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Expanding Immigrant Access to Mainstream Financial Services

Positive Practices and Emerging Opportunities From the Latin American Immigrant Experience

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Appleseed, *a non-partisan and non-profit organization, is a network of public interest law centers working to identify and address injustices in their communities. Appleseed works to build a just society through education, legal advocacy, community activism, and policy expertise, addressing root causes and producing practical solutions. As one of the nation's largest legal pro bono networks, Appleseed Centers work both independently and collectively, bringing their own experiences to create local solutions that are nationally relevant. We connect the top private practice lawyers, corporate counsel, law schools, civic leaders, and other professionals to tackle problems locally, at their root cause.*

Table of Contents

Introduction

Financial institutions looking to increase their customer base have become increasingly interested in reaching out to untapped immigrant markets, particularly the large numbers of Latin American immigrants who have migrated far beyond the U.S.-Mexican border to other regions of the country. Latin American immigrants in the United States numbered nearly 18 million in 2004, with all immigrants reaching just over 34 million.[1]

Many articles have been written on the topic of providing financial services to immigrants, and new remittance and loan products have been launched to give recent immigrants with and without legal immigration status access to the formal financial service sector. Some innovative approaches, tailored to meet Latin American immigrants' financial service needs, are making inroads. These approaches include:

- Accepting foreign-issued identification to open accounts;
- Using the Individual Taxpayer Identification Number (ITIN)[2] as a tool for providing an expanded array of financial services, including loans;
- Increasing branch presence in immigrant communities;
- Offering financial education to immigrant consumers; and
- Providing check cashing and remittance products designed for low-dollar cash transfers.

Yet, there still remain a large number of immigrants who are reluctant to use formal financial institutions, feel product offerings do not meet their needs, or face other entry barriers. These issues are compounded by a poor flow of information between immigrant communities and financial institutions, banks' limited access points into the communities, and the absence of protection from predatory financial practices. While banks and credit unions are working to capture this market, the informal sector continues to gain ground. Stored value cards are increasingly marketed to immigrants, and check cashing businesses continue to grow.

Defining the Issues

Using financial institutions to conduct basic financial transactions is the first step towards integration of immigrant communities into the mainstream financial service system. Among Latin American immigrants—the primary target to date for mainstream financial service marketing efforts—a high proportion remains unbanked. According to a study commissioned by the Pew Hispanic Center, 35 percent of Ecuadorians, 64 percent of Salvadorans, and 75 percent of Mexican immigrants do not have bank accounts.[3] Many

[1] 2004 American Community survey.
[2] The ITIN, issued by the Internal Revenue Service, enables people who owe federal income taxes but do not qualify for a Social Security Number to file taxes.
[3] Manuel Orozco, *The Remittance Marketplace: Prices, Policy and Financial Institutions,* Pew Hispanic Center, June 2004, page 19.

have never had an account and generally lack familiarity with the banking system, while others have had a negative experience with the banking system in the U.S. or in their home countries.

Low-income immigrant consumers tend to remain unbanked or dissatisfied with mainstream financial institutions for a variety of reasons:[4] high costs of maintaining bank accounts; difficulties overcoming poor credit status; inconvenience of locations, hours, or services; distrust of banks; low levels of financial literacy; perceived cultural differences or language barriers; and a lack of information about appropriate products and services. These barriers are compounded for recent immigrants, who may be unsure of how banks will use their personal information or of which identifying documents are necessary to open an account.

Another barrier to this population's integration into the mainstream financial system is the fact that many may not view the services they *do* use—such as check-cashing or sending money home to their country of origin—as financial services, and they may not associate these services with banks. As one observer put it, to many recent immigrants, suggesting that they use a bank to remit money to their home country may appear as "reasonable" as recommending they buy a car at the grocery store.

However, lack of access to the mainstream financial system presents a host of problems, for immigrant communities and for our society as a whole. Individuals outside the financial mainstream find their opportunities for economic advancement and stability thwarted, as they are unable to obtain credit to buy a home or finance a business, gain interest on their savings, save for their children's education, or enjoy any of the other benefits that the banking system has to offer. Money lost to the high fees and interest rates charged by fringe financial services is money that could have been reinvested in families and local communities. Immigrants who carry large sums of money on payday, instead of using a bank or credit union account, are more vulnerable to robbery and other violent crime.

Financial institutions that have reached out to immigrant communities have met with both challenges and successes. Examples of challenges include:

- Creating new international remittance product offerings but facing difficulties in encouraging community members to use of the products; and
- Making inroads into communities, with new immigrants opening accounts, only to have the accounts lie dormant with little money or activity.

Though there is no denying the challenges, there are also many successes:

- Banking services in accessible locations, such as local grocery stores or small storefront locations in immigrant communities, have been successful in transitioning low-income immigrants into the banking system;

[4] Williams 2000, page 2.

- Some financial institutions report average account balances for Mexican immigrants in the range of $2,000; and
- Smaller financial institutions have credited new immigrant communities with revitalizing their business and other financial institutions have been launched primarily to serve immigrant community needs.

This paper aims to stimulate a discussion on how best to overcome challenges and build on successes to realize the important social and economic benefits of bringing immigrant communities into the financial mainstream. It outlines positive market practices targeting Latin American immigrants and sets the groundwork for exploring their application to other immigrant communities. It will:

- Define key avenues for community partnerships;
- Explore successful financial education approaches;
- Present alternative banking approaches that attract immigrant customers;
- Detail ways that financial institutions can profitably provide low-income consumers with access to credit; and
- Review key regulatory issues related to serving foreign nationals.

Appendix A profiles examples of positive market practices in the areas highlighted by the report and Appendix B provides an overview of financial institution regulations that impact serving foreign nationals.

"Questions to Consider" are provided to inspire creative problem-solving and discussion of next steps to improve financial opportunity for immigrant communities.

General Questions to Consider:

- What combination of product offerings and pricing would make low-income immigrants feel that they are better off using banks or credit unions than the more familiar informal services?
- Is there a "one size fits all" approach to serving low-income immigrant communities, or is each community unique to the point of requiring different products and approaches for financial institution engagement?
- Does the traditional progression of using financial services—starting with a transactional account, building savings, building credit through credit cards and smaller loans, then moving on to home mortgage and business loans—meet the needs of immigrant communities?
- Do immigrants have specific financial service needs that currently are not part of the dialogue, perhaps loans to process immigration paperwork, a focus on education financing for children of immigrants, financial services that accommodate migratory and seasonal work, or other services?

Avenues for Community Partnerships

Financial institutions must earn the trust of immigrants to serve the immigrant market. Some financial institutions have earned trust through partnerships with community organizations that understand unique community needs.[5] These organizations provide valuable insight into the market as well as strategies to improve product offerings and broaden market penetration. Community organizations can use their clout to negotiate fairly priced financial services. Banks and credit unions can offer resources, such as staff and money that they are often willing to devote to increasing clientele.

While the benefits of alliance-building with community groups are increasingly accepted in the banking industry, financial institution partnerships with community organizations remain the exception rather than the rule. Though both parties see the mutually beneficial goal of providing banking services to an unbanked community, their expectations from the relationship may be very different. Banks have a distinct interest in serving their communities, but profitability is the end goal, and the two are not always perceived to go hand in hand. Community organizations may expect services and pricing that financial institutions cannot offer profitably, at least not to scale. Financial institutions may become frustrated when organizations do not deliver new customers.

Another challenge is finding the right match between financial institutions and community organizations. Large banks serving multiple communities face difficulties in offering products for a niche market in one community. As a result, the largest banks have tended to seek out partnerships with national organizations such as the Association for Community Organizing Now and the United Farm Workers Union. Though these organizations have strong community roots, many immigrants are not linked to these groups. Hometown associations and other social clubs and social service organizations that have grown out of recent waves of immigration are largely local and usually left out of financial partnership opportunities. Smaller banks are more flexible and capable of meeting niche market demands and more willing to explore local partnerships, but they have less capacity to subsidize a line of products with the hope of long-term profitability.

Questions to Consider:

- What makes a partnership successful for both the bank and the organization?
- How can financial institutions improve outreach to new immigrant organizations?
- How can community organizations balance positive relations with partner banks and their advocacy role to protest undesirable bank practices?
- How can financial institutions find community partners that view the bank as more than a potential funding source?
- What types of partnerships are most effective in achieving broader market impact?

[5] See Jacob 2000 and Newberger 2004 for additional discussion on the utility of community organizations in promoting financial literacy and services.

Opportunities for Partnerships

Despite the difficulties outlined above, there are promising examples of successful partnerships. Community-based organizations can and have joined with banks and credit unions in a number of important ways.

- ***Advice and Advocacy.*** An important function of partnering with a bank or credit union is providing feedback and evaluation of the institution's programs, products, and services.[6] Organizations with direct links to the community are often better equipped to determine how the target audience is responding to an institution's efforts. For example, members of Chicago CRA Coalition often meet with bank representatives to learn about and provide feedback on specific projects. On one occasion, the Coalition members helped Bank One create a lifeline banking account, and discussed account features, regulatory and operations barriers, promising pilot locations, financial literacy, and marketing.[7]

- ***Promoting Beneficial Products and Services.*** Community organizations can develop formal relationships to provide specific financial products and services to consumers. For example, in 2004, H & R Block partnered with government and community organizations in several different cities to develop and deliver financial and retirement services to low-income residents.[8] Once assured that the products and services offered would benefit their constituents, organizations and local government agencies used their connections to bring customers to the firm. Community organizations are best served by multiple such partnerships so that they do not promote one business option for their constituents, to the exclusion of others.

