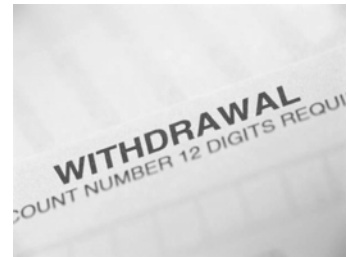


The Unbanked Latino

Expanding Banking Access for Latinos in Massachusetts



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Executive Summary

America bills itself as the land of opportunity: if you work hard and play by the rules, you will be able to succeed for yourself and your family. At the cornerstone of everyone's American dream – whether buying a house, sending your children to college or investing in a business – lies the nation's banking and credit system. Our ticket to success depends on gaining access to credit.

In Massachusetts and in the United States, Latinos are the fastest growing sector of our population. They are also the most likely to be unbanked, that is, without any connection to the formal banking sector, and thus without the same access to affordable credit that other residents have. This lack of access leaves many Latinos vulnerable to predatory lending practices and to high-cost providers of transmittal and check-cashing services. Such poor experiences reinforce a negative attitude toward banking and financial institutions more broadly.

For the Latino community and for Massachusetts, it is imperative that government, community service organizations and the financial services industry examine business practices, social customs and needs particular to the Latino community to encourage more Latinos to utilize the myriad of quality and affordable financial services available in Massachusetts. This report discusses the major barriers facing Latinos' access to credit. It also recommends strategies for increasing the number of Latinos who access credit institutions and provides examples of what some communities and financial institutions have done to achieve this goal.

This report recommends that banks and financial institutions:

- **Address linguistic and cultural barriers.** Linguistic and cultural barriers constitute the first major focal point of this study. For banks hoping to build their market share in this community and attract clients, *hiring Spanish-speaking tellers and operators, translating banking literature into Spanish, and having a physical presence in the community* is a priority.
- **Recognize alternative forms of identification.** Another major impediment to the Latino community concerns the identification requirements to open an account. Banking institutions must follow the lead of the U.S. Department of Treasury and

accept alternate forms of identification such as Individual Taxpayer Identity Numbers (ITIN) and Matrículas Consulares de Alta Seguridad (MCAS) issued by their home country's consulate as accepted by the U.S. Treasury Department.

- **Tailor financial services and policies to immigrant financial needs.** The banking industry must also recognize that a number of financial services needs of Latinos differ from those of the non-Latino population. One example is the popular cash remittances to Latin American, a large portion of Latino customers will be interested in *low-cost fees for remittances* and other services concerning transferring money internationally.
- **Support and Comply with the Community Reinvestment Act.** Mortgage lenders and out-of-state banks underwrite the majority of mortgages in Massachusetts but are not required to abide by the Community Reinvestment Act. *Policymakers and banks should work together to file legislation to create a continuing and affirmative obligation for non-depository mortgage lenders to help meet the housing credit needs of Massachusetts communities, including low- and moderate-income residents.*
- **Develop partnerships with community-based organizations (CBO's), faith-based organizations and city officials to promote financial literacy and expand banking opportunities.** Bank officials should meet regularly with community leaders and organizers to attract more customers. Develop formal literacy courses as well as “starter” products in conjunction with community leaders will increase participation in their programs.

The Latino community is increasingly becoming a powerful presence in America's culture and economy, and represents a very promising customer base for financial institutions. Unfortunately, institutional barriers are affecting Latinos' access to banking services and credit. Most Massachusetts banks have not effectively reached out to this rapidly growing minority group.

The gap in outreach to Latinos provides an attractive opportunity for financial institutions that are interested in expanding into new and lucrative markets. “The Latino community needs

increased access to mainstream financial services, and financial institutions clearly face an opportunity to increase their customer base by marketing their products and services to this growing segment of the population,” says Glenda Wilson, Community Affairs Officer for the Federal Reserve Bank of St. Louis. “Banks may overcome cultural barriers that can discourage Latinos from establishing a banking relationship by becoming engaged in their communities.”¹ By successfully reaching out to the Latino community, banks will not only attract a valuable customer base, they will help many Latinos get one step closer to achieving their American dream.

¹ Elizabeth R. Kelderhouse. “What Can Bankers Eager To Capture This Market Do? Techniques for reaching the Latino immigrant population” *Bridges: Linking Lenders and Communities* (Autumn 2002): 3. Retrieved September 8, 2004, from http://www.stlouisfed.org/publications/br/2002/c/autumn_2002.pdf.

Background

The Expanding Latino Market

In the last decade, the Latino population in the United States has grown dramatically. The U.S. Census Bureau's official population estimates indicate that America's 38.8 million Latinos are now the nation's largest minority community. This amount represents an increase of 3.5 million Latinos from the 2000 Census and does not include the 4 million residing in Puerto Rico. More than one in eight Americans are of Latino origin.²

According to the U.S. Census Bureau, 16.9 million Latinos in the United States are foreign-born and 21.9 million were born here. Latinos are a diverse group in their origins, comprised of Mexicans (66.9%), South Americans (14.3%), Puerto Ricans (8.6%), Cubans (3.7%) and other Hispanics (6.5%). Almost half (45.6%) live within a metropolitan area. Latinos have higher birth rates and lower death rates than the average American. Over a third (34.4%) are under the age of 18, and another third (33.2%) are between the ages of 25 to 44.³ As the Latino community matures in the coming years, they will be seeking financial services in ever-increasing numbers.

The demographic trends in Massachusetts mirror national statistics. Latinos are the fastest growing segment of the Commonwealth's population, estimated at 463,452 residents in 2003, or roughly 7.45% of the Massachusetts general population of 6,218,773 people.⁴ The growth rate in Massachusetts reflects higher birth rates and lower mortality rates for Latinos than the state average. In 2002, the birth rate among Latinos increased by 14.3% from the 1995 census. From 1990 until 2000, the Latino population increased by 49.1% throughout Massachusetts.⁵

² "Hispanic Population Reaches All-Time High of 38.8 Million, New Census Bureau Estimates Show." U.S. Census Bureau. 18 June 2003. Retrieved September 8, 2004, from <http://www.census.gov/Press-Release/www/2003/cb03-100.html>.

³ Ibid.

⁴ "Massachusetts: General Demographic Characteristics." U.S. Census Bureau American Community Service: 2003 Data Profile, 4 August 2004. Retrieved on September 8, 2004 from <http://www.census.gov/acs/www/Products/Profiles/Single/2003/ACS/Tabular/040/04000U.S.251.htm>.

⁵ Daniel W. Vasquez. "Most Frequently Asked Questions about the Latino Population of Massachusetts." The Mauricio Gastón Institute for Latino Community Development and Public Policy, 2003. Retrieved September 8, 2004, from <http://www.gaston.umb.edu/resactiv/faqs/faqs.html>.

