

## The Emerging Hispanic Immigrant Market: How Financial Institutions Respond

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Hispanics are the fastest growing minority group in the United States (U. S. Census Bureau, 2000). While the Hispanic population offers an excellent market opportunity for financial institutions, certain aspects of the group's socioeconomic characteristics may affect members' ability to participate in mainstream financial markets. The purpose of this paper is to provide information that helps assess the scope, characteristics, and special needs of the Hispanic market. The paper presents an overview of recent demographic trends and socioeconomic characteristics of Hispanics in the U. S. and in Illinois. It provides information on Hispanics who are "unbanked" (do not have transaction accounts at a financial institution), and discusses the implications of such trends and characteristics for the use of financial services by this population. The paper concludes by providing insights on ways financial institutions can reach the Hispanic market, drawing from information gathered from the Federal Reserve Bank of Chicago project, the *Center for the Study of Financial Access for Immigrants*. This article also points to instances where consumer educators can play a role in helping to increase Hispanic access to financial services.

### Demographic and Socioeconomic Characteristics of the Hispanic Population

Data from the 2000 Census show that the Hispanic population is the largest minority group in the U. S., making up over 12.5% of the U. S. population. That is, approximately one in eight people in the U. S. is of Hispanic origin, or 35.3 million people in absolute terms. While the overall U. S. population increased by 13.2% between 1990 and 2000, the Hispanic

segment increased by 58%, a gain of about 13 million people. Increases in Latin American immigration flows have contributed significantly to growth in the Hispanic population of the U. S. In 2000, 12.8 million documented Hispanics, or one third of all Hispanics in the U. S. were foreign born (U. S. Citizenship and Immigration Services, 2000).

Formal educational attainment is fairly low for the Hispanic population. In 2003, 21% of Hispanic immigrants (of any race) had completed at least some college study, compared with 57% non-Hispanic white immigrants (Stoops, 2004). In addition, almost half of Hispanics reported they do not speak English well (U. S. Census Bureau, 2000).

The Hispanic population has relatively low levels of income, and individual Hispanic workers tend to earn less than do their non-Hispanic white counterparts. Average income for Hispanic households was \$33,676 in 2000, compared with \$41,994 for the total population and \$45,367 for non-Hispanic whites. Hispanics also are more likely than non-Hispanic whites to live below the poverty level. In 1999, 22.6% of Hispanics lived in poverty compared with 8.1% non-Hispanic whites (U. S. Census Bureau, 2000).

According to the Survey of Consumer Finances, the percentage of individual households nationwide who were unbanked in 1998 was less than 10% (Kennickell, Star-McCluer, & Surette, 2000). In contrast, the percentage of unbanked households for the Hispanic population hovered around 24%. Unbanked Hispanics overwhelmingly were low-income households. Over 50% of the unbanked Hispanics in the U.S. had incomes less than \$15,000; 25% had incomes between \$15,000 and \$30,000; 8% had incomes between \$30,000 and \$45,000; and 2% had incomes over \$45,000.

## Reaching the Hispanic Market

The growth of the Hispanic immigrant population and the purchasing power of the Hispanic population, estimated to be more than \$450 billion, have led mainstream financial institutions to recognize the Hispanic population as a viable untapped market. Consequently, many depository institutions, including credit unions, have become active in recruiting efforts in the immigrant market. Banks whose surrounding communities have become dominated by immigrant residents and business owners have recognized the need to be responsive to their immigrant clientele in order to survive.

In 2003, the Consumer and Community Affairs Division of the Federal Reserve Bank of Chicago established the *Center for the Study of Financial Access for Immigrants*, a multi-year project to study and share knowledge about the financial practices of immigrants in the U. S. As part of the discussions and conferences held by the Center, an array of information was shared and lessons were learned about how to reach the immigrant market, including the Hispanic market.

Financial institutions should be innovative and flexible in order to respond to the specific needs of their immigrant customers. As an example, in one of the conferences, one banker discussed his experiences in accepting the Matricula Consular card as a form of identification to open a deposit account. The Mexican Consulate issues the card to Mexican nationals who present documentation of Mexican citizenship. (The Matricula Consular card is a substitute for identification like a driver's license. A person still needs a tax payer ID number to open an interest-bearing account. (There are two requirements to open an account: (1) an individual identification and (2) a social security number or an individual tax-payer ID number.) Recently, the New Alliance Task Force, a coalition of bankers, community-based organizations and government agencies, spearheaded by the Consul General of Mexico and the Federal Deposit Insurance Corporation, reported that 80,000 bank accounts with a total of

over \$150 million in deposits were opened with Matricula Consular cards. Today, more than 150 banks across the country accept the Matricula Consular card, as a form of identification.

Individual Tax Identification Numbers (ITINs) also are becoming accepted as a substitute for Social Security numbers for conducting financial services. Some financial institutions have chosen to become acceptance agents or certified acceptance agents, authorized by the Internal Revenue Service (IRS) to help applicants obtain ITINs. In both instances, the institution reviews the necessary documents and forms. Acceptance agents forward all information to the IRS for approval, processing and assignment of ITIN, while certified acceptance agents submit a statement of "certification that the information obtained is authentic, complete and accurate" with only the W-7 form sent to the IRS. The use of ITIN as a substitute for a Social Security number in mortgage loans also is being considered. The Wisconsin Housing and Economic Development Authority has been running a pilot program with three banks to fund ITIN-issued loans. The Mortgage Guaranty Insurance Corporation is also exploring the option to insure ITIN loans.

