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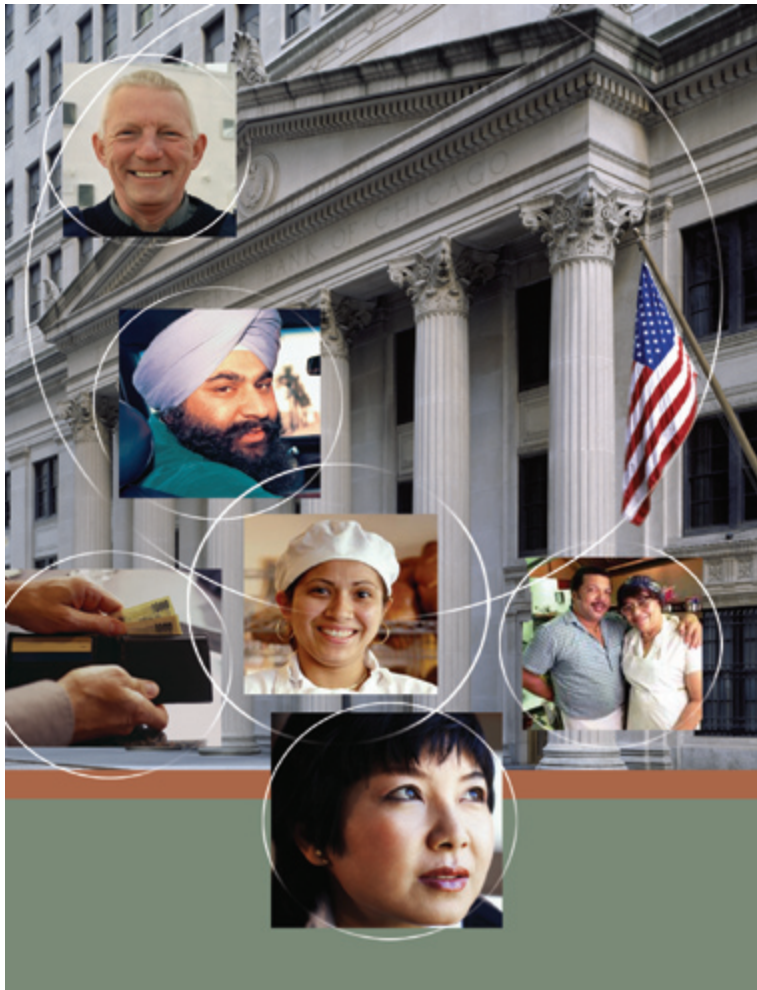
News and Views

Special Edition

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Financial Access for Immigrants Conference: Learning from Diverse Perspectives



On April 15 and 16, 2004, the Federal Reserve Bank of Chicago in conjunction with the Brookings Institution Center for Urban and Metropolitan Policy (now the Metropolitan Policy Program) held a national conference focused on immigrant access to financial markets and services. This special edition of Profitwise News and Views summarizes the conference presentations.

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Profitwise News and Views

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Conference Announcement

Job Loss: Causes, Consequences, and Policy Responses

This conference will bring together researchers, policymakers, and practitioners to discuss what workers, firms, and government policy makers can do to ameliorate the effects of job displacement. The meeting, scheduled for November 18 and 19, will include presentations on the latest research on topics related to job loss, as well as thought-provoking synthesis and analysis.

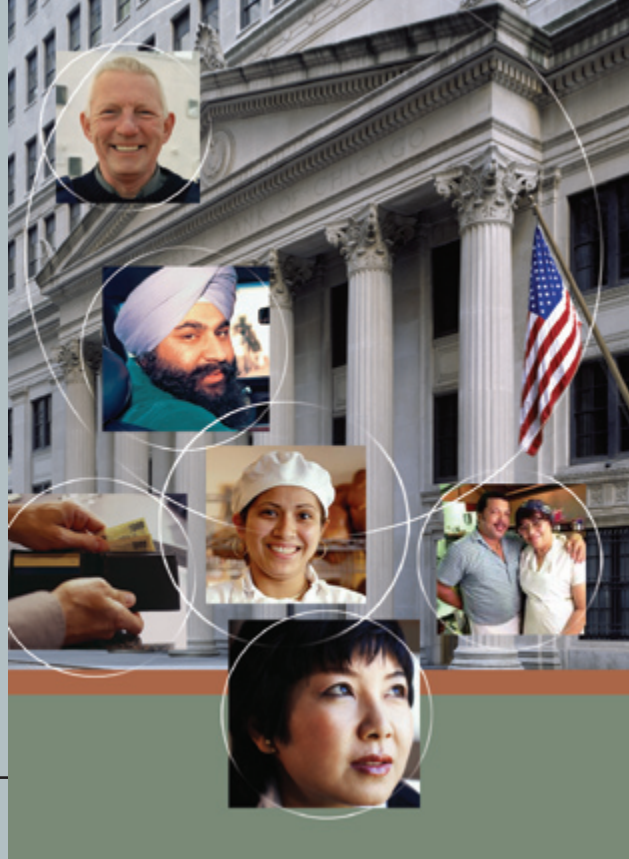
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For more information and to register, go to www.chicagofed.org

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Financial Access for Immigrants Conference: Learning from Diverse Perspectives



Introduction

The community affairs program of the Federal Reserve System is an educational, informational, and public policy oriented function focused on community economic development. The fundamental goal of community affairs is to promote credit and capital access to traditionally or historically underinvested and redeveloping communities and underserved populations. This goal supports the Federal Reserve's economic growth objectives.

There has been much attention focused on immigration to the United States in recent years, particularly immigration from South and Central America. In the decade of the 1990s, immigration to the United States occurred at an unprecedented rate, and it is continuing unabated today, according to various sources. Further, new geographic patterns of immigration have emerged, with areas of the Midwest and Southeast experiencing record volumes of immigrants attracted by labor opportunities in those regions. According to data from the U.S. Census Bureau, as of March 2002, the number of foreign-born U.S. residents was 32.5 million, or roughly 11.5 percent of the nation's population.

In 2003, the Federal Reserve Bank of Chicago initiated the Center for the Study of Financial Access for Immigrants. The mission of the center is multi-faceted and includes: conducting and encouraging research to increase understanding of key factors that influence financial behavior of immigrants; organizing forums where interested parties can share ideas, innovations, and practices; and documenting findings on the practical, policy, and research levels that promote U.S. financial market access for immigrants.

On April 15 and 16, 2004, the Federal Reserve Bank of Chicago held a two-day conference, Financial Access for Immigrants: Learning from Diverse Perspectives. The event was cosponsored with the Brookings Institution Center for Urban and Metropolitan Policy, now the Metropolitan Policy Program. This article summarizes the conference presentations. The full texts of papers presented at the conference, related papers, slide presentations, and biographical profiles are available at www.chicagofed.org/community_development/FAI_Center_Research.cfm.

Financial Access for Immigrants: Learning from Diverse Perspectives

Remarks by Michael H. Moskow
President and CEO, Federal Reserve Bank of Chicago
Chicago, Illinois, April 15, 2004



Good morning. I am Michael Moskow, president and CEO of the Federal Reserve Bank of Chicago. I'd like to personally welcome each of you to the Chicago Fed and thank you for attending what will be an informative conference.

This event would not be possible without the support of our cohost, the Brookings Institution Center on Urban and Metropolitan Policy. The Brookings Center has built a strong, national reputation through its projects on immigrant location and financial access in underserved communities. Their connections to policymakers at all levels of government have helped us to assemble a great panel of experts for this conference. I would also like to acknowledge the generous support of our sponsors, the Pew Hispanic Center and the Ewing Marion Kauffman Foundation.

For those of you unfamiliar with the Federal Reserve, our goals are to foster maximum sustainable economic growth, price stability, and a stable financial system. One way we support these goals is by promoting full and fair access to the nation's financial institutions. In doing so, we try to minimize the economic losses that arise whenever anyone is unfairly discouraged from participating in our financial system.

In particular, the issue of immigrant financial access has been growing in importance in recent years. Between 1990 and 2000, the number of foreign-born in the U.S. grew by 57 percent. Today one out of nine people living in the U.S. was born abroad. Moreover, the fastest growth in immigration has occurred in places where immigration was virtually unknown 20 years ago. In metropolitan areas, new immigrants are now more likely to live in the suburbs than in the central city. The sheer size and dispersion of the immigrant population ensures that the economic progress of immigrants is a crucial component of economic progress in the cities, suburbs, and rural areas of America.

To help us better understand this dynamic issue, the Federal Reserve Bank of Chicago established the Center for the Study of Financial Access for Immigrants. This initiative has three goals:

- 1) to add to the state of knowledge about the financial behavior of immigrants;
- 2) to provide forums, like this one, where interested parties can share ideas to improve financial market access for immigrants; and
- 3) to document findings, innovations, trends, practices, and policies that enhance immigrant financial market access.

Since its establishment a year and half ago, the Center has sponsored a wide range of research that has examined issues such as the influence of home country

“...many large and small financial institutions view the immigrant market as a key to continued success.”

characteristics on financial market participation, the role of social networks in promoting or impeding financial access, and the sources of start-up capital for immigrant

entrepreneurs compared to entrepreneurs born in the U.S. – you will hear more about some of this research today. We have also hosted regional Financial Access for Immigrants conferences in Springfield (Illinois), Milwaukee, Des Moines, Indianapolis, and Detroit.

Our research and conferences on this issue have reiterated the existence of numerous opportunities to incorporate immigrants into the financial mainstream. According to the Census Bureau, only 68 percent of immigrants have a savings or a checking account, compared to 82 percent of individuals born in the United

States. Homeownership rates in the U.S. have reached unprecedented levels – almost 70 percent for those born in the U.S. – but immigrant homeownership lags far behind at 49 percent. These figures underscore how far we have to go, but they also point to opportunities for financial institutions to attract new customers. As you will hear more about today, many large and small financial institutions view the immigrant market as a key to continued success. One point of entry that has received much attention is the large and growing market for sending remittances overseas. In 2003, immigrants from Latin America and the Caribbean sent \$38 billion back to their home countries.

While there are many opportunities to promote broader immigrant participation in the U.S. financial arena, there are also many challenges. The ethnic diversity of the immigrant population, alone, means that the requirements

“The ethnic diversity of the immigrant population, alone, means that the requirements for improving access vary tremendously across immigrant groups.”

for improving access vary tremendously across immigrant groups. Language, legal status, and education are also potential impediments. Many financial institutions are working hard to develop innovative outreach strategies

and products to address these challenges, and we will hear from some leaders in this area later this afternoon.

Efforts to improve financial access for immigrants have received wide-spread support. When the Treasury Department was deciding to give banks the option to accept identification issued by foreign governments, groups like financial institutions, immigrant advocate groups, law enforcement and regulatory agencies, community development organizations, and both political parties all submitted formal comments in favor of the decision. As you can tell from the title of today's conference, “Learning from Diverse Perspectives,” one of our goals is to incorporate a broad range of viewpoints on this issue. These diverse perspectives are apparent as you look around you at the panelists and the conference participants assembled here today.

Also, you will notice that the conference sessions cover a broad spectrum of the financial market place: traditional banking services, housing and homeownership, entrepreneurship, and remittances. The agenda is deliberately broad for two reasons. First, research shows that participation in one part of the financial marketplace

influences participation in other parts. Second, the scope of the agenda should help us to identify common themes and best practices that can be applied to improve immigrant financial access across a wide range of financial services.

Over the next two days, we'll hear from a number of business and policy leaders who are on the front lines, confronting the issue of immigrant financial access. To highlight a few of the leaders who will join us:

Our keynote speakers at lunch today, former Governor of Illinois Jim Edgar and author Tamar Jacoby, will give you insights on immigration policy and financial access from both a Midwest and a national perspective.

Tonight, we will hear from Henry Cisneros, former secretary of HUD. He will talk about American CityVista, his current venture to construct affordable housing for immigrants and other historically underserved residents in America's cities.

Tomorrow, we will be joined by Ben Bernanke, a member of the Federal Reserve Board of Governors and one of my colleagues on the Federal Open Market Committee.

In closing, I'd just like to say that I hope that this conference will inspire actions that move us closer to realizing the enormous opportunities represented by improving immigrant financial access.

Again, thank you for joining us. I look forward to hearing your insights.

Setting the Scene

Moderator – Pia Orrenius, Senior Economist, Federal Reserve Bank of Dallas

Session One

Financial Access for Immigrants: Learning from Diverse Perspectives

The first of seven conference sessions featured presentations of two research papers and the perspectives of two organizations with strong interest in immigrant financial assimilation. Audrey Singer of the Brookings Institution Metropolitan Policy Program (formerly the Center on Urban and Metropolitan Policy) presented her paper on demographic trends over the last century and emerging immigrant gateways. Anna Paulson, a senior economist with the Federal Reserve Bank of Chicago, presented research she had conducted with Una Okonkwo Osili of Indiana University-Purdue University at Indianapolis on immigrant financial market participation. James Ballentine, director of Housing, Community, and Economic Development for the American Bankers Association (ABA), discussed the importance of building

institutional infrastructure to market financial services successfully to immigrants. Roberto Suro, executive director of the Pew Hispanic Center, discussed immigrant assimilation; factors, such as home country characteristics and perceptions of financial institutions, to consider in serving the immigrant market; and the role of regulation in encouraging immigrant financial market participation.

AUDREY SINGER
Brookings Institution

Audrey Singer is a sociologist and demographer with the Brookings Institution Metropolitan Policy Program. Singer's paper, *The Rise of New Immigrant Gateways*, reveals how the significant inflows of immigrants in recent decades have begun to rearrange America's immigration map, adding new communities of settlement to well established destinations. Metropolitan areas across the United States during the second half of the twentieth century decentralized, and their suburban areas grew. Concurrently, there was a large, sustained immigration of people from very diverse backgrounds that continues today. These two processes together have produced significant new settlement patterns that are affecting everyday life in many parts of the country. Singer noted that the confluence of factors suggests that the country will confront, "...major social, cultural, and political change during the coming decades."

Singer's research focuses in particular on more recent and dramatic immigration trends. In the decade from 1990 to 2000, more immigration to the United States occurred than in any previous decade. The foreign-born population grew by 11.3 million or 57.4 percent, bringing the total from nearly 20 million in 1990 to 31.1 million in 2000.

The six primary states of settlement for immigrants during the second half of the twentieth century were California,

Figure 1: Percent Change in the Foreign-Born Population by State for 1990-2000

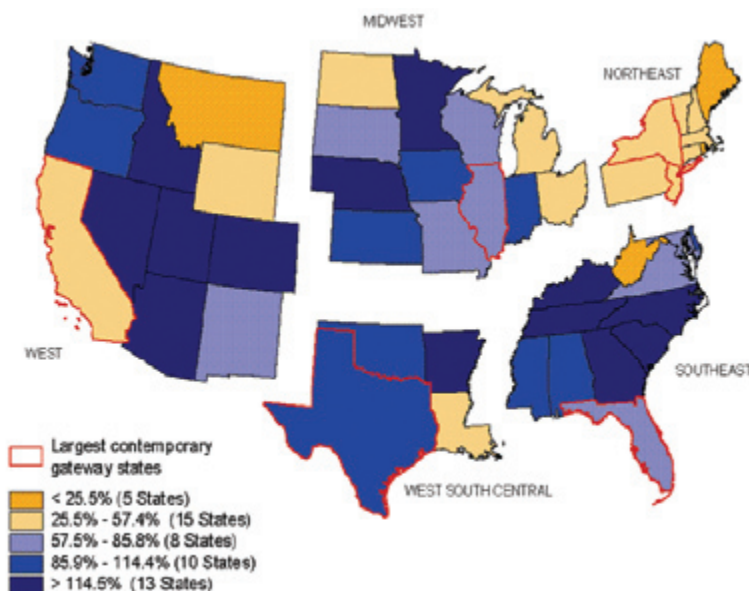
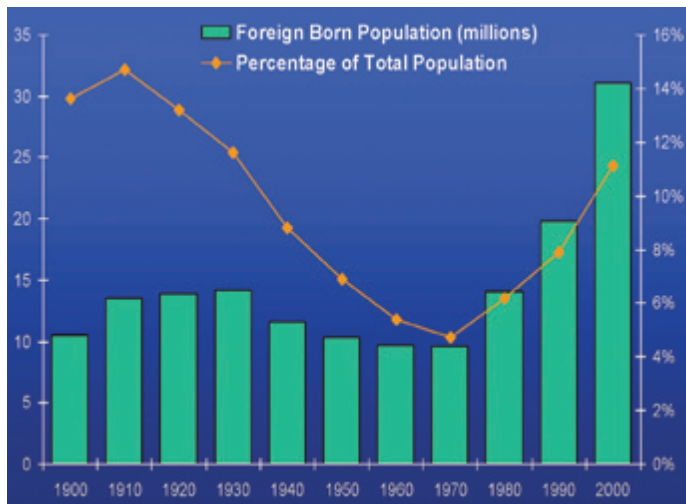


Figure 2: Number of Foreign-Born and Share of Population, United States, 1900-2000



Texas, New York, New Jersey, Illinois, and Florida. Two-thirds of all immigrants lived in these six states in 2000. Figure 1 illustrates the trends with respect to established and emerging immigrant destinations. Whereas Texas, Illinois, and Florida still have immigrant growth rates that exceed the national average, California, New York, and New Jersey now lag the national average growth rate, and the Southeast has emerged as a new immigrant destination. Thriving job markets in southeastern states, particularly in the construction services and technology sectors, are driving growth as both native- and foreign-born people move from within the United States and new immigrants are attracted directly from abroad.

Singer illustrated the twentieth century immigration patterns to the United States graphically, showing the ebbs and flows during different decades. Figure 2 depicts the high level of immigration in the early part of the twentieth century and an overall decline in the share of foreign-born population from the beginning to the end of the century, despite a sharp numeric increase in foreign-born residents. A slower period of migration during the middle of the century in combination with the post-World War II baby boom served to dilute the immigrant population. The trend in the latter part of the century that continues today is that of a slower growing native-born population and increasing immigration. The other significant change Singer noted was the shift in source countries from Europe in the early part of the century to Latin America, the Caribbean, Asia, and Africa in the latter part of the century.

Cities such as Philadelphia, Detroit, and Boston attracted many immigrants at the turn of the last century (1900), with immigrants comprising up to one-third or more of the population at the time. With the abrupt shift late in the last

century from Europeans to Latinos as the predominant immigrant group, the gateway cities have also changed, she noted. Continuous immigrant gateways include New York and Chicago, which had a large proportion of immigrants throughout the century, while cities such as Los Angeles, Miami, Houston, and San Jose emerged as predominant gateway cities after World War II.

Cities such as Washington, D.C., Atlanta, Dallas, and Fort Worth comprise what Singer terms emerging gateways, places that did not experience a high degree of immigrant settlement until the latter part of the twentieth century. Singer also identified a category she termed, “re-emerging gateways.”¹ As the term implies, these are cities that experienced high rates of immigrant settlement in the early years of the twentieth century, lower settlement rates as other gateways emerged, and more recently a resurgence in immigrant settlement.

Singer closed by noting the need to understand the diversity in the immigration history of U.S. regions to address financial services needs among immigrants. Gaining an understanding of changing immigration and settlement patterns is a logical first step in this process.

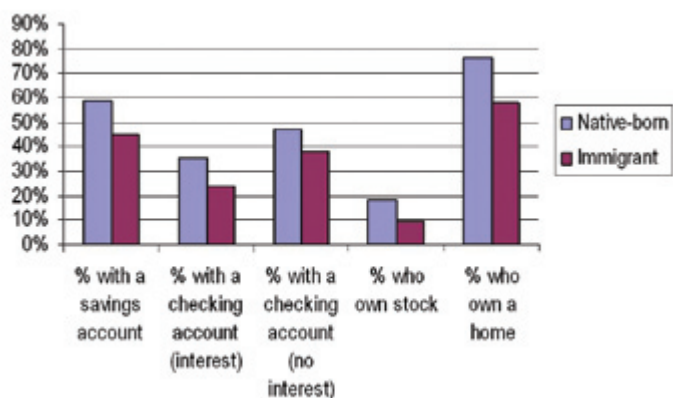
ANNA PAULSON
Federal Reserve Bank of Chicago

Anna Paulson is the senior economist and manager of the Consumer Issues Research group in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Paulson discussed research she has conducted with Una Okonkwo Osili of Indiana University-Purdue University at Indianapolis. Specifically, their research focuses on how the quality of country of origin institutions shape financial choices that immigrants make once in the United States.²

Paulson pointed out that participation in the financial system is, “...an important way for us to measure the success of individual immigrants in the United States, and it’s also a way to measure...our success as a society in incorporating immigrants and benefiting from the aspirations that brought them here.” She discussed the importance of financial market participation to enable households to cope with income uncertainty, access credit in an emergency at reasonable cost, and obtain credit for customary purposes such as purchasing a car or a home. Paulson noted other fundamental considerations: the behaviors of first generation immigrants can affect the second generation – children learn from the financial habits of their parents – and clusters of households that keep large amounts of cash on hand can unnecessarily give rise to crime.