Boston has the largest share of the state's Latino population with over 20% living within its city limits, nonetheless a substantial numbers of Latinos may be found elsewhere. Other cities having large numbers concentrated in particular neighborhoods include: Lawrence with 10% of the state population; Springfield with 9.6%; Worcester with 6.1%; and Chelsea with 4%.⁶

Recently, towns and cities that historically have had few Latino residents have also seen a sharp increase. For example, Latinos make up 8.8% of the Chicopee population, an increase of 133% since 1990.⁷ Since 1990, the Latino population in Methuen and Haverhill has nearly doubled. In the Merrimack Valley, Latinos grew by 54% compared to an overall population growth rate of 4.4%; Chelsea's Latino population makes up more than 48% of its general population; in Lawrence, 60% of the population is Latino.⁸

The majority of Latinos in Massachusetts are of Caribbean descent. Puerto Ricans accounted for 45% (201,555), Mexicans, 7% (32,041), Cubans, 0.8% (3,742) and "others" representing 47.2% (214,473). The majority of "others" are of Dominican descent, followed by Central and South Americans. Approximately 67,000 Dominicans, 16,000 Guatemalans, 18,000 Colombians, 4,000 Ecuadorians, 4,500 Peruvians and 22,000 Salvadorans reside in Massachusetts.⁹ Of the 272,359 Latinos 18-years and over residing in Massachusetts in 2000, 69.1% were citizens. This translates to 188,318 potential Latino voters in Massachusetts.¹⁰ Nationwide, only 26.3% of Latino full-time, year-round workers earned more than \$35,000 a year.¹¹ Consistent with national patterns, Latinos in Massachusetts make up a large portion of lower- to moderate-income wage earners. But despite their modest income levels, Latinos are a burgeoning entrepreneurial force. According to the 2000 Census, the real median income for Latinos in Massachusetts was \$27,885, but there were approximately 13,000 Latino-owned

⁶ Terkla, David. "Massachusetts Benchmark: Greater Boston Region." *Massachusetts Benchmarks: The Quarterly Review of Economic News and Insight* 6, issue 1:15. Retrieved September 8, 2004, from <http://www.massbenchmarks.org/issues/03winter/pdf/wint03.pdf>.

⁷ Vasquez

⁸ Cathleen F. Crowley. "As Latino Population Surges, so Does Its Power, Influence." *Building Bridges*, Eagle Tribune. 1 July 2001.

⁹ Metropolitan Racial and Ethnic Change

¹⁰ "Table 1-9. Hispanic or Latino -- Voting-Age Population and Citizen Voting-Age Population by Sex, for the United States and States: 2000." U.S. Census Bureau. Retrieved September 9, 2004, from <http://www.census.gov/population/cen2000/phc-t31/tab01-09.pdf>

¹¹ "Hispanic Population Reaches All-Time High of 38.8 Million, New Census Bureau Estimates Show."

enterprises in Massachusetts, an overall increase of 88% since 1992. Latino-owned businesses saw gross receipts rise from \$508 million in 1992 to over \$1.6 billion in 1997.¹²

More than *two-thirds of Latino business owners used their own savings as start-up capital*. Business owners using loans borrowed primarily from family and friends.¹³ In Lawrence, only 18.8 % of Latino small businesses reported using conventional loans as a method of financing business. This was lower than 2000 when 28.2% reported using loans to finance business.¹⁴ While Lawrence and the rest of Massachusetts experienced a decline in its economic sector, Latino businesses have flourished without the help of the banking sector. This leads one to ask if the Small Business Administration and recognized high performing small business lenders do very little outreach to the Latino Community, or if Latinos have a lack of interest or confidence in the formal banking sector.

Latino purchasing power is estimated at \$653 billion nationwide¹⁵ and \$4.4 billion in Massachusetts.¹⁶ Even with high representation in the low- to moderate-income bracket, 24.2% of Latino households in Massachusetts earn more than \$50,000 per year.¹⁷ Despite these figures, Hispanics are 44% more likely than other groups to be unbanked and are 62% less likely to have any retirement savings.¹⁸

Even among low-income Latinos, financial service institutions have much to gain from marketing their products to this emerging community. Latin Americans are responsible for 60% of worldwide growth in money transfers since 1999.¹⁹ Last year, Latinos sent \$32 billion to their

¹² Vasquez

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Humphreys, Jeffrey M. "The Multicultural Economy 2003: America's Minority Buying Power" *Georgia Business and Economic Conditions* 63, no. 2:6. Retrieved September 8, 2004, from <http://www.ethnicmajority.com/Attachments/Selig%20UGA%20report%20on%20minority%20buying%20power.pdf>

¹⁶ Siglo21 Media Kit 2004. *Siglo21*. Retrieved September 8, 2004, from <http://www.siglo21.com/mediakit/siglo21%20media%20kit.pdf>

¹⁷ Ibid.

¹⁸ Statement of John A. Herrera, Vice President for Latino/Hispanic Affairs, Self-Help Credit Union, LCCU and CUNA before the Congressional Hispanic Caucus. "The Role of the Matrícula Consular at Financial Institutions." 26 March 2003. Retrieved on September 8, 2004, from http://www.cuna.org/gov_affairs/legislative/testimony/032603.html.

¹⁹ "The Fastest Way to Make Money." First Data Corporation. June 23, 2003. Retrieved September 8, 2004, from http://www.firstdata.com/news_article.jsp?nID=1859.

families in Latin America in the form of remittances.²⁰ In 1980, remittances to Latin America totaled only \$1 billion. In 1990, the total sent was \$3.7 billion.²¹ Compare the 2003 amount to the worldwide remittance market: in 2003, migrant workers sent an estimated \$138 billion in remittances to their native countries. Approximately \$4 billion was paid in U.S. transactional costs in 2002, or 12.5% of the value sent.²² This represents an increase of 44% over the past decade and this amount is expected to grow an additional 28% over the next three years.²³

The Unbanked Latino: Reasons for Lack of Access to Credit and Services

Rather than use banks, many Latinos use cash for all their needs. Latinos use cash to pay for utilities, goods and services and they purchase money orders rather than have a checking account or debit card. They also have a tendency to pay check-cashing fees and hold cash at home rather than have a savings account. Indeed, unbanked Latinos have often been the targets of armed robberies and home invasions throughout the country because of the large amount of cash they carry or keep in their homes.²⁴ This report examines the reasons why so many Latinos remain unbanked.

Most studies and surveys reviewed indicate that language, identity documentation requirements, minimum balance requirements, high banking fees and a general distrust of banks are key factors that discourage Latinos from using the formal banking sector. The success of the formal banking sector in attaining Latino customers will depend on how effectively they market their products to resident Latinos. For too long financial institutions have held on to a perception that the Latino market has low profit margins and is tough to penetrate. This report hopes to dispel those misconceptions with numbers reflecting the profit potential available and give useful advice for those financial institutions wishing to expand their Latino market share. A relatively

²⁰ Statement of Sheila Bair, Dean's Professor of Financial Regulatory Policy, University of Massachusetts before the Subcommittee on Financial Institutions and Consumer Credit. "Serving the Underserved: Initiatives to Broaden Access to the Financial Mainstream." 26 June 2003. Retrieved on September 4, 2004, from <http://financialservices.house.gov/media/pdf/062603sb.pdf>

²¹ Statement of Manuel Orozco from Inter-American Dialogue before the Congressional Hispanic Caucus. "Costs, Economic Identity and Banking the Unbanked." March 26, 2003. Retrieved on September 8, 2004, from http://www.thedialogue.org/publications/country_studies/remittances/econ_identity.pdf.

²² Bair. "Serving the Underserved."

²³ "The Fastest Way to Make Money."

²⁴ Ibid.

young population with larger households, Latinos will grow into an ever-larger portion of the state's consumers, community leaders, homeowners, workers and voters. And they need credit. Stephen Galvin of Industrial State Bank observed, "Latino immigrants are in tremendous need for financial services. They are the workers in America who take the jobs that other Americans refuse to take - the low wage, unskilled jobs. They pay taxes in America, and they should be given the opportunity to fulfill their basic banking and credit needs."²⁵

²⁵ Elizabeth R. Kelderhouse. "Banking Latino Immigrants: A Lucrative New Market for Progressive Financial Institution" *Bridges: Linking Lenders and Communities* (Autumn 2002): 1. Retrieved September 8, 2004, from http://www.stlouisfed.org/publications/br/2002/c/autumn_2002.pdf.

