Security numbers are the most common form of taxpayer identification used by depository institutions. They are required as identification if they are available but Section 326 clearly allows acceptance of alternatives. As noted above, false Social Security cards are readily available and frequently used, as indicated by the magnitude of unclaimed payments. The Social Security system receives as much as $7 billion a year in Social Security

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96 Interagency Interpretive Guidance on Customer Identification Program Requirements under Section 326 of the USA Patriot Act (FinCEN, Federal Reserve, FDIC, NCUA, OCC, OTS, Treasury). April 28, 2005.

97 Statement for the record, John S. Pistole, Assistant Director, Counterterrorism Division, before the House Select Committee on Homeland Security. "Fraudulent Identification Documents and the Implications for Homeland Security" October 1, 2003. CIP rules state that financial institutions “need not establish the accuracy of every element of identifying information obtained but must do so for enough information to form a reasonable belief it knows the true identity of the customer”. Interagency Interpretive Guidance on Customer Identification Program Requirements under Section 326 of the USA Patriot Act (FinCEN, Federal Reserve, FDIC, NCUA, OCC, OTS, Treasury). April 28, 2006.

98 Typically depository institutions do not require customers or members to present actual Social Security cards. Interestingly, the Latino Community Credit Union does require anyone opening an account to present an original Social Security card.
payments (and 1.5 billion in Medicare payments) made by illegal immigrant workers who will not receive benefits. According to Stephen C. Goss, Social Security's chief actuary, "Our assumption is that about three-quarters of other-than-legal immigrants pay payroll taxes."99

**Individual Taxpayer Identification Number (ITIN)**
The ITIN was created in 1996 to make it possible for an individual not eligible for a Social Security number to file a U.S. tax return. “ITINS are issued regardless of immigration status because both resident and nonresident aliens may have U.S. tax return and payment responsibilities under the Internal Revenue Code.”100 Over 7.2 million ITINs were issued between 1996 and 2003. Between 2001 and 2004 ITIN issuance rose by 36%.101 Under the Section 326 regulations an ITIN is needed for tax and recordkeeping purposes, but should not be considered a reliable form of identification. Recent policy guidance clarifies that a bank cannot open an account for a U.S. person who does not have an ITIN or has applied for an ITIN (and receives the ITIN within a reasonable period of time).102 New IRS rules emphasize that ITINs should be used only for purposes of filing income taxes. However, there is no requirement that depository institutions verify that customers have filed tax returns.103

In order to obtain an ITIN an individual must present an unexpired passport or a combination of at least two of the following documents:

- National ID card (with photo, name, current address, date of birth, and expiration date)


103 “According to IRS Commissioner Mark Everson, about 25% of the 7 million ITINs issued since 1996 have never actually appeared on a tax return” C. Bauman. “ITINs – exceptions and questions.” *AllBusiness,* July 2004. See GAO study “Individual Taxpayers Identification Numbers can be Improperly Obtained and Used,” GAO-04-529T.
Financial institutions may, with authorization from the IRS, serve as Acceptance Agents to assist individuals in obtaining ITINS and providing the service of ITIN transmittal can be a “marketing opportunity” instead of an “insurmountable barrier”. For example, the Latino Community Credit Union (Durham, NC) processes new members’ W-7 applications for a $30 fee (considerably lower than that charged by other private acceptance agents) and an initial deposit of $110 (maintained for at least two months). LCCU also requires participation in a financial education class as part of the ITIN application process. Until the ITIN has been received, any deposits are held in non-interest bearing accounts. This service has been extremely effective in attracting immigrants to the credit union. However, most banks and credit unions do not themselves process ITIN applications but instead direct potential customers to businesses and community groups that do transmit the applications. One major East Coast bank will temporarily open accounts for customers who have applied for but have not yet received their ITINs but the bank then withholds 30% of interest for tax payments.

iii. Foreign-issued forms of identification
The issue of whether or not to accept foreign-issued identification and which forms are acceptable is one of the least clear areas of practice among the financial institutions interviewed. According to the Office of the Comptroller of the Currency, "The CIP rule neither endorses nor prohibits bank acceptance of information from particular types of identification documents issued by foreign governments, such as the matricula consular. Instead, a bank must decide for itself, based upon appropriate risk factors, whether the information presented by a customer is reliable."
Of the multiple forms of foreign identification that may be accepted for CIP purposes, foreign passports are considered the “gold standard” by most depository institutions. In order to be used for identification purposes passports must be valid. If a passport has expired since an immigrant arrived in the U.S. it is relatively easy to have it renewed at the various embassies and consulates throughout the country. It should be noted that a valid passport does not indicate anything about immigration status. Passports are usually renewed by foreign governments without the necessity of providing proof of U.S. immigration status. In addition, undocumented immigrants who do not have a passport may apply for and receive a passport once they are in the U.S. Further demonstration of the difficulty in ascertaining immigration status is provided by a recent study by the Pew Hispanic Center which concluded that as much as 45% of the total unauthorized migrant population entered the country with visas that allowed them to visit or reside in the U.S. for a limited amount of time.107

**Matriculas consulares**

*Matriculas consulares* are identification cards issued by embassies and consulates of foreign governments for consular purposes. *Matriculas* do not contain information about immigration status but do verify nationality, identity and proof of residence within a consular district. The requirements for obtaining *matriculas* are promulgated by each government and the cards have different forms and security features. While passports are generally considered the most reliable forms of identification for non-citizen residents, the *matriculas consulares* offer the advantage (for CIP purposes) of including the current address of the holder.

Currently the Mexican, the Guatemalan, and recently, the Colombian *matriculas consulares* are generally considered by major banks to contain sufficient security features.108 Of these, the Mexican *matricula consular* has been the most widely distributed version and is currently accepted as an official form of identification by 178 financial institutions in the U.S. However, the Guatemalan and Colombian *matriculas* contain security features that make them even more reliable than the Mexican, in the opinion of some regulatory experts.109 This is in part because they are more recent and have built on the experience of the Mexican, but also because they have been developed in consultation with bank trade associations. Increasingly, the governments of Latin America are recognizing the importance of

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reliable *matriculas* in advancing the interests of their citizens in the U.S. However, the cost of implementing a sufficiently sophisticated *matricula* system is significant and a number of governments have not been able or willing to make that investment.\textsuperscript{110}

**Other forms of foreign-issued identification**
A number of depository institutions interviewed accept foreign drivers’ licenses, military service identification and national identity cards. In order to determine the legitimacy of these unfamiliar forms, customer service representatives at one institution interviewed rely on a privately published compendium of international documents.\textsuperscript{111}

**Additional mechanisms for verifying customer identity**
In addition to the forms of identification discussed above, financial institutions have the prerogative of utilizing any number of additional risk-based procedures for verifying customer identity that are particularly suited to Latino immigrant customers. Many institutions rely on utility bills, leases and other forms of commercial documentation to verify proof of address. This documentation is also considered, as secondary or supplementary verification of identity.

Personal testimony by current customers is also considered relevant for CIP purposes. Usually this testimony is relatively informal, as when a friend or family member introduces a potential customer to a customer service representative. However, at least one Florida bank with an extensive Latino immigrant customer base has developed a standardized reference letter that allows existing customers to document their knowledge of a new customer.

**The importance of consistency and institutional support**
Consistent and thorough implementation of Customer Identification Policies depends on employee training and supervision. The unfamiliarity of some forms of identification (such as the *matriculas consulares*) and trepidation about reprisals may contribute to individual employees’ hesitation to accept some immigrants’ documentation. These obstacles are exacerbated in institutions that do not have a history of serving Latino immigrants.