Paulson presented data from the Survey on Income and Program Participation from 1996 to 2000 (Figure 3).

Figure 3: Financial Market Participation – Survey on Income and Program Participation, 1996-2000



These data essentially showed that immigrants as a group are less likely to own bank accounts, stock, or a home. She identified three related questions that her research seeks to answer:

- Are migrants from countries with “better” institutions more likely to participate in U.S. financial markets?
- How long do you have to experience a set of institutions for them to influence your behavior?
- How persistent are the effects of the home country institutions?

Institutional quality³ refers to a summary measure that captures the capacity of a country’s institutions to protect private property and provide incentives for investment. On a scale of one to ten, the median score is 7.07. Countries such as Switzerland and Luxembourg score perfect tens, and the United States is close behind at 9.98. The lowest scoring country is Iraq at 1.81. Countries from which many immigrants to the United States originate score above the median: Mexico – 7.51; China – 7.79; and Canada – 9.79.

Paulson and Osili looked in particular at two aspects of financial market participation: owning a savings account and stock ownership. To illustrate the impact of home country institutional quality, they demonstrated that immigrants originating from El Salvador, whose institutional quality rating is 5.07, would have stock market participation that was 5.25 percentage points higher and savings account ownership that was 4.75 percentage points higher if the institutional quality rating matched that of Mexico at 7.51. Paulson stated that the impact of home country institutional quality on behavior once in the United States also depends on age at migration. Immigrants who arrive in the United States after the age of 16 years exhibit behaviors similar to adult immigrants. Since teenagers do not typically have bank or credit accounts, the orientation to home country institutions may stem from

lessons absorbed in schools or at home in the country of origin. Immigrants who arrive in the United States before they are 16 years old exhibit financial market behavior closer to that of native born.

Paulson addressed the question of how long the home country institutional orientation persists in influencing financial decisions. The effect is very persistent: “Only immigrants who have lived in the United States for 32 years or more are unaffected by their home country institutions,” she said.

Paulson closed noting once again that home country influences are diverse and that to some extent financial education, products, services, and outreach strategies could be more sensitized to differences in immigrants’ home country experiences. “Achieving financial access for many immigrants involves challenging powerful lessons that are absorbed early in life,” Paulson said, but “immigrants have signaled their readiness to absorb new lessons about institutions here in the United States simply by their decision to move.”

JAMES BALLENTINE
American Bankers Association

James Ballentine is the director of Housing, Community, and Economic Development for the ABA. He discussed the opportunities for banking institutions to reach the immigrant market, cautioning that, “You must implement a strategic business plan, not a CRA (Community Reinvestment Act) plan; this is not about community reinvestment.” Ballentine referenced the Fannie Mae Foundation/Georgetown University Institute for the study of International Migration joint publication, *Reaching the Immigrant Market: Creating Home Ownership Opportunities for New Americans*.⁴ The ABA has been conducting training in conjunction with other Federal Reserve Banks using the publication as a guide; the training program targets lenders attempting to reach immigrant markets with financial services.

Ballentine discussed the importance of personal relationships and personal service with customers, and the need to understand characteristics valued by the target immigrant group. He mentioned a Seattle bank where an Asian lending officer changed jobs but remained in the same community. Many of the customers of the bank who had come to know and trust him became customers of the new bank because the personal relationship was more important than the institutional relationship.

Ballentine discussed institutional support and capacity. “You cannot translate materials into Spanish or any other language, [then] someone calls the institution and lo and behold no one there speaks that language; it must be a company-wide strategy.” Further, he noted that English

advertising slogans often translate poorly into other languages, again underscoring the need for fundamental institutional support. Ballentine closed emphasizing the need for additional staff training, careful market research, and a willingness to explore new or modified products to serve the immigrant market effectively.

ROBERTO SURO
Pew Hispanic Center

Roberto Suro is the executive director of the Pew Hispanic Center. He began his remarks pointing out that Chicago is an, "...ideal place to be having this discussion." Chicago, he noted, was one of the best "...laboratories for the process of assimilation for the last wave of immigration." Changes in immigration law, the Great Depression, World War II, and other factors gave rise to a hiatus in immigration from the mid 1920s to the late 1960s after continuous immigration to the United States prior to 1925. The country is now experiencing an unprecedented wave of immigration and Suro stated that the process of assimilation "...affects not just the newcomers, but the hosts as well, and so we're talking about all the societal as well as the demographic changes that take place when large numbers of immigrants arrive."

Suro related his experience as a journalist in Chicago in the mid 1970s during the first Daley administration, when he covered the city council. He shared an anecdote where, in an exchange between Mayor Daley and a councilman, Daley remarked on his Irish heritage. Not meant in a casual or facetious way, Suro said Daley's remark, "...implied a series of beliefs, associations of networks that have profound importance." Suro used the anecdote to illustrate the point that assimilation is a long process and the current wave of immigration is at a relatively early stage. Suro also ventured, "Ethnic affirmation is part of the process of assimilation, that ability to form a community of interest is one of the key factors in civic engagement... The formation of bonds among people with common nationalities, of common language groups is in itself one of the ways people become part of a new society."

Suro noted that a key component to assimilation in U.S. society is the use of financial markets and financial services. He compared gaining familiarity with our complex financial system to acquiring a new language. A key distinction between the last wave of immigration and the current one is the wide range of laws enacted since to facilitate homeownership and savings from which new immigrants can benefit. Many of these changes occurred while the rate of immigration was low.

Suro identified some of the challenges facing financial institutions seeking to reach recent immigrants. First, he

stated that it is important to reach immigrants while they are still fairly new to U.S. society. Accordingly, assimilation, ethnic affirmation, and an array of other societal orientation processes are occurring simultaneously. Aversion to common practices in the U.S. financial system, home country orientations with respect to financial institutions, and the trend toward on-line banking and financial services present further challenges. A person opening a bank account for the first time in a new country, who may be the first in their family to open a bank account, is unlikely to embrace the idea of opening the account through a computer. Indeed, the need for a human interaction, with someone who speaks the customer's native language, is more likely required to encourage that person to open an account.

In closing, Suro discussed the importance of the regulatory environment. He cited Federal Reserve Chairman Alan Greenspan's frequent assertion that the two pillars of the U.S. economy are strict respect for property rights and market sensitive regulation. The state has a vested interest in promoting property ownership and access to financial services among immigrants as part of a broader array of goals including English proficiency, citizenship, and overall economic success, he stated.

Notes

1 The paper identifies six classifications of immigrant gateways and is available at www.brookings.edu/urban/publications/20040301_gateways.htm.

2 Ms. Paulson's slide presentation from the conference is available at www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_paulson.pdf.

3 Anna Paulson and Una Okonkwo Osili, 2004, *Institutional Quality and Financial Market Development: Evidence from International Migrants in the U.S.*, Chicago: Federal Reserve Bank of Chicago, manuscript.

4 The report *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, can be accessed at www.fanniemae.foundation.org/programs/pdf/rep_immigrant.pdf.

Financial Education and Traditional Financial Services

Moderator - Michael Berry, Manager, Emerging Consumer and Compliance Issues Unit, Federal Reserve Bank of Chicago

Session Two

Financial Access for Immigrants: Learning from Diverse Perspectives

The second session of the conference addressed financial education and factors impacting the decision to own a bank account, the ramifications of U.S. tax code, and highlighted strategies of one small and one large banking institution to reach immigrant markets with financial services. Sherrie Rhine, a senior economist with the Federal Reserve Bank of New York, presented a paper coauthored with William Greene of New York University considering the decision by immigrants of whether or not to hold bank (transaction) accounts. Nina Olson, national taxpayer advocate for the Internal Revenue Service (IRS), discussed the important role the tax code has on financial access and financial literacy for immigrants in achieving long-term financial success in U.S. society. James Maloney, chairman of Mitchell Bank in Milwaukee, discussed building community relationships to reach a growing ethnic market, a matter of business survival – and ultimate success – for the community bank he leads. Alice Perez, vice president and Hispanic market manager for U.S. Bank, discussed, in a large bank context, serving growing Hispanic populations with financial services and the nuanced strategies in marketing, staffing, and product development that branches serving diverse ethnic populations must undertake.

SHERRIE RHINE
Federal Reserve Bank of New York

Sherrie Rhine of the Federal Reserve Bank of New York presented a paper she co-authored with William Greene of New York University: *The Bank Status Decision of the Foreign Born*. The paper addresses several specific questions about the decision to own a transaction account.

Rhine noted that the Survey of Consumer Finances showed that 9.1 percent of all U.S. households do not hold a checking or savings account. Among non-White

Hispanic households, the ratio is 21.8 percent and among White, non-Hispanic households, 5.1 percent. She referred to the consumer protections afforded to households that own an account versus households that pay bills with cash and linked ownership of a transaction account with long-term asset accumulation. “We know that a relationship with a financial institution is a method by which consumers can gain better information, and more timely information, to make sound financial decisions. We know that communities with well-functioning financial markets are more resilient against economic downturns and can take better advantage of economic growth as well,” she said.

With respect to account ownership, Rhine stated that the specific purpose of the research was to identify, “...those socioeconomic and demographic characteristics that influence that decision.” She noted in addition that cultural orientations and preferences may well influence decisions regarding financial services. The research controls for, “...cross-period, cross-time correlations of what are unobserved individual effects,” she said. Examples of these effects include family specific characteristics or home country attributes. The broad demographic categories that tend not to hold bank accounts include: households that have lower education attainment, are younger, low-income, and a member of a minority group. Households that do tend to hold bank accounts include those that are married, employed, and have larger family size and relatively greater net worth.

Rhine and Greene track these characteristics across four immigrant groups: Mexicans, other Latin Americans, Europeans, and Asians. Among Mexican immigrants, 53 percent do not hold transaction accounts; among other Latin Americans, 37 percent do not; among Asians, 20 percent do not; and among Europeans, 17 percent do not hold transaction accounts.

Rhine mentioned the importance of programs like the Earned Income Tax Credit (EITC) and Individual

Development Account (IDA) in influencing the decision among immigrant households to hold an account and ultimately influence wealth accumulation. Broadly, the EITC is a public benefit administered through the tax code to income-qualified households; the IDA program offers institutionally administered matching funds to savers meeting certain income requirements. Often, qualifying households access their EITC by visiting volunteer income tax assistance (VITA – an IRS program that helps cities and communities to organize volunteer tax return preparers) sites where financial institutions market low-cost transaction accounts and products. Individual deposit accounts can attract potential savers to financial institutions through the offer of the matching incentive.

In closing, Rhine discussed stored value cards as a means to link immigrant households to financial institutions. The cards address in part the danger of carrying or storing large amounts of cash, though loss of the card could lead to a short-term liquidity crisis while the card is cancelled and replaced. Rhine also noted that the level of consumer protections afforded holders of these cards is not yet clear. Moreover, stored value products may not lead to near-term positive outcomes with respect to establishing a credit history or accumulating wealth. Rhine used this example to highlight the rapid evolution of U.S. financial markets and products stating, “These markets are perpetually changing, which only exacerbates the need for financial education, and I think that that is very important; it certainly is to the Federal Reserve System, and we really need to continue those efforts.”

NINA OLSON Internal Revenue Service

Nina Olson, national taxpayer advocate for the IRS discussed the implications of the tax code on financial access and financial literacy for immigrants, pointing out that “Taxes are a primary, if not the first interaction that these taxpayers have with the U.S. financial system.” Olson stated that an understanding of the tax system is fundamental to long-term financial success in U.S. society. Mistakes in the early stages of an immigrant’s tenure in the United States can have significant impact on his or her ability to participate in other aspects of the financial system. As an example, she discussed the W-4 form that every salaried worker must fill out prior to beginning work. That form requires a Social Security number. It also requires the worker to set a withholding level, which has ramifications if it set too high or too low. Accrued interest and penalties on tax liabilities can be financially devastating. The tax return is an important document in applying for credit, particularly for a mortgage or student loan or student financial aid. Tax returns are also important to the legal immigration process. For individuals who have

lived in the United States without proper documentation to take advantage of any kind of amnesty program, or when in due course their request for citizenship reaches the critical stage, copies of tax returns “show good moral character.” Similarly, a person living in the United States who wants to sponsor a family member or friend from the home country must show the financial means to do so. Preparation of the tax return further serves as an annual financial checkup for the taxpayer, a building block to financial literacy.

Olson also pointed that taxes are a major savings vehicle for the unbanked. Through over-withholding, the tax system provides a method of forced savings. But she noted that many of the participants in the tax preparation industry that serve the unbanked are unregulated or poorly regulated. The result is that check-cashers, pawnbrokers, car dealers, and other seemingly poorly suited organizations and individuals prepare tax returns for the unbanked. Some of the organizations that prepare taxes offer refund anticipation loans that often have triple digit annual percentage rates, but represent a fast way for the taxpayer to access his or her refund or earned income credit (a benefit not presently available to non-citizens). She also mentioned the VITA sites that prepare taxes free of charge with volunteer staff.¹ The receipt of the refund represents an opportunity to open a bank account and begin a long-term savings regimen, but without financial literacy, the impetus to open the account is not there.

Olson discussed home country orientation, where the tax code and related practices may differ notably from U.S. norms. Language also represents a barrier in many cases, she added, and even absent the necessary expertise locally, immigrants may be highly reluctant to go outside of their community for assistance. Olson stated that immigrants may even have difficulty putting in context a request from the IRS, not understanding the urgency to respond, or knowing that IRS interpreters offer counsel in 69 languages.

Olson touched on the “...profound conflict between immigration law in the United States and tax law that compounds these challenges.” There are two tests that require immigrants to file based on their worldwide income. Anyone holding a green card is documented and required to file a tax return on all income. The second is the substantial presence test: essentially anyone holding a job, regardless of immigration status, is required to file a return. These individuals by definition do not have Social Security numbers, but can use individual tax identification numbers (ITINs), for the purpose of filing a tax return. An apparent conundrum with respect to workers that fall into the latter category is that all salaried workers must provide a Social Security number to complete a W-4 form in order to work in the United States. It is well documented that many immigrant workers have used, illegally, Social

Security numbers of others in order to obtain work. However, Olson noted that it is the official policy of the IRS to encourage wage earners who have used the Social Security numbers of others, which is technically identity theft, to file a return using an ITIN anyway, stating, “We administer the tax laws, not the immigration laws.”

Olson also touched on the special needs of immigrant taxpayers with respect to language. As the founder of the first low-income taxpayer clinic in the country not affiliated with an academic institution, she had incorporated an ESL (English as a second language) outreach program. Congress in 1998 created a grant program to fund similar efforts – there are presently 14 such clinics nationwide – which Olson now administers. An underlying tenet of the grant program, which has few restrictions, is that

“We administer the tax laws, not the immigration laws.”

Nina Olson

“...undocumented workers in this country contribute to our economy, pay taxes, and need representation and education,” Olson stated. Olson also noted that there are bills before Congress that link tax

preparation with financial literacy.

Olson discussed changes to the procedures for obtaining and using an ITIN. The key change is that applicants for an ITIN must prove that the number will be used for tax administration purposes; they must also provide a completed tax return with the W-7 application for an ITIN. The IRS has issued notices to state government agencies to ensure that the ITIN is not accepted as an identification number, as the identity verification process at IRS upon application for an ITIN is not extensive. Olson closed by challenging the financial industry representatives in the audience to think creatively about reaching undocumented immigrants, who are often part of a household that has both documented and undocumented members, with financial services, and to facilitate financial literacy.

JAMES MALONEY
Mitchell Bank

James Maloney is president and CEO of Mitchell Bank in Milwaukee. The bank is located in a predominantly Latino and largely immigrant community and has roughly \$80 million in assets.²

Maloney began his presentation by noting that many characteristics are common to Latino immigrant communities – low education attainment, low-income rates, undercounted population, and low homeownership rates. In Milwaukee, unlike Chicago, the Latino population

is still concentrated in urban areas. He discussed the need to build relationships with social, religious, and civic institutions that have broad membership and acceptance in the immigrant community as a key method to gain trust and acceptance for the bank.

Mitchell Bank has a full-service branch known as Cardinal Bank located in South Division High School in Milwaukee. A unique aspect of the branch, which is named for the school's mascot, is that it is run by students at the school. They play a key role in fostering the financial literacy of the community by bringing their parents to the

“This is not about CRA; this is a real opportunity to tap a market...and it is the future.”

James Maloney

bank to, initially, cash paychecks. The parents are introduced to other financial services, as many of the students are bilingual. “We use the students as teachers for their parents because we are dealing with such a large undocumented population; they do seem to be willing to extend their knowledge to their parents,” Maloney said.

Maloney noted that customer activity at the main branch increased fourfold after the opening of the high school branch. “Had we not done this, we probably would not have survived as a bank,” he said. Maloney closed by reiterating a point made by James Ballentine of the American Bankers Association. “This is not about [the] CRA (Community Reinvestment Act); this is a real opportunity to tap a market...and it is the future.”



Mitchell Bank's Cardinal Branch in South Division High School, Milwaukee, Wisconsin.

ALICE PEREZ
U.S. Bank

Alice Perez is a vice president and the Hispanic market manager for U.S. Bank. She also raised the point that marketing to immigrant populations is not a CRA opportunity – it is a business opportunity. Formerly, the work Perez headed up at U.S. Bank was called the Hispanic Banking Initiative. It is no longer considered an initiative and is now called the Hispanic Banking Segment. The advertising slogan is “Usted tiene amigos en U.S. Bank,” which translates into, “You have a friend at U.S. Bank.” U.S. Bank is headquartered in Minneapolis and has offices in 24 states and assets of \$195 billion.

U.S. Bank launched the initiative in June 2001; it involved 300 branches at that time. Presently, more than 500 branches are involved in the Hispanic Banking Segment. Perez noted the bank’s commitment to staffing branches to in part reflect the ethnic makeup of the community being served. She stated that the bank makes an effort to promote from within, affording career growth for locally hired staff.

Perez also noted the critical need for bank branches to participate in the civic and social segments of the communities served. This outreach serves as a means to attract financial services customers; however, Perez stated that these relationships are also valuable in determining community credit and product needs and tailoring marketing campaigns to the values and customs

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of local residents. In addressing the Hispanic market, Perez noted the bank segments its marketing by tenure in the United States. Recent immigrants require much more hands-on attention and often speak no English. Second generations of families very often have transaction

accounts but have lower homeownership rates and also represent a potential market for investment products. The third tier is essentially Hispanics who are fully integrated. However, Perez noted that the third tier may still represent a market opportunity for investment products, as she mentioned a tendency for Hispanics not to gravitate readily to securities.

In closing, Perez discussed some of the partnerships the bank has formed to address particular types of services. A partnership with the U.S. Hispanic Chamber of Commerce called “iCapital!” has the goal of lending \$1 billion to small businesses in high growth Hispanic markets nationwide. A partnership with L@ Red de la Gente³ helps to promote wealth building both among U.S. immigrants and Mexicans still living in Mexico. Combined with a very low-cost remittance service, this program provides incentives for recipients of remittances in Mexico to save and invest.

Notes

1 For more information on the VITA program, refund anticipation loans, and the EITC, see “An Informed Discussion of the Earned Income Tax Credit,” *Profitwise*, Winter 2003, at www.chicagofed.org/publications/profitwise/2003/pwwinter03.pdf.

2 The panel included representatives from a small (assets less than \$250 million) and a large bank.

3 L@Red de la Gente is itself an alliance of the National Savings and Financial Services Bank (known in Spanish as BANSEFI) and the Association for Popular Colonias (ACP) in Mexico. That alliance was formed to promote broader bank usage, particularly in rural areas of Mexico, and more efficient distribution of certain government benefits. For more information, see *Profitwise News and Views*, December 2003, at www.chicagofed.org/community_development/12_2003_profitwise_news_and_views_page4.cfm.

Keynote Speaker

Remarks by Jim Edgar

Distinguished Fellow, Institute for Government and Public Affairs,
University of Illinois, Urbana-Champaign and Former Governor of Illinois



I first of all want to compliment the Federal Reserve Bank of Chicago and all the cosponsors of this event. I think this is an extremely important and very timely session, but I have to note that they are pretty tough task masters. I looked over the agenda. You have a full agenda, you have two speakers at lunch. Now I think that is more than you should be expected to endure, and I know that my following speaker will be much more interesting than me and much more knowledgeable, so I'll try to keep my remarks brief. Plus, as was mentioned, I'm at the University of Illinois and I've got to drive a hundred and fifty miles and teach a class by 4:30, and I no longer have any kind of immunity from the State Police, so you can be assured I won't be here too long. Also let me just say I've been involved with a lot of conferences in my past and I was very impressed at such a large gathering in this room and the fact you're still here. It is a beautiful day outside, and the Cubs and the Sox are both playing in town, but somebody pointed out you were threatened that if you ever leave here you can't ever get back in, so this is a good place to have a conference.

