# Financial Access for Immigrants

## *The Challenges and Opportunities Facing U.S. Depository Institutions*

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### Introduction

In the past decade, immigration has changed from a phenomenon that had a major impact on just a few places to one that influences nearly every community in the United States. In the district served by the Federal Reserve Bank of San Francisco, immigrants make up about a fifth of the total population, an even greater share than for the U.S. as a whole. Whether they come seeking economic opportunity or fleeing political turmoil, immigrants are finding common ground with the native-born in their shared wish to create a safe, secure, and prosperous future for themselves and their children. Financial access–knowing one's financial options and having products and services to choose from–is fundamentally linked to economic prosperity. The extent to which immigrants participate in the banking system is a key measure of success in terms of integration into the economic mainstream, and has relevance for many groups, including bankers, consumer advocates, policymakers and immigrants themselves.

Overall, immigrants are much less likely to use the financial mainstream compared to individuals who were born in the United States. While 76 percent of native-born household heads have a checking account, the same is true for only 63 percent of immigrant household heads (see Table 2.1). This pattern holds for savings accounts, homeownership, and stock ownership as well, with the gap between immigrant and native-born connections to the financial mainstream increasing with the sophistication of the financial product. This article reviews recent research identifying key factors that affect immigrants' financial participation, describes some of the steps banks have taken to meet the financial needs of immigrants, and identifies additional opportunities that can help draw more immigrants and their families into the banking system.

### Why are Immigrants Less Likely to use Banks than the Native-Born?

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

First, socioeconomic and demographic characteristics like age, education, ethnicity, and income play a role in immigrant as well as native-born choices regarding financial services. These characteristics are only part of the story,

*Table 2.1*

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

*Source: 1996-2000 SIPP data.*

however. Immigrants are less likely to have checking and savings accounts compared with the native-born, even after taking into account differences in socioeconomic and demographic factors.

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

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

Minimum balance requirements are among the most burdensome barriers to opening a bank account, and survey responses among Latin American immigrants show negative views about high minimum balance requirements.[2] Another bank policy that can discourage immigrant financial participation is the use of the ChexSystems database to screen out potential customers with a lack of, or a poor, credit history. About 80 percent of U.S. bank branches use the database to run credit checks before opening accounts for prospective customers. A related issue is that some immigrants cannot meet the documentation requirements imposed by banks. While banks are not required by law to ask customers for Social Security Numbers and can choose to accept alternative forms of identification, many banks still do ask for Social Security Numbers to open an account or conduct other business (See Box 2.1, New Forms of Customer Identification and the USA PATRIOT Act).

Convenience and accessibility of financial services also drive immigrants' decisions on where to conduct basic financial practices such as cashing checks and sending remittances. Sending remittances is one of the most common and important financial transactions among immigrants. Remittances are sent by the entire range of immigrants: documented and undocumented; permanent and temporary; upper- and lower-income; middle-aged and young; married and single; and male and female.[3] However, most immigrants and their families use money transfer operators, not banks, to

## New Forms of Customer Identification and the USA PATRIOT Act

*Box 2.1*

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

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

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

*Despite institutional barriers that can limit financial access, the trend in recent years has been for banks of all sizes to reach out to rapidly-growing immigrant populations.*

send and receive remittances, and even immigrants with bank accounts do not necessarily use banks to send remittances. In one survey, just 22 percent of remitters who had a bank account used a bank to send remittances.[4] Part of the reason relates to lack of information–another study showed that only a fraction of the remittance senders with bank accounts understood that they could use the bank to remit money to their native countries.[5] Reliable service, extended hours, and staff that speaks the language of customers are other reasons why immigrants send remittances via money transfer operators versus banks.

## How Banks are Reaching Out to Immigrant Populations

Despite institutional barriers that can limit financial access, the trend in recent years has been for banks of all sizes to reach out to rapidly-growing immigrant populations. Motivated largely by a business rationale, banks and credit unions have led the charge in raising public awareness about the growth of the immigrant market.

For small banks or community banks, reaching out to immigrant customers can be matter of survival. On average, community banks finance 40 to 65 percent of their assets using local household and business deposits, compared with about 30 percent for large banks. As the neighborhoods that many serve undergo dramatic demographic changes, small banks have transformed their business strategies to work with new customer bases.