A number of sources consulted for this study, both within the financial services industry and from the advocacy community, referred to the perception of arbitrariness in the implementation of CIP policies in a number of institutions. They described instances in which identification accepted at one branch would be rejected by another branch, or even where one customer service

\textsuperscript{110} In at least one case a Latin American government has directly asked a major bank to help subsidize the creation of a *matricula* system. Although this kind of bank subsidy to a foreign government is not possible, the request is an indication that the value of the cards for financial services is recognized.

\textsuperscript{111} “International I.D. Checking Guide”. Edition Five. Published by The Drivers License Guide Co. Redwood City, CA.
representative would reject identification accepted by another. Even isolated instances of such inconsistency, reported through social networks, are likely to inhibit potential customers or members from attempting to open accounts. As one advocate stated, “bad news travels really fast”.

Financial institutions that have effectively served the Latino immigrant community have ensured that employees receive sufficient training in CIP policies and have sought to reinforce this training periodically. Not only do such efforts help to alleviate employee concerns about what is acceptable, they also convey critical institutional support for employee decisions.

iv. Conclusions
Customer identification policies are a linchpin of depository institutions’ efforts to reach the Latino immigrant community. In the context of the Patriot Act and charged political debate over immigration there are significant obstacles to encouraging financial institutions to adjust their Customer Identification Policies in order to reflect the documentation available to Latino immigrants. Currently approximately one third of banks across the country accept either the ITIN or consular cards. As each institution evaluates its customer identification policies it is crucial that the basic functions of these policies (as outlined at the beginning of this section) not be clouded by other concerns.

The increasing sophistication and widespread proliferation of falsified versions of U.S.-issued forms of identification call into question the presumption that U.S.-issued documents are superior to foreign-issued forms of identification. The significance and security of a variety of forms of foreign-issued identification needs to be more widely recognized. As Fran Grossman, Executive Vice President of ShoreBank Corporation wrote in a letter to the Treasury Department commenting on proposed changes to Section 326 regulations,

“The part of the inquiry dealing with the identity of foreign individuals appears to start from the premise that keeping foreign individuals, whose identification documents are issued by a foreign government, out of the banking system is a good thing. This is far from the case for a number of reasons. First, while many domestic identification documents contain sophisticated security devices, many still do not, whereas many foreign governments have adopted such devices.”

In addition, the possibilities for combining foreign-issued documentation with U.S. government-issued forms and local proof-of-address need to be considered more expansively. This requires that financial institutions assume greater

112 Jacob, K. 2005.

responsibility for educating themselves about the variety of forms that are available.

5.2 Marketing
For institutions without natural roots in the Latino immigrant community marketing plays an especially important role. Marketing campaigns, targeted appropriately, can induce unbanked immigrants to visit a branch and consider opening accounts or using remittance services.

Advertising in Spanish-language newspapers and radio and television channels is clearly a basic part of any marketing campaign. Several institutions interviewed also reported success with targeted mailings and flyer distribution. Printed materials seem to be especially effective when they include the address of particular branches as well as the names and even photographs of Spanish-speaking customer service representatives who are ready to help new Latino customers.

Although formal advertising can be very powerful, the experience of institutions with a track record of reaching Latino immigrants highlights the critical role of word-of-mouth promotion. “For many Hispanic customers, it's all about solid relationships with businesses, from the bank officer to the hairdresser. Word-of-mouth is the main form of Hispanic referrals, especially when it comes to business relationships with mortgage lenders or attorneys, for example.”\(^\text{114}\) According to Linda Singer, executive director of Washington-based Appleseed, a nonprofit community action group, “Banks should be marketing their services through consulates, community organizations and other groups that Hispanics trust, she said.”\(^\text{115}\) As one Massachusetts community advocacy group reported, word of mouth is so valued that even when immigrants have received mortgage education from bank personnel they will often still seek a mortgage from a non-depository lender if that lender is known to friends or relatives. The influential role of these social networks speaks to the need to see marketing as part of a more comprehensive process of establishing relationships in the community. As Kathleen Tulberg, of the Massachusetts Community Banking Council noted, “Banks need to learn from the techniques of sub-prime lenders. They need to go to where people live, work, go to school, and church. They need to hire local people.”\(^\text{116}\)

5.3 Personnel
In order to serve the recent Latino immigrant population a sufficient number of personnel need to speak Spanish. Many institutions recognize the importance of


\[^{115}\] Moreno, J. “Banks in a battle to change habits; Many Hispanics use 'a la carte' financial services.” \textit{The Houston Chronicle}. May 21, 2006.

bilingual tellers and even customer service representatives. However, the need for bilingual bank personnel extends throughout the institution. Those banks and credit unions that have been most effective at serving Latino customers have Spanish-speaking personnel at all levels, from tellers and customer service representatives to branch managers and top-level management. Several of the institutions interviewed that have been able to reach recent Latino immigrants attribute their success to having at least one dedicated Latino employee at the management level who has the institutional mandate and support to develop marketing strategies and help guide services and product development. According to vice-presidents at two Massachusetts credit unions, efforts to attract new immigrant members failed until dedicated positions were created and filled by native-Spanish speakers.

While it is ideal to have native-Spanish speakers, English-speaking bank personnel may also be trained in the basic Spanish needed for most financial transactions. However, it should be stressed that the advantages of native-Spanish speaking bank personnel extend beyond their familiarity with the language. Employees raised in a Latino culture can be (although not always are) more sensitive than non-Latino personnel to the concerns and challenges faced by new Latino customers. As one consultant in Colorado described, “Learning even basic Spanish can be helpful. But language alone is not nearly enough. "I liken it to building houses; you don’t start with the second floor. Without a cultural foundation, your results will be weak…. doing business in Spanish is much more than just translating a few signs and documents. Taking the extra time to be cordial, forming bonds through true sincerity, proven reliability and honesty are essential to doing business with bilingual and Spanish-speaking customers.”117

The often-brief interactions between tellers and customer service representatives and members can be critically affected by often-subtle reactions to customers’ dress or speech. Member service representatives at the Latino Community Credit Union, for example, emphasized the importance of respectfully helping to fill out forms, explain transactions, accommodate small children accompanying their parents, etc.

Continuity of personnel, important for many customers, seems to be particularly critical to building relationships with Latino immigrant customers. A number of bank and credit union personnel described how new customers and members preferred to interact with the same teller or customer service representative, relying on finding the familiar face of someone who knows their name, is friendly, and maintains a respectful social tone while helping to conduct financial transactions.

Bilingual materials
For non-English speakers the need to use English forms and documentation can be the definitive obstacle to banking. In order to serve recent Latino immigrants all documents and materials used for financial transactions should be readily available in Spanish.\footnote{118} This includes transaction documents such as deposit and withdrawal receipts and loan agreements but also promotional and educational materials, automated teller screens and important signage. Where online and telephone banking services are offered these should also be available in Spanish. Latino Community Credit Union has recently opened its “Latino Direct” service, a 24-hour telephone banking service that offers account information, money transfers, between accounts, rates, etc.\footnote{119}

Despite the importance of providing materials in Spanish, translating materials is a minimum requirement for serving recent Latino immigrants and will not, in and of itself, foster the market. As one consultant said, "The number one mistake that banks make is to translate their brochures. They think having their information on a pamphlet in Spanish will produce magical numbers for them."\footnote{120} Bilingual materials should be seen as one component in a comprehensive strategy.\footnote{121}

5.4 Accessibility
The issue of accessibility primarily concerns the location and hours of operation of bank branches and ATMs. As with any market, branches located outside of the areas where Latinos work and/or live will be less attractive than branches that are conveniently located. This is especially true if the locations are not accessible by public transportation. Similarly, if the hours of operation do not allow for early morning, evening, and weekend banking there will be less demand.\footnote{122}

\footnote{118} At branches of the Latino Community Credit Union enlarged copies of deposit and withdrawal slips, with sample transactions written in, are available for easy reference, placed under the glass top of the counters where members complete the slips. Written lists of how to write the cardinal numbers are also provided.