I, as a student many years ago, majored in history, and I always had a tendency to look at things from a historical perspective. I'm a great believer that you can plan for the future a lot better if you understand the past, and if you look at the past in America, we are truly a nation of immigrants. That's what I think sets America apart from every other nation on this globe and I think that's our strength. In fact, I have to say that I used to think this was kind of in our past. In the eight years I was Governor during the 90s in Illinois I realized how wrong I was – that immigration is a factor today and even maybe greater than in the past. The 90s were a time of huge immigration here in Illinois and throughout the nation. In fact, it rivaled the turn of the century, which most of us think was the peak of immigration, and as a result of that immigration, not only because of the immigration but the impact it had on our society, we are undergoing huge changes. There is major

change in our demographics and in our culture as a result to a great extent of this huge influx of new immigration. Also, I think there is awareness now that we need to take a look at our immigration policy at this point in our history when there is, I think, awareness on the part of many that we need to look at where we are in immigration, where we should go, and what should be our policies. Because of security and economic concern, there is the danger that our immigration might be directed toward more restriction, which I think would be very unfortunate. We need a comprehensive and effective set of national immigration policies that addresses security and economic and social concerns, but we also need to take into consideration how immigration really benefits most of those concerns and not in any way to put walls up or to divide communities because I think that would be very detrimental to the future of this country.

So as a result of this need to re-examine our immigration policy, the Chicago Council on Foreign Relations established the task force of which I have the honor of cochairing to take a look at this issue. In fact, there are other members of the task force here in the audience and will probably be with you throughout the session. They don't have to drive a hundred and fifty miles and two and a half hours to get to a class. But one of the reasons that the Chicago Council thought that we needed this Task Force was, besides the fact this is an extremely timely issue that has huge implications both internally and externally, is that often when these types of discussions occur, there's a tendency to think that all the wisdom is either on the East Coast or the West Coast and the Heartland doesn't really know or doesn't really care. But in fact again, if you look at history, the Midwest has been a center where many of the immigrants who have come to our shores have settled, and that continues today. In fact, again, many of you are from the Midwest, you know the history. In the 1800s, many came from Germany and Poland and settled in our cities and our smaller communities. At the turn of the century

many came from southern Europe and that's continued right up to today where we see many from Asia, from South America, Central America, continue to come here to the center of America, the Heartland. In fact, a Brookings Institution Report as recent as this year describes Chicago as a "continuous gateway, a long established destination for immigration that also continues to receive a large number of new immigrants." So we believe the Midwest has a lot at stake in this discussion, and we also think the Midwest has a lot to offer in this discussion, and so the Task Force is made up of 37 distinguished leaders from a variety of backgrounds throughout the Midwest. We've been meeting since last fall. We've held a series of meetings and we have examined many of the topics that apply to immigration, some that you probably would

"So while it's ironic that many people worry about immigration being a detriment to our economy, in fact immigration, recent immigration, as I think it has historically, has been a major factor in our economic success, and as we look to the future that's not going to change."

expect: the impact of immigration on the national and regional economies – and I want to talk a little bit about that in a minute; the security dimension of immigration which has been a very timely issue; also the issue of undocumented immigrants which I think probably, putting on my old political hat, is

probably the most difficult issue and perhaps one of the most important issues we need to deal with sooner than later.

The Task Force is now completing its findings. We're in the process of finalizing our report and we will be submitting that report to policy makers not only at the national level – which I think everyone understands that the federal government plays a major role in immigration – but also, as was commented in the last panel discussion, we recognize there's a role for state and local government in dealing with immigration issues, and we'll have recommendations for what we think state and local governments can do as well as the federal government.

We truly believe that the Midwest, when it comes to immigration and many other issues, is really a microcosm for the nation, and we think our thoughts are applicable not only to the Midwest but throughout the nation. Now one of the issues that we will talk about in our report and particularly that I think are pertinent to what you're talking about today and tomorrow is the demographics. If you look at America's population today, you see that the immigrant population is the fastest growing segment of

our population by far. Thirty-five percent of U.S. population growth came from immigrants, but even more important to me is that 40 percent of our new labor force came from immigrants; meaning that our work force, where the growth has been in our work forces, has been particularly among the immigrants, and as we look to the future that's going to be even more crucial.

During the last decade the Urban Institute said that one out of every nine U.S. residents was foreign-born. One out of seven workers was foreign-born and one out of five students in school was foreign-born. I think that underscores anyone who in a public policy position says that immigration is a major factor when we're looking at the future of this nation and trying to determine how we're going to meet some of the challenges we face. Now I think everyone recognized that the 1990s was a very good decade for our economy. What I don't think a lot of Americans appreciate is one of the reasons we had the success in the 90s was because of the number of immigrants coming to America. They really fueled that economic boom and those are not just the words of my thoughts; those are the findings of the Northeastern University Center for Labor Market Studies, which found that immigrants were a major factor in the boom of the 90s; and also as commented by Fed Chairman Alan Greenspan. So while it's ironic that many people worry about immigration being a detriment to our economy, in fact immigration, recent immigration, as I think it has historically, has been a major factor in our economic success, and as we look to the future that's not going to change. We know that in the decade of the 90s immigration had a major impact. It's going to continue to have a major impact and I think a positive impact if it's handled properly.

The number of available jobs projected in the next decade, or by 2010, is going to be roughly 22 million, but current population projections are only a 17 million increase. So there will be 22 million more jobs where we only have 17 million people to put in those jobs. That underscores again, the importance why we need, from an economic point of view, to look favorably on immigration and not look upon it as a detriment. Also, one of the things that the experts tell us is the types of jobs that will become available between now and 2010 are jobs that immigrants are probably going to be more willing to take on than those who have been in America for several generations. Fifty-eight percent of the total job growth will arise in sections that require short work-related training while post-secondary degrees will account for only 13 percent of the increase. So again we know from recent history, as we know from long-term history, that immigrants are willing to take on jobs that a lot of Americans don't want to do. Now we also know they take on those jobs and move up the economic ladder, which to me is what America's all about.

So as we look to the future and we talk about immigration policy in this nation, anyone I think who's really concerned about America's economy continuing to grow has to view a positive immigration policy as a necessity and that's one of the things that I think we have found in our Task Force, that this is extremely important if we're going to see our economy continue to grow as we move through the twenty-first century.

I don't have to tell anyone in this room, I think to some extent I'm preaching to the choir when I talk about the positive implications of immigration. There are unfortunately some who do not view immigration in what I would consider a positive light. There are some who want to be restrictive, which I think would be very detrimental to this nation. It's critical though that, as we debate our

“Economic integration with other nations will continue and increase pressure for greater regional labor mobility, another issue that gets people pretty excited, sometimes very hostile to the question of immigration.”

immigration policy, we speak up and make sure the people understand that our economy depends on immigration and that dependency will increase over time. Economic integration with other nations will continue and increase pressure for greater

regional labor mobility, another issue that gets people pretty excited, sometimes very hostile to the question of immigration.

The key for the United States, and what we hope to contribute from our report, is that the United States will need to determine the right balance between having relatively open borders and how we protect our home land from attack. The United States needs to develop immigration integration policies that address the need for fully incorporating immigrants into American lives, and that's what's so important about this conference. You're talking about one of the most important facets of successful integration into our society; and that's making sure that immigrants have access to our financial institutions, that they're able to protect the hard earned money that they've made and see that money grow, and see that they have the opportunity that other Americans have, to buy homes and do the things that we do in this nation, and enjoy the fruits of our labor. So they gave me a list of things I could tell you what you ought to do, but I don't think I need to tell you. I think you people know much more about that aspect than I do. But let me just say I think it's extremely important for our immigrants to be successful and for us as a country to realize their fullest

potential. They need to be successfully integrated into our society, and what you're about to hear over the next two days is an important part of seeing that integration is successful. Now if this country does not face up to the need for enlightened immigration policy, let me just say from a political point of view, that's not always that easy, much easier in this room probably to agree on an immigration policy than on a national level, but it's critical. If we don't face up to this need then we will see our population decline, we'll see unfulfilled jobs, we'll see slower growth and I think perhaps, most devastating of all, we'll see increasing divided communities in our nation.

Now I'm optimistic, I'm hopeful that our American policy makers as well as our American citizens won't let that happen. And with your help, we can be successful in meeting that challenge, and making sure that we take advantage of a great opportunity this nation has had throughout our history and will continue to have as we welcome millions of new people to our shores and see that in a very short time they're no longer viewed as 'this' nationality or 'that' nationality but they truly are part of the American dream.

Thank you very much.

Keynote Speaker

Remarks by Tamar Jacoby
Senior Fellow, Manhattan Institute



Thank you, Charles, and thank you also to all the institutions that have played a role in sponsoring this conference for giving me the opportunity to speak to you today. It's a special pleasure for me to be here in this room because I spend a lot of my time traveling around the country making the case for immigration reform, and mostly that means talking to audiences that don't understand why immigrants are good for the country, people who argue, often with smoke coming out of their ears, that we need to lower the number of immigrants we admit, restrict their rights and even deport those already here – I'm sure you know the kinds of audiences I'm talking about. And in contrast, it's a great pleasure to be in a room like this where everyone understands exactly why immigrants are good for the country and is willing, even eager, to spend some time thinking harder about how to integrate them more effectively.

“So you as bankers may be saying you’re not interested in the fuzzy, amorphous steps like identifying as an American. But I’m afraid at some level you have to be – it turns out you have a stake in those steps too. All the layers, all the tiers, are interconnected. And all of us, all Americans, have a stake in the entire, complex process.”

Indeed, as I've learned this morning, many of you are on the front lines of immigrant integration. One way or another, you spend your days working to advance that cause – helping people put down roots in America by helping them interact, many of them for the first time, with

the U.S. financial system. This is extremely interesting and impressive work, and I've been learning an enormous amount listening to your presentations. And what I'd like to do with my time is stand back a bit – because if you operate on the front lines, I operate at 30,000 feet – and put what you're all talking about in some context.

How does the kind of financial integration you're talking about fit into the larger process of immigrant absorption? How is that absorption going in America today? How does the rest of the country – ordinary native-born Americans – think about the process? And what, if anything, should we be doing in addition to the kind of work you're doing to advance it? What should we as a nation be doing to encourage immigrant integration or assimilation?

Before I get started, let me say a word about terminology. Let's not get hung up on terminology. I use the word assimilation, among other words, but please don't misunderstand me. I'm not talking about 'melting' anyone. I don't mean obliterating the cultures that immigrants bring with them. Immigrant absorption isn't a one-way street; it's a two-way street – the American mainstream changes even as the immigrants do. I do believe that being an American means something. There's a non-negotiable core to the American identity, and we expect newcomers to buy into it. But that doesn't and needn't require anyone to forget who they are or what they brought with them. So please don't get hung-up on my vocabulary.

Because the point is that immigrants arrive, and what follows is a long, slow process – the process of becoming an American. It takes a lifetime and sometimes two. It's a many-tiered process, and it proceeds along what I like to think of as a hierarchy of needs. It starts with the very basics – finding your first apartment, getting your first job – then runs through opening a bank account and more complex steps like learning the language, all the way to the most amorphous and really miraculous

change; coming to feel that you belong and identify as an American.

Now obviously, in some ways, these layers are independent. You get your bank account; that's one step or one layer – and it's *sui generis*. But the layers are also interconnected. Sometimes the connections are simple and obvious, you can't get a bank account until you have an address. But there's also a more complex and emotional triggering system that operates between the layers. For example, you don't generally become a citizen until you feel you belong here. I compare becoming a citizen to getting married when you're already living together. And not surprisingly when you become a citizen, a whole lot of other things also begin to change. You're much more likely to buy a home, for instance, once you've become a citizen.

So you as bankers may be saying you're not interested in the fuzzy, amorphous steps like identifying as an American. But I'm afraid at some level you have to be – it turns out you have a stake in those steps too. All the layers, all the tiers, are interconnected. And all of us, all Americans, have a stake in the entire, complex process.

Now, as I'm sure you all know, we're starting to see a fairly serious debate in this country about whether assimilation is happening or not. 'Samuel P. Huntington' – need I say more? For those of you who don't know of him – in case there's anyone here who doesn't know him – Huntington is a highly regarded Harvard professor who has written a book, excerpted this spring in a widely read magazine article, saying that assimilation isn't happening, can't happen, won't happen. And he's not alone. A lot of other thinkers and writers are saying the same thing these days. A lot of other people are similarly worried about the future – and the debate is heating up.

But what's interesting about this debate is that the people who say that assimilation can't and won't happen are not generally citing hard evidence. Some are, but most are not. More often than not, what they're talking about are merely potential risk factors.

Some of their arguments are put forth in good faith: some are people trying seriously to diagnose the potential risk factors. Others are not in such good faith; put forward mainly by people who want to stop immigration and cite these potential risk factors to alarm us. Nevertheless, I think these arguments about risk factors have to be taken seriously. Imagine if you were a doctor – a physician. If you're a responsible doctor, you want to look as hard as you can at your patient's risk factors. You can't just shrug them off – can't say they sound alarmist, so you're going to ignore them. And we wouldn't be doing our job as social scientists if we were just to shrug off Huntington's arguments – if we didn't think seriously about the risk factors facing today's immigrants.

So what are the risk factors? You've probably heard many of the arguments. A lot of people are concerned that many immigrants today, more immigrants than ever before in our history, are coming from a single region and speaking a single language other than English. People who are concerned about this look at the immigrant population and the proportion of it that's Hispanic, and they're right; it's a high percentage – more than half. And they worry that these migrants are clustering in enclaves where the primary language is Spanish and the culture is Hispanic – enclaves where young people don't have to learn English to get a job and where there's not much incentive to look outward or participate in mainstream society.

A second risk factor: people talk about contiguity. Mexico, Latin America, many of the countries where the bulk of today's immigrants come from are right next door. And certainly, it's true; people travel back and forth very easily. And the argument is that this will get in the way of their putting down roots in this country. After all, why would you put down roots here if you can go home for \$250? And many people do travel back and forth in a circular, seasonal way – living between two countries for decades, if not most of their adult lives.

A third risk factor: people talk about the fact that today's immigrant wave hasn't and isn't going to benefit from a 'time out,' a period when we close the door and give the immigrants already here time to adjust and assimilate. After all, this argument goes in the last century; we did close the doors, closed them in 1924 and didn't open them again until 1965. And it was that period, people argue, that gave the Ellis Island wave time to assimilate.

Still another risk factor: people talk about cultural characteristics that may make it harder for today's immigrants to assimilate. There are more reasonable versions of this argument and less reasonable versions. But many people make the case that a large number of today's immigrants come from cultures that don't put a premium on education, and surely if true, that could be an enormous obstacle to assimilating in a knowledge economy.

Still another risk factor: the missing rungs in the economic ladder. A hundred years ago this argument goes, the route into the middle class was easier. You came as an unskilled laborer, but before long you were working in a factory, making what were then astronomical wages, and you used those wages to buy a house and build a life that became a springboard for your children. Then, before you knew it, they or your grandchildren were in college and on their way into the middle class. But today the argument goes, that path into the middle class no longer exists. Industrial jobs are disappearing, service-sector jobs don't pay the kind of wages industrial jobs used to pay, and there's no way for new immigrants working service-sector jobs to

accumulate the wealth that earlier immigrant families accumulated.

Still another risk factor: illegality. And there's no question about it, undocumented status is very much a risk factor. It creates concrete barriers but also psychological ones. If you have trouble opening a bank account, if you don't get in-state tuition breaks that allow you to send your kids to college, if you don't feel you belong and so don't invest in settling or succeeding here – obviously all of those things can be serious impediments to assimilating.

And finally, there are the cultural factors generated here in the United States. People worry about multiculturalism and identity politics – and they're not entirely wrong. We do put more emphasis on difference in America today. And yes, we're much less clear – there's much less consensus – about what it means to be American. And it isn't hard to see how that could make it harder for immigrants to identify with the mainstream and assimilate.

So those are risk factors, and let's be honest, some of them are serious potential problems. If even a few of them – just one of them – turned out to be the obstacle people think it could be, we could face a difficult future.

But the good news is that these are only risk factors – no one has actually proved that they're producing the kind of problems the alarmists worry about. And I don't see that it makes any sense to go through them and refute them theoretically – because they're just risk factors.

Far more useful, I think, let's get beyond the theoretical and look at the evidence. Are today's immigrants succeeding or not? Are they assimilating or not? Does the evidence suggest that the risk factors are taking the toll that alarmists say they'll take – or not? Let's look at a couple of concrete areas.

Let's start with language – the sine qua non of assimilation. And sure, it's easy to see why people are concerned that immigrants – and Hispanic immigrants in particular, aren't learning English; it's hard to learn a new language as an adult, especially if you come here without much education. And much of the time you can get by without it – many people do. Many people, particularly Hispanics, get by in today's immigrant's enclaves without much English. Our schools don't do as good a job as they should at teaching English; it's widely recognized that bilingual education has not fulfilled its promise. And yes, we hear a lot of Spanish all around us in America today among first generation Latinos, 72 percent are Spanish-dominant. That's a lot of people speaking Spanish and having trouble with English.

But the point is that first generation has never learned English well. They didn't a hundred years ago and they don't today. It's always the children who learn the new language and who, within months if not weeks, are

translating for their parents. And that's no different today. Among Latinos, in the second generation, everyone is proficient in English. If you grow up here in America, you learn English. Even if you don't learn it in school, you learn it from TV or on the street. Survey after survey bears this out; among the second-generation Latinos, 93 percent are fully bilingual or English-dominant. They understand that English is the language of their future; they prefer it even if they don't speak it as well. And by the third generation, almost all Latinos are English-dominant, so much so that two-thirds of the third generation speaks only English.

A second concrete measure of assimilation deals with economic and educational progress. Most immigrants to America today fill niches at the top or the bottom of the job pyramid. And I don't think we have to worry very much about those who plug in at the top end – the nurses and engineers and Silicon Valley entrepreneurs. During the '90s boom, Asians accounted for one-third of the scientific workforce and ran roughly a quarter of the high-tech companies in Silicon Valley. And I don't really think we have to say much more about them.

But unskilled manual laborers who come here with a seventh-grade education are a different matter. And certainly in that case, there are factors that are cause for concern. These newcomers often settle in bad neighborhoods. Their kids go to the worst of our failing public schools. They often catch a bad attitude toward schooling from their classmates in those failing schools. And even in the best of cases, the ethos in many Latino communities is to drop out of school as soon as possible, either to get a job or have a family. And there's no question, in today's knowledge economy, all of this can create problems – serious problems.

But there's good news here too. Second-generation immigrants work very hard in school, including second-generation kids from families of the kind I've just described. The best and so far biggest and most important study of the second generation followed 5,000 kids over more than a decade from inner-city schools in San Diego and Miami. And what the survey found was that on every dimension you could imagine immigrant kids do better than native-born kids. They do four times as much homework, two hours a night instead of the usual half-hour. They aspire to higher achievement, they get better grades, and they drop out far less often – between a third and half as often. So if school achievement is any guide, I think it's clear we're looking at a pretty rosy future.

Now, of course, the big question is what kind of jobs these kids end up getting. How will they plug into the economy? It's a particularly acute question in a knowledge economy, and there's cause for concern because of the disproportionately low college attendance rates we see among Mexican-Americans and other Hispanics. But I

think it tells you a lot about what kind of problem we are and aren't talking about when you consider the divide between pessimists and optimists on this question. The debate isn't between people who say the second generation is going to do terribly and people who say they're going to do well. Everybody recognizes that they're making progress. The question is what the benchmark should be. Should we be measuring the second generation against their parents, or should we be measuring them against their native-born peers? And the point is that however you measure it, even among the least successful ethnic and national groups, the immigrant trajectory is upward. Each generation does better than the one before. Among Latinos, for example, the second generation makes 50 percent more than their parents – not quite as much as native-born Whites, but still 50 percent more than their parents.

And frankly, what I think we're seeing among this Latino working class is a kind of alternative path into the mainstream – not the conventional Horatio Alger immigrant path, where you go from ghetto to college in one generation, but something more like the Italian-American path. I don't know if any of you have spent any time in Latino working class neighborhoods in California, but everyone in those neighborhoods owns their own home. Every house has an American flag flying from it. And every house has a truck out front, because the owner is a contractor of some kind. And if this doesn't seem remarkable to you, just think about it for a minute. Most of these are people who came here to work in the fields, certainly their parents came to work in the fields, just 20 years ago, they were the men who were pushing the lawnmowers, and today they own the company – they own the lawnmowers and the truck and they keep the books and they hire other, more recent immigrants to walk behind the mowers. You see the same kind of pattern in New York City, Mexican Americans who start out as dishwashers or busboys and end up, after just 20 or 25 years, owning the coffee shop – and all of this without going to college.

Not only that, but the numbers bear out these vignettes. The statistical evidence we have suggests there's something to this Italian-American parallel that I and other commentators like journalist Michael Barone have noticed. Despite all the obstacles they face in terms of language, education, difficulty navigating U.S. credit markets and so forth, business ownership among Latino immigrants is roughly equivalent to that of native-born Americans. And so, over time, are their rates of homeownership. The education bell curves are quite different than they are for the native-born. Obviously, Latino newcomers are way behind when it comes to accumulating wealth. But they gravitate very quickly to entrepreneurship and homeownership.