Large banks have also been critical to bringing immigrants into the financial mainstream. Large banks account for less than five percent of all banking institutions in the U.S., but they hold more than three-quarters of all bank deposits. Hence, the policies of a single large bank can have repercussions for millions of potential clients across the country.

"Hybrid" entities represent another set of banking institutions that have had success in reaching immigrants. These include banks and credit unions that combine the services usually associated with check-cashing companies with the products associated with depository institutions. Hybrids are still experimental, but they are designed to reach just the kind of customer that many immigrants represent: working people who pay bills and send remittances, and who regularly patronize check cashers and money transfer operators.

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

### *Building trust*

A first step that many banks have taken to get immigrants in their doors involves building trust within immigrant communities. Some of this has meant changing the methods that banks use to interact with clients, such as hiring bilingual staff, providing multicultural training for bank workers, and redesigning websites and ATMs. Some of this activity has also led to making branch lobbies more inviting, and adding or switching advertising channels.

Another fundamental way that banks have built trust among immigrants has been through the cultivation of relationships with churches, schools, and other community organizations that immigrants know and respect. By working with these community actors, bankers hope that the trust that immigrants place in these organizations will transfer to the bank. For their part, community-based nonprofits, schools, employers, and other community organizations

### Matricula Consular

*Box 2.2*

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

often have their own stake in whether immigrants join the financial mainstream. For example, Boat People SOS, a national agency that helps Vietnamese refugees become economically self-sufficient, approached Citibank with the prospect of becoming involved in its Individual Development Account program. Once this relationship was established, representatives from Citibank and other banks sent staff to volunteer at Boat People SOS.

### *Accepting alternative forms of identification*

A second important tactic banks have used to reach immigrants is to accept alternative forms of identification to open accounts. Some banks accept driver's license numbers, consular-issued identification cards and Individual Taxpayer Identification Numbers in addition to Social Security Numbers. Wells Fargo, for example, became one of the first major banks to accept the *Matricula Consular* card for Mexicans, and later for Guatemalan immigrants.[6] As of November 2003, Wells Fargo had opened 250,000 accounts for *Matricula Consular* card holders in California, Texas, Arizona, New Mexico and elsewhere[7] (See Box 2.2, *Matricula Consular*).

Anti-money laundering and anti-terrorism legislation, the main legislation that impacts this area, has made it clear that Social Security Numbers are not required to open bank accounts. Hundreds of banks in the United States now accept the *Matricula Consular* card to open bank accounts either as a unique source of identification or in conjunction with a second piece of documentation. A growing number of financial institutions also accept Individual Taxpayer Identification Numbers, known as ITINs, as documentation for opening interest-bearing accounts.[8] Obtaining these numbers has become more difficult in recent years, however, and ITINs must be used in conjunction with other identification due to regulatory requirements.

### *Offering services usually associated with check-cashers and money transfer operators*

Banks are also competing for immigrant clients with entities such as check-cashers and money-transfer operators. Beyond the few "hybrid" models, many banks and credit unions offer check-cashing for non-account holders, money orders, and non-financial products like phone cards, along with low-cost savings and checking accounts. A 2004 study found that at least 60 U.S.-based depository institutions, including the largest banks as well as community banks and credit unions, offer remittance products.[9] There are numerous methods available, including debit or dual ATM cards, credit cards, account-to-account transfers, and stored value cards. In Bank of America's SafeSend program, for example, checking account customers can send remittances to Mexico at no charge. San Francisco-based Xoom is an online remittance system that sells its technology and infrastructure as a turnkey system for regional and community banks.[10] The Federal Reserve has also begun to promote remittances through the banking system with the "Directo a México" program, an automated clearinghouse money transmission option (See Box 2.3, Directo a México).

### *Moving clients up the financial ladder*

So far, the marketing of transaction accounts and remittance products has been the first crucial step that many banks have taken to get immigrants in their doors. A smaller number of banks are also trying to match their immigrant customers with higher-end financial products. Union Bank of California, for example, has developed an array of credit products for low-income and immigrant borrowers, such as secured credit cards, new and used car loans, small business loans, and mortgage products, aimed at helping clients either build credit histories or build assets.