Findings

With the rising numbers of Latinos across the nation, our office looked at the status of Latinos and banking in the Commonwealth. We looked at the following five areas:

- Language barriers
- Financial Literacy
- Banking Identification Requirements
- Distrust, Resentment, and the Money Transfer Operator Phenomenon
- Mortgage Lending

The Language Barrier

In the summer of 2004, the office of Senator Jarrett Barrios (D-Cambridge) surveyed 27 random banks, 7 money transfer operators and check-cashing service agencies and 62 credit unions in Massachusetts.

Out of the 27 banks surveyed:

- Most banks (74%) surveyed did not have Spanish-speaking customer service representatives servicing call centers.
- Most (74%) did not have Spanish-speaking staff on-site to assist in the account opening procedures.
- Most (74%) did not have Spanish-language literature on-site to promote products to Spanish speakers.

Out of the 62 credit unions surveyed:²⁶

- Most (97%) did not have Spanish-language literature on-site
- Most (85%) did not have Spanish-speaking staff on-site to assist in the account opening procedures.
- All required two U.S.-issued identifications and proof of legal residence in the U.S. Acceptable forms of identification included MA driver's license, a social security

²⁶ It must be noted that to be a member of a credit union, one must first be an eligible employee.

Card, or an INS green card. All cited the USA Patriot Act for inability to accept other forms of identification without proof of status.

In contrast, out of the 7 check-cashing services and money transfer operators surveyed:

- Most (71%) had Spanish-speaking staff on-site to assist customers.
- Most (71%) had Spanish-language literature.

In Boston neighborhoods with higher concentrations of minority residents, Spanish-language literature and bilingual bank personnel were more readily available. However, in the Boston city center where many Latinos work and through which many Latinos commute, there was a limited amount of Spanish-language literature and bilingual branch staff were harder to identify.

As companies in Massachusetts wrestle with a more diverse clientele, they see emerging business opportunities. The influx of foreign-born Spanish-speaking residents places high pressure for corporations to hire employees with language skills other than English. “You can’t do business in English solely anymore” said Monica Francois, managing partner of Chicago-based Language & Culture Worldwide LLC, a consultant to Fortune 100 companies.²⁷ Citizens Bank is one bank that has responded to the changing needs of Massachusetts with managers and staff that can speak one or more of 81 languages. “Being able to speak two foreign languages enables me to help many new immigrants in the Framingham area,” said Amanda Carniero, an assistant manager of Citizens’ Framingham branch who is from Brazil and speaks Portuguese, English and Spanish.²⁸

Financial Literacy

Another impediment to attracting Latinos to formal banking institutions is that many do not possess the necessary knowledge to understand the benefits of the formal banking sector. Recent immigrants come from countries where banks are not trusted or useful, and they may have had little experience with writing checks, savings accounts, and other services offered by a

²⁷ Bushnell, Davis. “Multilingual Workers in High Demand: Trend Mirrors Growth of Immigrant Communities”; *The Boston Globe*. 8 February 2004:G1.

²⁸ Ibid.

financial institution. Promoting financial literacy, banks can offer bilingual financial education classes to community groups and clients. These classes can be an opportunity to encourage clients to take advantage of the many services the financial institution offers. They can also become an opportunity for the banking community to reach out directly to Latinos and gain the trust of potential clients. Some organizations offer financial education English as a Second Language classes and as a reward for attendance they provide clients with low-cost accounts and free checking. The FDIC Community Affairs Division offers a free program to banks, organizations or individuals called *Money Smart*, a comprehensive financial education curriculum in Spanish. The program encompasses 10 modules that cover everything from opening a bank account to understanding credit reports to obtaining a home loan. *Money Smart* offers a scripted course that can be used to teach immigrants about the banking process.²⁹ Wells Fargo is a bank that developed its own literacy materials, available on the web at <http://www.handsonbanking.org> and in Spanish at <http://www.elfuturoentusmanus.org>. The training materials are also available on a CD-ROM.

Banking Identification Requirements

One of the barriers to banking services for the Latino immigrant community is the identification requirements for opening an account. Banking industry standards require that new customers obtain traditional, government approved identification—such as passports, social security numbers, drivers licenses and green cards—in order to open a checking or savings account. While banks commonly offer accounts that require no or low minimum balances, the refusal to accept alternate identification documents prevents many recent immigrants from opening accounts.

Acceptable Forms of Identification

An acceptable form of alternative legal identification includes Individual Taxpayer Identification Numbers (ITIN). First issued in 1996 by the Internal Revenue Service as tax

²⁹ More information can also be found at the FDIC website <http://www.fdic.gov/consumers/consumer/moneysmart/>.

processing numbers, ITIN's allow the government to collect taxes from immigrants who are ineligible to receive a social security number. To obtain an ITIN, an individual must complete and mail to the IRS a W-7 form. Banks that accept alternate identification include the W-7 forms in account opening packets for potential immigrant customers.

A second alternative form of legal identification is the consulate identification from the customer's native country. One well known form of consular identification is the Matrícula Consular de Alta Seguridad (MCAS). The MCAS card is issued by the Consulates General of Mexico as proof of Mexican citizenship and is valid for five years. Mexican consulates throughout the United States issued almost a million MCAS cards by the end of 2002. Locally, the Mexican consulate has issued more than 1600 identifications as of June 2003. Other governments have begun to develop their own forms of high-level photo-identification similar to Mexico's.³⁰

The MCAS bears a serial number, picture of its owner, name, date, city and state of birth (in Mexico); current U.S. address; issue date; expiration date; and the location of the consulate that issued the card. In 2002, the Mexican consulate upgraded the MCAS card to a high-tech, digital version. The new card incorporates several security features such as special paper, holograms, and embedded designs. The card also includes invisible security marks that are visible with a decoder. To obtain a card, applicants must present an official birth certificate and official photo identification. A passport, military service card, Mexican voter's card, record of clearance from the police department, driver's license, and expired MCAS cards qualify as official photo identification.

The MCAS acts as a powerful identifying tool to track immigrants living in the United States and is now accepted in states as diverse as California, Indiana, and Nevada. Indeed, the MCAS form of identification is now accepted by more than 70 national banks and is quickly becoming an accepted mode of identification with numerous police departments as well.³¹ More than 820 police departments, 120 cities and 40 counties throughout the United States accept MCAS cards as a legal form of identification.

³⁰ For example, the Salvadoran government now issues a National Unity identification card, which is as advanced in technology as the updated Mexican Matrículas.

³¹ Mexican Consulate of Boston, Massachusetts.

In 2001, the American Bankers Association announced that the Matrícula Consular was an acceptable form of identification. As a result banks that have recognized the MCAS card as an acceptable form of identification—Wells Fargo is a notable example—opened more than 350,000 bank accounts to Mexican immigrants.³²

Bank Regulators Accept Alternative Forms of Identification

Unlike banks in the Southwest and Western United States, many of Massachusetts' banks and credit unions are unaware that they have the flexibility to accept alternative forms of identification.³³ This misconception by banks contributes to a pervasive use of Money Transfer Operators (MTOs) by immigrants. However, **there are no federal statutory or regulatory prohibitions against accepting the MCAS, ITIN or a passport number as a proper form of identification when opening a bank account.**³⁴

On April 30, 2003, the U.S. Treasury, the FDIC and other federal financial regulatory agencies mandated new rules for customer identification to implement the USA Patriot Act of 2001.³⁵ The rules require financial institutions to ask each customer for their name, address, date of birth and tax identification number when opening a new account. The tax identification number can be a social security number, or **an Individual Taxpayer Identity Number (ITIN)** or a passport number (of any country). Customers are also required to provide photo identification such as a passport or driver's license to verify identity.