- ***Delivering Financial Education.*** The Consumer Bankers Association's annual survey of bank-sponsored financial literacy programs reveals that there are many successful partnerships between banks and community-based organizations that are helping to educate immigrants about financial issues and providing access to products and services to meet immigrants' unique needs.[9] One financial education partnership involved Branch Banking & Trust (BB&T) in Winston-Salem, the North Carolina Office of Hispanic/Latino Affairs, and El Pueblo, a non-profit group. A series of hour-long Spanish language audiotapes in a *novela* format (told as a soap opera-like story) were distributed through churches and community groups to help educate immigrants about getting a driver's license, establishing credit, basic banking, buying a car, and the role of the FDIC.[10]

Although there are many successful partnership programs in place, there is a need for additional growth in this area. In 2004, only 47% of banks surveyed reported

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[6] See, for example, page 42 in Consumer Bankers Association, 2004.
[7] Williams, Marva, 2000, page 6.
[8] Center for Financial Services Innovation, July 2005.
[9] See Consumer Bankers Association, 2005.
[10] Consumer Bankers Association, 2003, page 6.

involvement with a personal finance program or initiative specifically targeting the unbanked.[11]

Building Community Assets: A Guide to Credit Union Partnership, published by the Woodstock Institute in 2004, is a useful guide for non-profits that are considering partnerships with credit unions.[12] It also specifies features of a model access account for unbanked individuals.

Partnering with Government Agencies

Non-profit organizations can work with consulates of foreign governments to help provide relevant financial services to immigrant consumers. For example, the Mexican Consulate in Chicago sees thousands of Mexicans daily and can provide quick referrals to non-profit organizations and financial institutions. Chicago Appleseed has provided financial education materials to thousands of Mexican immigrants through the Mexican Consulate. Fifteen different banks offer financial literacy programs at Chicago's Mexican Consulate on a rotating basis and also help immigrants open accounts—one bank has opened 3,000 accounts through the consulate.[13]

The Federal Deposit Insurance Corporation has spearheaded a broad collaborative initiative called the New Alliance Task Force. The Task Force has successfully linked a wide range of non-profit, government, and banking entities for the purpose of improving products and services for recent immigrants.

Local government agencies also have a stake in promoting financial services for immigrants, often because of safety concerns. Police departments in various cities have seen immigrants become targets for crime because they often carry large amounts of cash after cashing paychecks. In Austin, Texas, the police department, the Texas Secretary of State, the Mexican Consulate, and Wells Fargo Bank partnered to give presentations to the community about the safety of bank accounts and how to use them in order to reduce robberies and assaults targeting the community.[14] This effort resulted in Wells Fargo becoming the first bank to accept the *matrícula consular* as a form of identification for opening bank accounts.[15] It is now a widely accepted practice for banks to honor this identification card.

Other local police departments have gotten involved in financial education as a strategy to reduce crime against immigrants. Police departments in Los Angeles and Chicago have developed programs to teach Latin American immigrant communities about using

[11] Consumer Bankers Association, 2005, page 5.
[12] This report, along with other Woodstock Institute publications, can be found at http://www.woodstockinst.org/publications/
[13] Frias 2005 (Personal Interview)
[14] Wells Fargo Bank
[15] Wells Fargo Bank and City of Austin, Texas (May 2, 2001).

bank accounts. With the help of community groups, more communities can follow their lead.

Connecting with Local Immigrant Associations

In many cities there are strong immigrant networks and community groups. Hometown associations (HTAs) are prevalent in cities with large immigrant populations. Hometown associations formed by Mexican immigrants bring together immigrants from the same Mexican state. Members of the same HTA work together to transfer money and other resources back to their communities of origin, to promote local economic development. They function as civic and cultural centers within the community, organizing holiday celebrations, scholarship fundraisers, and other activities. In communities where there is a large Mexican immigrant population, federations exist to bring together the efforts of different HTAs representing the same Mexican state. According to the Mexican Consulate, as of 2004, there were 13 federations of hometown associations in Chicago alone.[16]

Other non-profit organizations can form alliances with hometown associations by sharing information and providing institutional support. For example, the Chicago-based non-profit Enlaces América, along with several Midwestern Mexican hometown federations, established a leadership certification program called the Chicago Immigrant Leadership Empowerment Program. The program, started in 2002, brings together leaders from the HTAs and trains them on topics such as strategic planning and fundraising. Although this program does not have links to banking, it is illustrative of the positive impact partnerships can bring to immigrant communities.

Moving from Partnerships to Banking Immigrants

Some of the most successful models for bringing financial services to the immigrant community have been built on strong partnerships. These partnerships have been able to fashion viable, replicable answers to some of the most pressing financial needs of immigrant communities. The following sections discuss how partnerships and other strategies can contribute to the success of financial education, basic banking, and lending programs in immigrant communities.

[16] ENLACES AMÉRICA, 2004.

Financial Education: An Important Component of Immigrant Banking Strategies

Over the past five years, financial education has received increased funding and attention. Hundreds of curricula and materials exist, including those that target particular immigrant groups or are translated into multiple languages. The consensus around financial education is that it is important to effectively transition unbanked and underbanked individuals into the formal financial service system and into successful borrowers. Much debate exists around how effective financial education efforts have been.

A report issued by the National Council of La Raza in December 2005 asserts that current financial education efforts are not sufficient to meet the needs of low-income and unbanked communities. The report calls for an increase in long-term, one-on-one financial counseling by trained financial counselors, because research has shown this approach to have the greatest impact on individual and family financial behaviors.

Given the lack of resources to support efforts targeting low-income communities, it is unlikely that such a high level of personal financial education will be broadly available in the near term. Yet, acknowledging the importance of financial education, how can financial institutions and community organizations most effectively provide financial education to immigrant communities within the confines of their capacity?

Financial education is an area that is ripe for partnerships between financial institutions and community organizations. It also lends itself to collaboration among community organizations. It is, however, not the only answer to helping consumers avoid costly financial service decisions. There must also be efforts to improve market products and practices to encourage the creation of asset building rather than asset depleting financial services in low-income immigrant communities.

Questions to Consider:

- What financial education approaches have the greatest impact on consumer behavior?
- Who is the best provider of financial education? A financial institution that can tie education to specific products and outcomes, community educators who have the community's trust, or a combination?
- Do immigrants need uniquely tailored curricula and approaches, or do existing curricula for the unbanked generally meet their financial education needs?
- How can financial institutions effectively offer financial education in a business environment where customer account mismanagement and poor loan choices can provide a source of fee income and profit?

Financial Education as a Tool for Building Long-Term Banking Relationships

Providing appropriate financial education is essential to a successful long-term banking relationship between financial institutions and previously unbanked families. This education must surmount a basic lack of familiarity with the banking system and often a fundamental distrust of that system.

Successful approaches recognize the realities of immigrant community members' lives—that building trust and communicating respect is a key component of financial education, that educational efforts have to be conducted outside the branch bank and beyond traditional classes, and that the process is a two-way street requiring education not only of potential new customers but of financial institution staff about the new customers they seek to serve. Effective financial education initiatives have incorporated one or more of the following elements:

- ***Developing Trust.*** This is probably the most important aspect of financial education and the one that makes the greatest difference in banking new customers. Financial education initiatives that take into account this significant cultural aspect of doing business are far more successful than those that jump too quickly into the specifics of bank products. The most effective initiatives make this a core component of education efforts.

- ***Starting with the Basics.*** Financial education of the unbanked must begin with very basic information about the banking system, its benefits, and why it can be trusted. Covering the basics sets the stage for unbanked individuals to take an interest in additional financial education. Colorful, easy-to-read materials designed specifically for this audience (rather than simple translations of existing materials), word-of-mouth, and radio advertisements have all proven effective in reaching out to the unbanked.

- ***Staffing, Décor, and Branch Site Decisions.*** Convenience, family-friendly service, cultural sensitivity in manner and décor, and language, are important for building trust and making immigrants feel welcome. Financial institutions are finding that all of these can be part of effective financial education.

- ***Viewing Financial Education as a Two-Way Street.*** The most effective banks and credit unions have taken the approach that education is a two-way street. All staff—from top to bottom—are educated about community members the bank hopes to serve in addition to educating community members about the bank.

- ***Taking Education to the Community.*** It is well established that simply offering a class is not an effective way to reach a community whose time is stretched thin and who may not yet be familiar with the advantages of learning more about mainstream financial services. ESL classes, worksites, day labor waiting sites, lunch breaks, after church, community social gatherings, non-financial workshops (such as parenting classes), consulate outreach clinics, or other places individuals wait offer valuable opportunities for financial education. It is crucial to look beyond traditional classroom-style education to bring information into the community and into informal settings. Some organizations and financial institutions are going door to door with information or sending mobile financial education centers into different neighborhoods. Incorporating field trips to banks, home inspections, or home closings has also proven successful.

- ***Forging Key Partnerships.*** Collaboration is critical to reaching new customers. Because many immigrant customers tend to be skeptical of banks at first, cooperative efforts that provide neutral information through multiple financial institutions and trusted community groups can be an important first step in relationship-building with potential new customers. Some banks and credit unions have collaborated effectively to provide rotating staff to teach multi-week classes, making less of a sales tactic impression.

- ***Financial Education as Part of Asset, Credit Building***. Many financial institutions and community organizations have partnered to make financial education a requirement of Individual Development Account (IDA) programs or credit-building savings programs.[17] Such an approach accomplishes both financial education and the development of important assets or a credit history.

- ***An Essential of Good Customer Service.*** While getting outside the branch may be the most important aspect of successful education initiatives, financial institutions are also incorporating financial education into all of their internal processes and services to great effect. The account opening process is an important learning moment to provide new customers with solid information on how to use the new account and how to avoid misusing it with overdrafts, for example. Evaluating their systems from the first moment a customer walks through the door through each banking service they might use identifies many potential moments to provide financial education.