Homeownership is one area beyond basic banking and remittances where financial institutions have been able to take advantage of growing demand by immigrants. Although immigrant homeownership (at 55 percent) lags behind that of the native-born (at 76 percent)[11], immigrant households are projected to account for approximately one-third of all new households between 2000 and 2020.[12] Many of the mortgage products developed for immigrants are part of broader minority homeownership initiatives that offer flexible credit underwriting standards and take into account the contribution of the extended family in determining the income of a prospective borrower.

A small number of banks also offer home mortgages using ITINs for people without Social Security Numbers. Working with ACORN in California, for example, Citibank

## Directo a México

*Box 2.3*

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

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

created a new mortgage product to make mortgages available to immigrants who have previously been shut out of credit markets.[13] For all lenders, though, the lack of a secondary market for ITIN loans has limited the growth in this area.

## Future Opportunities

As the immigrant population continues to grow, there are many opportunities to link immigrants to the mainstream financial system.

### *Offer check-cashing and money transfer services*

One potentially fruitful approach is for more banks to offer the services that immigrants want but currently receive through check-cashers and money transfer operators. If more banks were to provide and advertise remittances, bill-paying and check-cashing services, immigrant customers would benefit from lower fees resulting from greater competition (even for those who continue to use check-cashers), as well as from the opportunity to open checking and savings accounts. The advantage to banks and credit unions would be additional fee income as well as the chance to grow their customer bases. And regulators would benefit from increased transparency and simplified enforcement of money laundering and anti-terrorism legislation as more check-cashing and bill payment transactions were conducted through the banking sector.

### *Reach out to the children of immigrants*

Another potential strategy for banks is to reach out to the children of immigrants through the school system. There already exist numerous bank-school and credit union-school partnerships throughout the country, although not necessarily with a focus on the children of immigrants. By 2020, second generation Latinos are projected to outnumber their parents. In addition to representing a large and growing future market opportunity, the children of immigrants may be easier for banks to connect with than their parents. Roughly three-quarters of school age children with an immigrant parent are U.S. citizens. The children of immigrants are also more likely to be proficient in English. Bank branches in high schools, such as the Bank Within East, a Wells Fargo branch at East High in Anchorage, Alaska, could expand financial education opportunities for the nation's high school population.

### *Offer financial services through the workplace*

A third opportunity for banks is to connect with immigrants through their places of employment. Immigrants make up 12 percent of the U.S. population but 15 percent of all workers.[14] Banking at work could save time for busy immigrants who often cite convenience as a primary reason for using check-cashing outlets. For banks, the workplace offers the opportunity to connect with large numbers of immigrants who are ready for and in need of financial services. Company-sponsored financial initiatives that increase loyalty and lower turnover rates could benefit employers as well, particularly large firms that employ significant numbers of immigrants. In addition, large employers operate at a scale at which significant savings may result from having a greater proportion of their payrolls delivered through direct deposit or stored value cards.

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### *Target immigrant neighborhoods*

Finally, banks may realize substantial customer growth by targeting immigrant neighborhoods. Immigrant enclaves, neighborhoods with a high percentage of foreign-born residents from the same country, are often places with particularly low bank account ownership. However, inroads into account ownership in ethnic communities may be multiplied through immigrant networks and word-of-mouth among people who rely heavily on one another for information. Getting just one immigrant to open a new bank account may lead many others to do the same as they learn about the process and the benefits of account ownership from an individual who shares their country of origin and language. Partnerships among banks, ethnic community groups, and other organizations with abundant credibility in the immigrant community are instrumental for realizing this opportunity.

## Conclusion

Efforts to connect immigrants with the financial mainstream are happening against a backdrop of unprecedented immigration to the U.S. Today, at least one in nine residents of the U.S., or 35 million people, was born abroad. Immigrants have many different needs and banks may not be right for everyone. It is clear, though, that the extent of financial access is an important indicator of the overall economic and social well-being of an area. How immigrants integrate financially into the U.S. has repercussions not just for a few cities or states, but for neighborhoods and communities throughout the country. It is important to create a financial system that offers access to those who want it.

