

Bringing in the

# Unbanked

*Banks are increasingly turning their attention to Hispanics without bank accounts*

BY VANESSA SUMO



Telenovelas, or Spanish-language soap operas, are wildly popular among Hispanics. They typically tell the story of a poor but beautiful girl who falls in love with a rich, handsome young man, and the story unfolds with every design imaginable to keep them apart, usually plotted by the fellow's scheming family and ex-fiancé. Telenovelas have such a fervent following that when BB&T Corp. decided to produce a set of tapes for its Hispanic banking customers, it made sense to follow this genre.

Except that the heroine of BB&T's telenovela series, *Beatriz Bienvenido Torres*, or "Bibi," is far from being love struck. Bibi, a long-time resident of the United States and a BB&T Bank employee, is a trusted friend of recent immigrants Juan and Maria Perez. The series is about the couple's adventures of living in a new country and how Bibi is always on hand to give them advice — from how to call 911 to how to get a mortgage. The tapes are distributed through nonprofit organizations such as Latino advocacy groups and are available at the bank's branches.

BB&T is just one of the many banks that aim to bring the "unbanked" — those who do not have bank accounts — into the fold. Who are the unbanked? About 46 percent of blacks and 34 percent of Hispanics born in

the United States are unbanked compared with 14 percent of whites, according to a Kansas City Fed report. Among immigrants, 53 percent of Mexicans and 37 percent of other Latin American immigrants are unbanked, compared with 20 percent of immigrants from Asia and 17 percent from Europe.

People who forego bank accounts — regardless of whether they are white, black, Hispanic or any other ethnic group — generally have low incomes. There simply isn't much left over for savings at the end of each month, and the cost of a bounced check sometimes doesn't make a bank account worthwhile. For these people, payday lenders and similar organizations present an attractive option. But there are factors that set unbanked Hispanics apart from the rest. In particular, many are recent immigrants, a significant number are undocumented, lacking in English proficiency, and they come from countries where banking systems have not been terribly stable.

Hispanics have been getting a lot of attention from banks in recent years because of their rising presence: They are the largest and fastest-growing minority group in the United States, now outnumbering blacks. When the U.S. population topped 300 million in October, 36 million of the most recent

100 million additions were Hispanics.

In short, this is a big market, and banks would be missing a tremendous opportunity if they ignored it. A 2004 Federal Deposit Insurance Corp. (FDIC) report notes, "More than half of all U.S. retail banking growth in financial services during the next two decades will originate from the growing Hispanic market."

The possible benefits are plentiful for the unbanked too. Safety is important since the unbanked often carry around large amounts of cash, making them vulnerable to theft. And as they develop roots in the United States over time, their financial needs will likely expand. "What is being understood today is that most people who come to this country end up staying. [They] have a long-term interest in the country. Sooner or later they're going to want to buy that house ... to buy that car, and at some point they will need a bank to do that," says Dan Tatar, an economist with the Community Affairs Office at the Richmond Fed.

As Hispanics weigh the perceived costs and benefits of banking, they may sensibly decide to shy away from banks. If banks want their business, then they must convince the unbanked that the actual benefits are larger, and the costs smaller, than perceived, and that there are gains from this trade. Understanding the reasons why

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Hispanics are relatively unbanked is an important first step. But equally important is understanding that even BB&T's Bibi may find it difficult to overcome Hispanics' aversion to banks.

### Understanding the Unbanked

Remittances and check cashing are two of the most essential financial transactions that Hispanics, especially immigrants, regularly make. Although banks usually offer these services at much lower fees, most immigrants still rely on alternative financial institutions like check cashing outlets and money transfer operators.

The reasons go beyond socioeconomic and demographic characteristics such as age, education, ethnicity, and income. A recent report by the Chicago Fed and the Brookings Institution notes that immigrants are less likely to have checking and savings accounts compared with the native born, even after taking these factors into account. The length of time spent in the United States, language barriers, legal status, and experience with financial institutions in their home countries play important roles as well.

Lack of documentation is the most oft-cited reason why immigrants are discouraged from opening accounts. Many immigrants mistakenly believe that a Social Security Number, generally available to U.S. citizens and foreign nationals with work permits, is required. Undocumented immigrants are also concerned that banks will share their information with immigration officials, or that they wouldn't be able to access their funds if they are deported. This is a real fear among undocumented immigrants and a potentially high barrier to overcome, because it could mean the difference between staying and working in the United States (and sending money back home) and being forced to leave the country.

But current rules on opening an account at financial institutions do not require a Social Security Number for non-U.S. citizens. They require that banks set up a customer identification

program that would, among other things, collect and verify information about customers opening an account. For non-U.S. citizens without a Social Security Number, the rules suggest immigrants can provide a similar identification number issued by their home government. For instance, many banks and credit unions accept as proof of identification Mexico's *Matricula Consular*, one of the few documents that illegal immigrants can obtain in the United States.

It is possible, however, that this may not be enough to assuage the fears of undocumented immigrants. Because the acceptance of foreign government-issued ID has become entangled in the debate over immigration policy, there may be concerns that the rules will suddenly change and turn against them. The rules at the moment, however, don't require banks to verify the immigration status of foreign account holders, and it is not even possible for banks to do that.