³² Conversation with Liliana Grips, Latino Markets Director for Wells Fargo.

³³ Of the 27 banks surveyed by this office, an overwhelming majority did not accept the Individual Tax Identification Number (22 of 27) and none accepted the Matrícula Consular.

³⁴ After the devastating attacks of September 11, 2001, the federal government rushed through the USA Patriot Act within a month and a half of the tragedy without allowing for adequate time to debate and analyze its costs and benefits. Its passage caused initial fear that the law would restrict a bank's ability to accept alternate forms of identification. Instead, Section 326 of the U.S. Patriot Act does not discourage the acceptance of Matrículas Consulares, ITIN or passports.

³⁵ "Fact Sheet: Final Regulations Implementing Customer Identity Verification Requirements under Section 326 of the USA PATRIOT Act." Department of the Treasury. 30 April 2003. Retrieved September 13, 2004, from <http://www.ustreas.gov/press/releases/docs/326factsheet.doc>.

Distrust, Resentment, and the Money Transfer Operator Phenomenon

Many of the fears Latinos have when dealing with a bank stem from living in countries with unstable economies, high inflation rates and, in some cases, a corrupt banking system. Miscommunication and predatory financial service providers have also led to bad experiences in the United States. It is important that tellers and new account representatives are aware of this distrust and work to gain the confidence of the customer. Given this history, it is apparent that establishing a positive relationship with the Latino client will be crucial in obtaining their business.³⁶

Remittances and the High Use of Money Transfer Operators (MTOs)

There is no financial service more widely used by immigrants in the United States than the remittance of money to relatives abroad. The traditional banking sector is more conducive to corporate remittances than individual money transfer services that allow immigrants or citizens to easily send a portion of their income to family members still living outside the United States. The result? Banks are losing out to money transfer operators in the remittances business. Latin American migrants living in the U.S. alone will send over **\$30 billion** to their countries of origin. Of the estimated 16.7 million Latin American-born adults in the U.S., 10 million regularly remit money back to their families. It is estimated that the work of these immigrants, often doing jobs spurned by others, contributes an estimated \$450 billion to the U.S. economy.³⁷ According to the manager of the Inter-American Development Bank's Multilateral Investment Fund, Donald F. Terry,

“The dramatic growth of international remittances is testimony to the hard work and commitment of migrant workers seeking better lives for themselves and their families. It also reflects the increasing integration of labor markets across national borders, as the

³⁶ Amy Smith. “Neighborhood Bankers or International Big Shots?” *The Austin Chronicle* 20, no. 43. (22 June 2001). Retrieved September 8, 2004, from http://www.austinchronicle.com/issues/dispatch/2001-06-22/pols_feature4.html.

³⁷ Press Release. “Latin American Immigrants in the United States to send \$30 Billion to Homelands in 2004.” Inter-American Development Bank. 17 May 2004. Retrieved on September 8, 2004, from http://www.iadb.org/NEWS/DISPLAY/PRView.cfm?PR_Num=98_04&Language=English.

economics of developed countries require the skills and dedication of workers from other countries.”³⁸

In Latin America, remittances constitute a critical flow of foreign capital and a major macroeconomic force in the majority of the receiving countries. Unlike programs funded through the World Bank, U.S. Agency for International Development (USAID) and other governmental agencies, remittances use the private market as a source of developmental aid. The intended party in a Latin American country directly receives the money sent from the United States. This bypasses either a corrupt leader that can take a portion for personal purposes or an unreliable postal service that does not efficiently deliver mail.³⁹

Massachusetts was ranked twelfth in the United States in the amount of remittances sent to Latin America totaling \$527 million.⁴⁰ Indeed, the average amount remitted by Latinos living in Massachusetts was \$2,491, ranking immigrants here eighth in the country.⁴¹ The number of times a Massachusetts Latino would send a remittance on average was close to 14 times a year.⁴²

In 2002, between three and four billion dollars were paid in fees by Latinos to send money abroad, most fees were charged by wire-transfer services.⁴³ Western Union and other individual Money Transfer Operators (MTOs), who control 83% of remittances in the United States, impose the highest costs in percentage terms on senders remitting the smallest amounts. MTOs traditionally charge a flat fee, which results in a regressive price structure that is very

³⁸ Ibid.

³⁹ The Salvadoran government has implemented a major advertising campaign that is targeted at the more than 750,000 expatriates residing in the United States. The campaign aims to inform immigrants about U.S. immigration laws to protect the \$2 billion in remittances it receives annually. Remittances represent over 25% of El Salvador's Gross Domestic Product. In 2001, Nicaragua's remittances accounted for 24% of its Gross National Product. Guatemalans residing in the U.S. sent home approximately \$700 million, and Ecuador received \$1.4 billion in remittances. From 1995 to 2000, the Dominican Republic received nearly \$1.8 billion in remittances, which accounts for approximately 10% of its exports. Remittances are the second largest source of foreign currency and make up over 8% of the GDP. Approximately 40% of all Dominican families receive remittances for basic needs. Mexico, the main recipient of U.S. remittances, received an estimated \$9.2 billion in money transfers in 2001. Jeffrey N. Cruz. "U.S. Remittance Policy and the Western Hemisphere." The Congressional Hispanic Caucus Institute Policy Brief. April 2003. Retrieved September 9, 2004, from <http://www.chci.org/publications/pdf/USRemittancePolicy.pdf>.

⁴⁰ "Sending Money Home: The First State-by-State Analysis of US Remittances to Latin America, 2004." Inter-American Development Bank. Retrieved September 12, 2004, from <http://www.iadb.org/exr/remittances/index.cfm?language=english>.

⁴¹ The national average was \$1,805. Ibid.

⁴² Ibid.

⁴³ Blair, 1.

costly to the sender. The average remittance amount to Latin America is \$260, varying according to the country of origin. The **average cost to send \$300 with Western Union is between \$22.02 and \$36.70.**⁴⁴

Other hidden fees and changes to the receiving party result in the total cost ranging between 10% and 20% of the value sent, including overall fees that were not readily disclosed to the sender.⁴⁵ Latinos that send money to their families may be unaware that fees and exchange rates reduce the gross amount received by the recipient. The actual costs to send money to Latin America includes an international money transfer fee, a fee charged by transfer companies to convert remitted dollars into local currency. These firms commonly set the exchange rate in-house and also charge a remittance tax.⁴⁶ This is due to the exchange rate differentials that translate into an exit fee to the receiver and a profit for the company. When informed of these exit fees, many respondents to a survey felt that the overall fees paid for the services were excessive.⁴⁷

Prior to 2001, there were relatively few banks and credit unions that offered low cost international remittances. Now there are more than 30 banks that offer low cost transfers, including Banco Popular, Citibank, Bank of America and Wells Fargo. Wells Fargo has reached out to Latinos further by offering a money transfer service to Mexico. Dubbed "Intercuenta Express", the service allows a Mexican immigrant to transfer money to relatives for a flat fee of \$8 for funds under \$3,000 (and a \$10 account yearly fee).⁴⁸ As another example, Bank of America has a program called SafeSend that charges \$10 per transfer if the sender is not a Bank of America cardholder.⁴⁹ Another bank, First Bank of the Americas offers a service called

⁴⁴ Ibid.