\footnote{119} Notably, the availability of Spanish-language telephone and online service can, with the necessary orientation and support, gradually reduce the demands for teller and CSR service.

\footnote{120} L. Castro de Cortes, a consultant at Latino Banking Solutions, based in Omaha, Neb. Quoted in Burke, G. “Banks retool to meet needs of new market segment, the Latino immigrant”. Associated Press, March 15, 2006.

\footnote{121} This paper does not express a view as to whether there should be legal requirements regarding bilingual documents and services, but does conclude that successful marketing to recent immigrants does hinge on such.

\footnote{122} As with many customer groups, Friday afternoons are particularly busy for check cashing among immigrants. At least one institution reported that remittance activity occurs primarily on Monday mornings.
Recent Latino immigrants are particularly sensitive to issues of branch accessibility. Whereas more established immigrants or long-time citizens are likely to feel quite comfortable relying on ATMs for banking transactions for many recent Latino immigrants, ATMs are not seen as reliable, particularly for deposits. Face-to-face interactions are considered necessary for most financial transactions.

Most of the financial institutions that have successfully reached the Latino immigrant community have branches located in areas close to Latino homes and businesses. Others have benefited from having established branches located near other institutions frequented by Latino immigrants. For example, the central offices of the RTN Credit Union in Waltham are not in a notably Latino neighborhood but they are located next door to a women’s health clinic that serves many immigrants. Similarly, the original branch of Latino Community Credit Union in Durham shares a lobby of the downtown building it occupies with a Latino advocacy group. Some depository institutions have had success working with employers of immigrant and unbanked populations to offer account opening, banking and financial literacy at the workplace.  

On the other hand, branch location does not seem to be the defining factor in a financial institution’s ability to serve the community. Other factors, primarily the extent to which products and services are tailored to the needs of the community can help to overcome the obstacles posed by relatively inaccessible locations. Although LCCU’s main branch is convenient to those visiting the advocacy group next door, its downtown business district location is not within the daily circuit of most potential Latino immigrant members. Given that the credit union has one and only one branch in each of the cities where it operates, other locations may also be conveniently located for only a segment of the membership. For example, the Raleigh branch while located in an area where many Latino immigrants live may require an hour-long trip for members living in other parts of the city. In the case of LCCU, the commitment to serving Latino immigrants seems to be the key factor in motivating members to make the longer trips to visit the branches. As one consultant to businesses seeking Latino customers said,"Once a bond is formed, people who speak Spanish will typically remain loyal to a business with great customer service over a business with lower prices, or with a more convenient location or hours. It's part of Latino culture." It seems unlikely that financial institutions that do not convey that level of commitment to their Latino immigrant customers would be able to engender that level of commitment from those customers. It is also important to note that although the LCCU branches are not always conveniently located, the credit union is part of the State Employee Credit Union’s ATM network, the most

\[123\] For example, HarborOne Credit Union (Brockton, MA) has an “on the job” banking program.

extensive in the state. To the degree that customers or members become more comfortable using ATMs for financial transactions the effects of branch location may be mitigated.

In recognition of the importance of accessibility (and often following the example of non-depository institutions), banks are increasingly seeking innovative ways to increase the availability of services (both in terms of physical location and hours of operation) without opening more branches. These new service delivery sites range from "mini-branches" in supermarkets to self-service kiosks at gas stations and convenience stores. Union Bank of California’s “Cash and Save” outlets offer basic banking services in check-cashing outlets.

Accessibility can refer not only to branch and ATM locations and hours of operation but also to the general institutional environment and atmosphere. Efforts to recognize national heritage can help to make immigrants feel more comfortable using bank services. For example, the main office of the Latino Community Credit Union is decorated with large flags and pictures of currency from each of the countries represented by members. At the same time, decorations are symbolic and can only complement attractive products and services and respectful personal interactions. For example, El Banco de Nuestra Comunidad (Georgia),

“…prides itself on knowing its customers intimately and knowing what they will pay for. Take El Banco’s 12 "storefronts". Instead of offices and bulletproof glass, there are televisions, piles of toys, free Internet access and a staff of immigrants (not, says Mr. Edwards (El Banco’s CEO) pointedly, "bilingual staff"). El Banco targets cheque-cashers by undercutting them in price, then offers its customers simple accounts tailored to immigrants’ needs, for a fee: immediate access to cash (rather than the typical five-day wait for cheques to clear), unlimited cheque-cashing and no risk of bounced cheques because they have no cheque books. El Banco says it averages $40 a month per customer in fees, before loans and anything it gets from cross-selling mortgages and insurance. It has moved half its 20,000 customers to cheque-book accounts and has plans to expand beyond Georgia. Admiring banks in North Carolina and Tennessee have adopted its platform and strategy.”

125 For example, Citibank has recently partnered with the convenience store, 7-Eleven, to brand more than 5,500 in-store self-service kiosks for wire transfers, cheque cashing and bill payment. “Into the fold; Americans without bank accounts.” The Economist, May 6, 2006.


127 Ibid.
5.5 Financial education - Customer/Member Support

Financial education is another vital component of effective efforts to serve recent Latino immigrants. Virtually every source interviewed, in the banking industry, community advocacy and the public sectors emphasized the need to link access to financial services with education. As a Vice President in charge of immigrant outreach at one major East Coast bank explained, “My primary focus is financial education.” Those institutions that have been most successful have integrated financial education into their customer/member support services through both formalized programs and informal, ongoing guidance.

Formalized financial education

Formalized financial education efforts usually involve workshops or seminars, often delivered as a weekly series. A variety of public, private, and nonprofit organizations have developed financial education curricula for the unbanked that are generally available, including the FIDC’s Money Smart program (which is available in Spanish and is free of charge). Latino Community Credit Union has created a comprehensive six-week financial education program, “Building a Better Future”, tailored specifically to the needs of recent Latino immigrants. According to a number of sources, it is important that financial education programs provide opportunities to “go beyond the basics” and introduce immigrants to more advanced topics such as investing, home buying, and insurance.

Some credit unions and banks (particularly smaller community banks) offer financial education programs on-site. Other depository institutions sponsor financial education initiatives by community groups, schools, churches, and social service organizations. Support for these financial literacy programs can be an important way of developing connections with the immigrant community. For example, HarborOne Credit Union (Brockton, MA) has successfully used the Money Smart curriculum in collaboration with the local Cape Verdean Association. Citibank collaborates with a variety of immigrant groups to promote financial literacy, including the Asociación Tepeyac (a nonprofit serving the Mexican immigrant community) in New York City and the Economic Alliance of the San Fernando Valley in California.

An important advantage of working with community groups to provide financial education (as opposed to offering it “in-house”) is that trainers may have stronger communication skills and greater understanding of participants’ needs for information. Community groups can also assist in special efforts to encourage women to participate in financial education. This includes providing childcare and scheduling workshops at convenient times and locations but also being sensitive

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128 Interview, April 2006.