Immigrants are changing as they adapt to the U.S., and the U.S. is in turn changing as newcomers are, to varying extents, accommodated and incorporated. The challenge is to ensure, as much as possible, that these transformations strengthen communities and families across the nation, that they benefit immigrants and the native-born, help financial institutions build sustainable business models, and take into account the wisdom and the expertise of the community. CI

## Financial Access for Immigrants


1 This article is adapted from *Financial Access for Immigrants: Lessons from Diverse Perspectives,* by Anna Paulson, Audrey Singer, Robin Newberger and Jeremy Smith, published by the Federal Reserve Bank of Chicago and The Brookings Institution, May 2006, available at http://www.brookings.edu/metro/pubs/20060504_financialaccess.pdf

2 Suro, Roberto, Sergio Bendixen, B. Lindsay Lowell, and Dulce C. Benavides, "Billions in Motion: Latino Immigrants, Remittances and Banking," The Pew Hispanic Center and The Multilateral Investment Fund, November 2002, available at www.iadb.org/mif/v2/files/PewHispanicCenter.pdf.

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6 Moser, Lauren, and Esther Park, "Best Practices in Immigrant Lending," prepared for the American Bankers Association, Shorebank Advisory Services, May 25, 2004, available at /www.aba.com/NR/rdonlyres/1FAE5B14-C034-4FF7-8566-9664F0BDEDEC/35994/ImmigrantMarketLendingPaperMay2004.pdf.

7 Ibid.

8 The ITIN is a nine-digit tax processing number issued by the Internal Revenue Service (IRS) to individuals who do not qualify for a Social Security number but earn income in the United States.

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10 Remittance market draws major players: Banks, cards, credit unions enter the fray, by Carolyn Said, Staff Writer, *San Francisco Chronicle,* July 16, 2006.

11 *Current Population Survey,* 2005 March Supplement.

12 U.S. Department of Housing and Urban Development, Office of Policy Development and Research. "The Importance of Demographic Trends to Housing," in *U.S. Housing Market Conditions,* May 2003.

13 ACORN website 7/20/06 http://www.acorn.org/index.php?id=2082&L=1

14 *Current Population Survey,* 2005 March Supplement.


BOX 2.1


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


BOX 2.2


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

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


BOX 2.3


Source: Federal Reserve Website of financial services fee schedule: www.frbservices.org/FeeSchedules/FedACH2005.html.


## Community Development in Dynamic Neighborhoods


1 The full report, published by the Harvard Joint Center on Housing Studies and the Neighborhood Reinvestment Corporation, is available online at http://www.innovations.harvard.edu/showdoc.html?id=5049

2 The terms "hot markets" and "soft markets" are defined by the National Congress for Community Economic Development to describe the different economic environments that CDOs work in.

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5 Interview with Kenneth D. Wade, chief executive officer, NeighborWorks America, June 2003.

6 Collins, Michael, and Nancy McArdle (2003). "Getting a Grip on Reality: Making the New 2000 Census Data Work for You." Workshop materials for Neighborhood Reinvestment Training Institute. Washington, DC: Neighborhood Reinvestment Corporation. p. 41.

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10 Fix, Michael, and Jeffrey S. Passel (2002). "Assessing Welfare Reform's Immigrant Provisions." In *Welfare Reform: The Next Act,* Alan Weil and Kenneth Finegold, Eds. Washington, D.C.: Urban Institute Press, pp. 179–203. Details at www.urban.org/pubs/welfare_reform/index.html.

11 Grogan and Proscio (2000), p. 72.


BOX 3.2


1. Interview with Lisa Hasegawa, Executive Director, National Coalition for Asian Pacific American Community Development, August 2003.

2. Schoenholtz, Andrew, and Kristin Stanton (2001). *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans.* Handbook written for the Fannie Mae Foundation and the Institute for the Study of International Migration at Georgetown University.


## Community Profile: Arizona


1 See, for example, the work on this subject by the Federal Reserve Bank of Minneapolis: www.minneapolisfed.org/research/studies/earlychild/


The third issue of the *Community Development Investment Review* is a special issue — a proceedings of the Center for Community Development Investment's September 2006 conference that brought together leaders in community development and finance to explore new ways to bridge Wall Street to community development efforts. Please visit the Center for Community Development Investments website at www.frbsf.org/cdinvestments to access the *Review* online and to subscribe to the mailing list.