⁴⁵ Statement of Manuel Orozco from Inter-American Dialogue before the Congressional Hispanic Caucus.

⁴⁶ Roberto Suro, Sergio Bendixen, B. Lindsay Powell, and Dulce C. Benavides. "Billions in Motion: Latino Immigrants, Remittances and Banking." The PEW Hispanic Center and The Multilateral Investment Fund, 22 November 2002, p. 9. Retrieved September 8, 2004, from http://www.pewhispanic.org/site/docs/pdf/billions_in_motion.pdf.

⁴⁷ Statement of Segio Bendixen, President of Bendixen and Associates at the Oversight Hearing on "Accounting and Investor Protection Issues Raised by Enron and other Public Companies" presented to the U.S. Senate Committee on Banking, Housing, and Urban Affairs. February 28, 2002. Retrieved September 8, 2004, from http://banking.senate.gov/02_02hr/022802/bendixen.htm.

⁴⁸ "International Money Transfers: Send Money to Mexico." Wells Fargo. Retrieved September 13, 2004, from http://www.wellsfargo.com/per/intl_transfer/index.jhtml.

⁴⁹ "SafeSend Frequently Asked Questions (FAQs)." Bank of America. Retrieved September 13, 2004, from <https://www.bankofamericasafesend.com/index.cfm?pageid=g04&lang=en>.

Quickcash, which charges \$1.50 in ATM transaction fees.⁵⁰ The bank also offers two ATM cards; one to be used by the American account holder and the other to be used by the receiver in Latin America. Banco Popular's service Acceso Popular, also offers two ATM cards with an access fee of \$4.35.⁵¹

The overall increase in programs means that competition could potentially save consumers quite a substantial amount of money. Facilitating the cost effectiveness and process of remittances will help Latinos in the United States to spend their limited incomes on things that matter—not on exorbitant fees. By reducing the average transfer fee to 5%, an additional \$5 billion would have been generated in 2003 and over \$12 billion could be saved by the end of 2010 to be used by the sender as added remittances, for personal consumption or for seeds for savings.⁵²

Check-Cashing Costs and MTOs

The value of remitted money is further reduced by check cashing costs. Because many Latinos do not have bank accounts, they cash their paychecks at the MTOs. Check cashing costs can vary from 3% to 10% of the total amount being cashed. In 2002, transfers of money accounted for 80% of Western Union's revenues. Western Union is the world's biggest sender of remittances and controls 80% of the United States electronic money-transfer market. In Massachusetts, most MTOs used the services of Western Union. Globally, Western Union controls 12% of the remittance market, generating 30% profit margins. This translates into one billion in profits in 2002 from \$3.2 billion in revenue.⁵³

⁵⁰ Pamela Voss, President, First Bank of the Americas. "Serving Chicago's Mexican-American Community." *Community Developments*. Summer 2002. pp. 3. Retrieved September 13, 2004, from <http://www.occ.treas.gov/cdd/Summer-09.pdf>.

⁵¹ Manuel Orozco. "Remittances, Costs, and Market Competition." *Inter-American Dialogue*. November 2002. pp. 25. Retrieved September 13, 2004, from http://www.iadialog.org/publications/country_studies/remittances/Remittances_Markets.pdf.

⁵² Suro et al.

⁵³ In 2002, Western Union recorded a dramatic increase in its third quarter profit of \$342.5 million, up from \$151.2 million in 2001. In December 2002, Western Union and its subsidiary Orlandi Valuta and MoneyGram, settled a class action lawsuit that alleged the companies failed to disclose money transaction fees. The suit focused on the fact that the exchange rate at the time remitted money was cashed was not properly disclosed. The settlement involved almost \$400 million dollars. "The Fastest Way to Make Money."

Besides charging higher fees than banks, MTOs are also not required to abide by the same transparency regulations as the formal banking sector, including full disclosure of fees. Latinos represent 44% of the unbanked in the U.S. and are often at the mercy of price gouging and unfair financial practices of remittance companies. These immigrants bear the brunt of the pain caused by this failure to competently regulate this industry.⁵⁴

Given that individuals from Latin America and the Caribbean living in the United States send an estimated \$30 billion per year to their home countries, the issue of disclosing costs for remittances has not gone unnoticed by government officials in the United States. Unfortunately, there are few movements to require MTOs to disclose fees.⁵⁵ On March 29, 2001, House Financial Services Committee member Luis Gutierrez, a Democrat from Illinois, introduced H.R.1306, the Wire Transfer Fairness and Disclosure Act of 2001. This bill would amend the Electronic Fund Transfer Act to require additional disclosures relating to exchange rates involving international wire transfers. The legislation would require a financial institution involved in international money transfer to disclose certain information such as the exchange rate used in the transaction, all commissions and fees charged in the transaction and the exact amount of foreign currency to be received by the consumer in the foreign country, among other provisions.⁵⁶ That bill did not pass. Locally, Massachusetts State Senator Jarrett T. Barrios (D-Cambridge) introduced a bill (S. 5) in 2003 that would require financial services to disclose fees, terms and conditions associated with all accounts, as an effort to provide transparency and fairness to all consumers. This bill is being studied by the Massachusetts General Court and a companion bill will be introduced in the new legislative session to apply specifically to MTOs and check-cashing establishments.

On February 28, 2002, the United States Senate Banking, Housing and Urban Affairs Committee held a hearing regarding the issue of remittances. It was disclosed that three to four billion dollars are paid in the transaction costs and fees to MTOs. Senator Daniel Akaka (D-HI) observed at the hearing: “In many cases, the total cost of remittance can be ten to twenty percent

⁵⁴ Ibid.

⁵⁵ Statement of President Enrique V. Iglesias from the Inter-American Development Bank Multilateral Investment Fund. “Sending Money Home.” (Washington, D.C.: Conference on Latin America and the Caribbean Remittances, 28 February 2003). Retrieved September 8, 2004, from <http://www.iadb.org/mif/v2/files/28docc.doc>.

⁵⁶ Office of Public and Congressional Affairs; <http://www.ncua.gov/news/legislation/107-HR1306.htm>.

of the value of the transaction. People who send remittances are often unaware that the exchange rates used in the transaction reduce the amount to the recipient.”⁵⁷ Clearly there is a market opportunity for banks that choose to compete with MTOs for the remittance market—an opportunity that will no doubt benefit Latinos by not only saving money on fees but by formally introducing them to consumer banking in this country.

Successful lobbying efforts by Democratic members of the House Financial Services Committee resulted in the announcement by federal banking regulators on June 3, 2004 that financial institutions offering international remittance services will receive Community Reinvestment Act (CRA) credit. Realizing the credit needs of immigrant low- and moderate-income communities, the Federal Reserve Board of Governors (the Fed), The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) said institutions would receive favorable consideration during CRA evaluation for providing this service.⁵⁸ “I appreciate the responsiveness of the deferral regulators to our concern,” Rep. Barney Frank (D-MA), ranking Democrat member. “I hope that banks will take full advantage because an expansion of remittance services through the banking system is important in itself and can also lead individuals to better understand the advantages to them of establishing a banking relationship.”⁵⁹

Mortgage Lending

In 2000, only 15.8% of Latino families in Massachusetts were homeowners.⁶⁰ In contrast, the average state home ownership rate was 64.3% in 2003.⁶¹ Without ownership,

⁵⁷ Statement of the Honorable Daniel K. Akaka (D-HI) to the U.S. Senate Banking Committee on Housing and Urban Affairs. 28 February 2002. Retrieved on September 8, 2004, from http://banking.senate.gov/02_02hrg/022802/akaka.htm.