129 As of mid-2006 7,200 people have participated in Latino Community Credit Union’s financial education programs, including 1,200 in the first quarter of 2006 alone. LCCU Impact Statement, May 2006.
to cultural issues that may shape women’s experience of financial issues in the family and society. Finally, successful efforts at providing financial education for recent Latino immigrants rely on curriculum developers and workshop leaders who are experienced in adult education and often recent immigrants themselves. Where possible, workshops should be accessible to the illiterate. Community groups are likely to have more experience in these areas than depository institutions.

**Ongoing, individualized support**

In addition to the formalized education efforts described above, institutions that have successful worked with recent Latino immigrants stress the importance of ongoing, individualized education with customers and members. These more informal efforts involve a range of activities revolving around individualized relationships with tellers, MSRs, etc. A number of bank and credit union personnel described their interactions with customers in terms of “mentoring” or “teaching”, referring to the way they would walk people through filling out forms and explain the use of ATMs or telephone banking systems. In this process it is very important to create an environment in which customers and members feel comfortable asking questions. In contrast to the one-time orientation sometimes provided to new (especially younger) customers, these employees emphasized the need to be willing for repeat orientations, perhaps over the course of a year or two, in order to develop necessary customer confidence.

Another important part of the financial education process is readiness on the part of institution personnel to help customers/members see when they may be better served by more sophisticated financial products. Two of the credit unions interviewed described monitoring accounts and notifying members to explain to them the benefits of transferring funds from savings accounts to money market accounts or CDs when balances had grown.

**5.6 Community Involvement**

All of the industry representatives interviewed stressed the importance of involvement with community organizations, including churches, schools, civic, and advocacy groups. As the representative of one major money transfer organization described the reasons for her company’s success at reaching recent Latino immigrants, “You have to be in the community you’re trying to reach”. According to a staff person at one credit union, “success means pounding the pavement” while another wanted to convey to fellow institutions “the strong message that you have to climb into the community.”

Partnerships with non-profits can be focused on financial services. In addition to coordinating financial education efforts as described above, depository institutions may work with nonprofits to provide services to a target population. For example, Bank of America has recently collaborated with the social advocacy
group, ACORN, to offer accounts to day laborers in New Jersey. A similar kind of partnership is JP Morgan Chase & Co.'s collaboration with the Volunteer Income Tax Assistance (VITA) program “to offer (their tax refund-based Direct Benefit) card at 15 major VITA metropolitan sites across the country.” Financial institutions in a number of cities have also participated with municipal governments to promote bank use, sometimes in conjunction with the National League of Cities' “Cities Helping Families Build Assets” project.

Partnerships may also be more broadly supportive of nonprofits' work with the immigrant community. Broader forms of support include subsidizing programs to help immigrants clarify their legal status or obtain ITINs, sponsoring cultural and sports activities, or providing grants for programmatic work.

It is also important that employees become aware of programs offered by local community groups and non-profit organizations in order to refer customers/members where appropriate. For example, if a customer does not meet the criteria for a small business loan, employees are able to refer them to organizations that may be able to provide help developing a business plan or micro-enterprise financing. One banker interviewed mentioned how their ability to refer immigrants to such organizations helped to build positive relationships with the community and lay the foundation for future business.

Some depository institutions have also established ties with local Latin American consulates. Throughout the U.S. Mexican consulates have worked with local banks and credit unions to help immigrants use their matriculas consulares to open accounts. In New England the Bank of America has worked closely with the Mexican consulate in Boston and bank personnel accompany consular staff to sites where matriculas consulares can be obtained.

In general, heightened sensitivity to and support of the activities and interests of the Latino immigrant community is fundamental to building financial relationships — as it is with any community. Given the cultural and social boundaries that may exist between bank personnel and recent Latino immigrants, the process of creating bridges requires self-awareness and commitment to being in the community. At First Bank of the Americas (Chicago), “Every employee, including all the top officers, spends many extra hours each week working to build the institution. They attend community events, go to the churches and schools, help

131 Lynn, K. “Banks appeal to immigrants; Illegals can use passports to open accounts.” The Record (Bergen County, NJ) May 3, 2006.


with social services and referrals, and the like."^{134} As described in one study, bank employees need to serve as "embedded marketing tools."^{135}

5.7 Conclusions
Successful efforts to attract and serve recent Latino immigrants involve coordinating a wide variety of complementary administrative practices. The interactions between different practices may not be sufficiently recognized. The experience of institutions across the country and in New England suggests that strategies focusing on one aspect (for example marketing campaigns or identification policies) are less likely to be effective than multifaceted efforts. As Carlos Montoya, President and CEO of AztecAmerica (Berwyn, IL) has said about his bank's rapid growth. "We're successful because we're not a division or a group or an initiative. Our goal is to have the entire focus of our organization on the marketplace that is historically under-served."^{136}

6. BEST PRACTICES – PRODUCTS AND SERVICES

6.1 Remittances
Personnel at many of the institutions see the main value of remittances as "bridges" (or "the hook", according to one banker) to other financial services. A recent study by the OCC reports, "A number of banks expressed satisfaction with the new checking and savings account customers they had developed because of the remittance product...between September 2002 and March 2004, remittance products generated approximately 400,000 new accounts for the largest banks offering remittance products."^{137} For example, Wells Fargo has reported that remittance product customers use an average of 5.7 of the banks products, compared to 4.3 for other customers.^{138}

At the same time, it should be noted that some banks have concluded that their remittance products are not sufficiently attractive as a leading product for bringing in new Latino immigrant customers. Several of the depository institutions interviewed that offer remittance products also reported that even

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when Latino immigrants do open accounts, they often prefer to use a money transfer organization such as Western Union for their remittances. As a representative of one major bank explained, many recent immigrants do not think of banks as places for sending money. A preference for the particular features of MTO remittance products and/or the limited availability of remittance products at depository institutions is supported by statistics showing that three-quarters of Western Union’s customers are banked.¹³⁹ These indicators of unwillingness to switch to a bank or credit union's remittance product suggest the degree of attractiveness of the characteristics particular to MTOs, such as convenient hours, location of operation (both domestically and in the receiving country), ancillary services, ease of use, etc. In particular, MTOs may have more extensive networks for distributing remittances in the receiving country. In many Latin American countries the inaccessibility of bank branches and ATMs (and the high percentage of the population that is unbanked) make it necessary for recipients to be able to retrieve remittances from neighborhood locations such as corner drug stores. Such outlets are usually more easily integrated into MTO networks than depository institutions’.

Depository institutions that provide remittance services to Latin America use a variety of transaction mechanisms: cash-to-cash, cash-to-account, account/credit card-to-cash, account-to-account, ATM withdrawals in recipient country, or stored value cards sent to recipients.¹⁴⁰ For example, Wells Fargo’s InterCuenta Express allows U.S.-based customers to deposit money that can be withdrawn by family members with accounts at banks in Mexico, Guatemala or El Salvador.¹⁴¹ Dual-account cards are another popular option. Many banks now offer savings accounts that feature a sub-account in Mexico, accessible via a Visa or MasterCard-branded debit card. Citibank’s “tri-color card” is purchased (for the equivalent of $2 US) in Mexico and serves as a debit card there, connected to an account in the U.S.¹⁴²

Institutional mechanisms for effecting remittances are similarly varied and include:

- A U.S. bank using a foreign subsidiary bank in recipient country (such as Citibank and Banamex in Mexico).

¹³⁹ Conversation with B. Span, First Data, March 8, 2006.

¹⁴⁰ See “International Remittances: Information on Products, Costs, and Consumer Disclosures” (GAO-06-204, 11/05) for a comprehensive discussion of remittance forms and methods.

¹⁴¹ Wiles, R. 2006.