True enough, we've heard a good deal about homeownership this morning, and most of it hasn't been encouraging. But most of the numbers we've heard are aggregate numbers: no one has broken them down according to the number of years that immigrants have been in this country. And it's true – it takes a while for newcomers to settle in. Relatively few buy homes within five or ten years of arrival. But I haven't heard anybody talk today about what happens over time. And the fact is, according to the 1990 census, which are unfortunately the most recent numbers I have for this, but I doubt the pattern has changed, within 20 years more than 60 percent of Latinos live in owner-occupied housing. And by the time they have been here 25 years, their homeownership rates have passed those of the native born.

I could go on and on with numbers of this kind – statistics about improving educational attainment, naturalization, most astoundingly of all, intermarriage rates. And we can talk more about that later if you like, but the point is that for both Latinos and Asian Americans, the trajectory points upward. People are learning how to play the game here. They're making good, their children are getting on the economic ladder, often at the very bottom, but they're getting on and starting to move up.

And this absorption isn't just external. It's internal or subjective to – and the evidence on that score comes from opinion research. My favorite example was some terrific work done recently by the Pew Hispanic Center, which grouped Latinos according to how long they had been here and how well they spoke English, and then asked them how they felt about a number of personal issues, including – and this is the question I found the most striking – a question about fate, and free will. The question read, "Can you control your future enough to make plans for it – or is it better to accept whatever happens fatalistically?" Very deep, personal stuff – at the core of who one is and one's outlook on life, it seems to me. And amazingly, when you look at the way immigrants answered the question, you can literally see their attitudes shifting over time – it's like watching a time-lapse movie of people assimilating.

A full 60 percent of Hispanics who were still Spanish-dominant said you should accept life fatalistically. Sixty percent – that's compared to 15 percent of native-born Whites. But when the pollsters put the same question to second-generation Hispanics or those who had been here long enough to become English-dominant and absorb American culture, 75 percent said they felt they were in charge of their lives. Not quite as many as the native-born 85 percent, but getting close. Their inherited Hispanic fatalism had given way to an American can-do spirit in the space of just 10, 15 or 20 years. They weren't just going through the motions of assimilating – they were changing

internally too. They were becoming Americans – and many of them before they'd been here even a full generation.

So that's the snapshot, that's a quick picture of how assimilation is and isn't working today. And by and large, it's an encouraging snapshot. But even so, I think it raises the question: what can and should we as a nation do to encourage assimilation? I think it's obvious enough this is an extremely complex, personal process – and I don't believe we can or should be trying force it. I'm not sure we can even hurry it when it comes to change as deep and personal as this, coercive means usually backfire. But personally I believe there's quite a bit we can do to assist and encourage immigrant absorption, and what I'd like to do with the time I have left is throw out two ideas for you to consider – two big clusters of ideas about what we as a host nation can do to encourage this process.

Number one: I think we need to change how we think and talk about assimilation. We need to come up with a definition we really believe in – a definition we can get behind and work on selling to newcomers. That sounds simple enough, I know, but the truth is we don't have a definition like that. As most of you know, as recently as the mid-'90s and still today in many circles, assimilation is a taboo subject. Many people won't use the word. They don't see it as something we as a nation should be encouraging. And the result is that we don't encourage it – and I think both the right and the left are responsible for this failure.

The left's contribution is a little more obvious, in my view. They're the ones who don't want to talk about assimilation. They claim it's a dirty word. They've told immigrants that it's unnecessary and worse, to want to be incorporated into America – that it can be a form of oppression. Left-leaning scholars champion transnationalism, and pooh-pooh the idea of identifying as an American. They warn people of color that they will never be accepted as full members of the American body politic and urge them to question why they would want to belong in the first place. I don't want to tip over into stereotype here, but I'm sure you've all heard the arguments – assimilation is cultural genocide, or as James Baldwin famously put it, "Who would want to be integrated into a burning house?"

But don't get me wrong, the right has been as remiss as the left on this – albeit in a different way. Conservatives have jumped on the assimilation bandwagon with a vengeance in the last ten years or so, but the assimilation they've been promoting has been an impossible, coercive kind of Anglo-conformity. Angry right-wingers have scolded immigrants and spread alarm about them among the general public. They warn newcomers that they shouldn't cling too hard to the cultures they brought with them, that they shouldn't live among their countrymen or speak their mother tongue or identify too strongly with other people who look like them. It has even been

suggested that immigrants need to make a choice – either their past or becoming an American.

And I don't think it's hard to see how both sides – both left and right – are failing the newcomers and their children. Remember – we're talking about people who are still struggling to make it onto the ladder. Perhaps they've managed to get a hold of the very first rung, or climbed a few rungs up, and they're looking around and asking, 'How do I fit in here?' And one group of Americans is answering, 'You'll never fully fit in and shouldn't want to,' while another group scolds them, 'Well, in order to fit in, you have to give up your heritage and everything you brought with you, even who and what you think you are.'

So both sides are failing the immigrant community. There's a vacuum where there ought to be a billboard, or at least a signpost. And so the first thing I think we have to do as a nation is fill this vacuum. We have to come up with a definition of what it means to become an American. It has to be a definition that's consistent with the realities of the twenty-first century – with globalization and multiculturalism and ethnic niche advertising and all the rest. I have my own ideas about what that definition should be, and I'm sure you do too. But the point is that we as a nation have to come up with a definition we can stand by. We have to get to the point where people are comfortable using the term "assimilation" or some term like it. We have to be willing to say we want people to fit in and put down roots. We have to be willing to ask them to become Americans.

But that's only step number one. Step number two has to be more concrete, and this brings me back full circle to some of the important work you all are doing. Obviously, you, or many of you, are in the trenches helping people make these concrete steps toward integration: opening their first bank account, getting a mortgage, getting a business loan – critical steps up the ladder of assimilation. But my point is that I think even this important work could be more effective if the nation as a whole could connect the dots a little better. And what I mean by that is that I would like to see the public and private sectors and civil society making much more of a deliberate and coordinated effort to welcome immigrants and invite them in. How? Well, two ways: first, by setting some goals for integration – laying out what we think it means to become an American; and then by providing people with the tools to reach those goals.

Just think about it for a minute – think about how it works today. You arrive as an immigrant. Maybe your local community organization helps you find an apartment. Maybe a bank reaches out to you and offers a product. But these are scattered, ad hoc efforts, and basically you're on your own to sink or swim. We as a nation do not say, "Welcome. We're glad you're here. We want you

to prosper.” We don’t offer people any kind of roadmap outlining what their journey is going to be like. And we never suggest that we could help – that behind our seeming indifference, we actually want them to do well here. Essentially, we leave it to the market and assume that the rest will take care of itself. Now, don’t get me wrong, I’m not pooh-poohing the market. I’m glad all of you are making a living helping people open bank accounts and get mortgages and that sort of thing. But I think we as a nation can and should be doing much more to talk about the process and guide people through it – guide them through the opportunities that are open to them.

So the first step is setting the goals – essentially drawing the roadmap. Of course, most immigrants figure these steps out for themselves over time, if not immediately. But wouldn’t it make it easier for them if part of what we did in welcoming them was foreshadow some of the steps that are inevitably going to be part of their future? They grasp early on that they need to learn English, or their kids do. But how long does it take them to figure out, “Well gee, maybe becoming a citizen would be a good idea.” Or “having a credit card might help me function here.”

“We have to come up with a definition of what it means to become an American. It has to be a definition that’s consistent with the realities of the twenty-first century – with globalization and multiculturalism and ethnic niche advertising and all the rest.”

Or “if I voted, it could really make a difference for my life and my kids’ future.” Sometimes it takes a long, long time for people to figure these things out – to recognize the opportunities that await them. And why should we leave that recognition to the vagaries of the market or the

random accidents in their lives? Why couldn’t we as a nation set out a series of steps or goals and popularize them?

Now of course this has to be done in the right way. We can’t seem coercive or scolding. We can’t seem as if we’re trying to rush people. And it can’t be polarizing figures like Sam Huntington leading the charge. It should be community-based organizations and ethnic leaders and Spanish-language media and, yes, corporate marketers and appropriate government agencies. All of these different kinds of players should be working together to popularize a series of steps that assimilating immigrants can expect to take over time.

Think of the campaign that was mounted in the year 2000 to get minorities to participate in the U.S. Census – only on a much bigger scale. What would the goals be? Well, I

think they’re obvious: learn English, plug into the financial system, eventually become a citizen, vote, make sure that your kids finish high school. Now we can quibble about how exactly to frame those goals, but why couldn’t we as a nation go so far as to suggest that we think it makes sense for most people to do most of this within, say, 15 to 20 years of arriving? That’s not a deadline – we’re not going to kick you out if you don’t achieve all of them. But that’s the time frame within which most newcomers naturally meet these goals, so why not say we think these are goals and we think you should try to achieve them in roughly that period of time?

So that’s the first part of the process – the first part of what I think we, as a nation, should be doing. But that’s only the first prong of the two-pronged effort – because if we’re going to set goals, surely we also have a responsibility to provide the tools for people to meet them. Many of you are already doing just this – giving people tools to meet the goal of financial participation. But I think the nation could mobilize in a much more concerted and coordinated way to provide those tools and others.

If the first, most important goal is learning English, we ought to be providing English classes. The government ought to be spending much more than it currently does on English-as-a-second-language instruction, and the business community ought to be doing its part. If the goal is getting into the financial system, then one tool is financial literacy classes and outreach of the kind many of you are doing. If the goal is encouraging citizenship, we ought to be providing a more meaningful naturalization process. We ought to be offering instruction not just in English, but also in history and civics, and we ought to be providing volunteer mentoring by native-born individuals or families to help new immigrants get through the citizenship process.

There’s a long, long list of things that I think we could be doing – I’m sure you get the idea. But in closing, I’d like to come back full circle – come back to where I started – to the critical work you all are doing. You in the financial business are on the cutting edge of something very significant – and it’s important for two reasons.

The first is simply the services you’re providing. You’re not just giving immigrants their first lesson in financial management or helping them open their first bank account or get their first mortgage. You’re walking them through a step or series of steps that are part of a much larger process – a process in which every step builds momentum and eventually leads to another step and another and another step. That’s how assimilation works. It’s like an escalator where one thing has a way of leading, almost automatically, to another. Learning the language means getting a better job means making more money means opening a bank account. Or watching your kids thrive

means feeling more at home here means becoming a citizen means not just voting but also buying a home or starting a business. So every time you help someone – every time you do something as simple as help them open a checking account – you're also performing a much bigger service by helping them get on that escalator, and that in itself is critically important.

But even that's not the end of the story – because the reasons that have led your industry to do this are critical too. Nobody here, nobody who has spoken this morning has been bashful about this. You've been completely candid – few, if any of you, come to this out of sheer altruism. On the contrary, you've been telling us in no uncertain terms, your industry is driven by self-interest. And my point is that's good – that's a virtue because this is America after all, not statist Europe or Canada. And the only way anything like the movement I've been talking about – the movement to encourage immigrant absorption – is going to take off in America is if it's driven by self-interest, and the corporate world takes up the lion's share of the burden.

Sure, the government can and should jumpstart the effort by drawing up the first roadmap. But I suspect that even publicizing the roadmap will be beyond the government's power – beyond its ability and beyond the political will of anybody I've met in Washington. If this movement is going to take off on any scale that matters or that's useful, it's going to have to have a momentum of its own. It's going to have to get out of control – get out of control in a good way. And the only way that's going to happen is if other economic sectors – many others do what you've done – step up to the plate and start to play a role. And they're only going to do that out of self-interest, so in that regard too, you and what you're doing are a model.

So really, in closing, I'm back to where I started. I'm just glad to be here and be learning from all of you. Glad to have a chance to hear how you're doing well by doing good, glad to learn a little bit about how you're helping immigrants put down roots and become Americans by – of all things – drawing them into a productive relationship with the banking system.

Thank you very much.

Housing and Homeownership

Moderator - Raoul Raymundo, Chief Executive Officer, The Resurrection Project

Session Three

Financial Access for Immigrants: Learning from Diverse Perspectives

The third session focused on homeownership among immigrants and its importance for long-term wealth accumulation. Sherrie Kossoudji, associate professor of social work at the University of Michigan, began by citing her research with Stan Sedo, also of the University of Michigan, on homeownership as an indicator of wealth. Andrew Schoenholtz, deputy director of the Georgetown University Institute for the Study of International Migration, discussed joint research of the institute with the Fannie Mae Foundation to increase immigrant homeownership¹. Michael Frias, Chicago regional community affairs officer for the Federal Deposit Insurance Corporation (FDIC), addressed nontraditional ways that banks have penetrated immigrant markets and the role of the Community Reinvestment Act (CRA) in those efforts. Frias also discussed the New Alliance Task Force, an association of various concerned organizations, whose main mission is to bring immigrants into the banking system.

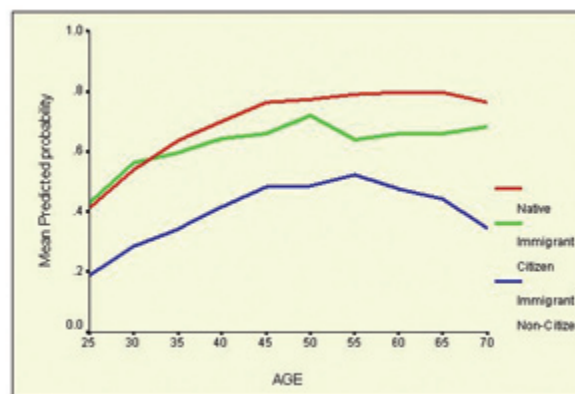
SHERRIE KOSSOUDJI
University of Michigan

Sherrie Kossoudji is an associate professor of social work at the University of Michigan. Kossoudji began her remarks noting that despite low education attainment and a tendency not to use traditional banking services, the high level of remittance activity to Mexico suggests a certain level of “financial savvy.” Her research with Stan Sedo of the University of Michigan focuses on homeownership as an indicator of wealth. Previous work she had conducted with Sedo focused on income of immigrants compared to that of U.S. born workers. But, said Kossoudji, “Suddenly it occurred to us that [income] covers a pretty transitory phenomenon...where the real action is in wealth.”

Kossoudji stated that the U.S. Census now tracks for the first time immigrant citizen homeownership rates distinct from those of non-citizens. She showed that in 2002 the

homeownership rate for U.S. natives is 70.3 percent, for citizen immigrants, it's 67.6 percent, and for non-citizen immigrants, 34.9 percent. At younger ages (25 to 35), there is almost no difference in homeownership rates between native-born and immigrant citizens; there is a disparity among older heads of households toward native born (see Figure 1). The disparity between non-citizens

Figure 1: Homeownership by Age*



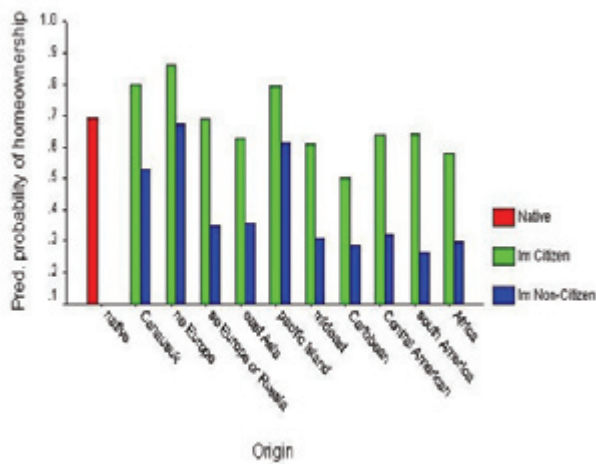
*Predicted value based on regression.

and citizens, both native born and immigrant, remains wide across all age segments.

Kossoudji also discussed the significance of nationality of immigrants, noting that Europeans and immigrants from other developed areas have higher homeownership rates than native born. She further added that ethnicity, not just national origin, has an effect on homeownership rates. After controlling for nationality, there is a wide disparity in homeownership rates based on ethnicity (Figure 2). This is an area Kossoudji urged others to research more deeply, especially given that home equity is a primary component of household wealth. Kossoudji concluded by summarizing the key findings of her research:

- Immigrant citizens and native born living in urban areas are equally likely to be homeowners;
- Immigrant citizens and native-born homeowners are almost equally likely to have no mortgage and have similar debt-to-value ratios when they do have a mortgage;
- Immigrant citizen homeowners have significantly higher equity values than natives;
- Immigrant non-citizens lag behind on every measure, no matter how many years they have lived in the United States; and
- Housing is a higher proportion of wealth for immigrant citizens and non-citizens than for native born.

Figure 2: Homeownership by Nationality



ANDREW SCHOENHOLTZ
Georgetown University

Andrew Schoenholtz is deputy director of the Georgetown University Institute for the Study of International Migration. He discussed joint research of the institute and the Fannie Mae Foundation that focused on practices to promote homeownership among immigrants.¹

Schoenholtz shared his experience in meeting with financial institutions to discuss his findings. He said that he usually begins the discussions on a macro level, noting that there are already 35 million foreign-born U.S. residents. That number is currently growing by roughly a million per year. About half come from Latin America and a fourth from various parts of Asia. Further, he referred to a point made earlier in the day that the last decade and a half has seen immigrants populating areas that had little immigrant settlement prior to 1990. These areas are

struggling to provide appropriate financial services and address other services and needs.

Schoenholtz cited research showing that the foreign born are three times as likely as U.S. born to rank buying a home as their number one priority, and posed the question: “Why are immigrants largely an untapped home buying market?” The study notes these barriers:

- Cultural assumptions/lack of familiarity with the U.S. credit system;
- Lack of credit history;
- Conventional tools used by financial institutions to measure credit worthiness;
- Language limitations;
- Conventional mortgage products out of reach for low-income; and
- Limited supply of affordable housing.

In undertaking the study, Schoenholtz stated that he wanted to focus on financial institutions that have had some success in reaching the foreign-born market, and the relationships they have with community based organizations (CBOs) and other partners to help them reach it. He noted that the study, which was published in 2001, uncovered a number of very good practices. The researchers wanted to ensure that the handbook would add value to efforts to reach immigrant markets, and so they formed a strategic business plan with the American Bankers Association (discussed by James Ballentine of the ABA in the opening panel).

Schoenholtz emphasized the need to design and market creative mortgage products with the goal of sustainable homeownership. The successful institutions have taken the time to conduct both quantitative and qualitative research on their markets to determine the community profile, that is, the makeup and cross-section of immigrants in the market. The successful institutions have also staffed themselves to accommodate their market, and made the commitment to re-evaluate the way they determine creditworthiness given special needs and preconceptions of many immigrants. They have further recognized that traditional mortgage products may not suit all immigrant markets.

Schoenholtz discussed qualitative aspects of determining credit needs and other market characteristics and ways to ensure success in delivering financial services. In effect, the bank must establish a presence in the community beyond what might traditionally be described as being a good corporate citizen. Schoenholtz stated, “Establishing a presence in the community and really building trust [among CBOs]...I can’t underscore more the importance of the trust issue, which is why partnerships become very,

very important. The financial institutions do not have to do this alone.”

MICHAEL FRIAS
Federal Deposit Insurance Corporation

Michael Frias is the Chicago regional community affairs officer for the FDIC. Frias began by addressing earlier comments about the CRA. “[The] CRA has never been about charity. We have never encouraged banks to do things they shouldn’t be doing; it’s always been about good business.” He stated that the CRA was enacted to keep banks from ignoring certain, generally low-income, markets. Even though the households that remit funds to Mexico, other parts of Latin America, and the Caribbean are among the poorest in the country, banks are actively pursuing their business because they represent an opportunity.

The CRA, Frias also noted, has encouraged banks to pursue nontraditional approaches to serving low-income and new immigrant markets. “We heard from James Maloney [of Mitchell Bank] that he will accept alternative forms of identification; there’s nothing traditional about that. They put a branch in a high school; it’s probably the only bank in the nation that has done that. And the bank is a certifying acceptance agent.”²

Frias discussed the New Alliance Task Force, a group of 55 organizations, including CBOs, small and large banks, regulators, capital markets institutions, private mortgage insurers, and the Internal Revenue Service (IRS). The principle mission of the task force is, “...to open doors for immigrants and get them into the banking system,” Frias said. The task force has four working groups focused on financial education, bank products and services (except mortgages), mortgage financing, and social projects. Frias discussed the work of the mortgage task group. The group developed a model mortgage product based on the mortgages already issued by Mitchell Bank in Milwaukee and Second Federal Savings in the Pilsen neighborhood of Chicago. The unique aspects of the product are that instead of a Social Security number, the applicant can use an individual tax identification number (ITIN) for documentation. Also, references from certain utilities, landlords, and even clergy can be considered in lieu of a formal credit history.