⁵⁸ Press Release. “International Remittance Services Qualify for CRA Credit: Committee Members Welcome Bank Regulators’ Agreement on Remittances.” U.S. House of Representatives, Committee on Financial Services, 14 June 2004. Retrieved on September 8, 2004, from http://www.house.gov/banking_democrats/pr060404.html.

⁵⁹ Ibid.

⁶⁰ Charles Jones. “Latinos in Boston, Massachusetts.” Mauricio Gastón Institute for Latino Community Development and Public Policy. Retrieved September 8, 2004, from <http://www.gaston.umb.edu/resactiv/census/boston.pdf>.

⁶¹ “Housing Vacancies and Homeownership Annual Statistics: 2003.” U.S. Census Bureau. Retrieved September 9, 2004, from <http://www.census.gov/hhes/www/housing/hvs/annual03/ann03t13.html>.

Latino families are not eligible for substantial tax credits, have little to no assets to pass on to their children and are unable to use home equity to finance the higher education of their children. As the number of Latino homeowners increases, a primary motivation for banks to consider the Latino community as customers is the potential to attract millions of dollars in mortgages.

In 1977, the federal Community Reinvestment Act (CRA) was enacted to promote greater access to credit and the regeneration of communities suffering from a lack of capital investment. The CRA applies to banks and states that “regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.” This important law established a regulatory framework for monitoring the level of lending, investments and financial services in low- and moderate-income neighborhoods that have been traditionally underserved by lending institutions. Examiners from four federal agencies assess and “grade” banks’ activities in low- and moderate-income neighborhoods. If a regulatory agency finds that a particular lending institution is not serving these neighborhoods, it can delay or deny that institution’s request to merge with another lender or to open a branch or expand any of its other services.

The Massachusetts Community Reinvestment Act (M.G.L. Chapter 167, Section 14) applies to banks and credit unions (depository institutions). Based on the federal CRA, the law was designed to increase the flow of credit and capital to low- and moderate-income communities. Largely due to federal and state CRA laws, investment in low- and moderate-income communities has increased greatly during the last thirty years, and homeownership rates among black and Hispanic households have grown significantly.

Despite the significant homeownership and community development gains attributable to the CRA, lending growth in Massachusetts to low- and moderate-income, black and Hispanic households has leveled off since the mid-1990s. For example, “The loan share of low- and moderate-income (LMI) borrowers rose sharply in 2003, after declining during each of the seven previous years.... The share of total Boston home purchase loans that went to LMI borrowers (those with incomes no greater than 80% of the median family income in the Boston MSA) was 26.3% in 2003, up from 20.8% in 2002.

Massachusetts banks and credit unions are the key to increasing the homeownership rate in the Latino community. Institutions that are covered by the CRA have a higher lending rate to Latinos than non-CRA covered institutions. In 2002, large Boston banks made 10.9% of all mortgage loans in Boston, mortgage company lenders 66%, smaller banks and credit unions made 15.6% and sub prime lenders 7.6%.⁶² Latino borrowers received 13.5% of loans by CRA Lenders (large Boston banks) but mortgage company lenders (who are not affiliated with Massachusetts banks) gave only 3.5% of their loans to Latino borrowers.⁶³ More striking is that although CRA lenders only had a 26.4% market share of all home-purchases in Boston, those loans represented 55.7% of *all* loans to Latinos.⁶⁴

At the same time, the Latino denial rate for mortgages was 17.3% in 2002, 2.25 times higher than the white denial rate of 7.7%.⁶⁵ The denial rate was even higher for Latino borrowers who made over \$100,000 per year. They were turned down for home loans at almost three times the rate of their white counterparts.⁶⁶ A study commissioned by the Massachusetts Community and Banking Council showed that subprime lending grew by 29% in 2001.⁶⁷ Lenders not covered by CRA continued to account for almost three-quarters of total home-purchase loans in Boston. Subprime loans for Latinos ranged from 24.1% of low-income borrowers to 11.9% of upper income borrowers. In four communities with high concentrations of Latinos, 17.4% of the home refinances were done through subprime lenders.⁶⁸

It is clear that mortgage companies and out-of-state banks, which are financing the majority of mortgages in Massachusetts, are not aggressively targeting the Latino community for

⁶² Jim Campen. "Changing Patterns XI: Mortgage Lending to Traditionally Underserved Borrowers & Neighborhoods in Greater Boston, 1990-2003." The Mauricio Gaston Institute for Community Development and Public Policy at the University of Massachusetts Boston. December 2004. pp. 20. Retrieved July 20, 2005 from <http://www.masscommunityandbanking.org/PDFs/ChangingPatternsX.pdf>.

⁶³ Ibid, 22.

⁶⁴ Ibid.

⁶⁵ Ibid, 4.

⁶⁶ Latino borrowers making over \$100,000 per year had a 25.7% denial rate compared to 8.6% for whites. Blacks fared worse, with a 19.2% denial rate. Campen. "Changing Patterns XI." pp. 18.

⁶⁷ Jim Campen. "Borrowing Trouble? IV: Subprime Mortgage Refinance Lending in Greater Boston, 2000-2002." The Mauricio Gaston Institute for Community Development and Public Policy at the University of Massachusetts Boston. February 2004. pp. 9. Retrieved September 9, 2004, from <http://www.masscommunityandbanking.org/PDFs/BorrowingTrouble4.pdf>.

⁶⁸ Lawrence, Chelsea, and Lynn were the three communities with highest concentration of Latinos. Campen. "Borrowing Trouble? IV." Table 19.

mortgage applications. When looking at lending patterns based on characteristics of neighborhoods, not borrowers, the rate of lending was consistently lower in areas with higher concentrations of Latino residents. In the 26 low- and moderate-income (LMI) census tracts with fewer than 25% black or Latino residents, there were 14.8 home-purchase loans in 2002 for every 100 units of housing; in 30 LMI census tracts with more than 75% black or Latino residents, there were just 7.0 loans per 100 housing units.⁶⁹

The concern here is that with the Latino community dependent on subprime lenders, some applicants will obtain predatory loans. Acknowledging both that subprime lending is a useful tool in accessing credit and that not all subprime loans are predatory, the fact that there exist high levels of subprime lending in the Latino community leads one to conclude that those borrowers are likely to be targeted by predatory lenders.⁷⁰

A significant reason why lending growth to low- and moderate-income consumers has slowed recently is because the CRA has not kept pace with dramatic changes in the financial services industry. For example, mortgage companies are increasingly competing with banks for, and increasingly winning, mortgage business. However, the non-depository mortgage industry is doing proportionally less business with low- and moderate-income, black and Hispanic families than is the banking industry. To promote and strengthen lending and investment in underserved communities, Senator Barrios and Representative Marie St. Fleur filed the Mortgage Equity, Availability and Affordability Act (H. 2467/S. 17) in 2002 which would apply community investment obligations to non-depository mortgage companies. That bill will be re-filed in the upcoming legislative session.

⁶⁹ Campen. "Changing Patters X." Table 5.

⁷⁰ In an effort to protect its residents from the risks of some refinance and equity loans, the City of Chelsea partnered with the Massachusetts Community and Banking Council to campaign for the "Don't Borrow Trouble" public awareness program. It is an effort to help warn local homeowners about the dangers of refinancing with sub prime lenders. Chelsea has the highest rate of sub prime lending in the state. "'Don't Borrow Trouble' warns Homeowners of Subprime Lending Practices." *Chelsea Record*. 2 December 2002.