• Collaborating with micro-enterprise institutions (as Citibank has done in Ecuador).
• Offering existing money transfer services, such as Western Union/VIGO in a depository institution.
• For credit unions WOCCU’s remittance network (provided by VIGO) offers extensive coverage, with 160 participating credit unions in the U.S., 500 credit unions in Latin America in Ecuador, Bolivia, Mexico, Honduras, Guatemala, El Salvador, Jamaica and Nicaragua.\(^{143}\)

### 6.2 Savings accounts

According to a financial fitness survey conducted by Bank of America in 2005, “32% of Hispanics do not have any money set aside for emergencies.”\(^ {144}\) Basic, low-cost savings and checking accounts are the primary building blocks of financial integration and household economic growth. Savings accounts are a basic and easily delivered financial product with high demand among recent Latino immigrants facing the risks of holding savings in cash (see above) and eager to earn interest. Savings accounts also serve as important “bridge” products, allowing institutions and customers or members to become familiar with each other and paving the way for higher risk products such as checking accounts, credit cards, and loans. “Creating better savings products makes bottom-line sense for the financial services industry as it begins to court the underbanked, immigrants, and other emerging consumer segments… Many customers viewed that first account as a bridge to other financial products and services.”\(^ {145}\)

Several banks have developed successful savings-based accounts for the unbanked, including recent immigrants. One of the most successful savings products has been Citibank’s Access Account, launched in 2003. This account has no minimum balance and a monthly maintenance fee of $3 that is waived with direct deposit. The account includes a debit card that can be used for point-of-sale purchases and after four months customers can qualify for a secured credit card that allows them to build a credit history and eventually become eligible for consumer loans (although not car loans).\(^ {146}\)

Another very successful strategy for encouraging savings involves linking tax preparation and account opening. Because such a large number of recent

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\(^{143}\) Interview with D. Grace, Senior Manager of Association Services, World Council of Credit Unions, Inc. March 1, 2006.

\(^{144}\) “Mexican Mother’s Day is a Perfect Time to Benefit From Bank of America’s SafeSend Free Remittance Service.” PRNewswire. April 25, 2006.


immigrants do have taxes withheld and do file returns this approach can be very effective. In 2000 ShoreBank in Chicago began offering a free savings account, Extra Credit Savings, to working families who were having their taxes prepared in the bank lobby for free by a local community group. Returns were filed electronically and participants were offered the option of opening a savings account for direct deposit of returns. The combination of the Earned Income Tax Credit available to many low-income families (the average EITC is $1,700 but it can be as much as $4,000) and returns on excess withholding can produce very substantial amounts. While families rely on much of this return for expenses, significant portions may also be saved. In the Shorebank partnership approximately 20% of participants opened accounts at the bank. Nearly two-thirds of these new customers had been unbanked. Although 40% of these new customers depleted their accounts after the refund check arrived 74% of these new customers reported that having the account caused them to change the way they used their refunds. After several years the program is at the breakeven point in terms of profitability. The “bridge” effects, in terms of introducing new customers to other products and services, are expected to continue to grow and provide financial justification for the program.\textsuperscript{148} JP Morgan Chase & Co.’s Direct Benefit Card is also targeted at the unbanked households that are EITC-eligible and “allows taxpayers to receive their refund on a prepaid debit card, thus eliminating check-cashing fees and reducing the time it takes to receive their money.”\textsuperscript{149}

The IRS’ approval of refund splitting (for 2007) will facilitate direct deposit into accounts established in conjunction with tax preparation. A pilot project in New England suggests the potential of this new modality:

“In 2004 a Boston nonprofit called Doorways to Dreams, or D2D, launched a pilot test to simulate refund splitting on a small scale. Working with Bank of Oklahoma and the Community Action Project of Tulsa County, D2D gave taxpayers the option to automatically deposit a portion of their refunds in savings accounts, or if they owned homes, in mortgage prepayments. More than 20% of the nearly 500 individuals offered the free service used it, saving an average of 47% of their refunds.”\textsuperscript{150}

\textsuperscript{147} “Tax Refund Services Can Attract the Unbanked”, American Banker Online, August 26, 2005.


\textsuperscript{149} “Cardholders have to pay $3 a month after the first month to keep the card active until all funds are exhausted. The Visa card allows cardholders to draw their refund money from an ATM or to spend it at any merchant that accepts Visa.” “Chase Issues Tax Refund Card for the Unbanked.” Cardline, March 10, 2006.

\textsuperscript{150} “Tax Refund Services Can Attract the Unbanked”, American Banker Online, August 26, 2005.
One way that financial institutions have reached out to the Latino immigrant communities is through youth savings accounts. Alternative service providers are increasingly targeting youth markets with stored value cards. Through linkages with popular music and culture, these cards can seem "cooler" than traditional banking products and may add to young people's resistance to financial integration. In this context youth-oriented accounts such as Latino Community Credit Union's Cuenta Joven/Youth Account (which is available to 13-17 year olds and has a $10 minimum deposit) serve a number of purposes: fostering long term accounts, strengthening financial education, and encouraging savings habits.\footnote{151} HarborOne Credit Union (Brockton, MA) has dedicated significant resources to financial literacy in high schools that have high immigrant populations. Using a bilingual curriculum they cover the basics of banking and how to open and manage accounts. Along with their success in getting young people to open accounts, HarborOne has found that information is also shared with parents who are unbanked. As one staff person reported, "Parents are reluctant to admit their ignorance (about finances) to bankers but they will listen to their kids."\footnote{152}

6.3 Checking accounts

It is generally accepted that checking accounts offer significant security and cost advantages over other forms of managing transactions such as cash and money orders. Interviews with personnel at both banks and credit unions indicate that many Latino immigrants are eager to have checking accounts, once they have received some education about how they work. However, many sources describe checking accounts as a mixed blessing, due to the risks of incurring bounced check fees and establishing a negative credit record. The increasing incidence of overdraft protection contributes to account holders' confusion about available balances for customers and may result in charging of prohibitive fees. For these reasons many depository institutions steer immigrants to starter accounts that do not include checking, at least until they are more experienced with banking procedures and understand the fees and other consequences of mismanagement. In all cases, it is clear that overdraft protection creates additional risks for new customers and therefore should be avoided.\footnote{153} At a minimum, institutions should ensure that customers have appropriate orientation about the fees and risks involved.

\footnote{151} The LCCU promotional brochure for the Cuenta Joven/Youth Account (undated) explains savings and interest in very basic terms, for example, "Interest is the prize or earnings you get for depositing your money in the Youth Account".

\footnote{152} Interview, L. MacNeil, N. Fonseca, E. Francois, HarborOne Credit Union, Brockton, MA. March 6, 2006. HarborOne also maintains a branch within a local high school.

\footnote{153} Bair, S. C. "Low-cost pay day loans: opportunities and obstacles". The Isenberg School of Management, UMASS Amherst & The Annie E. Casey Foundation. June 2005.
6.4 Credit cards

A combination of factors contribute to the increasing importance of credit cards in the finances of lower income households, including falling real wages,\textsuperscript{154} deregulation of the credit card industry, increased promotion of credit cards, and consumer spending patterns. According to one study, one in four unbanked consumers had used a credit card in the past three months.\textsuperscript{155} At the same time, credit card use is still a function of income: 90\% of households with incomes above $35,000 hold a credit card, but the percentage drops to less than 47\% for lower income households.\textsuperscript{156} A 2002 study found the median household credit card debt for Hispanic households was $4,100.\textsuperscript{157}

As with checking accounts, many recent Latino immigrants may find credit cards relatively unfamiliar and/or unattractive financial products. Reliance on cash transactions and healthy resistance to incurring debt reduces demand for credit cards. At the same time, immigrants often seek credit cards as they confront the reality that they are necessary for certain kinds of transactions, can help to manage cash flow, and can play an important role in establishing credit histories.