These fears may be related to many Hispanics' inherent distrust of banks, especially those who are new to the United States and do not hold the banking system in their countries in high regard. "There is a poor acceptance of financial institutions in Latin America," says Luis Pastor, CEO of the Latino Community Credit Union based in Durham, N.C. For instance, Pastor estimates that about 60 percent of Mexicans and 80 percent of Hondurans do not have bank accounts. If a poor person's parents and grandparents in Mexico never used banks, then he tends to be less inclined to use one.

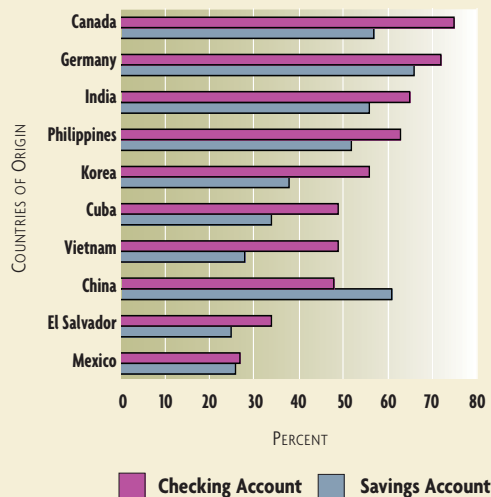
There have been many incidents that have fueled Hispanics' distrust of banks. Mexico's banking crisis in the mid-1990s, for instance, "further damaged the reputational capital of Mexico's banking system and heightened suspicions that banks generally were unreliable," according to a World Bank paper. Manuel Rey, director of Banco de la Gente, a Charlotte-based bank catering to the Hispanic market, explains that the lack of deposit insurance was characteristic of banks

in several Latin American countries many years ago. "If the bank would go bankrupt then they would lose everything they have deposited," says Rey.

Hispanics' reasons for preferring alternative financial institutions may also have to do with what they perceive as difficulties with a bank's products and services. With remittances, for instance, money transfer operators (MTOs) like Western Union and MoneyGram are still the carrier of choice. Although the cost of transferring money through MTOs is usually higher than through banks (especially if one has a bank account), costs are not the only factor in deciding how to send remittances. Remitters may prefer MTOs over banks because of their convenient locations, both on the sending and receiving ends. Large MTOs employ a vast network of distribution points, from banks to their own outlets to grocery stores to pharmacies. Many wire transfer services do not require identification for transactions less than \$1,000.

Hispanic immigrants may also be unaware of the requirements for obtaining a loan and hence believe that they will be denied more sophisticated banking products like

### Share of Immigrant Heads of Households with Bank Accounts



SOURCE: "Financial Access for Immigrants: Lessons from Diverse Perspectives," Federal Reserve Bank of Chicago and the Brookings Institution, May 2006



*Reaching the unbanked: Audio series like these teach immigrants about life in the United States, including its banking system.*

mortgages if they applied for them. Their fears may not be unfounded. Relatively few banks make loans based on a foreign national's Individual Taxpayer Identification Number (ITIN) — in this case, a Social Security Number is usually required — although that number is growing. Banks may be reluctant to lend to undocumented borrowers because ITIN mortgage loans will likely be difficult to sell in the secondary market.

But probably the most cited factor in many studies on the unbanked is that bank accounts can be expensive to maintain. The problem lies in having to carefully manage their bank balances. If they mistakenly overdraw their account, they can be charged expensive overdraft or bounced check fees. Because the unbanked often live from paycheck to paycheck, they may be more vulnerable to such charges. Overdraft fees and the stress of balancing one's account may outweigh the benefit of free check cashing and other payment services at the bank, so that it becomes a rational decision for the unbanked not to open an account.

### Mind The Gap

Financial education is one of the first things that banks emphasize in bringing the unbanked into the financial mainstream. This may be especially true for areas with many recent Hispanic immigrants.

Although the largest concentration of Hispanics is in California and Texas, many are now moving into areas that previously saw very little immigration. The Pew Hispanic Center reports that the Hispanic population is growing faster in the Southern states, including the Carolinas, than anywhere else in the United States. North Carolina, for instance, is one of 13 states that have at least half a million Hispanic residents, and the community's population grew almost fourfold over the period 1990 to 2000.

Because Hispanics in the South are predominantly foreign born, these communities may have a greater need for financial literacy programs, cash remittance services, and bilingual tellers. Banks there "face the challenge of integrating this growing Hispanic population into the mainstream of the financial services industry," notes an FDIC report.

For the Latino Community Credit Union (LCCU), this task was particularly challenging since 75 percent of its members had never opened a bank account. The LCCU's financial education group, which is an entirely separate department from its marketing arm, gives classes in Spanish on various topics like how to manage a checking account, how to save and develop a budget, how to use a credit card, how to build a credit history, and how to buy a car and a home. These courses go beyond just giving information about the credit union's products. They also encourage participants to think about their families' goals and help them create a financial plan (including tips on how to pinch a few pennies) to take them there.