- ***Addressing Other Immigrant Community Needs.*** In addition to incorporating introductory financial education into non-financial workshops, financial institutions also describe the important signal they send community members by making an effort to address non-financial issues in bank-sponsored events. Some have invited additional community resources, such as immigration attorneys, to be a part of their financial education events in order to recognize and help address other community needs.

Whether introducing the basics of the financial system or covering next-step topics, such as deposit and checking products, building or restoring good credit, budgeting and financial planning, and first-time home ownership, these strategies and approaches are proving effective in welcoming new immigrant customers into the banking system.

[17] An IDA is a matched savings account that can be designated for a specific purpose, such as saving for education or a home.

Banking Outside the Box: Altering the Banking Paradigm to Reach Immigrant Communities

It is generally accepted that unbanked immigrants require a high touch relationship to transition into a positive relationship with a financial institution and that it is important to reach them where they are, both in terms of where they live and the financial services they use. Banks have taken four main approaches to addressing these two issues:

- Some banks have found success in reaching new communities through creating a more immigrant friendly environment within the traditional bank branch;
- Financial institutions are attracting some immigrants with remittance products or cross-selling services immigrants currently access outside the banking system;
- A small group of banks is using the check casher/bank model at store front locations in immigrant neighborhoods; and
- Some banks are moving out of branches and into the workplace or schools as a way to reach new communities and develop trust.

Each of these approaches has found some success, but little information is available about particular immigrant demographics reached by each approach and the banking services used by the new customers. Equally important, who are these approaches missing?

Despite successes, the above approaches have neither been taken to scale, nor thoroughly evaluated. Larger banks have found that some of their branches, unaccustomed to serving immigrants, often are uninformed of flexible identification policies and immigrant-oriented product offerings. The check casher/bank model, with a 10-year track record, is present in limited markets nationally and offered by only a handful of financial institutions. Workplace banking, mobile banking, school-based banking, and other similar approaches have also been implemented sparingly.

The challenge ahead is to better document the impact of successful models and the reasons behind their success, and to innovate for the people being left behind.

Questions to Consider:

- Can a banking approach developed for the Latin American immigrant market also meet the needs of other immigrant communities?
- How can technology that immigrant communities use, such as cell phones, be leveraged to bring more people into the formal financial services system?
- Is an independent evaluation process, to pin point the demographics of immigrants served by successful banking models and product usage, possible in a competitive banking environment?
- How can financial institutions partner with the information financial services sector to better reach and serve immigrant customers?
- How can communities work with financial institutions to improve products?

Customer Service and Community Engagement

Three important banking strategies show real promise in the immigrant market: promoting targeted customer service and community engagement, offering products that immigrants use and cross-selling products, and implementing new approaches to banking that go beyond the traditional branch model.

To improve customer service and community engagement, financial institutions are adjusting many aspects of their staffing and procedures, as well as making an explicit effort to engage with the community, in order to invite new immigrant customers into the banking system. Some successful efforts have included:

- ***Language and Cultural Awareness.*** Hiring bilingual, bicultural bank personnel who are *fluent* in the languages used in the community where the bank branch is located is perhaps the most important first step. It is ideal to hire people directly from the target community. Providing multilingual signage, information, and marketing materials is also key, as are multilingual telephone messages, telephone customer service, and website information. These translations have been done extensively; experience has shown that direct translations from English to another language may ignore cultural differences, that many Spanish words translate differently country-to-country, and that many immigrants speak English.

- ***Welcoming Environment.*** Creative décor can provide immediately welcoming signals to immigrant customers, who often find a traditional bank atmosphere cold and uninviting. Again, training all staff—particularly front-line staff—about the cultural background of the communities they serve is invaluable. Training all staff to be ready with a smile in case bilingual staff has stepped away and to have an understanding that the American way of business is not appropriate in all cultures is important. It is also important that staff recognize their colleagues may take longer with immigrant customers as part of the relationship-building process.

- ***Participation in Community Events.*** Participation in festivals, cultural holidays and celebrations, church events, and health and housing fairs can begin to build familiarity. Setting up tables at public school meetings and sports league games, sponsoring a float in the community parade, volunteering in the community, and offering scholarships or internships to students in the community can all serve as a first step.

- ***Long-term Community Commitment.*** Participation in community events is a good start, but not enough to build community trust. Substantive commitment to longer-term initiatives is an important relationship-building strategy. Investment in financial education programs or neighborhood revitalization and housing can demonstrate a financial institution's long-term commitment to the community.

- ***Community Partnerships.*** Partnerships with trusted community organizations, such as churches, neighborhood associations, social service organizations, and consulates, as well as with other financial institutions and local businesses have resulted in more effective outreach to clients.

- ***Using Media Effectively.*** Spanish radio can be a particularly effective way to reach immigrants from Latin America.

- ***Targeting Products and Services to Community Needs.*** Asking community members what they need and working with community organizations to find out are critical to developing appropriate financial products and services. Many financial institutions have begun recognizing, for example, that regular bank hours do not accommodate the typical working hours for the local immigrant community and have expanded hours in their branches.

- ***Accepting Matrícula Consular & Other Forms of Identification.*** Identification issues have long been a barrier for immigrant communities, both documented and undocumented, in accessing formal financial services. Accepting alternative forms of identification, such as the *matrícula consular* or other foreign government-issued identification can make accounts more accessible and immigrant customers feel welcome in the banking environment. In cases where an Individual Taxpayer Identification Number is required to use banking services, many financial institutions help immigrant community members fill out and submit the necessary paperwork.

Remittance Products and Other Cross-selling Services[18]

Having prepared the branch personnel and systems to welcome new immigrant customers and having paved the way through financial education, banks have found it is important to have products and services explicitly designed to meet the needs and interests of potential new customers. Many financial institutions are offering remittance products, stored-value cards, and other services their customers already use outside the formal banking system as a bridge to introduce them to banks and credit unions.

- ***Remittance Products.*** Many immigrants are not only working to support themselves, but are also supporting family members in their home countries. Many use money transfer services, such as Western Union, to send money bank to their home countries. Such services can be expensive in comparison to the amounts of money being sent. Some financial institutions are developing remittance product alternatives. Bank can use the Federal Reserve's new *Directo a México* product, which charges banks only 67 cents per transfer and guarantees a .21 percent exchange rate spread. The best products reduce the upfront fees and exchange rate spread (the difference between the official rate and the rate charged to the customer), provide transparent and easily accessible information about the

[18] Tools and resources: the Federal Reserve Bank's Directo a México product (www.frbservices.org/Retail/intfedach.html), IRS local taxpayer advocate (www.irs.gov/localcontacts).

costs of the services, and include other innovations to better serve customers, such as ATM cards in both the sender's and the recipient's names, guaranteed delivery time, withdrawal limits to protect against theft of the ATM card, a separate remittance account so that the sender can control the amount of money accessed by the recipient, and access to a large network of ATMs or *casas de cambio* pick-up locations, depending on the needs of the community.

- ***Check-cashing Services.*** Many immigrants and low-income individuals use check-cashing services because they do not currently have bank accounts and/or generally distrust banks. Check-cashing services tend to charge relatively high fees, thus greatly reducing consumers' take-home income. By offering an alternative to these check-cashing services, banks can attract customers who otherwise would not use their services.

- ***Stored Value Cards.*** Selling prepaid media, such as calling cards, prepaid cell phone minutes, public transportation passes, and prepaid credit cards is another way banks are reaching out to the unbanked segment of the population. Using prepaid media has become a popular way for low-income and immigrant populations to use services, such as cellular phones, that many other people tend to use on a credit basis. By offering these services, financial institutions gain two advantages. First, they make themselves more competitive with the neighborhood check cashing outlets. Second, they gain access to more information about consumers and can use the information to target services and help customers establish credit histories to move up the financial services ladder.

- ***Tax Preparation Services.*** Many financial institutions are offering tax preparation services free of charge to low-income customers; providing space in a branch for volunteers to provide those services; or partnering with a community group or the IRS Volunteer Income Tax Assistance program to provide tax preparation services in another community setting. In any case, bank employees are ready to open low- or no-fee bank accounts into which tax refunds can be direct deposited, thus providing customers with more immediate access to funds without the high-cost of rapid refunds or refund anticipation loans (RALs). Efforts to coordinate with the local IRS taxpayer advocate often begin about a year in advance.

Banking "Outside the Branch"[19]

Many banks and credit unions are offering services outside the traditional stand-alone bank branch in alternative locations, such as high schools, senior centers, churches, or mobile units at worksites on pay days. They are partnering with other businesses, like check cashers or grocery stores, non-profit organizations, and employers. Many

[19] Tools and resources: "A Guide to Establishing Bank Branches in High Schools," by the Sargent Shriver National Center on Poverty Law.

individuals without accounts use store-front financial service locations such as check-cashing outlets. Outside-the-branch locations can offer a transition from those services that are convenient and familiar to formal banking services that may otherwise be perceived as "not for them." In fact, several banks have opened school and storefront locations nearing close proximity to one of their traditional branches, recognizing that an alternative location itself offers something quite different to immigrant communities. Successful initiatives have taken the following approach:

- ***Seeking Community Input.*** As in other areas, direct consultation with community members confirms the most effective approaches and locations for banking outside the branch. Talking with potential customers best identifies the strategies that meet their needs and generates creative ideas that financial institutions may not have developed on their own.