Frias stated that neither Mitchell nor Second Federal had experienced any losses or delinquencies in the approximately three years they had been issuing these types of loans. Mark Doyle, CEO of Second Federal, Frias said, “...told me that these loans are better than they’re saleable [to the formal secondary market dominated by Fannie Mae and Freddie Mac] loans.” He went on to

mention that Neighborhood Housing Services of America, which has made a secondary market for nonconforming loans for decades, would begin purchasing ITIN mortgages in the near future. Another entrant into the secondary market for ITIN mortgages, Frias noted, is the Wisconsin Housing and Economic Development Authority (WHEDA). The agency will work with four banks including North Shore Bank and Mitchell Bank to purchase ITIN loans. A unique aspect of the underwriting for these loans, Frias stated, is, “They are actually going to consider remittances (monies sent back to home countries) back to Latin America as an obligation...as alternative credit information.”

Frias noted that the USA PATRIOT Act, “...distinguishes between a U.S. person and a non-U.S. person.” For a non-U.S. person, a bank must obtain a Social Security number, an ITIN, or a foreign-issued identification as documentation to create the banking relationship. He stated that about 32 percent of bank offices nationwide accept alternate forms of identification adding, “That’s immediate access to the system.” The Chicago area banks that already serve the immigrant market with mortgage products, Frias stated, are mostly community banks that can implement decisions quickly, but are also having difficulty meeting demand in some cases. Frias closed by urging the bankers present to become well versed with the PATRIOT Act. Other than that, he advised bankers to stay aware of safety and soundness issues, and understand and manage default and other relevant risks.

Notes

1 The report *Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans*, can be accessed at www.fanniemaefoundation.org/programs/pdf/rep_immigrant.pdf.

2 An Acceptance Agent is an individual, business, or organization (college, financial institution, accounting firm, etc.) authorized by the IRS to assist individuals in obtaining ITINs. For more information go to www.irs.gov.

Innovative Practices for Reaching Immigrants

Moderator - Jennifer Tescher, Director, Center for Financial Services Innovation at ShoreBank Advisory Services

Session Four

Financial Access for Immigrants: Learning from Diverse Perspectives

The fourth conference session featured one community based organization (CBOs) representative who discussed her efforts to attract a bank branch to her community, along with representatives of a community bank, a nationally recognized credit union, and a large Chicago bank who discussed practices among their institutions to address immigrant populations in their market areas. Yman Huang Vien, chairman of American Metro Bank, discussed the importance of personal and specialized service based on ethnicity and cultural orientation. Norma Polanco, executive director of the Humboldt Park (Chicago) Economic Development Corporation, discussed her experience in encouraging a large bank to open a branch in a predominantly low-income and Hispanic community. John Herrera, chairman of the Latino Community Credit Union (LCCU) in North Carolina, discussed the innovative ways the credit union has found to address needs of the burgeoning Latino immigrant population in his region. E. Martin Heldring, president and CEO of Harris Bank-Glencoe (Illinois), discussed the challenges of shifting course in a large financial institution to provide relevant financial services to Latino immigrants.

YMAN HUANG VIEN
American Metro Bank

Yman Huang Vien is the chairman of American Metro Bank. Vien provided some background on herself, noting that as an immigrant refugee, a business owner, a one-time social service provider, and now a banker, she could comment firsthand on the importance of access to financial services for immigrants.

Vien arrived in the United States in 1978 via Malaysia, eventually settling in Chicago. Her family was initially on welfare, but only for six months. Neither Vien nor any of her family had any English proficiency at the time. Vien and her family are Chinese, though they lived in Vietnam.

Her father was a business owner in Vietnam, but worked in a factory in the United States. After several layoffs, he decided to buy a business in Chicago's Chinatown. He bought a garment factory that the previous owner financed for him. As garment manufacturing was not his previous business, he quickly ran into difficulty meeting current obligations and approached a local bank for a small loan. The bank determined that the factory's equipment was too old to use as collateral, and Vien's father had no track record running the business and no personal credit history. Vien noted that borrowing money is

Vien noted that borrowing money is not necessarily viewed positively in her culture, and many come to the United States not only unaware of how to undertake normal banking transactions, but also with only a vague, if any, idea of what a bank is.

not necessarily viewed positively in her culture, and many come to the United States not only unaware of how to undertake normal banking transactions, but also with only a vague, if any, idea of what a bank is. She also stated that though many Asian immigrants are viewed as wealthy, financially aware, and not in need of assistance to understand the

financial system, the same is not true of Asian refugees.

American Metro Bank was formed in 1997 in Chicago's Uptown neighborhood, an ethnically and culturally diverse area of the city. It is a point of entry for many different immigrant groups, both refugees and mainstream immigrants. Vien pointed out that the bank serves many ethnic groups and staff members have proficiency in a disproportionate number of languages. The bank's costs are consequently higher, and Vien stated that the bank's

distinguishing competitive characteristic is service as opposed to price.

Vien noted that the bank is a certifying agent for individual tax identification numbers (ITINs) and estimated that the bank had processed about 500 applications since gaining certifying agent status. Many customers open checking accounts with the minimum balance and then wire money to their home country when they reach a certain balance. The bank has gone from approximately five wire transfers per week to 15 per day since becoming a certifying agent, and the amounts of the individual transfers, she noted, continue to grow as well.

Vien emphasized the importance of personal contact with customers, stating that most of her day is spent greeting individual customers, almost all of whom she knows by name. She shared several anecdotes about customers of different ethnic backgrounds, and mentioned that in addition to one in Uptown, the bank has branches in Chinatown, Humboldt Park, a primarily Latino community, and Harvey, a predominantly Black, non-immigrant, south suburban city.

NORMA POLANCO **Humboldt Park Economic Development Corporation**

Norma Polanco was the executive director of the Humboldt Park Economic Development Corporation (HPEDC) at the time of her invitation to speak at the conference. Just prior to the conference, she had taken a position with the Office of the Comptroller of the Currency, a bank regulatory agency, in Cleveland, Ohio.

Polanco discussed her experience in her former role in trying to attract a financial institution to the Humboldt Park community, northwest of the Chicago Loop. The HPEDC's mission is to facilitate entrepreneurship opportunities in the community by providing employment training and workshops. The Humboldt Park community has roughly 60,000 Puerto Rican, Mexican, and Black residents. There is also a small proportion of ethnic Whites and some small pockets of gentrification.

Historically, Humboldt Park was settled by eastern Europeans, but more recently has become known as a predominantly Puerto Rican community. A recent, large influx of Mexican residents has changed the demographic profile and given rise to much higher demand for wire transfer services, low-cost transaction accounts, first-time homebuyer programs, and multilingual bank staff.

Polanco noted that the average household income in Humboldt Park hovers around \$30,000, though it is somewhat higher for Latinos than for Blacks. It has a relatively young population; 71 percent of Latinos and 44 percent of Blacks are under age 40. Polanco stated that only 22 percent of Latinos and 17 percent of Blacks in

Humboldt Park possess high school diplomas, adding, "We have a number of barriers besides language barriers... high unemployment, high drop-out rates, and in turn there might be a lack of role models in the family that have a relationship to a banking institution."

The goal of attracting a mainstream banking institution to the community was the result of a larger strategy to revitalize the commercial corridor along North Avenue, a main thoroughfare, that included improving streetscapes, attracting new businesses, strengthening existing businesses, and constructing partnerships between residents and businesses. The HPEDC surveyed residents to determine what local services were lacking and where they needed to go, for instance, to gain access to those needed services. After a U.S. post office, a bank was the second most desired institution in the community among the 470 households surveyed. At meetings arranged at local schools and other institutions, residents discussed their interest in bringing a bank to the community. A key point raised at some of these meetings was the desire to avoid the crime associated with carrying around or keeping large sums of cash.

Polanco cited a Chicago Tribune study showing that the ratio of bank branches to population was nearly 50 times higher in Lincoln Park, a very affluent Chicago community, than in Humboldt Park. Polanco stated, "With the Chicago Tribune for instance, we were able to leverage their report to continue our [efforts] to bring a bank to the area, and we wanted to let the banks know that we would help publicize their efforts and it would be a win-win for both of us." The HPEDC recruited undergraduate students from DePaul University to research bank CRA records and the organization conducted a search using other criteria as well. Ultimately, the HPEDC connected with Charter One Bank, which had already been considering Humboldt Park as a branch location. Further, the bank staffed the branch with an eye to the community employing predominantly bilingual and Latino staff, and offered a product line consistent with the needs of the community, including low-cost accounts and wire transfer services, and financial literacy and first-time homebuyer training. The bank also offered an enclosed ATM (automatic teller machine) for the first time in the community, another frequently mentioned amenity in the course of the HPEDC's research.

Polanco closed by noting the additional investment in the community that the addition of the bank branch has drawn, "We've been able to connect with other banks that are interested in our area; it helps businesses and attracts the infrastructure improvements. It's obviously provided much needed financial services for the unbanked."

JOHN HERRERA
Latino Community Credit Union

John Herrera is chairman of the LCCU in Durham, North Carolina. He is a naturalized U.S. citizen originally from Costa Rica who had settled in North Carolina in the early 1990s.

Herrera began by discussing the changes in demographics in Durham during his tenure there. He shared a personal anecdote that essentially illustrated the broad acceptance of Latino immigrants into the local/regional marketplace. He discussed the importance of investing in financial education when and where it is needed to encourage immigrant communities and populations to participate in financial services and obtain bank accounts.

Most of the presentation was devoted to a video documenting the establishment and growth of the LCCU. The credit union was created in response to the rapidly expanding immigrant Latino population in urban North Carolina that tended not to use bank services, a condition that was giving rise to robbery and other crimes. The LCCU was created with assistance from the States Employee Credit Union, the Self-Help Credit Union, and the North Carolina Minority Support Center. The partnership also involved the North Carolina Credit Union Network, the Carolinas Credit Union Foundation, and the National Credit Union Foundation. A cornerstone of the services the credit union provides is financial education, critical for a population three-quarters of which had never previously held a bank account.

The LCCU was one of the first financial institutions in the country to serve members without Social Security numbers. By helping members to obtain ITINs so that they could open interest-bearing accounts, the LCCU led the way for other credit unions and eventually other financial institutions to open transaction accounts using ITINs. The credit union also helped charter the Latino Community Development Center, a statewide nonprofit with the goal of supporting CBOs.

E. MARTIN HELDRING
Harris Bank-Glencoe

E. Martin Heldring is president and CEO of Harris Bank-Glencoe. As a representative of a large Chicago bank owned by a foreign bank (Bank of Montreal), with personal experience running a bank branch in a foreign country (South Korea), Heldring discussed the challenges facing a larger institution in changing corporate culture.

In the early 1990s, Heldring noted, Harris was not quick, in contrast to the community banks represented on earlier

panels, to respond to the growing Hispanic banking market. "In a big organization, it's not like you can go into one room and say, 'We're going to do this.' [The decisions involve] legal, audit, compliance, marketing, operations, systems, technology, and I'm just touching the basics." Heldring added, referring to hiring of Spanish-speaking staff, "Our [human resources] department came to us and said that test I mentioned to see if someone spoke Spanish would cost us \$500,000 to produce...We ended up going to an outside service that cost \$25 a time, but that took nine months [to approve]."

Heldring noted some early hurdles in addressing the Hispanic market once the bank's management did decide to pursue it. A branch in a Chicago suburb, Waukegan, was turning away 90 percent of loan applicants because of documentation rules. Without a Social Security number or credit history, there was no basis at the time on which to approve a loan. Even in establishing a deposit account the bank encountered difficulties. The bank has a policy of running credit checks on applicants for transaction accounts. Heldring stated that in the late 1990s the bank had a wire transfer service, but it took two days for the funds to arrive at their destination. The bank was competing with services that could transfer funds in a few minutes. Harris partnered with Bancomer of Mexico to offer a more competitive wire transfer service. As had many previous speakers, Heldring emphasized the importance of community partnerships. The bank is approached frequently by various groups, and some early partnerships, "...weren't as productive as we had hoped," he said. He stated that the bank is only interested in long-term relationships with partners seeking to address community needs, including financial education of immigrants.

Despite early challenges, Harris was a leader among the larger Chicago retail banks to address the Hispanic market, Heldring noted. The bank was the first among large Chicago banks to introduce a Spanish language Web site and bilingual call center, and recognized at an early stage the need for financial education. Still, for some a deposit account is not the answer, "There are some people who can't deal with banks and some who don't want to deal with banks...so we launched Harris Express, which provides check cashing, money transfer, and bill payment, all to those who are unbanked." In closing, Heldring stated that the bank, after success with the Hispanic initiative, moved aggressively to address other immigrant populations and is now researching new features for ATMs that may include the ability to wire funds.

Keynote Address

Remarks by Henry Cisneros
Chairman, American CityVista and
Former Secretary of Housing and Urban Development



This is a coming home moment for me in a number of ways. Obviously, being introduced by a person that officed right next to me for four years, and we were inseparable for hours and hours of the day, is special. But also present here this evening, and you'll hear from him tomorrow, is the present assistant secretary of HUD for housing, the housing commissioner of the United States. It's also the job that includes the FHA commissioner of the United States, John Weicher, who is a very distinguished public servant having served at HUD during the Jack Kemp years and then returned in this administration.

John, very good to see you and congratulations on your wonderful work at HUD, and of course, President Moskow of the Federal Reserve Bank of Chicago. I feel very close to the Federal Reserve System. I had the privilege of serving on the Dallas branch bank before going into the Cabinet; it was a wonderful experience. It gave me as a business person then, kind of unique insights into the decision making process of the Federal Reserve. And then, during the years that I was at HUD, I maintained a strong relationship with the chairman and was privileged to watch from the vantage point of Housing Secretary, the effects of Federal Reserve decision making through the '90s and what it meant for our country: obviously, one of the longest economic expansions on record as a result of that solid economic management, low interest rates, employment growth, record job creation, wage increases, declines in poverty rates, the lowest poverty rates for minorities on record since the creation of the indices in the 1960s, record homeownership rates, and then economic effects on social indicators like infant mortality rates and such. That was the legacy of a long economic expansion and we can all respect the work of the Federal Reserve decision makers; I certainly do. And Mr. Moskow, thank you for giving attention to this subject by your presence and by cosponsoring this with the Brookings Metropolitan Center. In many ways that kind of economic progress, evolution if you will, for our country makes this

conversation, the subject of this conference, possible and productive.

My perspective on the convergent themes of this conference are several. First, I speak to you as a son of an immigrant mother, of immigrant grandparents. I live in my grandparents' house in an immigrant neighborhood of San Antonio, the west side Latino community of San Antonio today. It's not unusual as the house quiets down for the night to hear voices out on the street walking along the sidewalk outside of my house, and it's quite likely that there are people who've arrived literally within the last hours or days in our neighborhood. The church that we attend, the Catholic parish, one block from my home, when we left for Washington in 1992, was a church that was almost empty on Sundays, maybe a quarter full, mostly older people in a neighborhood that had been in decline as the young people moved on and older folks died off. We came back in 2000, to that same neighborhood and the church is absolutely packed, literally cannot get into it on Sunday at the 10:30 mass or the 12:30 mass for the number of immigrants who now populate that neighborhood.

The San Antonio experience is not dissimilar from what other cities are experiencing. It's a truly powerful, in our community, revitalizing, energizing impact, so I speak to you from that perspective, as well as, Bruce suggested, having served as president of what is now the fifth most watched television network in the country. After ABC, NBC, CBS and FOX comes America's Spanish language network Univision, a testament to the number of people who are watching Spanish language television. And I watched from that perspective, the evolution of thinking about what has been called assimilation, give way to another concept of 'acculturation,' as fewer people sort of move automatically into the mainstream of American society and instead maintain dimensions of their own

culture, not just Hispanic, but a wide range of cultures across America.

I also speak from the perspective of the professional work that I'm doing today, which is working on building homes in communities and seeing the dynamics of rising immigration and rising economic prospects for immigrants play out in America's cities. In the 1990s, New York achieved the highest population in its history, eight million people, largely because it is the number one destination for immigrants among America's cities. You've seen the resurgence of entire neighborhoods, such as the Bronx, and a virtual United Nations honor roll of nations from which immigrants come to New York: Dominicans, Chinese, Russians, Eastern Europeans, Israelis, Mexicans, Middle Easterners, Africans, and people from the Caribbean.

In Houston, Rice University professor of sociology Kleinberg has just finished an analysis in which he charts the evolution of Houston as a city in two dimensions, what he calls the two revolutions of Houston, the economic transformation from an old industry oil energy capital to a kind of new broad-based, small business entrepreneurial city, and the revolution associated with the demographic change that's occurring in Houston, which has become the number one destination for Nigerians in America, for example, because of the old oil connections. The Hispanic community of Houston is now the largest in Texas having surpassed my hometown of San Antonio. But it's not because of Mexicans, it's because of Guatemalans, Hondurans, El Salvadorians, other Central Americans who have gone to Houston.

And of course Chicago reversed 50 years of decline in the census pre-2000. For five previous census, Chicago had a smaller population than the previous ten years, until 2000, when the tide was turned. And it was again, largely, experts agree, a function of the immigration increases. Absent the immigration increases, the decline would have continued. Today as those of you who live in Chicago know in many neighborhoods the issue is how to deal with overcrowded schools. Ten years ago the issues were the closing of schools in many neighborhoods that simply were not being utilized.

Other American cities without immigration have paid the price for the lack of being a sufficient economic or social magnet. City council members in Philadelphia have debated how to offer incentives to immigrants to come to Philadelphia, and a front page Wall Street Journal story on Pittsburgh describes the efforts there of minority communities to attract other immigrants to Pittsburgh for the benefits that they will bring. We see similar effects, not just in the major cities, but in other parts of our country which are dramatically impacted by immigrant flows: Arkansas, whose Latino population grew by 400 percent

in the 1990's; Georgia, immigrants of multiple nations go to work in the textile industries of Georgia; North Carolina, textiles and furniture draws immigrants there; meat packing in Kansas and Nebraska; and migrant-related work in Washington state. It is truly a national phenomenon and it's impacting big cities and small communities all across America in profound ways.

The final perspective that I would give you is from a role that I play in San Antonio as a former mayor, and active in economic development, and it comes from a recent series of visits to Japan. In association with the attraction of a major Toyota plant, which is located in San Antonio, about an \$800 million plant that will employ 2,500 people and produce the Toyota Tundra in a poor neighborhood of San Antonio. It is the absolute dream moment for a former mayor involved in economic development, and I must say that at least part of the Toyota calculation as to where to locate that plant was driven by these same factors.

They, Toyota, under-perform among Latinos, and Texas has the second largest Latino population in America; it's also the most pickup-driving state in America. You put all those factors together, and it results in a plant in a place where they can market the fact that they are producing vehicles for this community.

In any event, during this trip we met with leaders of the Japanese Kaydondron, which is kind of an amalgam of their top business leaders and governmental leaders, and they were decrying. These are the top business leaders of Japan, in private conversation, decrying the loss of population they project over the course of the next 40 years or so. It's a fearsome subject for them because this is a free enterprise economy that will have a smaller market. We haven't experienced that in the developed world before, in modern, developed, industrial nations such as Japan.

It is a prospect that confronts not only Japan, but also Italy, Germany, and France, which traditionally have had serious issues, to put it mildly, with immigration. The Japanese basically are very tough on immigrants and Koreans who go there have a very difficult time. The Germans, the Italians, the French, similarly, – we all follow the news, I won't get into that here – but the fact of the matter is, they are going to confront issues of Social Security adequacy, of health systems financing, and of military staffing because of their population dynamics. The United States of America will not confront those problems.

We will have other issues, but declining population, loss of economic momentum or energy, and loss of markets will not be an issue because we are an immigrant nation. And even as we have one population group that ages, so we have other population groups that are young and characterized by large families. And they will not only

rejuvenate neighborhoods and communities, but provide markets for the American economy.

While I was at Univision we did an analysis of the automotive industry, and it showed that at about 2008 or so, absent immigrants and minority purchasers, the growth in immigrant and minority automobile purchases flatten out in the United States. It is only when you reinsert those immigrant numbers that they grow at about 100,000 automobiles per year – as I say, beginning about 2008. So this is a real economic issue and immigrants will play an essential role in the American social and economic future.

It is a corollary that financial services are not a luxury, and cannot be thought of as something that is somehow nice, but not essential. I would argue that financial services in modern America are as essential a utility, if you will, as water or electricity in our cities. Once upon a time you could live without piped water or electricity, but in a complex, modern, integrated, specialized society, we fundamentally cannot; and we have evolved to the point where basic financial services are in the same category in our modern urban communities.

This conference focuses both on the inadequacies of availability of financial services, and therefore, corrective steps as well as recognition that the market is moving quickly. Many people in this room are moving to fill the gap and provide financial services, and therefore, will provide insights and guidance – sort of constructive suggestions – about how to move the ball forward. In both respects this conference is important.

I know that you'll be talking about traditional services: checking, savings, ATM, credit card, very important basic services. Many immigrants have little experience with these and because they are reluctant to engage, create problems for themselves in the long run because they have no banking records or experience. We run into that all the time in our work. We're also seeing an evolution towards more sophisticated products, such as insurance and the recognition of insurance. Many immigrants understand basic life insurance and will make sacrifices to get insurance, but simply don't have the knowledge of more sophisticated types of disability insurance, long-term care insurance, and other important financial products for the long run. Retirement products, investments in stocks, bonds, mutual funds, and CDs, are sort of the next step in the evolution of financial sophistication in immigrant communities.