Some banks accept alternative documents to establish a credit history, such as payments of utility bills, rental payments, car notes and insurance payments, rather than the traditional credit report. Other banks have begun credit-building programs wherein customers take out small loans and repay them over a few months. Offering this service gives banks an opportunity to provide other services to customers who have successfully completed the credit-building program.

Attitudinal factors and the preference to use cash may play roles in Hispanics' lack of participation in the mainstream financial market. Recent immigrants may have a greater aversion toward financial institutions. It has been noted that bad experiences with losing their deposits at a bank in their country of origin and devaluation of the currency in a weak home economy are some of the reasons some Hispanic immigrants may hold negative attitudes about financial institutions. Overcoming this

distrust involves, in part, financial institutions developing marketing strategies and business plans that address this perspective. It also may include offering classes or workshops that cover topics like English as a Second Language (ESL), financial planning, and homeownership and financing. A conference presenter noted the demand for these types of services ~ 35,000 immigrants in the Midwest have enrolled in financial education workshops offered through banks and other organizations.

Bankers have identified their participation in local activities, such as festivals and ethnic parades and partnering with community organizations as effective ways to reach out to Hispanic immigrant communities. Other effective methods to increase the sense of ease and affinity with financial institutions include redesigning of lobby areas in ways that may be more aesthetically pleasing to Hispanic clientele, the addition of bilingual staff, and multi-cultural training for all employees.

Creating products that are culturally sensitive and appealing to Hispanic immigrants is also important. For example, one banker stressed the importance of liquidity and safety of accounts for the Hispanic market. He noted that while passbook savings books are considered outdated in some segments of the banking community, the majority of his bank's Hispanic customers preferred this type of visual documentation of their account balances. In addition, other banks' strategies extend to toll-free numbers in Spanish, the design of products and services in Spanish, including Web sites, automated teller machines (ATMs), brochures, and advertisements that are disseminated through the Hispanic media.

Making low-cost financial services available for immigrants to use in the short-term and creating tiered products that help transition customers into other products also were viewed as ways to draw people without bank accounts into the mainstream financial system. Many banks offer introductory banking services. These include free or low-cost checking and savings accounts, some of which are packaged with a variety of other free services like bonus gifts to all customers. Some of these institutions also

offer competitively-priced money transfer services, including bank-to-bank transfers and ATM cards that allow international withdrawals or transfers. In such instances, the bank offers two ATM cards, one to be used in the U. S. and the other to be sent to a relative in another country, with the account holder in the United States remaining responsible for the account.

One banker said that in response to the large demand by Mexican immigrants to transfer funds to families in Mexico, the bank started offering wire transfer services. This particular bank's service allows the transfer of up to \$1,000 for a flat, competitive fee from the bank branch in the U. S. to a bank in Mexico. While it is not necessary to have a transaction account at that U.S. bank to make use of this service, the bank representative expected the remittance service to attract Hispanic customers to use other services and become regular customers. This bank's experience is not unique. The large growth in immigration and subsequent growth in number of remittances to Latin America and the Caribbean have led many large financial institutions to introduce remittance products. Since 2000, the International Remittance Network (IRnet), available through credit unions working with the World Council of Credit Unions, allows credit union members to transfer money to thousands of banks and non-bank locations in 40 countries for about \$6. The exchange rate is guaranteed at the time of transfer so that the exact amount to be received can be anticipated. The cost of sending a remittance through a bank or credit union tends to be lower than fees charged by private money transfer companies. Typically, it is 4% of the amount sent compared with the 13% usually charged by wire transfer companies. However, wire transfer companies still control the largest share of the international remittance business, estimated at close to 80% of the total.

The programs and initiatives outlined in this article are by no means exhaustive. However, they demonstrate that a comprehensive approach, which includes specialized products and services, community engagement, and a strong educational component, is the most promising way to reach Hispanic

immigrants. Language difficulties and lack of familiarity with the U. S. financial system make Spanish-language product brochures and Spanish-speaking staff necessary.

Community leaders and consumer educators also can play an important role in helping Hispanic immigrants make informed financial decisions (Greenspan, 2001). Community leaders and government agencies in tandem with financial institutions can take an active role in bridging the language/cultural gap by organizing financial literacy programs that target Hispanic immigrant households. Hispanic immigrants who lack education and the ability to speak English may be at a competitive disadvantage with respect to access to, and understanding of, consumer information. Given the relatively large number of youth in the Hispanic population, and given the importance of introducing young consumers to good financial practices, consumer educators could help educate this audience within or outside the school environment (Toussaint-Comeau and Rhine, 2001/2002). Low income and high poverty rates among Hispanic households contribute to their weak linkages with mainstream financial institutions. Research shows that low-income individuals are more likely to use alternative financial services like check-cashing outlets and payday loans where transaction costs are often very high. Consumer education is an important avenue for helping Hispanic immigrants and other at-risk individuals make informed financial decisions.

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