- ***Partnering with Schools and Employers.*** Substantive advance planning with outside-the-bank partners helps ensure mutual understanding and shared goals. Ongoing close communication allows the project to adapt to changing needs or circumstances and lessons learned along the way. Many financial institutions create an advisory board for such projects with worksite managers or school staff as members.

- ***Matching Products, Services, Hours to Customer Needs.*** As in other areas, carefully designing products, services, and hours of operation to match potential customers' interests ensures success. Immigrant consumers' needs may not match the profile of the traditional bank customer.

- ***Multiple Measures of Success.*** Descriptions of positive project outcomes invariably include benefits to the bank that take forms beyond the number of accounts opened or deposits held. For example, high school bank branches have made students ambassadors to their parents and other community members, connected banks to their communities, and become future bilingual bank employees. Successful projects target multiple goals, and measure and recognize value in multiple outcomes.

A number of innovations developed in recent years to invite Latin American immigrant customers into the financial mainstream could well apply to other unbanked immigrant and low-income communities. At the same time, it is important to consider differences among immigrant communities that relate to country of origin, age of immigrant community members, and professions. There is no replacement for getting to know the community directly and learning community members' specific interests, needs, and constraints.

Accessing Credit to Build Assets in Low-Income Immigrant Communities

Because immigrant consumers actively want credit, they are often more willing to enter a relationship with a formal financial institution to obtain credit than they are to open a basic account. Low-income immigrants often skip a transactional or savings banking relationship and go straight into borrowing for home ownership or to meet other credit needs.

Four important challenges in the credit arena are:

- Addressing barriers of credit scoring and assessments of credit-worthiness;
- Increasing general access to credit and credit-building tools;
- Ensuring that credit targeting low-income immigrants is fairly priced; and
- Working to help immigrants new to the U.S. credit system avoid credit pitfalls such as predatory sub-prime loans, continually rolled over payday loans, and unpaid credit card balances that plague other low-income communities.

Loans for undocumented immigrants using the Individual Taxpayer Identification Number (ITIN) have dominated the immigrant credit discussion in recent years. The pioneer ITIN lenders have had such a successful and profitable track record that new lenders are appearing at a quick pace. Though regulatory pressures could deter some entrants, the availability of mortgage insurance for ITIN loans has served to bolster loan availability in markets nationwide. Efforts are also underway to create a secondary market for the loans. Consumer loans and access to credit cards have lagged behind the expansion of home mortgage loans, primarily because the loans are higher risk.

To address credit needs of immigrant markets, there must be an increase in access to short-term credit in addition to home mortgage loans. Looking at successes in the ITIN market can be a jumping off point for exploring ways to open the lending system to other low-income immigrant communities in a constructive way that benefits both individuals and lenders.

Questions to Consider:

- Why are ITIN loans so successful?
- Could lending momentum in the ITIN market be expanded to include other immigrant and low-income communities?
- What immigrant credit needs are not met by the current lending market?
- How can a lender profitably serve high touch borrowers who often require manual loan underwriting?
- How can low-income immigrants to be better integrated into mainstream credit systems to streamline the credit qualification process?

Lending Strategies for Overcoming Consumer Barriers

The increased availability of mainstream credit for low-income Latin American immigrants over the last five years indicates that it is possible to profitably serve a high-touch low-income market. The expansion of the ITIN home mortgage lending market is worth particular note, because it has served to emphasize the credit worthiness of low-income immigrants. MGIC, a major national provider of mortgage insurance, reported only two delinquencies to date in its ITIN loan portfolio of over 900 loans, a statistic that is consistent among ITIN lenders.[20]

Low-income immigrants face many of the same barriers to accessing fairly priced loans as other low-income communities. They lack knowledge about how the U.S. formal banking and credit systems work and how to access those systems. They often have no credit or banking history, and conventional loan underwriting systems may not effectively assess their credit worthiness.

Community partnerships and financial education, detailed in previous sections, are an important part of creating a successful lending relationship with low-income immigrants. [21] Accepting the ITIN and foreign government-issued identification is helping remove barriers to financial services for undocumented immigrants. There are four other strategies that are common to successful immigrant lending initiatives:

- ***Flexibility in Assessing Credit Worthiness.*** Though some lenders are now working with immigrant communities to help them to build a credit score to access mainstream credit, many low-income immigrants do not understand credit scoring and do not have a score. As a result, lending programs have had to rely on alternative credit and are exploring other immigrant-specific ways to assess credit. One issue that has received attention lately is using international remittance history as an indicator of the capacity to make consistent payments. Some lending programs offer additional accommodation of shared housing situations, where bills and rent may not be in the loan applicant's name. The strongest credit indicators for low-income immigrants are stability of housing and consistent housing payment. As with other low-income communities, which may not have access to medical insurance, medical collections usually are not counted as negative credit marks.

- ***Allowing Higher Debt-to-Income Ratios.*** It is important for the mortgage payment to be in line with rent payments prior to the home purchase. However, documented income does not usually provide the full picture of an immigrant family's finances. Most families have additional income which may include income from other family members working in the household or income from work with cash payments. Some lending programs

[20] MGIC presentation by Geoff Cooper, September 2005. ITIN lenders, including Mitchell Bank of Milwaukee, Wisconsin, TexasBank, of Fort Worth, Texas also report low delinquencies.
[21] See Abdighani Hirad and Peter Zom, "A Little Knowledge is a Good Thing: Empirical Evidence of the Effectiveness of Pre-purchase Homeownership Counseling," Joint Center for Housing Studies, 2001.

automatically provide a 25 percent allowance for undocumented income in calculating the debt-to-income ratios.

- ***Building long-term customer relationships.*** It is important to maintain a relationship with the customer beyond loan approval to ensure that the customer approaches the financial institution to avoid or address a payment problem. The most common reasons for missing payments cited by the lenders included temporary unemployment and illness. Loan officers are often proactive in contacting the borrower if they detect the start of a payment problem, and many lenders are willing to work with borrowers after the loan has closed to surmount temporary obstacles and ensure the long-term success of the loan.

Strategies for Overcoming Market Barriers

Market barriers are important in the immigrant lending context. As many loans issued to low-income immigrants are portfolio loans, the capacity for this segment of the market to go to scale is limited.

Consumer Loans

For consumer loans, the primary market barrier is the lack of history regarding repayment of consumer loans for recent immigrants. The programs profiled (See Appendix A) have largely been working on a trial and error basis to find what structure works best to ensure repayment of the loan.

One strategy to address the lack of fairly priced consumer loans for immigrants is to conduct a study of consumer loans to different immigrant communities to document both problems and successful strategies. Little information exists about consumer loans to immigrant communities. As a result, it is considered risky—and only the financial institutions that are most committed to serving immigrant communities have ventured into this lending area. Once there is a documented track record for such loans, establishing fair pricing for such loans will be easier, and there will likely be more market options for consumers.

Home Mortgage Loans

The lack of a secondary market for many home mortgage loans to immigrant communities, both documented and undocumented, is a major limitation of the market. No broad-based secondary market exists for ITIN loans and, though documented immigrants may qualify for traditional secondary market products, many low-income individuals opt for portfolio loans because they find the underwriting requirements and documentation for secondary market loans overwhelming. Four major strategies are currently underway in the market place to create a secondary market for ITIN loans and to streamline lending to low-income Latin American immigrants.

- ***Broad-based Availability of Mortgage Insurance for ITIN Loans.*** In January 2004, the Mortgage Guaranty Insurance Corporation (MGIC) launched its "Building a Life in America" ITIN loan mortgage insurance program and made the program a permanent initiative in March 2005. MGIC currently works with 121 approved lenders in 29 states. As of the end of August 2005, 54 of the lenders were actively making loans.[22] The availability of mortgage insurance for ITIN loans has had a positive impact on the market, lowering interest rates and improving loan terms as a result of decreased risk to the lender. MGIC has developed underwriting standards that all of its approved lenders must follow in order to use their insurance product. One of the program requirements is that the loans either be fixed rate loans or adjustable rate mortgages with no rate changes for the first five years of the loan.[23] According to MGIC, the average rate on the 5/1 adjustable rate mortgage product insured through their ITIN program is 6.75 percent.[24]

- ***State-Sponsored Secondary Market Initiatives.*** Wisconsin Housing and Economic Development Authority launched a program in 2004 to purchase ITIN loans for undocumented borrowers who meet their program guidelines. The program has served as a model for other states. The Illinois Housing Development Authority launched a similar program in August 2005, and New Mexico is considering launching a similar program.[25] The state-initiated programs have made prime rate loans available to undocumented immigrants in those states, but their capacity is limited and they are vulnerable to political pressure around the immigration debate. The Wisconsin program was recently discontinued because of state legislative action.

- ***Creating a Secondary Market for ITIN Loans Using Capital Markets.*** Wall Street Without Walls, an organization dedicated to finding capital market solutions for community development efforts, has been working to create a system to securitize ITIN loans and sell them to investors.[26] The organization has been working with 100 ITIN loan originators and hopes to have its first market place transaction, with $100 million in loans, by the end of the first quarter of 2006. The goal of this effort is to enable the ITIN market to transition from a sub-prime to a prime market product, providing interest rates to borrowers that are reflective of the performance of the loans. The program structure allows the

[22] MGIC presentation by Geoff Cooper, September 2005.
[23] http://www.mgic.com/pdfs/03-33061_balia_web.pdf (November 16, 2005).
[24] MGIC presentation by Geoff Cooper, September 2005. It is important to note that the over 9 percent average rate covers a variety of loan terms and is not directly comparable to the adjustable rate mortgage rate. The rates provide only a general sense of how the market has shifted.
[25] Steve Daniels, "New Mortgage Fund Courts Controversy; Undocumented Workers to Get State-funded Loans," *Crain's Chicago Business*, August 1, 2005.
[26] Information about Wall Street Without Walls program is based on an interview with Wayne Marsden of Wall Street Without Walls.

originator to keep the origination fee and benefit from any spread in the interest rate. The originator also maintains servicing of the loans. The MGIC underwriting standards are used as the minimum underwriting criteria for loans in the program. The organization expects that banks will be interested in investing in the loans for Community Reinvestment Act credit and that insurance companies may have an interest in the loans as a socially responsible investment. The expectation of the organization is that the ITIN mortgage market will grow dramatically over the next 10 years, from a $1 billion market to a $100 billion market, if an appropriate secondary market vehicle is available. One question to consider is whether a capital market strategy—which can demand a high return on its investment—might also make the loans more expensive.