Financial institutions with experience serving the Latino immigrant population often offer a secured credit card to customers without credit histories. These cards typically have a credit limit of $500 and are available to customers after six months of satisfactory use of checking and savings accounts. Once the customer has used the secured credit card successfully for some period (often 18 months) it can be converted into an unsecured credit card. Within the Latino immigrant community secured credit cards are seen as a desirable product that offers the chance to develop experience with credit cards with limited risk.

Depository institutions can serve a vital social function by promoting credit cards responsibly, offering reasonable fees and interest rates, and by providing credit


\textsuperscript{155} “...almost one-quarter (22 percent) of the Unbanked used a credit card during the past three months. VISA is the preferred brand. Thirteen percent, or nearly 1.3 million Unbanked consumers used a VISA card during the past three months”. “Scarborough Study Finds That Almost One-Quarter of Unbanked Consumers Use Credit Cards; Are Credit Cards the Answer for Consumers Without Banks?” PR Newswire. March 2, 2006.

\textsuperscript{156} “Underbanked Financial Services Market Revenues Exceed $10 Billion.” PR Newswire. May 31, 2006

\textsuperscript{157} This figure compares to $5,000 for non-Hispanic Caucasians and African-Americans. The Plastic Safety Net: The Reality Behind Debt in America. Demos & The Center for Responsible Lending. October 2005.
education. In an environment where predatory practices abound, equitable and respectful credit products can attract customers and help to build important relationships with the Latino community.

6.5 Stored value cards

Stored value cards have become a major financial product and their influence will only continue to grow, particularly among the unbanked:

“Lower-income consumers are 45% more likely than their higher income counterparts to purchase pre-paid cards and somewhat more likely to buy pre-paid cards for use at specific retailers -- such as Starbucks. Furthermore, the strong appetite of this segment for using payment cards is evident in their above-average use of prepaid cards, which doesn't require that users meet pre-established credit requirements.”

One indication of the acceptability of stored value cards in Latino communities is that the cards are increasingly being promoted by Latin American banks to reach the unbanked, making them more familiar to recent immigrants.

Stored value cards may be either “open-loop” or “closed-loop”, depending on whether their use is limited to certain outlets. The newest versions can even be used for paper transactions. Financial institutions may offer a variety of stored value cards. The Central Bank of Kansas City’s offers a "tarjeta segura" ("safe card"), advertised as a “reloadable cash card that works like a debit card: no bank account required, no more check cashing fees, safer than carrying cash, allows employees to receive direct deposit, can be sent to friends and family outside the U.S. e.g. in Mexico". Branded open-loop cards can also be offered in association with non-financial institutions such as employers, the government, or non-profit organizations. For example, BankFirst is offering the ACCESS DineroYa(TM) Prepaid MasterCard(R) and the ACCESS DineroYa(TM)


160 For example, Morgan Beaumont has recently started a program that allows people to designate and print out their own money orders. According to Cliff Wildes, CEO of Morgan Beaumont, "This service is ideal for people who need to send payments for non re-occurring items that can't be set up on their prepaid card like water, electricity, telephone, cell phone, etc. which requires a check be written for a different amount each month… Enrollment in the program will be free and there will be a charge for each money order written". Quoted in "Morgan Beaumont Announces New Money Order Capability From Its Prepaid Cards; Service Makes 'Traditional' Financial Services Available to All". PR Newswire. December 12, 2005.

Maestro(R) Card in collaboration with the League of United Latin American Citizens (LULAC). Payroll cards, a form of branded open-loop stored value cards, are becoming more common, particularly in low-wage industries. Payroll cards have been found to be a relatively low-cost benefit that can be attractive to all employees but can be particularly appealing to the unbanked.

Because stored value cards are a relatively new product their effects on financial services are still being studied. Since they facilitate cash-less transactions, the cards can provide some of the benefits of financial integration (particularly security and portability) without the greater effort (for either the customer or the institution) of traditional financial products. At the same time, fees and imputed charges can make them very expensive. Compounding the concerns about fees is the fact that employees usually do not have a choice of payroll cards and therefore fee structures. In addition to financial considerations, it is not clear whether or not the cards are effective bridge products to other financial services, as has been widely assumed. Some research suggests that payroll cards can be an effective bridge product for financial integration. However, it is difficult to gauge the degree to which this is occurring. Several immigrant advocates

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163 Frumkin, S., Reeves, W. & Wides, B. “Payroll Cards: An Innovative Product for Reaching the Unbanked and Underbanked”. Community Development Insights. Office of the Comptroller of the Currency. June 2005. This article provides a very useful overview of delivery mechanisms and regulatory considerations involved in offering payroll cards.

164 “Payroll Debit Cards Score Big with Banked Employees; Ecount Reveals That 54% of Payroll Cards Used by Banked Employees”. Business Wire, March 1, 2006. See also, “Ethos Visa Debit Card Account Spells Doom for Fat Wallets”. Business Wire, November 29, 2005. Some researchers have noted greater resistance to payroll cards among Latinos than other demographic groups (Frumkin, S, Reeves, W. & Wides, B. 2005).


166 As one immigrant advocate suggested, stored value cards can serve as bridge products, giving people the experience of using bank services “without having to walk into a bank lobby.”


169 “Payroll Debit Cards Score Big with Banked Employees; Ecount Reveals That 54% of Payroll Cards Used by Banked Employees”. Business Wire, March 1, 2006

170 Frumkin, S., Reeves, W. & Wides, B. (2005) suggest that most institutions do make concerted efforts to transition from payroll cardholders to bank accounts.
have also raised concern that stored value cards are an inequitable form of “banking lite” and that their use can help to perpetuate financial segregation.

6.6 Personal and car loans
Reasonably priced loans with clearly outlined terms are one of the most important products depository institutions can provide. Access to such loans is critical to decreasing reliance on the higher-cost and less reliable forms of credit offered by alternative service providers such as payday lenders and pawnshops. Personal loans are also valuable as sources of information about creditworthiness for mortgages. Access to lower-cost personal loans can be very attractive to unbanked customers. One Massachusetts credit union reports high demand among Latino immigrants (once they become aware of the possibility) for refinancing car loans originally obtained from independent dealers at rates as high as 25%. Personnel at several banks have also noted that the prospect of becoming eligible for loans serves as an incentive for unbanked immigrants to establish savings and checking accounts.

A few banks and credit unions have developed secured loan products targeted at the previously unbanked and/or recent immigrants. For example, Latino Community Credit Union offers its Crea-Credito product, a secured loan of $500 with a six-month term. Members pay off the loan in $85 monthly installments.