Housing and mortgages, obviously, are critically important. For most Americans the sum total of their net worth is the equity they have in their homes, and when we see a homeownership gap of the dimension that continues to exist, obviously I am very proud of the work that we did on our watch. I am proud of John, the present secretary, and the administration, to continue shoring up and boosting

the national homeownership rate. It's now the highest in American history; the homeownership rate is over 68 percent. The White homeownership rate is 74 percent, and although the minority homeownership rate grew at the fastest rate on record during the 1990s, in recent years it is still only 48 percent. Sixty-eight percent is the average, 74 percent is the White percentage, and 48 percent is the minority – a 26 point gap to the White rate.

It would be bad enough if that gap suggested only a gap in the honor of being a homeowner, but what it really represents is a gap in access to the levels of wealth, to the basic instrument, the first instrument of amassing something beyond income that represents savings, wealth, and equity in our society. So it is critically important to address the gap in mortgage opportunities as part of the discussions at this conference.

Small business loans, access to capital for small businesses is another subject that you will be covering. In Texas I was looking at some numbers today, the African American community is 11 percent of the population of Texas, but owns only four percent of small businesses in Texas. The ratio is 37 African American businesses per thousand population, against 184 businesses per thousand in the White community; vast differential. Any way you look at it, whether number of loans, size of loans, or number of rejections, the numbers are badly skewed in our society with respect to small business loans for ethnic minorities. And of course, immigrants are buried within those numbers. Then of course, the issue of remittances and international linkages, which are hugely important in immigrant communities, and companies that charge huge amounts for providing remittances.

Let me share with you a few overarching observations, if I may, related to this range of subjects that you've already addressed today or will address in the conference tomorrow. Just a number of random observations, if you will, and I speak not as a scholar, or as a researcher, but from the perspectives that I've already described as my vantage point for thinking about immigrants and their financial needs.

The first is that immigrants and American minorities generally are now a core business concern. As I tried to describe a moment ago in the statistics I cited, relative to the automotive industry, in industry after industry in our country, companies must decide whether or not they are going to treat immigrants as a core business strategy issue. In my judgment, those that get it, those that understand that basic reality, will grow, and others will find themselves in another decade wondering why it is that they stagnated, why it is they didn't grow. And it's a basic strategic question of whether or not they're going to address the immigrant and minority markets.

Secondly, many companies will understand that they have to innovate with respect to the practices with which they address immigrant communities, particularly those related to creating access; that will mean user-friendly locations. There's a lot of interesting discussion about locations and whether or not mainstream financial institutions should go into minority communities as themselves, or as an entity with another face, with another name, as many financial institutions do. I've even read that some institutions that think they ought not put their best foot forward, ought not put their nicest retail location in a minority community because it would make people uncomfortable, and they want something that's a little less grandiose in a minority community. I think that's falling victim to urban myths. Minorities are, like every other community, complimented by the best corporations can put forward and that means strategic locations, it means user-friendly material, language appropriate materials. It means companies position themselves by their advertising, how they position themselves with respect to the community and it means perhaps, training staff to provide comparative examples between products and techniques utilized in the United States and things that they may encounter in their home countries where either legal or financial practices are different. And all of those things are simply practical

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dimensions of relating to immigrants and relating to the marketplace in an effective way.

Another dimension of this third point, is that with immigrants, as with respect to every other population, one must be mindful of the phases of life. That is to say, recent arrivals or arrivals within the last five years are in a very different financial and life situation than people who have been here for a longer span of time. We know that homeownership is a huge goal, for most American immigrants, particularly for Latinos for whom the land, la tierra, is something you can control and own and have the honor of being the homeowner; inviting family over, of having family celebrations, is hugely important and they work very hard for it.

Roberto Suro and Pew have published some data on this in recent months that shows the rapidity with which immigrants work at becoming homeowners, and therefore need the kinds of financial services we've described. So there are differences between recent arrivals, people who have been here for a while, and second generations, and all of those require financial strategies targeted to those phases of life.

A fourth point I would make is the importance of staffing. It will mean hiring people who can relate to immigrant communities and yes, that does mean hiring persons of similar ethnic backgrounds, and it does mean focusing on issues of language. But in my experience, hiring people of the same ethnicity and language is probably not enough because there is cultural nuance. Some of the greatest disrespect I have seen towards Hispanics is from other Hispanics who think they are at a higher state of life or education or sophistication, and look down on people in the almost kind of 'padron' way that we see in Latin American nations. These sort of class differentiations can be very painful for people who come for financial services.

Time and again I've seen people who show up in blue jeans and scuffed boots with the big cowboy belt and a big buckle and rough calloused hands of a construction worker who have need for financial services and real capabilities but never get respect. They walk in with a shy demeanor because they're ashamed of their pronunciation of the English language or because they are ready to accept the disrespect that will come because of their social station in life. It is, for me, a very painful thing to see, forget the level of analysis or public policy, just as a human being to see people treated in that way.

I recently had the opportunity to attend a church service in Phoenix, a Catholic service in downtown Phoenix, and the priest asked me to say a word, and I did. And then he asked me to stand with him at the back of the church as the parishioners came out and greet them. And I wanted to learn something from the experience, so I asked every family what they did and no exaggeration, every single worker, male, who came out of that church had a family, was in construction – every single one was in construction – and they dressed as if they were in construction and I could imagine how they would be viewed by someone who did not understand the pride of owning a pickup truck and a wheelbarrow and some tools and being able to head out and do driveways and curbs in the Phoenix area, and would be looked down on in the air conditioned, carpeted, nice setting of a financial institution. And yet I know that those people are very proud of their capabilities, have real resources, have real businesses because most of them introduce their sons who are working with them in the business and now have a business that is a thriving enterprise that's really going to amount to something. The staffing is important because it adds a human face

to financial services that are increasingly technologically driven and it will be very important to have people who can interface, who can interpret, if you will, the technological processes and who can bring judgment and as I say, cultural nuance to financial transactions.

A fifth point is that we have to be cognizant of the abuses that occur in the financial environment. I serve on the board of Countrywide Financial, the largest non-bank mortgage provider in the United States and we constantly wrestle with these issues; the line between sub-prime lending and what crosses over into predatory. I'm not particularly proud of this, this is something that pre-dates my service but Countrywide offers its prime mortgages in the name of Countrywide and its sub-prime in the name of a company they call Full Spectrum Lending, it's a completely different company.

Now I'm not suggesting that they come anywhere near the line of what would be predatory but they feel a need to market the sub-prime in a different way. Now, sub-prime in and of itself is not a bad thing, were it not for sub-prime many people, many minorities would not be able to get mortgages because the risk analysis of their financial situation requires a higher price, it is an actuarial calculation that results in a higher price and pushes them over into the sub-prime world. That is a business reality of the situation but it does require thoughtful analysis of this whole area of sub-prime. I have a great respect for Frank Raines, the chairman of Fannie Mae who served as the head of the Office of Management and Budget in the Clinton administration, top flight business person of high integrity and he believes that we need to find ways to articulate the truth about sub-prime, how it works, and how it can be made available to people and what a significant part of the answer it is in many minority communities.

It is also true, we have to be careful however, to avoid automatically pushing people who ought to be prime lending candidates into sub-prime because of who they are, because of how they look, or because of external dimensions of their characteristics. So this whole area of sub-prime lending is critical as we think about minority communities. And then of course, there are the things that do cross the line; payday lending, check cashing at exorbitant rates, rent-to-own stores, home repair financing, extra charges for remittances, auto title lending, all kinds of devices that people have come up with that are not regulated, that suck money out of minority communities because other vehicles are not available to them. And obviously, a lot of thought and a lot of attention needs to go into those things.

The sixth point that I would make is the importance of financial education, of financial literacy and I know that this is a subject on the agenda here. I won't dwell on it

other than to say that it is critically important because so many immigrant individuals in our society and minority individuals get themselves in trouble without even knowing that they are heading in that direction or without knowing that they are in trouble. Time and again we run into people who have financial capability but their credit record is a disaster for decisions they made five years ago, or automobile payments they didn't make five years ago. It's critically important that we educate people in the forums where they can be reached early about the implications of financial decisions that they make; it is in all of our interests to do that. It is critically important that we start with the very young. I'm working right now with Bob Litan, who you'll remember was at OMB, who is with the Kauffman Foundation now in Kansas City, a foundation that gears itself to entrepreneurship and small business lending. And we're working on creating a curriculum for high school students that can teach them the workings of the American economy and personal financial literacy in order that we can begin to, at that level, explain to young people the problems associated with making bad financial decisions.

Financial education will also allow financial institutions, collectively, to help make the market among immigrants. When you watch an NBA basketball game and you see the Fannie Mae Foundation advertising the joys of homeownership, it is because they are trying to reach particular demographics who they believe have issues in homeownership or credit and are attempting to articulate a message, a targeted message, helping to make the market for the long run. This is not something that's going to reap immediate benefits to any company or even the sector, but it is an essential underpinning of building the market for the long run.

The seventh point I would make deals with legal issues and I don't know to what extent you will address those in this conference, but the issues associated with documentation of immigrants are very large and important. In the home mortgage field, most mortgages cannot be made, even with a Matricula Consular without a Social Security number and there may be perfectly good reasons for that. Now there are financial institutions who are pushing the edge. I know of several banks, for example, who are offering mortgages with the skimpiest of documentation, they are willing to carry the paper and make mortgages. The whole country has to address this in a rational way. I think its part and parcel of the immigration discussion, its part and parcel of the security issues discussion, privacy issues and a lot of other things, but I do know that one of the absolutely major impediments in the mortgage field to tapping the full potential among immigrants is the documentation questions. You cannot attend a minority, either Hispanic or other immigrant, real estate meeting without the focus being how do we

solve the problem of documentation if we want to extend mortgages further.

And, finally, the eighth point that I would make, just again random observations, is the importance of other financial vehicles beyond the traditional; vehicles such as credit unions, vehicles such as community development financial institutions and others which can offer credit and financial services in places and in ways that traditional financial institutions may not.

Let me close simply by saying that this discussion is fundamentally about expanding national opportunities,

“It’s critically important that we educate people in the forums where they can be reached about the implications of financial decisions that they make early, it is in all of our interests to do that. It is critically important that we start with the very young.”

not only for those who are immigrants themselves but for our economy and the institutions that comprise it. It’s about giving people the full range of life choices because what we’re talking about in financial services is exactly that. As I said at the outset, it is a fundamental part of the mechanics,

the lubricants if you will, that move a modern enterprise society, and we have to extend the full benefits to all of our citizens.

I’m a believer in the inevitable march of human progress and to me one of the most sort of beautiful ideas that captures it is a quotation from John Adams who in a letter to his wife Abigail, mused on the progression of life and service and work. Paraphrasing, he said “I study war and diplomacy so that my sons can study commerce and agriculture and the building arts so that my grandchildren can study the arts and literature, music, horticulture and the humanities.”

I’ve often thought that there’s a sort of modern analog to John Adams framework. It’s possible for this generation of Americans to say, our fathers and mothers worked through a depression, won a world war against fascism, and beat dreaded diseases like Polio so that my generation could participate in a civil rights movement, advance the rights of women in our society, send men and women to space, and work to tame the vagaries of the economic cycle. That creates stability in which people can prosper so that our children’s generation can make meaningful progress on things like the global environment, conquering world diseases, and ravages such as cancer, creating enduring and respectful peace around the world, and building a society in which everyone has a place, in which our

diversity is celebrated and our system allows everyone to find their place. All so that we can, in a modern sense, harken back to John Adams time and say truly, with absolute sincerity and significance that we live in one nation, under God, indivisible with liberty and justice for all.

The subject of this conference deals with no less profound subjects than that. Thank you very much for allowing me to be with you.

Friday, April 16, 2004

Remarks by Ben Bernanke
Governor, Board of Governors of the Federal Reserve System

The Case of Remittances



I am delighted to join you here at the Federal Reserve Bank of Chicago to address this conference on financial access for immigrants.

As everyone attending this meeting knows well, immigrant communities in the United States have become increasingly visible as well as economically important. Unlike some earlier periods, during which political refugees made up a larger share of the inflow of migrants to the United States, most immigrants today come for economic reasons, driven by the hope of making better lives for themselves and their families. Immigrants today tend to be younger than in the past, and in most cases they are imbued with a strong work ethic and an entrepreneurial spirit. Indeed, although they represent about 11 percent of the U.S. population as a whole, immigrants today constitute nearly 13 percent of the labor force (Population Resource Center, 2002). Even more impressive, when we consider the limited financial resources of most immigrants, is the rate of entrepreneurship among the foreign-born; at 10 percent, this rate is nearly equal to the 11 percent rate of business ownership of people born in this country (Camarota, 2002). The positive values and attitudes of most contemporary immigrants hold the promise of upward mobility, particularly for the second and third generations, and they help to make immigration a key source of American economic dynamism.

As we discuss the barriers that immigrants must overcome to achieve full integration into American society, we should keep in mind that virtually all of us here are immigrants, even if at some remove. To speak personally for a moment: All four of my grandparents were foreign-born, coming from Europe to the United States either just before or directly after the First World War – a period, incidentally, that represented a high-water mark of immigration to the United States.¹ My grandfather Jonas, who came to the United States from Austria after a stint

in the army of the Emperor Franz Josef, was probably the most entrepreneurial member of my family. He put himself through school and became a pharmacist in New York City, on the East Side. He didn't like working for someone else, however, and so he resolved that he would become the owner of the pharmacy where he was employed. The owner was interested in selling, and my grandfather had some savings, but not enough to meet the owner's price. Evidently impressed by the young man's potential, the storeowner agreed to lend my grandfather, on a handshake, the \$1,000 he needed to buy the pharmacy, with the remainder to be paid back out of future profits. My grandfather, who had the restlessness characteristic of many immigrants, owned several drugstores around New York City before finally buying a store and settling in what became my hometown of Dillon, South Carolina. My father and his brother purchased that same South Carolina store from their father with the same type of owner financing that Jonas had used in New York. I understand that they even got a good interest rate.

My grandfather's method of financing the purchase of a small business, as well as his subsequent sale of the South Carolina store to his sons, illustrates the traditional importance of informal networks, especially family networks, in the financial lives of immigrants. Informal credit networks have some important advantages; for example, lenders in informal networks tend to know their borrowers well, and borrowers may feel a particularly strong obligation to repay lenders who happen to be friends or family members. But informal credit networks also have important drawbacks, such as limits on the scale of financing and on the range of financial instruments available. As the papers and discussions at this conference have emphasized, full economic integration of immigrants requires that they have access not only to the informal financial sector but also to the formal one, including banking, insurance, pension funds, and other institutions. Only by using such institutions will immigrants

successfully expand their range as entrepreneurs, become homeowners, build credit histories, save for retirement, and insure against financial and other risks.

How do we provide immigrants, many of whom have little experience with financial institutions, with access to the U.S. financial system? Many approaches are possible. At the risk of anticipating some of the themes of a session to be held later today, I will talk briefly this morning about the provision of remittance services as a way to bring immigrants into the formal financial sector. This topic is especially appropriate because, as I will discuss, the Federal Reserve System has recently expanded its support for international money transfers. However, I should say that my remarks today represent my own views and not necessarily those of my colleagues in the Federal Reserve System.²

* * *

Many immigrants to the United States send substantial shares of their earnings – sometimes half of their incomes or more – to family members in their home countries. The

“...full economic integration of immigrants requires that they have access not only to the informal financial sector but also to the formal one, including banking, insurance, pension funds, and other institutions.”

U.S. Department of Treasury estimates that remittances to developing countries totaled more than \$90 billion last year.³ These remittances have a significant economic impact on the receiving countries. Remittance flows to developing countries typically

exceed official development assistance, are similar in magnitude to foreign direct investment, and are more stable than either of these other flows. For example, in 2002, the Latin American and Caribbean countries received \$32 billion in remittances, of which \$25 billion came from immigrants to the United States. These remittances constituted about 2 percent of the gross national products (GNP) of the region in that year. In 2002, remittances from citizens working abroad accounted for nearly 30 percent of the GNP of Nicaragua, 25 percent of the GNP of Haiti, and 15 percent of the GNP of El Salvador. Mexico receives the largest absolute amount of remittances in Latin America – about \$9 billion in 2002.⁴ Just-released figures show that total remittances to Latin American and Caribbean countries in 2003 rose about 19 percent from the total in 2002, to \$38 billion (Inter-American Dialogue Task Force on Remittances, 2004).

Who sends remittances? In its report, *Billions in Motion: Latino Immigrants, Remittances, and Banking*, the Pew Hispanic Center/Multilateral Investment Fund (2002) profiled a typical remitter. Of Latinos in the United States who send remittances to their home countries, 63 percent are under the age of forty, 59 percent have not completed high school, 72 percent rent their homes, 54 percent speak little or no English, and 64 percent of those who are employed are low-skilled laborers. One would not expect this group to be financially sophisticated, and that expectation is borne out by the data. The Pew Center found that 55 percent of these remitters do not have credit cards and 43 percent do not have bank accounts.

In particular, Latino immigrants, about half of whom send remittances, tend not to use banks when sending money home, employing services such as wire transfer companies instead. For example, in Los Angeles, according to the Survey of Financial Activities and Attitudes administered by the Office of the Comptroller of the Currency, 37 percent of immigrant remitters used wire transfers, compared with only 14 percent of non-immigrants who remitted. Immigrants are also much less likely to have any kind of banking relationship. In Los Angeles, only 53 percent of low- and moderate-income immigrants reported having a bank account, compared with 82 percent of low- and moderate-income non-immigrants. Concern that opening a bank account may require proof of legal residence may inhibit some immigrants from doing so, in fact, many banks now accept foreign-provided documents such as the Matricula Consular; but lack of knowledge about the services banks offer and the fees they charge is likely an important factor as well. Indeed, the Pew Center study found that, of remitters without bank accounts, fewer than 25 percent understood that sending a remittance through a bank was even possible.

Supporting the idea that information and previous experience are critical for financial access, the research of Una Osili and Anna Paulson (2003) found that the propensity of immigrants to the United States to use financial services is closely linked to their financial experience in their home countries. In particular, these researchers found that immigrants from financially underdeveloped countries, like most of those in Latin America and the Caribbean, are significantly less likely to participate in U.S. financial markets than are native-born people of similar age, education, and income.

I do not mean to imply that using nonbanks such as money transfer companies for remittances is a poor choice in all circumstances. Nonbank providers of remittance services vary greatly in quality, and in some cases nonbanks can provide better service or greater convenience than banks can. For example, wire transfer services may allow remittances to be sent to rural areas of the home

country where access to banks (which tend to be urban institutions) may be limited. Anecdotal evidence suggests that some nonbank providers are attractive to immigrants because of their “personal touch” – a Spanish-speaking agent who lives in the community, for example. Moreover, increased competition among providers has lowered the cost of sending money home through nonbanks as well as banks. According to Manuel Orozco (2003), who has done much interesting research on remittances, the typical cost of sending remittances to Latin American and Caribbean countries has fallen from 15 percent of the principal amount in the 1990s to between 5 percent and 9 percent today, depending on the receiving country.

Nevertheless, typical nonbank fees for remittances remain high on an absolute basis, and consumers who deal with the less-scrupulous providers of remittance services may bear a significant financial cost. One problem in practice is that users of remittance services often do not know precisely how much they are paying. For example, many remitters do not appear to be aware that some services exchange dollars for foreign currencies at rates less favorable to the consumer than the market-determined exchange rate.

A related concern is that regulatory oversight of nonbank remittance services remains somewhat uneven, both in the

“Indeed, the Pew Center study found that, of remitters without bank accounts, fewer than 25 percent understood that sending a remittance through a bank was even possible.”

United States and in the immigrants' home countries. In the United States, federal law requires funds transfer services to register with the Treasury Department, but these laws are concerned primarily with preventing money laundering rather than with

protecting consumers. The consumer protection rules that exist in the United States are set mostly at the local level. For example, 28 states and the District of Columbia have regulations requiring transfer services to be licensed by the state banking agency, and some of these states have specific laws regarding foreign transmittals. California has a mandatory disclosure law that requires funds transfer services to provide each consumer with a post-transaction receipt, in English and in the language used by the wire transfer licensee, listing the fees charged, the amount presented by the customer, and the amount to be delivered to the beneficiary. In June 2003, Texas passed a similar law, under which consumers are entitled to receive, upon request, certain pre-transaction disclosures from money transmitters, including the exchange rate that

applies and the amount that will be paid in the foreign currency.

Of course, these protections are effective only to the degree that consumers know their rights, such as how to file a complaint. It is interesting that one of the more effective sources of information about remitters' rights in the United States is Profeco, the Mexican consumer protection agency. Profeco provides consumers with practical advice about how to remit money to Mexico, including information on the costs of remitting, a comparison chart of the prices charged by 23 money order transmitters in eight U.S. cities (updated weekly), and information about where to lodge complaints, both in the United States and in Mexico (through a toll-free number).