Recommendations

Our recommendations are:

- Address linguistic and cultural barriers.
- Tailor financial services and policies to immigrant financial needs, such as
 - finding alternative ways of establishing credit history.
 - offering competitive remittance services.
- Become involved in the community.
- Support and comply with the Community Reinvestment Act.

Address Linguistic and Cultural Barriers

An important step in attracting Latino clients to banking institutions is to recognize that many of them live in a non-English speaking world. In communities with a high concentration of Spanish-speakers, their job and daily routine require little if any English skills. In Massachusetts, this is especially true because there is a wide range of Spanish-language media available. For those who have not mastered the English language, entering the predominantly English-speaking world of financial institutions can be an intimidating task. The lack of Spanish-language personnel, marketing campaigns and materials in Massachusetts reduces the Latino community's access to information about banking services. **Banks hoping to attract Latino clientele should develop attractive Spanish-language marketing materials.**

In order for the Latino population to obtain adequate access to financial institutions, there must be a sufficient amount of bilingual staff to handle the volume of Spanish speaking customers. Bank staffs, especially tellers and account representatives, are the face of the banking institution and as such, an important step toward increasing Latino's access to banking services. Banks wanting to capture this market should hire and train staff that can welcome and assist Latino customers. **Hiring bilingual employees from the neighborhood in which branches are located** would be beneficial in allowing bank officials to communicate clearly with potential customers while at the same time creating a sense of familiarity that would further help in

reducing the anxiety many Latinos face when dealing with a financial institution.⁷¹ Potential clients feel much more comfortable with people they know or who have encountered similar experiences as themselves, as do we all. In order to attract capable individuals, it is important to recognize that speaking another language is a desired skill and to reward the employee accordingly. In an area with a significant population of Latinos, it will not be difficult to find qualified applicants.

With the incredible technological advances in the past decade, many banks have pushed forward with great programs that use sophisticated electronic on-line services. To increase the participation of new Latino customers in these burgeoning services, it is important that they be made available in Spanish and other languages. Banks must **offer Spanish language options for telephone banking, ATM screens and web sites.** “Pushing for our voice response to be in Spanish was a positive move for Industrial State Bank,” said Stephen Galvan, Senior Vice President. “It gave us the opportunity to communicate in Spanish 24 hours a day.”⁷²

Lastly, it is important to recognize that many communities with a significant Latino presence also have many Spanish-language media outlets. Financial institutions should remember to include these outlets in marketing plans, whether it is radio, television or print ads.

Banks should also **take advantage of the decision by the Massachusetts Division of Banks to accept participation in the FDIC *Money Smart* program as a qualified activity under the Massachusetts CRA.**⁷³ This program should be offered to Latinos in order to take advantage of safe, cost-saving services that can be provided by the formal banking industry.

Recognize Alternative Forms of Identification

The types of identification typically required to open a bank account is one of the major impediments to Latinos wishing to use the formal banking sector. **Banks should follow the lead of the U.S. Treasury Department and accept other forms of identification.** A passport or

⁷¹ Kelderhouse. “What Can Bankers Eager To Capture This Market Do?”

⁷² Ibid.

⁷³ More information can be found at <http://www.fdic.gov/consumers/consumer/moneysmart/>.

Matrícular Consular can serve as a proof of identity and the Individual Tax Payer Identification (ITIN) card satisfies the tax identification number required by the USA Patriot Act.

It is important to note that other countries also issue consulate identification cards and banks can and should accept them as well, provided that they meet with adequate levels of security and anti-fraud standards. As Representative Luis Gutierrez (D-IL) says, “by accepting identification cards issued by the Mexican consulate, these institutions are helping thousands of people around the nation who would be forced to turn to payday lenders and check-cashing vendors, who in most cases, charge outrageous fees for services. At the same time, it protects the unbanked from being targets of crime, robberies and other abuses.”⁷⁴

Tailor Financial Services and Policies to Immigrant Financial Needs

In order to capture the growing consumer base that Latinos represent, the banking industry must begin to target the Latino community directly. One possibility is to **establish bank branches inside shopping malls frequented by Latinos or in places where businesses that employ Latinos are located**. For example, a rural bank in Kansas set up a branch and an ATM inside a meat packing plant that employs 600 Latino workers.⁷⁵ In this example, by providing banking services for the employer the bank had a conduit to their employees and without much effort they had greatly increased their clientele. Additionally, banks can offer check cashing services for Latino clients that link directly to opportunities for opening a checking or savings account. Banks that partner with businesses that employ large amounts of Latino workers will greatly increase the level of visibility for a bank and allow it to tap into a captive customer base.

Another service that is crucial to serving the immigrant population is convenient branch hours. Many Latinos do not work traditional nine-to-five jobs, and if they do, because of large families and other duties, they may not have the capability to leave during the day to take care of

⁷⁴ Statement of the Honorable Luis Gutierrez (D-IL) to the U.S. Senate Banking Committee on Housing and Urban Affairs. 28 February 2002. Retrieved on September 8, 2004, from http://banking.senate.gov/02_02hrg/022802/gutierrz.htm.

⁷⁵ Ibid.

their banking needs. It is important to **identify the hours of operation that best serve the Latino population in the local area and then attempt to adapt the times accordingly.**

Given the different banking needs of Latinos, banks will need to provide products and services that have not been traditionally offered. For example, because many Latino immigrants still have relatives abroad, banks should offer a **second ATM card that can be sent to a client's home country so that family members can withdraw money** straight from their account and bypass the expensive remittance transactions. Also, offering package deals such free calling cards with new accounts may help attract Latino clients. The important thing is to understand the needs of the community and try to address them.

Accept Alternative Ways of Establishing Credit History

An issue of concern for many Latinos is their inability to establish a credit history due to the stringent requirements necessary to begin that process. An idea that a bank may want to consider in order to attract Latino clients is to use **alternative underwriting guidelines for their products.** Banks can use rent and utility payments in the absence of debt payments in order to provide the client with loans and aid them in establishing their credit history. One bank has “credit development loans.” The loan goes into a certificate of deposit the bank uses on the customer’s behalf instead of being given to the customer. The customer pays monthly until the loan is paid in full. The customer can then cash in the CD or leave it in the bank to earn more interest. This could be used to start a small business and further allow for a greater amount to be loaned to that individual.