6.7 Mortgages
In many sectors of the Latino immigrant community homeownership is a very high priority. In 2002 45% of Latino immigrant households owned their home and between 1990 and 2003, Latinos accounted for 20% of the growth in owner-

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171 Senator D. K. Akaka (HI) recently described regulatory initiatives in this area to the Committee on Senate Banking, Housing and Urban Affairs (May 23, 2006): “We also need to develop more mainstream financial products and services that will provide viable alternatives to fringe financial services such as payday loans. That is why I introduced S. 1347; the Low-Cost Alternatives to Payday Loans Act, which would encourage the development of consumer friendly, small loans at credit unions and banks. This demonstration program will have a maximum interest rate of eighteen percent and must include financial literacy opportunities for participants. Several credit unions have developed similar products. I am very proud of the Windward Community Federal Credit Union in Kailua, on the island of Oahu, which has developed an affordable alternative to payday loans to help the Marines and the other members that they serve. We need to further encourage the development of these alternatives so that working families have access to affordable small loans.”


occupied households, nationally.\textsuperscript{173} The possibility of eventually qualifying for a mortgage is a powerful motivator to bank and save, according to bank personnel.\textsuperscript{174} In some heavily Latino immigrant communities demand for refinancing of mortgages is particularly high. For example, in Lawrence, MA, a survey of lending institutions, mortgage brokers and real estate agents concluded that Latinos represented over half of total refinancing clientele.\textsuperscript{175}

One of the more controversial issues in mortgage lending involves lending to customers or members who supply ITINs instead of Social Security numbers. There is extensive demand for such mortgages – according to one study 216,000 undocumented Latino immigrants are both over 35 and have annual incomes at or exceeding $30,000.\textsuperscript{176} A number of banks have successfully extended what are often referred to as “ITIN mortgages”. One of the most successful examples, the Latino Community Credit Union (LCCU) in Durham, NC, does not require private mortgage insurance and provides 90-100% financing. As of 2006, LCCU had made 180 mortgage loans, totaling $8,900,000.\textsuperscript{177} State programs such as Illinois’ Opportunity I-Loans can provide another vehicle for banks and credit unions to extending mortgages to customers or members with ITINs.\textsuperscript{178}

In evaluating the creditworthiness of recently unbanked customers and members depository institutions can draw on alternative information such as regular patterns of remittance sending. Among other forms of risk evaluation, LCCU uses verification of six months payment of two utilities as part of their loan application. Other banks have used regular remittance histories as part of a mortgage application. Milwaukee-based Mortgage Guaranty Insurance Corp.’s Building a Life in America (BALIA) program “recognizes the nontraditional savings, credit and documentation characteristics of immigrant and unbanked families.” The program requires that borrowers, “reside and work in the US, have

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\textsuperscript{174} Interviews with personnel, Latino Community Credit Union. Durham, NC. March 2006.

\textsuperscript{175} Forty percent of the sources interviewed reported that Latinos accounted for 90 percent or more of their refinancing business. Immigrant Homebuyers in Lawrence and Lowell, Massachusetts: Keys to the Revitalization of the Cities. Immigrant Learning Center, Malden MA. December 2005.


\textsuperscript{177} Latino Community Credit Union, \textit{LCCU Impact Statement}, May 2006.

\end{flushleft}
filed federal income taxes for at least the preceding two years, and be able to demonstrate consistent earnings and acceptable creditworthiness.”  

The performance of the small number of ITIN mortgages has been very strong. According to the CEO of Second Federal Savings of Chicago, North Shore Bank (WI), “We have an outstanding credit history with that market...they have a good work ethic; they have a pride of ownership,” while the President of the Mortgage Division of Texas Bank, Fort Worth says, “A much larger proportion of these borrowers pay ahead on their loans than the general population.”

Despite the demand and strong performance of these mortgages, supply faces a “bottleneck” due to the virtual lack of secondary markets. Although Mortgage Guaranty Insurance Corp. has begun to purchase some of these loans, it has been in relatively small numbers. Political pressures surrounding immigration also discourage expansion of this market. For example, the Casa Mia program of New South Federal Savings Bank has offered 20-year fixed-rate mortgages using ITINs. However, public reactions have forced the Bank to postpone plans to expand the program. Lack of regulatory clarity regarding the acceptability of ITINs for mortgage lending is a clear deterrent.

6.8 Other products and services
A range of ancillary financial products and services can play important roles in attracting and serving recent Latino immigrants. Most of these services involve providing lower-cost versions of products offered by alternative service providers such as check-cashing and bill-paying. Depository institutions may offer low-cost (or even free) check-cashing for non-customers (or non-members, in the case of credit unions) as a way of bringing people into branches and beginning to establish relationships. Building more directly on the alternative service provider model, CheckSpring, a newly chartered New York-based bank, will offer “full-fledged check-cashing from bank teller windows,” as well as traditional banking services. Although online bill-paying has low-levels of acceptance among

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180 Jacob, K. 2005.

181 Ibid.

182 Grow, B. “Embracing Illegals: Companies are getting hooked on the buying power of 11 million undocumented immigrants.” BusinessWeek 7/18/05.


184 Reosti, J. Start-up’s strategy is to turn cashing into bank customers. American Banker. January 17, 2006. See also, T. Fredrickson. Crain’s New York Business March 20, 2006. “A hybrid bank to grow in Bronx; CheckSpring will use check cashing to convert immigrants to customers; tough sell?”
recent Latino immigrants, the availability of online services in Spanish (offered by a number of banks) is important in building interest and capacity.\footnote{185}

Non-financial products can also be attractive. At least one major East Coast bank offers its customers a low cost life insurance plan that has been particularly attractive to Latino immigrants. The plans carry an average monthly fee of $15 for a maximum of $150,000 in benefits and are granted after filling out a very short questionnaire. Personnel report the policies appeal to immigrants in part because they provide funds for returning deceased relatives to their home countries for burial and because they ensure the continuance of at least a minimum of financial support to relatives dependent on remittances.

6.9 Conclusions
As with any new market, effective sales strategies require that products and services be tailored to meet the needs of recent Latino immigrant customers. In many cases existing products can be adjusted to better suit their needs. Sometimes it may be necessary to create new products and services, designed specifically for Latino immigrants, particularly the previously unbanked. At the same time it is important to ensure that Latino immigrant customers/members are not relegated to an institutional “ghetto” where they are constrained in their ability to access the full range of financial services. Although access to basic financial services is clearly a priority, the long-term success of comprehensive efforts at financial integration is likely to be stymied if the possibility of more complex products such as mortgages is indefinitely postponed.

In order to attract and retain Latino immigrant customers and members, financial institutions will need to serve existing demand by offering products and services that serve the same functions (payments, remittances, etc.) as those offered by alternative service providers, with similar or better utility, accessibility and cost. But they should also introduce customers and members to products and services \textit{not} offered by the alternative financial service providers.

This suggests that offerings need to:

- Incorporate detailed understanding of the products and services available (locally and nationally) at alternative financial service providers.

- Recognize that cost considerations will be often be offset by considerations of convenience, accessibility (physical and cultural).

\footnote{185 Commerce Bank’s (Cherry Hill, NJ) online service (www.commerceonline.com) also offers access to live Spanish-speaking customer service representatives, 24 hours a day.}
o Emphasize financial education in order to highlight the importance of security and longer-term financial goals such as credit histories and lending.

o Implement new technology to maintain a competitive edge in terms of cost and convenience.\textsuperscript{186}

7. CONCLUSIONS - A CHANGING FINANCIAL SERVICES LANDSCAPE

Immigrants' access to financial services affects not only immigrants' quality of life but also the well being of their communities, both in the U.S. and in Latin America. Effectively attracting Latino immigrants and serving their financial needs also addresses key issues of national and international concern. Finally, developing the products and services immigrants seek can strengthen depository institutions' ability to serve other sectors of the unbanked.

Despite these many and powerful incentives, efforts to provide services to recent Latino immigrants are often stymied, for a variety of reasons. There are costs to administrative and institutional adjustment. In the short term profitability is not guaranteed. Considerable political pressures discourage initiative and outreach. Given these challenges, depository institutions' efforts must be motivated by deep-rooted commitment to a vision of their social and financial responsibilities. Focused and energetic public support is also necessary.