Beyond the quality and cost of remittance services provided by nonbanks, however, another factor should be considered, by using nonbanks for making remittances, many immigrants forgo the opportunity to enjoy the wider benefits that arise from an established relationship with a bank. A money transfer company, for example, cannot provide the opportunity to open a savings account.

As you would expect, mainstream financial institutions in the United States are aware of the potential financial return to serving immigrant populations, both in facilitating remittances and in performing other types of financial services. Indeed, immigrants have become just too important economically to ignore. According to the University of Georgia's Selig Center, the Hispanic market represented some \$653 billion in purchasing power in 2003, about 8 percent of the U.S. total, and the Asian market represented another \$344 billion, about 4 percent of the total (Humphreys, 2003). According to the data from the Federal Reserve's 2001 Survey of Consumer Finances, more than 44 percent of all Hispanic households own their own homes, a statistic that implies a demand for mortgage loans, insurance, and other services. Reflecting this growing potential market, a 2003 survey of 340 banks by the American Banking Association found that 47 percent of these banks are either “active in multicultural marketing, or plan to market to different ethnic groups.” Almost three-fourths of the banks that target various ethnic communities tailor their marketing to reach Hispanics.⁵ Some of the more-successful programs involved a financial training and literacy component. For example, a community bank in Rogers, Arkansas obtained many new immigrants as customers through financial seminars offered through local operators of poultry farms, the principal employers of immigrants in that community. In another example, a Chicago-based bank leveraged its relationship with small-business clients to provide financial education and services to employees who had not previously had bank accounts. As a result, numerous

immigrant employees established relationships with that bank.

The provision of remittance services is a potentially effective method by which mainstream financial institutions can attract unbanked immigrants. If immigrants establish bank accounts for the purpose of sending remittances, they become far more likely to avail themselves of other services offered by the institution, including direct deposit services, savings accounts, and consumer loans. An article by the Federal Reserve Bank of Boston (Samuels, 2003) identifies several steps that financial institutions must take, beyond identifying a local population with a demand for remittance services, to establish successful remittances programs. First, institutions can realize great advantages by hiring staff members who speak the immigrants' language and are otherwise familiar with the immigrant community. Second, institutions should establish outreach and financial education programs (in the appropriate language, of course) that will help members of the targeted group learn about the financial services that the institutions provide. Of course, these two steps are useful as part of any marketing program to immigrant or ethnic groups. Third, and importantly, the institution must offer sufficiently competitive prices for remittance services to overcome what reluctance remains.

Controlling the cost of international money transfers can be achieved in a number of ways. One strategy is to employ an existing money transfer network, such as SWIFT.⁶ Establishing a partnership with a financial institution in the home country of the group to be served is a second viable approach. For example, the Federal Reserve Bank of Boston article referred to earlier (Samuels, 2003) provides an interesting case study of how Citizens Bank, a regional bank operating in the Northeast, created a remittances program for an immigrant population from the small African country of Cape Verde by forming partnerships with two banks from that country. A number of banks have pursued a third strategy – entering the remittances market through partnerships with existing money transfer organizations. Although this strategy has some potential for abuse if mismanaged by the bank, the combination of the transfer service's transmission infrastructure and the bank's marketing services and branch network is likely to reduce costs, making lower charges to the consumer feasible (Orozco, 2003).

Yet another increasingly popular approach for banks is to build remittance services on the existing networks of automatic teller machines (ATMs). Orozco (2003) notes that Bank of America and Citibank have recently adopted this model. Bank of America's SafeSend program and Citibank's Money Card program issue debit cards to a person in Mexico designated by the U.S. remitter, allowing

the recipient to gain access to funds transmitted from any ATM. Remitters are typically charged a flat fee for the transfer, for example, Bank of America charges \$10 per transfer. Second Federal Savings in Chicago offers account holders an "amigo card," a second ATM card that can be sent to a family member in Mexico. One of the downsides of the ATM-based approach is the lack of access to these machines in rural areas. Most banks offering ATM-based services therefore also offer more traditional funds transfer services as well (Bair, 2003).

Banks still have only a small market share in remittance services, but that share seems poised to grow rapidly. Orozco (2003) notes that Wells Fargo initiated a remittances program in 1996 and released its current product, Intercuenta Express, in 2001; under this program, amounts less than \$500 can be sent to Mexico for a flat fee of \$10. In the first three years of its program, Wells Fargo made nearly half a million money transfers to Mexico, representing at least \$100 million in revenue per year.

Credit unions, particularly those serving predominantly Latino constituencies, have been proactive in attracting customers through their remittance services. The World Council of Credit Unions began a remittances project in 1997 and introduced its IRnet service in July 2000. In partnership with other institutions (including Travelex, a major retail provider of foreign exchange), IRnet now provides remittance services to more than 40 countries. At last report, nearly 200 credit unions in 37 states offer this service (Herrera, 2003).

The Federal Reserve is attempting to support banks' efforts to better serve immigrant populations, with remittances and other money transfers being a key area of interest. Since the late 1990s, the regional Federal Reserve Banks and the National Automated Clearing House Association (NACHA) have been working to improve cross-border payments services through enhancements of the Automated Clearing House system (ACH). For instance, in 2001, the Reserve Banks introduced international ACH services for payments from the United States to Canada, and in 2003 they added service to Switzerland and the United Kingdom. The extensions of service to the latter two countries are the first steps in the development of the Reserve Banks' Transatlantic Service, which will be further enhanced to include service to Austria, Germany, and the Netherlands later this year. More important for remittances, in February 2004 the Reserve Banks expanded their international ACH services to Mexico, in cooperation with the Central Bank of Mexico. The service potentially connects any bank account holder in the United States with any bank account holder in Mexico, uses an exchange rate guaranteed to be within one percent of the Central Bank of Mexico's wholesale rate, and costs the banks less than

\$1 per transaction. Providing service to Mexico is also an important step for the U.S.-Mexican Partnership for Prosperity, an agreement designed to improve financial linkages between the two countries. These Federal Reserve initiatives will support U.S. banks' ability to serve immigrants by allowing remittances to be sent to foreign banks at low cost. Ongoing improvements in the infrastructure for sending remittances, collaborations among foreign governments, and increased competition among service providers should ensure that cost savings are passed on to consumers.

Although the opening of ACH service to Mexico is an important step, broader international coverage is needed to serve the diverse immigrant population. To help meet that need, the Federal Reserve Banks will be hosting a conference in Atlanta this October to explore how best to establish compatible electronic payments systems throughout the rest of Latin America. The conference will bring together financial-sector leaders and payments systems experts to discuss ways to facilitate cross-border electronic payments throughout the hemisphere. This initiative supports a commitment made at the recent Special Summit of the Americas in Monterrey, Mexico, to reduce the cost of international remittances by at least half by 2008.

To conclude, I have highlighted how the sending of remittances is the most important type of financial transaction for many immigrants and their families. This fact engenders both a challenge and an opportunity. The challenge, for regulators, researchers, and immigrant advocates, is to ensure that remitters can send funds to their home countries conveniently, safely, and at a reasonable cost. The opportunity, primarily for banks and other mainstream financial institutions, is to find ways to leverage immigrants' need for remittance services into a broader relationship, one that will both be profitable for the bank and will also provide immigrants and their families with greater financial access.

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Notes

1 In 1910, the foreign-born made up nearly 15 percent of the U.S. population, compared with today's figure, already noted, of about 11 percent. Thus, the challenges posed by the current influx of immigrants are hardly unique in our history.

2 I wish to thank Sandy Braunstein and members of the Federal Reserve Board's Division of Consumer and Community Affairs for their excellent assistance in the preparation of this talk.

3 Testimony of Treasury Secretary John W. Snow before the Committee on Financial Services, U.S. House of Representatives, State of the International Financial System, March 25, 2004.

4 *All in the Family: Latin America's Most Important International Flow*, Inter-American Dialogue, January 2004.

5 American Banking Association, "Banks Will Boost Marketing Budgets in 2004," news release, September 13, 2003.

6 The acronym stands for Society for Worldwide Interbank Financial Telecommunication.

Community Development and Immigrant Entrepreneurs

Moderator - Donna Rockin, Director, Duman Microenterprise Center and Loan Fund

Session Five

Financial Access for Immigrants: Learning from Diverse Perspectives

Session five of the conference addressed the immigrant small business entrepreneur, reasons that immigrants gravitate to self-employment, and innovative financing methods illustrating the need for differentiation in products and services to serve specific immigrant groups. Maude Toussaint-Comeau, an economist in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago, related her study's findings on the rate of immigrant self-employment. Pyong Gap Min, professor of sociology at Queens College and the Graduate Center of the City University of New York, discussed the influence of local, ethnic networks on the decision to seek self-employment opportunities among Asians. Chen Fu Hang, business advisor and loan officer for the Neighborhood Development Center in St. Paul, discussed innovative financing products and technical assistance techniques used successfully in his community. Barbara Robles, assistant professor at the LBJ School of Public Affairs at the University of Texas at Austin, discussed the role of community development organizations in fostering entrepreneurship along the border area of Mexico and the United States.

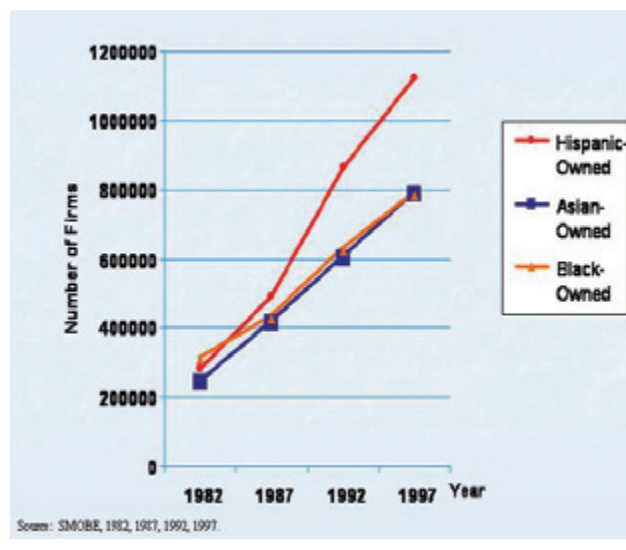
MAUDE TOUSSAINT-COMEAU
Federal Reserve Bank of Chicago

Maude Toussaint-Comeau is an economist in the Consumer and Community Affairs division of the Federal Reserve Bank of Chicago. Toussaint-Comeau began by outlining the purpose of researching self-employment among immigrants.¹ She pointed out that self-employment is historically a common means by which immigrants have entered the financial mainstream in the United States. Self-employed immigrants have greater earnings and wealth than those who are not self-employed. As such, self-employment contributes to the socioeconomic progress of immigrants in the country. An important factor, she observed, is that because immigrant groups tend

to have business concentration in specific communities and neighborhoods, "...immigrant businesses are closely intertwined with our interest in community economic development." Therefore, documenting the impact of these businesses in urban ethnic enclaves is important. In that respect, Toussaint-Comeau presented some data that show the relative importance of the immigrant small business sector and its contribution to small business growth in the United States.

She explained that based on statistics available, as of the year 1997, there were already 20.8 million firms in existence. Immigrant-owned firms represented about 13 percent of all firms at the time. Asian- and Hispanic-owned firms represented more than 50 percent of all minority-owned firms. From 1982 to 1997, they increased by 295 percent (see Figure 1); 70 percent of the growth came from immigrant-owned firms, consistent with the increase

Figure 1: Growth of Minority-Owned Businesses, 1982-1997



in population over the period. Black-owned firms during the same period grew by 153 percent.

Despite the high growth in immigrant-owned firms, Toussaint-Comeau noted that there are still challenges for immigrant entrepreneurs that warrant policy consideration. First, Toussaint-Comeau explained that Hispanic and Black immigrants, and immigrants in general, are still underrepresented in the area of small business ownership in relation to their respective populations. One in 12 native born is a business owner, compared to one in 13 immigrants, one in 16 Hispanic immigrants, and one in 20 Black immigrants. Moreover, immigrant entrepreneurs are less likely to have a relationship with a financial institution, potentially limiting access to credit, requiring heavy reliance on personal savings or alternative financing, and potentially negatively affecting the long-term viability of their businesses.

Toussaint-Comeau also discussed differences in rates of self-employment of different immigrant groups and the factors that may explain such differences. They include gender, ethnicity, ethnic geographic concentration, educational attainment, English language proficiency, and tenure (years since migration) in the United States. Based on U.S. Census data, she noted that the self-employment rate of female immigrants is higher compared to that of female native born, but the self-employment rates of U.S.-born and immigrant males are relatively the same at about 10 percent. She pointed to the fact that differences exist in the self-employment rates of immigrants of different regions and country of origin. For example, Hispanic and Caribbean immigrants have relatively lower self-employment rates, whereas immigrants from Northeast Asia and India tend to have higher self-employment rates. Her research shows that the longer an immigrant has been in the country, the greater is the rate of self-employment. Self-employed immigrants have completed slightly more years of schooling and have greater English proficiency. The exceptions with respect to English language proficiency are Southeast Asian, Northeast Asian, and Caribbean immigrants. Ethnic networks within these groups may account for the exceptions.

Toussaint-Comeau concluded by noting that immigrants contribute to the U.S. economy by creating and growing small businesses. She called for initiatives that support immigrants' efforts to succeed in business and gain language proficiency, particularly with respect to underrepresented minorities: Hispanic and Black immigrants. She also stated that ethnic concentration tends to increase employment opportunities for immigrants, and efforts to support business enclaves, including adjacent affordable housing, could further promote entrepreneurship and employment among immigrant populations.

PYONG GAP MIN

Queens College, City University of New York

Pyong Gap Min is a professor of sociology at Queens College and the Graduate Center of the City University of New York. Min's presentation focused on the reasons that immigrants gravitate to self-employment. Min mentioned a book published in 1972, *Ethnic Enterprise in America: Business and Welfare among Chinese, Japanese, and Blacks*.² Essentially the book argued, according to Min, that Chinese and Indian immigrants to the United States were as disadvantaged as native-born Blacks, but had a much higher rate of self-employment thanks to communal associations and networks. Other books and much research focused on the same topic.

Min presented data showing sources of start-up capital for Korean, Japanese, and Taiwanese immigrants at different periods. Though there was variation in all categories, loans from banks were not the predominant source of business capital for any of the groups. Among Koreans and Japanese, the predominant source of funds was savings accumulated in the United States (versus brought from home country); for Taiwanese, it was funds from family.

Min summarized his presentation saying that American banks should take further steps to reach out to immigrants as they have difficulty accessing bank loans for businesses. Many have turned to U.S. branches of banks based in their home country as there is no language barrier, and documentation and credit background checks are closer to the experience in the home country.

CHEN FU HANG

Neighborhood Development Center

Chen Fu Hang is the business advisor and loan officer for the Neighborhood Development Center (NDC) of St. Paul, Minnesota. The organization recently celebrated ten years of serving entrepreneurs and aspiring entrepreneurs in St. Paul, Minneapolis, and more recently other parts of the state of Minnesota, with financing, business incubators, micro-entrepreneurship training, one-on-one technical assistance, and real estate development. The group seeks to develop entrepreneurial talent, particularly, at present, among Somali and Hmong immigrants, to build successful businesses that serve their respective communities. The NDC also helps to redevelop inner-city commercial property to promote community redevelopment.

Hang noted the diverse staff of his organization, a key to the NDC's success. Staff members speak five languages including Somali, Oromo (Eritrea), Hmong (Laos, Cambodia), Spanish, and English. Almost half of the business financing the NDC provides goes to Hispanic, Asian, and Somali immigrants. The NDC developed a

specialized program for Islamic Somali immigrants, as Muslims are prohibited from paying reba, interest on debt, by Islamic law. What others would pay as interest is built into principal payments made by participants in the “Reba Free” program. For example, if a Somali business owner needs to purchase a piece of capital equipment, the NDC buys the equipment on her behalf, marks up the price to reflect the interest cost, and charges the business owner payments based on the increased price, not the price plus interest. In 2003, the NDC received an award recognizing the program from the Association of Enterprise Opportunity.

Hang highlighted the NDC’s efforts in two communities, one in Minneapolis and one in St. Paul. The Minneapolis project took a run-down commercial strip and renovated it into a business incubator that serves primarily Hispanic and Somali entrepreneurs. The St. Paul project is also a business incubator serving primarily Hmong and other Asians who have settled in the central part of the city. A newer, bank-funded initiative finances real estate development in NDC target communities.

BARBARA ROBLES University of Texas

Barbara Robles is an assistant professor at the LBJ School of Public Affairs at the University of Texas at Austin. Robles discussed entrepreneurship in the borderlands of Mexico and the United States, highlighting the role of community development organizations. The border states in Mexico are Nuevo Leon, Coahuila, Chihuahua, Sonora, and Baja, California. The U.S. states are Texas, New Mexico, Arizona, and California.

Robles began by noting that the region along the Mexico – U.S. border is economically depressed, comparing it to the Appalachian region in the United States. Among the U.S. counties that border Mexico, many have more than 70 percent Latino population, according to the 2000 Census. Unemployment runs from 12 to 18 percent in the counties along the border, and per capita income, from \$7,000 to \$18,000. Educational attainment is also very low, particularly in Texas.

Robles stated that three large micro-finance lending organizations – Acción Texas, Acción New Mexico, and Acción San Diego – all community development financial institutions (CDFIs), have supported small businesses in the region since the mid 1990s. Cumulatively they have made loans of more than \$40 million, serving almost 8,300 micro businesses. Given the high unemployment rate, Robles underscored the importance of micro-business development and discussed other key roles of the community based groups that do. “They also provide financial planning, tax preparation, consumer and financial

literacy outreach, and most importantly networking for businesses, opening up their customer base,” she said. Community based organizations also help newly arrived immigrants to acclimate in the United States and serve as translators and mediators in some instances. Community based organizations play an important role in linking businesses in more isolated communities that lack basic amenities, sometimes called colonias, with the mainstream market.

Robles noted that the CDFIs serve as front-line lenders to families and households with irregular income and little or no established credit history. The CDFIs help banks to fulfill Community Reinvestment Act goals by acting, “...as a proxy for the lending institutions.” The banks lend to the CDFIs at reduced rates; the CDFIs in turn provide the technical assistance and the more rigorous loan servicing that the market may require. The CDFIs are attuned to local customs and practices and do not rely on externally developed and imposed models for lending and development.

Robles closed by discussing two policy-related issues. First, referring to the presentation the prior day by National Taxpayer Advocate Nina Olson, she emphasized the importance of training and certifying tax preparation volunteers as an integral part of promoting financial literacy among self-employed immigrants. “It’s a crucial, crucial component for economic development, not only with the earned income tax credit refunds, but also in terms of establishing that immigrants are not wards of the state and will not be wards of the state; they’re actually self-sufficient.” Finally, Robles urged continued funding of the CDFI program and Small Business Administration programs, noting that, “These programs really promote self-sufficiency and community development.”

Notes

1 Toussaint-Comeau’s complete presentation is available at www.chicagofed.org/news_and_conferences/conferences_and_events/files/financial_access_for_immigrants_toussaint.pdf.

2 Light, I. (1972), *Ethnic Enterprise in America: Business and Welfare among Chinese, Japanese, and Blacks*. Berkeley, CA: UC Press.

International Linkages: Immigrant Remittances and Financial Adaptation

Moderator - Carlos Sada, Consul General of Mexico in Chicago

Session Six

Financial Access for Immigrants: Learning from Diverse Perspectives

The sixth of the conference sessions explored the impacts of immigrant remittances in the United States and abroad, and the ramifications of this frequently used service as an entree to promote use of traditional bank services among both U.S. immigrants and home country recipients. B. Lindsay Lowell, director of policy studies at the Institute for the Study of International Migration at Georgetown University, discussed remittances and the economic impact on sending and receiving communities. Manuel Orozco, senior researcher at the Institute for the Study of International Migration at Georgetown University, discussed immigrant remittance practices, home country use of remitted funds beyond consumption, and the ramifications to promote traditional account usage. David Grace, senior manager at the World Council of Credit Unions (WOCCU), discussed his organization's efforts to decrease and regulate the cost of remitting funds for credit union members here and to increase credit union membership.

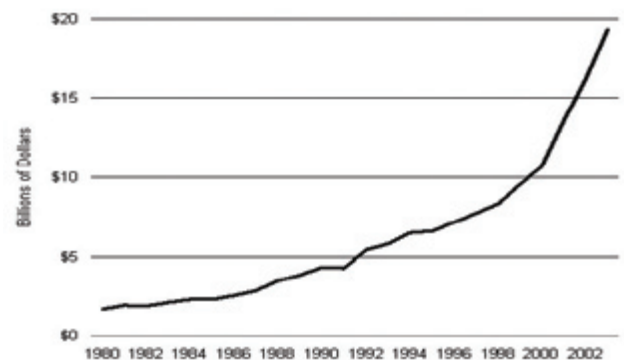
B. LINDSAY LOWELL
Georgetown University

B. Lindsay Lowell is the director of policy studies at the Institute for the Study of International Migration at Georgetown University. Lowell discussed the impacts of financial remittances in the United States and abroad and emerging trends in relation to remittances. He noted that the majority of remittances in the Western Hemisphere flow from the United States to Mexico and Central America, and that the flow of funds had increased at a high rate since 1990, with no interruption in growth during the slowed economy of 2000-2001 (Figure 1).