- ***Developing a Private Market that Includes Streamlined Loan Underwriting.*** The Hispanic National Mortgage Association (HNMA), launched in 2003, is a private company that was created and capitalized by prominent members of the Hispanic business community.[27] It is designed to play a similar role to the Federal National Mortgage Association (Fannie Mae) but specifically in the Hispanic market. The mission of the association is to create an efficient and effective way to serve the Hispanic home mortgage market, including, but not exclusive to, the ITIN market. According to HNMA, it has developed a loan underwriting system, the Hispanic automatic underwriting system (HAUS), which allows non-traditional credit to be evaluated in a quick and systematic way. HNMA is prepared to purchase loans underwritten using the HAUS systems, creating a secondary market for loans that traditionally have had viability only as portfolio products.

Creating accessible and fairly priced credit programs for recent immigrants is a challenge that has been met by a small, but growing, number of financial institutions. Market developments, in combination with better information on loan performance, have strong potential to encourage the creation of low-cost and broadly available credit options for immigrants to build their lives and their communities.

[27] "Hispanic National Mortgage Association-MBA National Underwriting Conference." Power Point Presentation. Hispanic National Mortgage Association. November 2005. http://www.mortgagebankers.org/present/main.asp.

Regulatory Challenges for Serving Foreign Nationals

The expanding interest on the part of banks and other financial institutions in providing broader financial services to Latin American immigrants comes at a time when regulatory scrutiny of cross-border financial transactions is at an all-time high. It also highlights the growing conflict between two very important public policies:

- On the one hand, financial institutions are encouraged to provide access to the mainstream banking and payment system for a group that is largely not served by traditional financial services; yet
- On the other hand, financial institutions are increasingly compelled to approach financial transactions with skepticism and, in international matters, find themselves acting as de facto deputies for disparate law enforcement agencies.

The regulatory framework governing some of the product offerings profiled in this report highlights risky lines of business, but leaves the appropriate risk mitigation strategies up to the financial institution. Such an approach is generally good, as it allows financial institutions to individually assess their clients and their lines of business and prevents bad players from manipulating the system. However, in the case of providing financial services to foreign nationals, the regulations have encouraged the perception among many financial institutions that the profits from serving non-nationals, particularly in their cash-intensive transactions, are not worth the risks. Fears of unknowingly supporting illegal activities has led some financial institutions to take the most conservative approach, for example, issuing suspicious activity reports for all loans to undocumented individuals. Others have applied thorough, more customer-sensitive, risk mitigation policies, but are concerned about how the situation will play out long-term.

Non-bank financial services, which are now being looked to for creative partnerships to bring the unbanked into formal financial services, have also been impacted by the banking regulatory environment. Concerned about regulatory risks in serving cash-intensive businesses, many financial institutions closed accounts of check cashers and international money transfer services.

Regulations are necessary to protect the banking industry. There must be safeguards to fight terrorism and illegal activity. The challenge is to create a thriving financial services environment for immigrants within the current regulatory and political environment.

Questions to Consider:

- What kind of regulatory guidance would make financial institutions more comfortable with serving low-income immigrant markets?
- If some banks perceive that a suspicious activity report must be filed for all ITIN loans, do the loans truly benefit consumers? Would consumers want the loans if they knew this?
- Are there regulatory issues or concerns that uniquely impact smaller or larger financial institutions?

Encouraging Banks to Serve Immigrant Markets

In recent years, the bank regulators and other federal agencies have taken important steps to encourage financial institutions to serve the Latin American immigrant market. The population trends revealed by the 2000 Census raised awareness of this growing community that remained largely unbanked. There are a number of examples of banking regulators giving support to immigrant banking initiatives since September 11, 2001,

- The FDIC launched the New Alliance Task Force initiative to work with community and financial institutions to increase access to formal financial services for Mexican immigrants and other immigrant communities;[28]
- The Federal Reserve Bank, in partnership with the Bank of Mexico, launched the Fed Automated Clearinghouse International Mexico Service, marketed as "Directo a México," to provide a low-cost option for Mexican immigrants in the United States to send money to family members in Mexico; and
- Banking regulators jointly affirmed that financial institutions offering low-cost international remittance services to their customers would receive positive consideration for their Community Reinvestment Act examination.

Despite some signs of a positive regulatory environment for providing financial services to new immigrants, documented and undocumented alike, regulatory concerns on the part of financial institutions have hindered expansion of positive market initiatives.

Regulatory Concerns Regarding Serving Unbanked Immigrants[29]

Though individual financial institutions may experience an array of concerns regarding serving the unbanked immigrant community, six key concerns arise with consistency:

- ***Conflicting information from regulatory agencies.*** Community affairs staff of the regulatory agencies and Community Reinvestment Act examinations encourage immigrant friendly banking practices, such as providing check cashing and remittance services and serving undocumented immigrants. However, the same practices may be scrutinized and questioned by safety and soundness and Bank Secrecy Act examiners. Even within the same regulatory agency and for the same category of exam, there are complaints of inconsistency in how examinations are conducted, leaving banks in a vulnerable position. Regulatory committees within the New Alliance Task Forces have discussed initiatives to reach out to examiners to establish more consistency in examinations and more consistency and predictability in the system.

[28] This initiative is profiled in more detail in Appendix A.
[29] Appendix B provides a summary of financial institution regulations and regulatory guidance that impact providing financial services to foreign nationals.

- ***Difficulty in Verifying Identification Documents.*** Under the customer identification program, laid out in the USA PATRIOT Act regulations, foreign government-issued identification is permitted for use in opening an account at a financial institution. Financial institutions are responsible for verifying a new customer's identity, but not for verifying the authenticity of identification documents. Nonetheless, some financial institutions have been reluctant to accept foreign-issued identification because of fears regarding forgeries. One bank has addressed the problem of verifying the authenticity of documents through the creation of a database of foreign identification documents and their unique characteristics. The Mexican government has been working on a centralized number that financial institutions can call to verify the authenticity of the *matrícula consular*. Positive efforts are underway, and many financial institutions have demonstrated that foreign-issued identification can be accepted without regulatory consequences. However, smaller banks and banks—particularly in border areas—continue to view foreign-issued identification documents with caution.

- ***Risks Associated with Cash-Intensive Transactions.*** One of the commonly profiled financial service models for reaching unbanked immigrants is the check casher/bank model. Customers are brought into the bank through the products they are comfortable using—check cashing, cash-to-cash remittances, and phone cards—and then transitioned into a bank account. There is also significant evidence to indicate that newly banked customers want check-cashing services even after they have opened an account. Yet, recent regulatory guidance has cautioned financial institutions that such cash-heavy transactions are categorized as businesses that might pose specific money laundering risks and that there should be appropriate policies in place to mitigate the risk. Because of questions about what risk mitigation measures, in the event of an illegal transaction getting through, will be deemed sufficient by examiners, many financial institutions have opted to stay out of this area of service.

- ***Risks Providing Loans and Accounts to Cash-Intensive Businesses.*** The same guidance that deemed check cashing and remittance services high risk also placed accounts of businesses in the informal financial service sector offering those services in the high risk category. The initial result of the guidance was that financial institutions closed many accounts of money service providers. Clarifications were then offered to address this problem, but many money service providers feel that the damage has been done. Though money service providers are part of the informal financial service sector, they have come to play an important role in partnerships to attract unbanked immigrants to formal financial services. In the remittance market, there has been growth in small niche market services, which has served to reduce transaction costs in the market as a whole. Putting these services out of business because they cannot access bank accounts will likely lead to fewer options for immigrants and to higher transaction costs.

- ***Confusion About What Merits a Suspicious Activity Report in the ITIN Loan Market.*** Work history and income for ITIN borrowers is, more often than not,

> documented through jobs held under false social security numbers. Though the use of the false social security numbers is not meant for accessing the credit of another or defrauding the original number holder, it is identity theft nonetheless. An increasing number of financial institutions are moving into the ITIN loan business, but there are still no solid answers to regulatory questions around offering the loans.

Despite the regulatory concerns discussed above, a number of financial institutions have found ways to successfully serve unbanked immigrants. Many of the largest financial institutions are accepting a variety of foreign-issued identification to open accounts, and banks are expanding offerings of international money transfers outside of the traditional bank wire. However, for continued marketplace expansion of these product and service offerings, more effort is needed to address regulatory concerns in the marketplace.

Conclusion

The major topics addressed in this study, community partnerships, financial education, and alternative banking and credit approaches, are all important to meet the financial service needs of low-income immigrant communities. The financial institutions that have been most successful in reaching low-income immigrants have taken aspects of all the strategies and bundled them into a broader immigrant banking approach. Though engaging in one activity may reap some benefit, financial institutions interested in a long-term relationship with immigrant communities must consider adopting multiple strategies.