Financial services integration does not hinge on any single legal or technical element or initiatives from any one sector. Rather, successful efforts by depository institutions to serve recent Latino immigrants require a multi-faceted approach and collaboration. Two primary areas of concern are 1) institutional motivation and commitment, and 2) focused public policy.

7.1 Clarify and strengthen institutional motivation and commitment

The process of developing the institutional capacity to attract and serve Latino immigrants can be challenging, in part because the challenges are often not technical. Instead they involve organizational culture and norms and changes in long-standing ways of doing business that are not easily shifted. The process must therefore be based on a sustained institutional commitment to providing service and to the necessary processes of learning, collaboration and adaptation. For these reasons the nature of motivation and level of institutional commitment are fundamental factors. Institutions are well advised to clarify the nature and strength of their commitment, asking “How far are we willing to push ourselves?”

If, as is the case at the Latino Community Credit Union, an institution’s interest in serving recent Latino immigrants is based on a deep-rooted connection with and commitment to the well being of the immigrant community, it will make certain

efforts (such as helping to secure ITINs, considering alternative sources of information about creditworthiness, etc.) that an institution without that commitment will not do. If, on the other hand, an institution’s primary motivation is to create immediate new streams of income, it is less likely to invest time and resources, modify administrative practices and promote new products and services.

Strong commitment may also therefore be key to profitability. If institutional motivation is weak, short-term profitability may not be considered sufficiently strong or rapid to justify the investment necessary for sustained growth. Commitment needs to be sustained over a longer time period in order to achieve necessary economies of scale and return on fixed costs. At the same time, profitability goals may need to be tempered by a vision of depository institutions’ public responsibility.

Ownership structure and organizational size may affect the strength and nature of institutional commitment. For example, credit unions’ membership structure, tax liabilities and generally smaller size may make it easier for them to establish relationships with the immigrant community and to develop closer affinities. According to one regulatory observer, credit unions may be much more receptive to the idea of reaching out to Latino immigrants because they are “more charitable.” In addition to the Latino Community Credit Union, some of the most energetic activity is occurring among credit unions. Small regional banks may also have greater institutional flexibility and closer ties to local communities and may feel greater competitive pressure to develop new markets. A number of small regional banks have successfully established themselves as dedicated to Latino immigrants. For example, in 2004 North Shore Bank (1.8 billion assets)


188 For example, in Washington D.C., “Three local credit unions will open a joint branch tomorrow to serve the Latino community in Mount Pleasant in an effort to lower prices for financial transactions in the neighborhood. District Government Employees Federal Credit Union, the Organization of American States Staff Federal Credit Union and IDB-IIC Federal Credit Union, a credit union affiliated with the Inter-American Development Bank, are calling the branch Acceso, "access" in Spanish. They want to draw Hispanic customers from the fee-charging check cashing and money transfer companies that many immigrants rely on.” Williams, K. “Credit Unions Open Branch For Latinos.” The Washington Post, February 25, 2006. Recent legislation making it possible for credit unions to offer check cashing and wire transfer services to anyone in their field of membership can facilitate outreach efforts. Senator Crapo, May 4, 2006, at a hearing of the Senate Banking, Housing & Urban Affairs Committee, Statement on Executive Session Mark Up of “Financial Services Regulatory Relief Act of 2006.” The National Credit Union Administration has supported providing wire transfers on a limited basis to non-members, creating special non-dividend bearing membership accounts, and providing wire transfer services as a charitable activity (Letter from R.M. Fenner, General Counsel, National Credit Union Administration, to M. J. Jimenez, President, Border Federal Credit Union, February 22, 2002, cited in “The Unbanked Latino: Expanding Access for Latinos in Massachusetts,” a report by The Office of Senator J. T. Barrios, Massachusetts General Court. September, 21, 2004.
was named Corporation of the Year by the Hispanic Chamber of Commerce of Wisconsin (HCCW). In presenting the award, Maria Monreal-Cameron, president and CEO of HCCW said, "North Shore Bank has dared to step out of Milwaukee's traditional banking comfort zone to provide unique services, offer creative solutions toward home ownership for immigrants and demonstrate its unwavering support toward development and progress of the state's Latino population…HCCW salutes North Shore Bank for its prominent and active involvement in our community's upward mobility." On the other hand, some regional banks may feel very vulnerable to local political pressures not to work with Latino immigrants.

Finally, large, national banks such as Wells Fargo, Bank of America, and Citibank (with larger budgets for marketing and outreach, large service areas, and international relationships to facilitate remittances) may be motivated by the prospect of achieving economies of scale relatively quickly. They may also be less vulnerable to political pressures than smaller institutions. Despite these advantages, national banks may find it more difficult to consistently implement administrative policies. It is very important that national banks develop mechanisms to ensure that initiatives developed at higher levels of the organization are consistently applied at the branch level and among personnel who interact with customers.

Commitment is fundamental. Whatever their size, all depository institutions interested in serving recent Latino immigrants should clarify the specific elements of their motivation and recognize the need to commit to using resources and political leverage to resist efforts to limit service, promote internal self-education (about such things as acceptable forms of identification) and build links with the local community. These efforts can be facilitated by drawing on the extensive experience of depository institutions and other organizations as well as networks such as the FDIC’s New Alliance Task Forces.

7.2 Focused public policy
A second broad area of concern involves the need for focused public policy regarding Latino immigrants’ ability to access financial services and delivery mechanisms. As noted above, increased clarity in governmental guidance about identification requirements would allow depository institutions to proceed with more confidence in a politically charged atmosphere. The influential role played by bank examiners is an important asset (in helping inform depository institution personnel about appropriate customer identification policies) but also suggests


190 For example, Latino Community Credit Union offers technical assistance to other institutions, the advocacy group Appleseed has created a “Toolkit” for working with unbanked Latinos, and the National Community Investment Fund’s Retail Financial Services Initiative (RFSI) has produced a strategy guide.
the importance of training for the examiners themselves. Similarly, industry trade associations can be enlisted to help encourage discussion and sharing of experience.

Efforts to serve Latino immigrants can also be supported by refocusing Community Reinvestment Act requirements. Section 7 of H.R. 4636, the Federal Deposit Insurance Reform Conforming Amendments Act of 2005, requires the FDIC to conduct a bi-annual survey on efforts by insured depository institutions to bring unbanked individuals and families into the conventional finance system. Among other questions, the FDIC must take into account:

- What efforts are insured institutions making at converting unbanked money order, wire transfer, and international remittance customers into conventional account holders?

- What cultural, language and identification issues, as well as transaction costs, appear to prevent unbanked individuals from establishing conventional accounts?

This survey could serve as a catalyst for building additional incentives into CRA which reflect the needs of immigrants and other underserved populations for basic banking services. The current focus on lending should be complemented by increased emphasis on basic retail services, including check cashing, inexpensive money orders, etc.  

Again, examiners and trade associations are key to the dissemination and oversight of such initiatives and should be actively enlisted in the effort. In addition, it is vitally important that public policy monitor and adapt to the rapid pace of financial service innovation among alternative service providers in order to limit predatory practices. 

Finally, it must be recognized that the current problems affecting Latino immigrants’ access to financial services are, in large part, a consequence of a dysfunctional immigration system. Latino immigrants are a vital part of the society and economy of the United States. It is in our country’s national interest to ensure they have reliable forms of identification that allow them to participate in basic systems such as banking.

\[191 \text{ See Statement of M. Saunders, Managing Attorney, National Consumer Law Center Committee, to the U.S. Senate Committee on Banking, Housing and Urban Affairs. March 1, 2006.} \]

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