Offer Competitive Remittance Services

Massachusetts was ranked twelfth in the United States in the amount of remittances sent to Latin America totaling \$527 million.⁷⁶

The benefits of banks to market low cost remittances are many. Most obviously, America’s largest banks have already discovered there is money to be made. If the service is

⁷⁶ “Sending Money Home: The First State-by-State Analysis of US Remittances to Latin America, 2004.” Inter-American Development Bank. Retrieved September 12, 2004, from <http://www.iadb.org/exr/remittances/index.cfm?language=english>.

linked to a new account, it will allow a bank or credit union to accumulate assets for community lending. The remittance service will also establish a relationship which can lead to other types of services and products. “We believe remittances can be an important tool in bringing previously unbanked Latin American immigrants into the financial mainstream,” says Jane Hennessy, a senior vice president in Wells Fargo’s International Group.⁷⁷

Support and Comply with the Community Reinvestment Act

As out of state mortgage lenders who are not subject to the Community Reinvestment Act have acquired a larger share of Massachusetts’ mortgages, Latinos and other low- to moderate-income communities have suffered. The community investment obligation for mortgage lenders should be similar to the obligation for depository lending institutions, such as banks, established under longstanding federal and Massachusetts laws.⁷⁸ In order to promote access to homeownership for these communities and level the playing field with traditional banks, **policymakers should work to file legislation to create a continuing and affirmative obligation for non-depository mortgage lenders to help meet the housing credit needs of Massachusetts communities, including low- and moderate-income residents.**

Become Involved in the Community

Community involvement and outreach can be a time-consuming and intense activity for many banks but the return will be worthwhile. The biggest challenge will be changing consumer behavior—behavior that favors MTOs because they are found in Latino neighborhoods and usually owned by Latinos. **It is important that a bank become involved with community groups in their target market.** “We go into the community as much as possible to find customers. We go to businesses to open accounts for employees and make presentations to

⁷⁷ Sheila C. Bair, Center for Public Policy and Administration, University of Massachusetts – Amherst. “Improving Access to the U.S. Banking System among Latin American Immigrants.” pp. 5. Prepared for the Multilateral Investment Fund. Retrieved on September 9, 2004, from <http://www.cbanet.org/Issues/documents/Unbanked.pdf>.

⁷⁸ For example, see Section 14 of Chapter 167, Massachusetts General Law.

community groups,” Observes William Selenke, Vice President and Kansas City District Manager for U.S. Bank.⁷⁹ A high level of cooperation will enable a bank not only to have access to a desired market but will also help establish a trusting relationship with the community due to their alliance with a neighborhood group. These community groups can also instruct the bank on how to overcome any obstacles perceived by the Latino community in order to do business with the bank.⁸⁰

Offering to give free training or a presentation to the community on financial education topics such as managing a bank account will show that the bank is dedicated to serving the needs of the Latino population. The Federal Reserve Bank of Chicago conducted a research study entitled “Financial Literacy Topics and Targeted Consumers,” which showed that the majority of Americans have inadequate knowledge regarding issues of banking and personal finance. The Chicago Federal Reserve is exploring opportunities to make information about financial products and services available to unbanked populations. As a result of this effort, the bank organized *Money Smart* week, an annual Chicago event that began in April 2002, which brings together a variety of community organizations and the media in an effort to educate the public regarding services offered by banks.⁸¹ Forming a partnership with a local school may also attract clients. Sponsoring school events and arranging field trips for children to visit the bank and learn about opening accounts could also prove beneficial. Aside from tapping into a future market, the students will bring their parents to the bank, providing an opportunity to attract new clients.

⁷⁹ Kelderhouse. “What Can Bankers Eager To Capture This Market Do?”

⁸⁰ Additionally, due to the strong religious affiliations common in the Latino community, partnering with faith-based organizations often proves to be extremely advantageous. Ibid.

⁸¹ Doug Tillet and Liz Handlin. “Tapping The Potential of the Unbanked.” *Chicago Fed Letter*. Federal Reserve Bank of Chicago. January 2003, Number 185a. Retrieved September 9, 2004, from http://www.chicagofed.org/publications/fedletter/2003/cfljan2003_185a.pdf.

A Word about Credit Unions

Aside from banks, credit unions can also adjust their current practices to serve the needs of Latinos better. On July 10, 2003, the National Credit Union Administration initiated a workshop to share ideas on how credit unions could reach the growing Latino population. One of the participants in the program, Harriet May, CEO of Employees Credit Union of El Paso, Texas, remarked that Latinos are approaching \$600 billion in purchasing power but only about half of the Latinos have a relationship with a financial institution.⁸²

Credit unions face many of the obstacles that banks encounter when they attempt to reach out to Latinos. The primary difficulty facing any financial institution attempting to attract Latinos is the inherent distrust many of them possess due to the corrupt nature of financial institutions in their home countries. Like banks, credit unions should seek to collaborate with community groups that Latinos trust and through their alliance they may be able to gain their trust. As an example, the Metropolitan Credit Union opened a satellite office in the Chelsea High School.

Luis Pastor, CEO of Latino Community Credit Union in Durham, points out that connecting with Latinos is “not only about language, but about culture.” Credit unions must go beyond simply hiring a person who speaks Spanish; they must attempt to attract employees who can relate to the experiences many of the Latino immigrants face. This will lead to a sense of trust and security that is imperative if financial institutions seek to reap the benefits of an expanded customer market.⁸³

Credit unions can also offer attractive programs and benefits in order to increase the Latino participation in the financial process. “A great way to attract Latinos to credit unions and keep them there is income tax preparation,” declared Pablo DeFilippi, CEO of Lower East Side People’s Federal Credit Union in New York City.⁸⁴ As an example, in Chelsea, a new program helping low-income taxpayers was initiated in cooperation with the federal government, local organizations and a credit union. The Chelsea Earned Tax Credit Coalition (CEITC) was formed

⁸² Press Release. “Credit Unions Find Many Ways to Serve Latinos.” National Credit Union Administration. 10 July 2003. Retrieved September 8, 2004, from http://www.ncua.gov/news/press_releases/2003/NR03-0710.htm.

⁸³ Press Release. “Credit Unions Find Many Ways to Serve Latinos.”

⁸⁴ Ibid.

so that 73 Internal Revenue Service trained volunteers could give free tax preparation assistance to qualified individuals in English and Spanish. The volunteers and organizers were from the City of Chelsea, Chelsea Housing Authority, Centro Latino, Chelsea Restoration and IBA Credit Union. The goal of the CEITC is to save Chelsea tax filers up to \$1 million dollars.

Another marketing tool that could be used by credit unions to promote its membership is to offer its products and services, such as money transfer services, for a limited period of time to non-members. In a letter written by Robert M. Fenner, General Counsel of the Federal Credit Union Regulator, to the President of a Federal Credit Union on the subject of incidental powers regulation, he writes,

“Our opinion is that, in the situation you have described of an FCU with a segment of its field of membership comprised of individuals with a special need for wire transfer services and a reluctance to join the FCU, providing wire transfers on a limited basis would be a permissible marketing activity.”⁸⁵

Mr. Fenner also suggests two other methods for FCUs to meet the needs of the Latino community within the scope of the FCU Act and the provisions of National Credit Unions Association (NCUA). One is to establish a special membership program with non-dividend bearing membership accounts. The other is for an FCU, under appropriate circumstances, to provide wire transfer services as a charitable activity. All three suggestions would not avoid any record keeping and reporting requirements that FCUs must comply with for wire transfers.

⁸⁵ Letter from Robert M. Fenner, General Counsel, National Credit Union Administration, to Maria J. Martinez, President, Border Federal Credit Union. 22 February 2002.

Conclusion

This report and survey concludes that a series of measures are necessary to improve the Latino community's access to banking services in Massachusetts. The banking industry nationwide has begun to realize the economic power of marketing to this untapped market and has begun to reach out. However, banks in Massachusetts are lagging behind. The recommendations presented in this study, if implemented, will not only connect financial institutions with Latinos and other immigrant groups, they will also help a new wave of immigrants realize the American dream.

Our recommendations are not exhaustive, but merely examples of what other cities and states are doing in order to correct the deficiency in banking access to Latinos. It is important that Massachusetts' financial institutions pay close attention to the social, political and economic changes occurring in the state and manage them properly. When dealing with the Latino community, it is imperative that institutions are aware of and seek to correct their cultural biases. If this is not taken into account, a generation of potential clients will be lost by the formal banking sector. Establishing a positive relationship with the Latino client will be crucial in obtaining their continued business.⁸⁶

⁸⁶ Smith