Regulatory and policy challenges have been a surmountable barrier but it is unpredictable how policies and regulations may evolve in the future. Concerns regarding possible substantial fines and particular scrutiny for financial institutions serving foreign nationals are very real in this regulatory environment. In addition to more general concerns, banks currently are awaiting more detailed guidance from regulators regarding providing loans to undocumented immigrants based on the ITIN. The results of such guidance could have important impacts both on the market viability of offering such products and on their consumer appeal.

This paper provides a starting point to discuss the future of integrating our low-income immigrant communities into the financial service mainstream. It is important to think about answers to regulatory and policy questions. It is also important to consider how successful strategies can be expanded in the market place and what new approaches might be used to reach low-income immigrants who remain skeptical of engaging in mainstream financial services.

Appendix A:

Profiles of Successful Immigrant Banking Initiatives

There are many successful models that incorporate the strategies discussed in this report. The strategies range from coalitions to empower consumers and improve financial product and service offerings to market-based profitable initiatives. Though many of the market practices profiled in this section have not made the transition from niche to mainstream market practices, they provide solid evidence that it is possible to provide financial services to low-income immigrants in a consumer-friendly and profitable way.

Using Coalitions to Impact Financial Service Offerings

The New Alliance Task Force

The New Alliance Task Force (NATF) is an example of a successful effort that has lead to improved financial products and services for the Latin American immigrant community. The NATF was started in Chicago in 2003 by the FDIC Community Affairs Program and the Consulate General of Mexico. Currently there are NATFs in Austin, Des Moines, Los Angeles, and New York City, with task forces forming in Boston, Atlanta, and North Carolina. Chicago's NATF was the first to form and is now viewed as a completed effort because of its many successes in improving the banking environment in Chicago for low-income immigrant communities. The Chicago task force had four working groups that provided guidance and launched initiatives to support financial education, bank products and services, mortgage products, and social projects to benefit Chicago's large Mexican immigrant community. Participants in the task forces include banks, private mortgage insurance companies, secondary market companies, and community-based organizations.

Major projects and initiatives of the Chicago NATF include:

- Held meetings to address banks' questions and concerns around accepting alternative forms of identification—such as the Mexican *matrícula consular* card—under the rules of the USA PATRIOT Act. In 2004, participant banks opened over 50,000 new accounts for Latin American Immigrants using alternate forms of ID. Deposits in these accounts totaled over $100 million, with an average balance of $2000.[30]

- Pioneered the creation of ITIN mortgage products for taxpayers without social security numbers. NATF banks have made more than 650 ITIN mortgages. NATF's model product, the New Alliance Model Loan Product, was based on successful loan products used by community banks in Chicago and Milwaukee. It allows banks to consider alternative forms of credit, such as references from utility companies or the applicant's priest. Mortgagees are required to complete a

[30] Tesher 2005 and Federal Deposit Insurance Corporation, 2005.

Homebuyer Education Program.[31] At least 10 Illinois banks now make ITIN loans.[32]

- As part of a grassroots effort to implement Mexican President Fox and President Bush's joint initiative, the Partnership for Prosperity, the NATF has worked to heighten awareness of the need for innovative, low-cost remittance products. Fifteen of the 40 participant banks in Chicago offer such products, and the NATF is working to provide regulatory guidance and information on the market to increase participation.[33]

Working with the NATF has allowed organizations and financial institutions to share information, knowledge, and resources and to pilot new initiatives. Additionally, it provides networking opportunities for further partnerships outside the work of the NATF.

The Chicago CRA Coalition

The Chicago CRA Coalition, convened by the not-for-profit Woodstock Institute, is a broad-based coalition of more than 40 organizations that work with financial institutions to increase access to affordable financial products and services in lower-income communities throughout Illinois. Many of these organizations represent Latin American immigrant constituents, but the coalition works to improve access for all low-income and minority residents.

Every year, the Woodstock Institute sponsors a forum for Coalition members to discuss financial access problems facing their constituents. At this forum, members identify the banks with whom they would like to meet and target issues for discussion. Woodstock staff arrange the meetings with banks and community organizations use the meetings to educate the banks and advocate for their clients' needs. The Coalition's collective resources enable it to make demands on financial institutions. Recently, for example, Coalition members were concerned about New-York based JP Morgan Chase's acquisition of Chicago-based Bank One. In Spring 2004, the Coalition negotiated a six-year Memorandum of Understanding with JP Morgan Chase for the Chicago region. This MOU—the first of its kind—sets strong lending, investment, and service goals that are oriented towards the needs of low-income and minority families. [34]

[31] Federal Reserve Bank of Chicago & The Brookings Institution Center on Urban and Metropolitan Policy, 2004.
[32] Daniels, 2005, page 1.
[33] Frias, 2005 (Quarterly Meeting of the New Alliance Task Force in Chicago, Illinois).
[34] Woodstock Institute, 2005.

Financial Education Strategies

Financial Links for Low-Income People (FLLIP) Coalition

Convened by the Sargent Shriver National Center on Poverty Law, FLLIP is a statewide coalition of banks, credit unions, advocates, government agencies, bank regulators, adult educators, private industry, and sponsors of Individual Development Account (IDA) programs. [35] The Coalition has developed a financial education curriculum, which they teach in train-the-trainer workshops for community organizations.

Federal Reserve Bank of Chicago's Money$mart Advisory Council (MAC)

MAC is a coalition of community, financial, government, and educational organizations working on improving financial education and access to financial products and services. Every year, the Money Smart Advisory Council holds Money Smart Week in Chicago and Detroit. In 2005, Chicago's Money Smart Week had more than 200 free educational activities carried out by over 60 local community groups, businesses, schools, and non-profit organizations.[36] Over 30 of the activities were conducted in Spanish.

Building Banking Connections: New Iowans Center (Muscatine, Iowa) and Consumer Credit Counseling Service (Atlanta, Georgia)

Recognizing that Latin American immigrant community members tend to be stretched for time, often working multiple jobs while raising their families and learning a new culture, the New Iowans Center began incorporating financial education into the ESL and citizenship classes already attended by newcomers. Multiple local banks donate their bilingual staff to the initiative in a collaborative rotating model, so that the ESL and citizenship students have a chance to make a personal connection with more than one bank and learn about the services of a variety of institutions. The approach emphasizes consumers' choices from the outset, provides an opportunity for bank staff and community members to get to know one another, begins the relationship-building key to banking newcomers, and works out well for the banks, allowing them to overcome the initial suspicion they often face from community members when they approach potential new customers individually. Bank staff also notes the importance of getting outside the branch to begin the process of financial education and relationship-building.

Based on the same recognition of time constraints in immigrant community members' lives—as well as the understanding that newcomers may not initially see the value of

[35] Sargent Shriver National Center on Poverty Law.
[36] Federal Reserve Bank of Chicago, 2005.

financial education without previous exposure—Consumer Credit Counseling Service in Atlanta began regularly visiting day labor waiting sites in a local shopping plaza parking lot and at a labor support center. “We provide financial education to day laborers while they wait for work,” says Hispanic Outreach Coordinator Beatriz Juliao Mauersberg. “They may not have a lot of extra time in their day, but they have to wait there for a job, so it’s a perfect opportunity to have an initial conversation about finances and opportunities.” Once the personal connection is established, and the basics of the topic are introduced, many of the workers later visit Consumer Credit Counseling Service’s office for more information.

High School Bank Branch: Mitchell Bank (Milwaukee, Wisconsin)

“The idea came from the students,” said Mitchell Bank President James Maloney of the bank location in South Division High School, a few blocks from the bank’s main branch. The bank had held a community meeting to gain perspective on community needs from local parishes, school representatives, and social service organizations. “The students felt they needed it because many work in the school’s co-op program where they have apprenticeship jobs during a part of the day. So they had paychecks but no bank accounts. They were paying extra to cash their checks and not able to save their money.”

According to Maloney, just over 70% of the school’s population is Latino, including a significant undocumented population.

The bank agreed to work with the school to develop the branch with one condition: it needed to be a full-service branch—not just a school learning project for students. The branch is a full-service branch subject to all regulations and disclosures of other branches and is supervised during its hours of operation (3 days/week, 4-5 hours/day) by a bank officer (rather than the school).

Twelve students run the branch, establishing its by-laws, electing a board of directors, and holding officer positions. They operate the bank, cash checks, make deposits, establish budgets, set goals, and develop marketing programs targeted toward students and parents.

After five years of operation, the branch has proven both successful and sustainable. Its high point of deposits thus far has been $850,000 in deposits, and it has opened approximately 625 accounts to date – mostly for individuals who had never had an account before, including students, parents, and staff.

Perhaps even more importantly, the student bankers essentially serve as ambassadors to the Latin American immigrant community at large. They provide financial education at their school and make presentations to a wide range of parent and community groups. The initiative also helps the bank develop credibility and overcome distrust from parents and community members. Parents have learned they can send their remittances through the school branch. Mitchell Bank has now become *the* Latin American immigrant bank for the area, and face-to-face transactions have quadrupled at the main branch, three and a half blocks away.

Worksite Banking and Financial Education: Security Savings Bank Solid Ground (Garden City, Kansas)

Security Savings opened a branch inside Garden City's Tyson meatpacking plant in 2002. The branch is staffed by fully bilingual associates (Spanish, Vietnamese, and English) who serve the plant's 3,300 employees. The bank works closely with plant managers, who serve on the project's advisory board, to match their services and products to employees' needs. The branch's operating hours (11am to 6 pm) covers the shift change and break times for both the early and late shift.

Security Savings offers two check-cashing ATMs in a secured environment in the plant, not open to the public, where any employee can cash their Tyson check. The employee endorses the check, the machine takes a picture of the individual, and then it dispenses the cash. Garden Region president, Blake Waters, says the check-cashing service helps serve as a bridge to other banking services. "Of course, the whole idea is that you help get them out of that habit and help them become account holders," says Waters. "That's where the financial education comes in."