Complete with caps and gowns, members and nonmembers who graduate from these classes walk away armed not only with the tools to build their financial future but also with increased trust in the banking system. More than 9,000 participants have graduated from these classes since 2001. "Some invest in marketing. We invest in education. These are different topics," says Pastor.

BB&T's Bibi telenovelas, now on their ninth installment, aim for the same goal. Far from just promoting the bank's products and services, the episodes dwell on topics that can help Hispanic families ease their transition to life in a new country, such as what to do in the event of a storm (many of BB&T's branches are in the coastal areas), advice on how to find a job, and how a small family business can deal with a wayward debtor. In the end, the idea is that BB&T will be well served by nurturing a progressive Hispanic community within its footprint, with the hope that those there will become long-term clients. Jorge Moller, the bank's multicultural markets manager, expects that about half of their net new growth in the next five years will come from the Hispanic segment. To date, BB&T has given out about half a million tapes over the last four years.

Luring unbanked Hispanics by offering services that are essential to them like check cashing and remittances is another bank strategy. The hope is that by getting them in the door, banks will then be able to gradually move them up the financial ladder, from savings and checking accounts to more sophisticated financial products like education, housing, and small business loans.

It sometimes starts by getting people who use check cashing services to open bank accounts, which for some may take awhile. "The guys who work at the branch spend several visits until they develop their trust. [Customers] may come and cash their check six times before they give us a shot with an account," says Rey. But the patience pays off. "One of the things we found is that once they open an account, they can be very loyal. Once they know that the money is there and nobody is stealing the money and that the bank is still open, then they stay with you. They develop a relationship," says Rey.

Banks also bundle their payments and money transfer services with their checking accounts, allowing them to give attractive rates on products like remittances. Bank of America's SafeSend, for instance, provides free

money transfers to Mexico if customers open a checking account. Banks and credit unions can also participate in the Federal Reserve's Directo a México, a low-fee money transmission service launched in 2004, which requires the sender as well as the recipient in Mexico to open bank accounts.

The acceptance of consulate IDs and ITINs as identification has provided opportunities for many unbanked Hispanics not just to open savings or checking accounts but also to obtain loans. Even so, one other barrier to obtaining loans is the lack of a credit history, and banks do offer products with which customers can establish credit, such as a secured credit card and a CD secured loan. These products give customers a chance to demonstrate, over a certain period, their ability to take out a loan and pay it on time, which is then promptly reported to the credit bureau. Once their credit is established, they may be eligible for loans such as ITIN mortgages, which some banks are beginning to offer and are available to immigrants without a Social Security Number.

As Hispanics climb up the financial ladder, they may also be interested in taking out small business loans. "Hispanics are very entrepreneurial," says Jorge Figueredo, executive vice president of Security One Bank in Fairfax County, Va., which caters in part to small- and medium-sized Hispanic businesses in that area. In

Fairfax County alone, there are about 7,302 Hispanic-owned businesses, according to the 2002 U.S. Census Survey. This represents almost 8 percent of all businesses in Fairfax County, and about 38 percent of all Hispanic-owned firms in Virginia.

In all, banks have made significant strides toward earning the trust and business of the Hispanic community.

### Room for Improvement

The catch is that it is difficult to say exactly how successful efforts have been to move the unbanked into the banking system. "No one really has any actual figures on any of these issues, what they have is a gut feeling of how they're doing," says Manuel Orozco, executive director of the Remittances and Rural Development project at Inter-American Dialogue, a policy analysis group.

But Orozco thinks that some banks are still not doing enough. Despite all the hype about Hispanic banking, he senses a lack of interest and a lack of understanding of this market, especially among the bigger banks, which could lead to frustrated efforts to bring in unbanked Hispanics.

Perhaps what some banks are doing wrong is that they have relied too much on peddling the product without really understanding the root cause of why the unbanked choose to stay away. Earning their trust is one hurdle. But, as John Caskey, an economist at Swarthmore College, points out, the

biggest problem for the unbanked is the stress of living without any financial savings, of being one hiccup away from another crisis. Bank accounts are costly for people who don't earn enough to put away in an account, as they require extremely careful management to avoid a multitude of fees.

In this sense, Caskey thinks that "focusing on the bank account itself is a little bit like focusing on the symptom rather than the underlying cause." If the unbanked could somehow be persuaded to set aside even a little bit each month, then having a bank account could not only lower the cost of their check cashing and other payments transactions, but also, more importantly, add some stability to their lives.

Seen this way, the challenge looks harder for banks than may have been thought, because how can you encourage unbanked Hispanics — many of whom live on low incomes — to consume less and save more? It may not be as easy as installing Mexican artwork, adding a few more chairs to accommodate other family members, or even hiring bilingual tellers.

Banks that provide the kind of financial education that motivates unbanked Hispanics to become homeowners and entrepreneurs, to save for retirement, and insure themselves against financial risks may be on the right path. But even those banks realize that big payoffs will take time. Banking the unbanked is a long-term investment. **RF**

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