New actors in the marketplace that remit funds have led to stiff competition and a decrease in the cost to remit. Hometown associations, which are groups of immigrants with a common goal in their shared home community

to build a school or work on other improvements, have positively affected remittance volume. Local governments in Mexico have put matching arrangements in place for local improvement projects, creating incentives for hometown associations to increase their remittance volume.

Figure 1: Mexican and Central American Remittances in Billions of Current Dollars, 1980-2002



Source: Central Banks, cited in M. Orozco

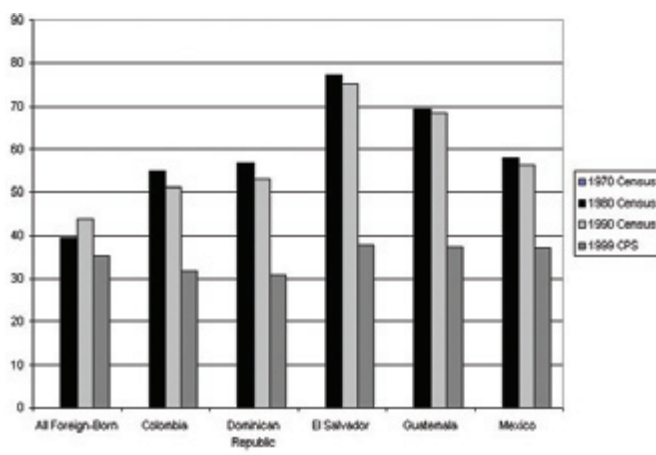
Lowell mentioned that studies prior to the mid 1990s suggested that a significant proportion of remittance dollars in the receiving countries went toward unproductive consumption (consumer goods), and that the flow of dollars could promote inequality within local economies. More recent research indicates a multiplier effect, where a dollar remitted increases gross domestic product in the receiving country by two to three dollars and that the inequality effect varies widely based on the nature of the local economy and its history of immigration.

The impact of remittances on emigrant households (family left behind in the home country) in alleviating liquidity constraints is limited in that a third or less, depending on the particular country of these households, hold bank

accounts. While remittances can offset poverty in the home country, interruptions in (or cessation of) the flow of funds can create additional hardship. Finally, hometown associations tend to be informal, fluid organizations; obtaining their assistance can be difficult.

Citing earlier presentations and other research indicating that longer-tenured immigrants tend to remit less to their home country, Lowell suggested that the growing proportion of immigrants with at least ten years in the United States may give rise to some of the effects he described (Figure 2). The rate of remittance growth may not continue unabated as new immigrants represent a smaller proportion of all immigrants. Lowell stated that remittance senders represent a largely untapped market for financial services, but different immigrant groups exhibit notably different behaviors in relation to remittances and financial services in general. Financial institutions should consider emerging trends as they seek to tap the immigrant market.

Figure 2: Percent of Entrants Within 10 Years of Survey for Select Latin American Countries



MANUEL OROZCO
Georgetown University

Manuel Orozco is a senior researcher at the Institute for the Study of International Migration at Georgetown University. Orozco began by citing an earlier presentation that raised the subject of globalization. "A lot of what we are talking about here has to do with transnational dynamics – how immigration has become a key factor in integrating many developing nations into the global economy," he said. Orozco noted that the reverse is also true; industries in developed countries have changed their business practices in many ways as a result of immigration from the developing world. Certainly the high volume of remittances has impacted financial services, but airlines,

telecommunications, and other industries also provide services resulting directly or indirectly from high levels of immigration (to the United States).

Orozco attributes these changes to household-to-household relationships at the transnational level. A typical immigrant to the United States may have:

- A family relationship in the home country that triggers the remitting of funds;
- Social and community-based relationships that may raise funds for home country community development purposes;
- A relationship with the home country at the consumption level (for home country goods/services); and
- Capital investments in a small business either in the United States, home country, or both.

The remittance market represents a point of entry for financial institutions to the immigrant market for financial services, but there are distinct market preferences between immigrant groups. The better the understanding of these individual preferences, the greater the opportunity for profit on the part of financial institutions.

Orozco noted that remittance volume steadily increased through the 2001 recession, even as immigrant unemployment increased. With regard to the remittance market, Orozco stated that the policy implications are significant on several levels. A large proportion of remittance volume goes to rural areas of Latin America, and in particular Mexico, where there are few if any traditional financial institutions. Among the remitting households in the United States, despite greater access to banks and thrifts, the majority does not have transaction accounts. At least a part of the policy discussion should center on reaching these households with appropriate financial services. Exchange rates, fees, and access to financial institutions in the home country also affect the fiscal impact of remittances. While costs are gradually decreasing, they remain high, Orozco stated.

DAVID GRACE
World Council of Credit Unions

David Grace is a senior manager with the WOCCU. The WOCCU is an international trade association and development organization for the global credit union movement. The organization represents 40,000 credit unions in 80 countries and serves 118 million members. Grace stated that the WOCCU has been working to strengthen credit union programs in developing countries. More recently, the WOCCU has been working with credit unions in the United States. He noted that many immigrants come to the United States having had no

experience with a transaction account or a financial institution, having had a negative experience with a bank, or with a negative cultural orientation toward financial institutions generally. In Mexico, only 15 percent of the economically active population has bank accounts, he stated, and 35 percent or less of all Mexicans own accounts. The ratio in other parts of Central America is lower.

Grace showed the wide variation in account ownership among different (remittance-sending) Latin American immigrant groups. Account ownership ranged from 72 percent for immigrants from Guyana to 25 percent for immigrants from Mexico (Figure 3). He also discussed some of the reasons Latino immigrants do not hold bank accounts. According to the research he cited, nearly 40 percent did not know the benefits, a fourth thought they could not own an account without a drivers license or Social Security number, and almost 10 percent thought the process for obtaining an account too complicated.

Figure 3: Banking the Unbanked in the U.S.

Remittance Senders in U.S. with Bank Accounts

Country	Bank Account
Guyana	72 %
Ecuador	65%
Dominican Republic	62%
Cuba	58%
Nicaragua	51%
Colombia	47%
El Salvador	36%
Guatemala	31%
Honduras	29%
Mexico	25%

Source: Manuel Orozco. Survey of Latino remittance senders carried out in New York, Los Angeles, and Miami, 2003.

The WOCCU had been approached by credit unions in Guatemala and El Salvador in 1996 regarding the high volume of remittances coming into those countries. The organization formed alliances with two wire transfer services; the purpose of forming the alliance, known as IRnet, or International Remittance Network, was to reduce the cost of wiring funds to Central America and the Caribbean. In the United States, the network of credit unions that take part in the alliance includes 225 institutions with 950 locations from which to remit funds. Within Guatemala, Honduras, Mexico, El Salvador, Jamaica, and Nicaragua, there are 540 locations that can receive funds through the network.

Grace also discussed data regarding senders of remittances in the United States, stating that 68 percent of Latino immigrants in the United States are age 18 to 24; 73 percent of this group remit funds home. Credit unions provide financial services to both documented and undocumented immigrants and disclose and guarantee exchange rates, he noted. The IRnet serves as a relationship builder, bringing unbanked immigrants to credit unions where they can receive further information on accounts and services in addition to the remittance service. In that respect, the IRnet helps the WOCCU fulfill its mission to serve the historically underserved with financial services. Other products used by remittance clients include used auto loans, savings accounts, and a small number, as yet, of mortgage loans.

Finally, Grace used Guatemala and Mexico as examples to illustrate the impact of credit unions in home countries. Aside from increasing remittance volume to credit union members in Guatemala, the presence of credit unions in areas that previously did not have financial institutions has led to growth in “banked” residents in these sometimes remote areas. Roughly two-thirds of remittance recipients are nonmembers, and in Guatemala, about 1 percent per month join credit unions. In Mexico, 56 percent of nonmembers in a recent period have joined, and the institutions serving them are developing remittance-linked savings and credit products.

Where Do We Go From Here?

Bruce Katz, Director, Center on Urban and Metropolitan Policy, Brookings Institution

Una Okonkwo Osili, Assistant Professor of Economics at Indiana University-Purdue University at Indianapolis

John C. Weicher, Assistant Secretary for Housing/Federal Housing Commissioner, U.S. Department of Housing and Urban Development

David Marzahl, Executive Director of the Center for Economic Progress, Chicago, Illinois

Jeremiah Boyle, Community Affairs Program Director for the State of Wisconsin at the Federal Reserve Bank of Chicago

Session Seven

Financial Access for Immigrants: Learning from Diverse Perspectives

The final panel of the conference was designed to distill and discern the lessons of the conference in a less formal question and answer format. Bruce Katz, vice president and senior fellow at the Brookings Institution and founding director of the Brookings Institution Center on Urban and Metropolitan Policy, moderated the panel. Panelists included Una Okonkwo Osili, assistant professor of economics at Indiana University-Purdue University at Indianapolis, and associate faculty at the Center on Philanthropy at Indiana University; John C. Weicher, assistant secretary for housing/federal housing commissioner at the U.S. Department of Housing and Urban Development; David Marzahl, executive director of the Center for Economic Progress in Chicago, Illinois; and Jeremiah Boyle, community affairs program director for the state of Wisconsin at the Federal Reserve Bank of Chicago.

Panelists were asked to address the following questions:

- What do you all take from the sessions?
- What are the key lessons?
- Can we draw policy solutions or lessons at the practical level for financial institutions, community practitioners, and researchers?

Osili emphasized the importance of the heterogeneity among the immigrant populations in research. Legal status, location and settlement, family networks, return migration plans, languages and dialects, duration of stay and skilled versus unskilled labor are key differences between and among different immigrant groups.

Early research indicates that the size of an immigrant's home country and their experience with financial institutions in the country of origin also influence financial decisions. Highlighting research involving Somali, Hmong, Vietnamese, Latin American, African and Eastern European populations, Osili emphasized that different populations bring different attitudes, trust and knowledge

levels about financial institutions. These differences require both different business strategies and different policy prescriptions to deal with the complexities of financial access for immigrants. Better data and new models need to be developed that capture these complex realities.

Relationship building and trust were key themes throughout the conference. Mitchell Bank's strategy of bringing families into the bank through relationships established at the high school and American Metro Bank's cultivation of informal relationships were highlighted as examples. As small community bank strategies, these examples raise the question of what larger institutions should do to address immigrant populations in the era of mergers, acquisitions, and huge, often multinational institutions.

Weicher emphasized the lessons learned with regard to housing and immigrant populations. HUD/FHA insures about 6 million home mortgages, a little less \$500 million worth of mortgage insurance. "About 80 percent of our homebuyers are first-time home buyers and 40 percent are minorities. We do not track immigrant status and we do not track citizenship, but we know for instance, that 105,000 of our first-time buyers last year were Hispanic Americans and 35,000 were Asian Americans."

Weicher noted that many speakers and papers focused on how agencies and institutions communicate with people that might want to achieve homeownership. He highlighted projects that both HUD/FHA and the Interagency Fair Lending Task Force undertake to provide multilingual information on home buying, the settlement process, and avoiding foreclosure.

Home purchase counseling (as part of a comprehensive package of financial education topics) is another important component emphasized during the conference that is a HUD priority. HUD supports 550 counseling agencies that served 1.2 million families in 2003. FHA data shows

“I draw the lesson that, while you don’t need to wait a century or a generation for results, if you make the support available and you reach out to the people who need help, and you reach out to them in the communities in which they choose to live, and if you go after those who prey on immigrants and minorities, and you keep an eye on the progress you’re making, we’ll be doing okay.”

John Weicher

that “FHA borrowers who receive counseling are about 5 percent less likely to default on their mortgage than those who do not, and that’s cost effective for us, and we know from research by Freddie Mac and by academic researchers that it works in other parts of the market as well,” Weicher said. “The main impact of counseling is on reducing the default rates for Hispanic Americans, African Americans, and Asian Americans. It doesn’t particularly work for Whites – doesn’t work particularly for Native Americans,” he added.

HUD/FHA also has a number of rules prohibiting predatory lending practices with FHA loans, an anti-flipping¹ rule, and standards for appraisers, home inspectors and lenders’ loan correspondents, all of which are attempts to help people stay in their homes.

“My grandfather raised two kids who were financially literate, successful, and homeowners. He had three grandchildren, three grandsons, all of whom were homeowners. The next generation hasn’t gotten around to it yet, but we think they will. So I draw the lesson that, while you don’t need to wait a century or a generation for results, if you make the support available and you reach out to the people who need help, and you reach out to them in the communities in which they choose to live, and if you go after those who prey on immigrants and minorities, and you keep an eye on the progress you’re making, we’ll be doing okay.”

Marzahl’s key takeaway from the conference was the need to blend technology with personal relationships and trust building. High-tech, according to Marzahl, includes ATMs with transnational debit cards, speedy and low cost remittances, and bilingual Web sites.

Marzahl also noted the importance of the regulatory environment to determine what identity documents can be used to access the technology deployed by banks. “Absolutely critical is the individual taxpayer identification number (ITIN).” Noting some emerging controversies over the use of ITINs to access financial services, Marzahl said,

“I think it is incumbent upon community groups, financial institutions and others to realize that government does play a role in establishing certain tools. Those tools can also be taken away. There are some real risks out there right now with respect to the ITIN and its future.”

Bilingual services and relationship building are obvious and important elements of financial access for immigrants. In addition, more flexible protocols for establishing the creditworthiness of immigrant populations also help. Marzahl referred to American Metro Bank CEO Yman Vien’s example of using a pool of gross income from seven working family members to establish the creditworthiness of a family business.

Finally, Marzahl emphasized the critical role of community intermediaries such as community development corporations, faith-based organizations, and credit unions in, “creating the framework for moving from the personal relationship that a banker may establish with someone to creating a structure and connecting the dots.” Pointing to the case study of the North Carolina credit union that is, “...losing market, but they established themselves. They looked at the gateway communities they were in and they provided a range of services that the mainstream banks were not willing to provide. If there weren’t a credit union, if they hadn’t established themselves, where would those people have gone? They would have stayed with many of the predatory lenders without question,” Marzahl said.

Boyle noted that the key lesson was, “If you are going to make a dent in this growing and important market, it’s going to take human interaction, and that has always been the case.”

The same is true now, according to Boyle. The reasons that things work at Mitchell Bank, for example, is because the Chairman of the bank, and staff alike, operate from the standpoint of, “Let’s find a way to serve this person.” “In the end,” Boyle said, “it’s going to be that kind of person-to-person contact and service that will make the difference in bringing people into the financial mainstream.”

The next set of questions focused on the extent to which the private market responds to the needs of immigrant populations and the appropriate roles for nonprofit actors and government agencies in increasing immigrants’ access to mainstream financial services.

Katz noted that the conference highlighted profitable market-based innovations outreach by private institutions. “What then, is the primary role of the government and the nonprofit sector to support, enhance and further promote what seems to be a market response?” Katz asked.

Weicher responded, “The most heartening thing I heard at the conference was Professor Kossoudji’s paper showing a very slight difference in homeownership rates between

native-born Americans and immigrants who are citizens. I think that tells us that there is a real market response going on here and there is a real phenomenon and that time is on our side.” Weicher argued that government’s role should be to facilitate that market response, provide information as a “public good,” and to “provide support to local entities that are prepared to work one on one.”

Marzahl emphasized the unmet funding need for more general, broad-based financial and economic education initiatives. He specifically noted the funding cuts for the First Accounts Program, a program that was designed to help people access private financial accounts. “I think there’s a need for some education of members of Congress,” Marzahl said, “of what the ultimate value of that is: reduced foreclosures, reduced defaults. And again, you look at the raw numbers in terms of the huge increase in predatory financial products being peddled in low-income communities, it’s beyond alarming, it’s just sucking the money out of poor communities.”

Marzahl also believes that nonprofit entities will continue to be innovators at the community level, developing new products and new approaches. But if government and the private sector are going to adopt something, then nonprofits need to make sure they build an evaluation component into it. He highlighted the Financial Links for Low Income People² (FLLIP) as an example of a program with an evaluation component that demonstrates its positive impact. “People’s financial behaviors change if you have sustained, systematic financial education.” Community groups are also important advocates, building and creating accountability. “It’s a lot of players, it’s a lot of pieces coming together, but I really think community and not-for-profit groups play an absolutely critical role and need to be very creative in working with government.”

Katz discussed community development corporations’ heavy dependence on fee-based affordable housing production. Funding and financial support for the kinds of programs and initiatives discussed at this conference comes mostly from philanthropic support and is less secure than funding for affordable housing production. The panelists were asked for comments on the funding issue.

An audience member suggested that we might need new organizations, arguing that those community development corporations that have engaged in affordable housing production may not be particularly responsive to demographic changes in their neighborhoods.

The final set of questions for the panel focused on how success is measured in terms of greater access to financial services to immigrants. “I’m really interested in how you would define success, and prospectively how you would benchmark to measure the progress,” Katz explained.

Osili stated that financial participation should be linked to larger goals such as wage assimilation, income, wealth accumulation, small business ownership, investment patterns, ultimately socioeconomic mobility, job creation, and community development. “We even heard about

“The fact that we are focused on this market now really, historically, is an extension of what the Community Reinvestment Act has achieved. This is about identifying markets that are underserved and serving them better. Now, if you’re going to serve them particularly well, you’re not going to do it based on a regulatory framework, it’s going to be a viable business strategy for your bank. If that strategy also serves a low- or moderate-income community, then the Community Reinvestment Act will smile upon that.”

Jeremiah Boyle

reduction in crime in some communities when banks were available,” Osili said, “so I think financial access needs to be put in a bigger context which is the overall socioeconomic progress of immigrants.”

Osili also emphasized the need to monitor and measure sustained homeownership and sustained financial participation. “I think that dynamic picture needs to be part of measuring success,” she said, “not just at a point in time but over time – not just getting people a bank account, but making sure they have access to the full range of financial services.”

Marzahl offered a visual benchmark, “When I can drive through some of the neighborhoods in Chicago, into Englewood, Back Of The Yards, and see branches of all of the banks that I find on the near north side and in the north suburbs.... You go to a particular street corner and there on a strip mall is a Payday Lender next to a Jackson Hewitt, next to a Rent-A-Center, next to some other predatory lender. To me, success would be when – not when they are gone – but when there’s rough equivalency. Now we may never get there, but right now the contrast is so stark.”

Boyle referred again to the FLLIP Coalition’s report as an excellent example of measuring success. What these efforts are trying to accomplish are: 1) make the unbanked customers and; 2) make customers better customers.

“When you’re making that argument to the bank, what better way to do it than specifically, ‘26 percent of

participants that did not previously have an account opened checking and savings accounts for the first time.' Compare that to a direct marketing campaign," Boyle said, "where you expect 3 percent response. That's a very compelling argument."

Boyle indicated that one of the things that the Center for the Study of Financial Access for Immigrants is set up to do is to bridge the gap between the programs and the need for effective evaluation of those programs.

"My idea," Weicher said, "would be that, whatever measure of financial access you're using – distribution of wealth, distribution of income – when you do the analysis, all the coefficients on race and ethnicity are insignificant. When we get there, we've solved the problem."

Katz offered a final observation: "I am really struck by the richness of the conversation and how much this field has moved along in such a really small period of time. To go back in time ten years even, is to be in another world compared to the conversation that is going on in this room. So there is an enormous amount of affirmative momentum and people should take an enormous amount of pride in that."

Michael V. Berry and Jeremiah Boyle summarized the conference sessions.

Michael V. Berry is a senior research analyst and manager of the Emerging Consumer and Compliance Issues unit of the Federal Reserve Bank of Chicago's Consumer and Community Affairs division. Mr. Berry is also the managing editor of, and a frequent contributor to, the Federal Reserve Bank of Chicago's Profitwise News and Views publication. Mr. Berry holds a B.A. in political science from Susquehanna University in Pennsylvania and an M.B.A. from DePaul University.

Jeremiah P. Boyle is the Wisconsin community affairs program director for the Federal Reserve Bank of Chicago's Consumer and Community Affairs division. Mr. Boyle provides technical assistance to financial institutions and community groups to promote community and economic development. Mr. Boyle holds an M.B.A. from North Park University, a Master of Urban and Regional Planning degree and a B.A. in political science from the University of Illinois at Urbana-Champaign.

Notes

1 Flipping is the common term for the practice of a lender-initiated refinancing of a mortgage within a relatively short period after its inception, where the new loan usually has less favorable borrower terms than the loan refinanced. For a discussion of common predatory lending practices see "MCAP's Continuing Role in Ensuring Fairness in Mortgage Lending," at www.chicagofed.org/publications/profitwise/2000/pwJan00.pdf.

2 For a discussion of Financial Links for Low Income People and its financial education efforts, see www.chicagofed.org/community_development/spring_2003_profitwise_news_and_views_fllip.cfm.



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