At Tyson, every new hire attends a financial education workshop as part of their orientation. The short workshop covers how to open a checking account, how to establish a credit history, basic bank products and services, and what to start thinking about if you want to buy a home. Bank staff is available if employees want additional one-on-one education.

The bank extends its financial education into the local schools as well, operating a children's banking program in 13 schools in the county. The fourth- and fifth-grade bankers—a majority of whom are Latino—open accounts, elect a board, and run the branch. The school program opens 1,000 to 1,200 accounts per school year and is growing every year. "What we're doing is instilling a sense of trust in the U.S. banking system," says Waters. "Not only instilling trust, but these efforts also help bridge the gap between cultures, because we're making a valid attempt to reach out and communicate to them in their language."

Other local banks and a credit union have begun starting school banking programs, too. "One that used to just show up and offer candy is now starting a school branch project," Waters said. "We're happy that our competitors are seeing value in this."

Making Basic Financial Services Immigrant-Friendly

Remittance Products as a Bridge to Banking and Cross-Selling Services: Commercial Federal Bank (Omaha, Nebraska, and Denver, Colorado)

Latin American and Caribbean immigrants now send more than $40 billion home to their countries of origin annually, according to the Inter-American Development Bank. At the same time, between 40 and 75 percent of those individuals – depending on their country of origin – do not hold bank accounts, according to the Pew Hispanic Center.

With that in mind, Commercial Federal Bank's Director of Latino Markets, Laura Castro de Cortés set out to develop remittance products that would provide a bridge to banking – tailor made with features to appeal to the needs of potential customers – and designed to save customers money. The bank's primary remittance product, the *Rápido* card, created an account for the sender with a secondary remittance account attached. At the time the card was developed, many banks were simply issuing dual ATM cards to customers, who could send one card to a family member. Knowing the hassles many recipients faced when their card – issued in the name of the sender – was eaten by an ATM, Commercial Federal issued the recipients' ATM cards in their own name. The bank also designed the product so that the sender could choose how much to load into the secondary account. In this way, the recipient did not have access to the sender's entire account, limiting problems of miscommunication or abuse. Finally, Commercial Federal set the daily withdrawal limit at $300 to limit the losses that come with frequently stolen cards in Mexico.

"We're always considering carefully the specific needs of our customers," says Castro de Cortés. "You can't just take your standard products, translate the materials, and offer them to the community. You have to listen to what people want! When we established services in a meatpacking plant, for example, we designed a special ATM that could be hosed down and that was really fast to accommodate short break times."

Eventually, the bank developed a second remittance product as well, designed to serve as another option for those not yet comfortable with the idea of opening an account. Called *VanComFed* ("Go with ComFed"), the product allowed individuals to send money home without opening an account.

Castro de Cortés also pointed to the importance of targeted marketing, "We did marketing in a very specific way. I would go on all the talk-shows. We used very local media, lots of radio, but TV and print, too." For advertising, she said, "The actors we chose had accents from Chihuahua because the majority of the market in Denver was from Chihuahua. So it was very tailored marketing."

The efforts paid off, and according to Castro de Cortés, market analysis showed that "we doubled our Latino market share in the Denver area in a one-year period [2003-2004]. We were the only bank in the Denver area that gained market share – all other major banks lost Latino market share during that period."

Storefront Banking and Cross-Selling Services: BankCherokee (St. Paul, Minnesota)

BankCherokee in St. Paul, Minnesota, launched an outside-the-branch strategy in 1994 by opening a new branch in El Mercado, a popular store among Latin American immigrants. Located only a mile from the main branch in one of the area's largest Latino neighborhoods, the branch in El Mercado takes up a corner of the store and can be entered directly from the outside or through a door inside the store.

"The regular bank branch can be so intimidating," said Bill Patient, CRA and Compliance Officer for BankCherokee. In El Mercado, "people are right there in the market, so it's much less intimidating to get them in the door – and that's the challenge, as you know. For all kinds of reasons, people don't want to walk through the bank door. They're fearful for all kinds of reasons."

The first thing BankCherokee did in opening the new branch was to hire additional staff fluent in Spanish, so that "potential customers would see people who look like them and speak their language," said Patient. "That was absolutely critical."

In addition to choosing a location that would provide a comfortable introduction to the bank, BankCherokee offers a number of cross-selling services to create other bridges to their financial services through interactions that build familiarity with the bank and its staff. Bus passes and bus cards are a popular item, as is their provision of DHL 8½ x 11 international shipping envelopes. The Spanish-speaking tellers assist clients so that they feel certain that the address is correct and the package will arrive safely. The bank calls DHL to pick up any outgoing envelopes for the day.

"We also offer Western Union transfers for people who don't yet have accounts," said Patient, who mentioned that the bank is also working on developing alternatives to Western Union for non-account holders. The bank has another remittance product for account holders utilizing ACH transfers to Mexican banks, but the product requires that the recipient have a bank account. "Obviously Western Union is expensive, and I'd love to offer another option," he said.

Consumer Lending Approaches[37]

El Banco de Nuestra Comunidad (Atlanta, Georgia), The Latino Community Credit Union (Durham, North Carolina), Mitchell Bank (Milwaukee, Wisconsin), and Neighborhood Credit Union (Dallas, Texas)

Small consumer loans can be viewed as a first step to overcoming a major barrier to accessing credit: lack of any experience or history using credit. These four financial institutions have approached small loans first as a credit-building tool. The chart on the following page provides a snapshot of consumer loan products.

In most of these institutions, small secured loans are the first step towards establishing a credit history. El Banco de Neuestra Comunidad views their business as a continuum of consumer involvement in formal financial services. They first offer customers transactional services, such as check cashing, to meet immediate needs. Then, they offer financial education to teach customers about the U.S. banking system, encourage customers to open depository accounts, and finally start providing access to credit. The other programs profiled take a similar approach and generally include financial education as part of the banking relationship.

Secured credit builder loan products range in amount from $500 to $3,000. They tend to have a loan term of one to three years and are secured in two ways. For customers with savings, the financial institution holds the savings equivalent to the loan amount in a certificate of deposit or savings account for the loan term. For customers without savings, some of the institutions will make a loan and hold the loan amount until the customer has repaid the balance. Neighborhood Credit Union also offers a secured credit card. Once customers have successfully made payments on one or two credit builder loans, they have a credit score and can qualify for other loan products. They may even qualify for mainstream credit products, such as retailer issued credit cards.

Unsecured credit or credit secured by an automobile title is also available. To access unsecured credit, customers must generally have a credit score and an employment and home rental history. Latino Community Credit Union found that at least one year of stable residence increased the likelihood of repayment on unsecured loans. They have a default rate of approximately 2 percent on unsecured loans, which are capped at $3,000, and a 1.5 percent default on auto secured loans, which also have a maximum of $3,000. Neighborhood Credit Union offers unsecured loans with a $2,000 maximum. Mitchell Bank holds a $2 million portfolio of small consumer loans and has a flexible underwriting process. The bank considers each application individually and is very careful about making unsecured loans.

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[37] Information in this section is based on interviews with: George Hodges and Guillermo Zuniga, El Banco de Nuestra Comunidad, Jame Maloney, Mitchell Bank, Mary Aguirre, Neighborhood Credit Union and Vicky Garcia of the Latino Community Credit Union. Data was also obtained from loan rate chart, at http://www.cooperativalatina.org/rates/index.html (10 November, 2005).

An Overview of Consumer Loan Products

Financial Institution	Loan Product	Loan Amount and Term	Interest Rate	Underwriting Criteria
El Banco de Nuestra Communidad *Atlanta, Georgia*	Certificate of deposit or savings secured loan	$1,500 minimum, must have 80% of loan amount in a CD or savings account. 36-month maximum or term of CD	10-12 %	Proof of 2 years residence, 2 references, proof of 2 years of employment, and either 2 years of tax returns or 6 months of pay checks or bank statements, no negative credit on credit report, an account with El Banco for the previous 6 months, 12 months of utility, telephone or other bills.
	Auto Purchase Loan	60 %t of car value, up to $10,000, term between 24 and 48 months depending on the age of the vehicle.	12-15 %	Same as above plus proof of 6 months at the same address and proof of 6 months with the same employer.
Latino Community Credit Union *Durham, North Carolina*	Credit builder	$500 minimum, maximum term 24 months	6 %	No credit required. Designed to build credit. Loan secured by deposit in savings account.
	Secured Loan	$3,000 maximum, maximum term 24 months	15 %	Secured by a car that is maximum 10 years old, maximum 120,000 miles. Loan up to $1,000. Will lend up to $500 without credit history. Up to $3,000 if there is at least 6 months of positive credit history reported to a credit bureau.
	Unsecured loan	$500-$3,000, maximum term 24 months	18 %	1 year of proven employment history, at least 12 months of rent history and a beacon score
	Auto Purchase Loan	$10,000 financing with no credit history; up to $30,000 for new cars with credit history. Loan term 12-60 months	7.9-11.75 % depending on age of vehicle	Need insurance coverage. Up to $10,000 without beacon score, but require 2 months of utility bills and 12 months of employment history. Will loan up to $30,000 with a beacon score in addition to above criteria.
Mitchell Bank *Milwaukee, Wisconsin*	Consumer loan	Most loans between $1,500 and $,2000, with 1 to 2-year term	12-15 %	Credit assessed on an individual basis. Will take a car as collateral for a loan. Will not approve a loan for greater than 10 % of household income.
	Auto Purchase Loan	Finance 80 % of car purchase	Same rate as general bank rate	Credit assessed on an individual basis.
Neighborhood Credit Union *Dallas, Texas*	Credit builder loan	Between $500 and $1,000, 6-month to 1-year term	8.99 %	No credit assessment, designed to help people repair bad credit or build credit. Loan amount is held by the credit union until final payment.
	Share secured/CD secured loan	$500 minimum, no max. Loans secured with savings account or CD	3 % deposit rate	No credit required. Loan is secured by deposit in credit union.
	Share secured credit card	$500 minimum for the credit card limit	16.9 %	No credit required. Credit card is secured by deposit in credit union.
	Signature Loan	$2,000 maximum	10.9 to 15.9 %	Six months to one year of successful payment history. Rate based on credit score. Usually require successful completion of two or three of the credit builder products to qualify for an unsecured loan.

Immigrant customers use unsecured credit for a variety of purposes. Common unsecured loan uses include sending money to family members abroad for home construction costs or to cover family medical bills. Immigrants also freqauently use unsecured loans to purchase an inexpensive vehicle, pay for medical expenditures in the United States, or to make rent or utility deposits.

The final category of loans, auto loans, is in high demand. Three of these four financial institutions offer auto loans. In Texas, it is difficult to provide auto loans to undocumented immigrants because they do not qualify to have a driver's license. With legal changes in North Carolina, the Latino Community Credit Union will soon encounter the same barrier. The credit union is currently exploring options for immigrants to obtain long-term auto insurance with an international driver's license.

The need for programs such as the ones profiled here clearly extends beyond the Latin American immigrant community. The Neighborhood Credit Union and the Latino Community Credit Union report that non-Latin American immigrants are attracted to their programs. The Neighborhood Credit Union teaches financial education at ESL classes offered through the Dallas Independent School District and through that program has reached out successfully to immigrants from Latin America, Nigeria, and Vietnam. The Latino Community Credit Union has recently found Kenyan immigrants using financial services at their institution. Different immigrant communities come with varying levels of education and sophistication about the financial services system in the United States, but they all face similar barriers tied to lack of access to credit and credit building products.

Home Mortgage Loans for Low-income Immigrants[38]

ITIN Home Mortgage Lending Programs
Jefferson Bank (San Antonio, Texas), Latino Community Credit Union (Durham, North Carolina), Mitchell Bank (Milwaukee, Wisconsin), and TexasBank (Fort Worth, Texas)

These four financial institutions a range of ITIN-based home mortgage loans. The loan products include short-term balloon and adjustable rate (ARM) mortgages as well as longer-term fixed rate and balloon loans. The chart on the following page provides detailed information about each of the programs.

Each of the profiled programs was launched in response to a direct community need and was developed through a relationship with the target community. TexasBank launched their ITIN loan program after being approached by a realtor looking for a loan option that was more affordable than the existing market products. The realtor worked with the bank to design an effective program in line with the unique needs and characteristics of the target community. Jefferson Bank launched its program as a result of outreach into the communities around bank branches. Both Jefferson Bank and Mitchell Bank found a large unserved community in the banks' market areas and developed programs to make credit accessible to them. The Latino Community Credit Union, by its nature, is both a financial institution and a community-based organization and also developed its program in response to community needs.

[38] Information in this section is based on interviews with Mary Sanchez, Jefferson Bank; Jack Maloney, Mitchell Bank; Vicky Garcia, Latino Community Credit Union, and Joe Barnhart, Texas Bank.

An Overview of Home Mortgage Loan Products

Financial Institution	Loan Amount, Term, and Rate	Down Payment and Fees	Default Rate	Underwriting Criteria
Jefferson Bank *San Antonio, Texas*	Average loan $65,000; 15-year fixed or 30/15 balloon at 9%.	5%, accept gifts, unseasoned savings, and down payment assistance. Bank pays most fees. Customer pays title insurance, prepaid property taxes and homeowners insurance.	4-year loan history, 200 loans, no foreclosures and few delinquencies	Will accept credit score in the high 500's. Alternative credit also assessed. Four credit lines required and a two-year work history. 50 % maximum for total debt ratio. No PMI required.
Latino Community Credit Union *Durham, North Carolina*	Maximum amount between $200,000 and $359,650; 2-year ARM amortized up to 30 years; current APR between 6.71% and 8.23% depending on down payment amount. 8 percentage point maximum rate increase over the life of the loan.	10%, 5% and 0% down payment options available. 1% origination fee. Other fees range between $1,130 and $1,790 in addition to prepaid taxes and insurance.	1.5-year loan history, 0 delinquencies.	Underwriting standards differ based on down payment amount. Borrowers must provide a minimum out of pocket contribution of $1,500 toward down payment and loan costs. 10% down payment option requires 12-month work, rental and credit payment history. 2 alternative lines of credit with 6 month history, and 1 year of tax returns. 5% down requires an 18-month work history in addition to the other requirements. 0% down requires 24 months of work, rental and credit history and 2 years of tax returns, and 2 alternative lines of credit for 6 months each. No PMI required.
Mitchell Bank *Milwaukee, Wisconsin*	3-year balloon loan at 7.25%	5% down payment. Gifts and unseasoned savings permitted. No seller contribution allowed for down payment.	Few to no delinquencies. 60% of ITIN home mortgage loans made through this program.	2 years of tax returns. 1 year history of 3 alternative credit lines. Remittance payments to family abroad may be considered. Letters of reference from landlords, utility or phone companies or a community leader may be used in assessing applicants with insufficient credit history. Debt to income ratio maximum is 28/36 if there is a 25% or more increase in housing payment and 32/40 if increase is lower. No PMI required.
	30-year fixed at 5.8% under Wisconsin Housing and Economic Development Authority program. For low to moderate income first time home buyers. Maximum loan between $200,000 and $250,000.	5% minimum down payment, with the lesser of $500 or 1% of purchase price from borrower's own funds. Loan fees average $800.	2 year loan history, 60-70 loans closed, with 7-8 closing per month. 40% of ITIN home mortgage loans through this program.	3 years of tax returns. FICO score or alternative credit method may be used. Alternative credit may include 12 months of housing payments, a 12 month pattern of savings equal to half of the total loan, tax, and insurance payments, or 12 months of remittance payments to family members abroad. A letter from a landlord documenting 12 months of on-time payments may be used, but must be supplemented by another alternative credit reference. PMI required for loans with less than 20% down payment.
TexasBank *Fort Worth, Texas*	Average loan, $55,000-$60,000; 15-year fixed rate at 9.5%; option to reduce rate to 8.5% after 2 years of on-time payments.	10%, accept gifts, unseasoned savings and down payment assistance. $27 application fee. No origination, processing or survey fees. $295 appraisal fee and other customary fees.	5 year loan history, 600 loans, three foreclosures.	4 years of rental history, with preference for same residence and three credit letters. There is an emphasis on housing stability and a 2-year work history required. Will accept as much as a 30/60 ratio depending on rental payment history and other factors to avoid payment shock. The higher debt to income ratio is designed to accommodate pooled income resources and undocumented income. No PMI required.

Though these and many other ITIN loan programs have met with considerable market success, they are limited because there is no secondary market for ITIN loans. With the exception of the Mitchell Bank loan program through the Wisconsin Housing and Economic Development Authority, which has now been discontinued, all the loans must be held in portfolio. Holding the loans in portfolio benefits the customer in that there may be more flexibility in underwriting and in accommodating temporary crises. However, it also impacts the availability of such loans on the market and leads to higher interest rates on the loans and the prevalence of products with short-term fixed rates.

Appendix B:

Regulations Linked to Banking Foreign Nationals

Legislative Background for Key Banking Regulations: BSA and USA PATRIOT Act

Originally enacted in 1970, the Bank Secrecy Act"[39] (BSA) requires that the Secretary of the Treasury promulgate regulations regarding recordkeeping and reporting by "financial institutions" of certain types of transactions deemed to have a "high degree of usefulness in criminal, tax or regulatory investigations or proceedings, or in the conduct of intelligence or counterintelligence activities, including analysis, to protect against international terrorism." "Financial institution," as defined in the BSA, includes a wide variety of businesses in the financial services area, including banks, broker dealers in securities and money services businesses such as money transmitters and check cashers. Banks are defined to include the various types of banking organizations such as commercial banks, private banks and thrift institutions such as savings banks.[40] Money services businesses include check cashers (other than a person who does not cash checks in an amount greater than $1,000 in currency or monetary or other instruments for any person on any day in one or more transactions) and money transmitters.[41] The BSA is implemented primarily by regulation. BSA regulations include: (i) cash reporting and recordkeeping requirements, (ii) maintenance of anti-money laundering compliance programs, (iii) customer identification requirements, and (iv) suspicious activity reporting.

The USA PATRIOT Act passed shortly after the events of September 11, 2001, and was designed to address concerns tied to terrorism. Some of the requirements on banks and other financial institutions resulting from USA PATRIOT Act and the BSA are discussed below.[42]

Cash Transaction Reporting and Recordkeeping

Under the cash transaction reporting and recordkeeping requirements, banks and money services businesses (among others) must report large cash transactions to the U.S. Treasury Department.[43] A reportable cash transaction is one in which one or more cash-in or cash-out transaction(s) aggregating over $10,000 comes to or from the bank by or on behalf of one person on the same business day. A financial institution may not issue or sell a bank check or draft, cashier's check, money order or traveler's check for $3,000 or more in currency without obtaining information and verifying identity of the customer.[44] In either circumstance, a form must be completed and the individual presenting the transaction must provide his or her name and address, and the bank must verify and

[39] Currency and Foreign Transactions Reporting Act (Bank Secrecy Act), 31 U.S.C. 5311, et seq., and 12 U.S.C. 1818(s), 1829(b) and 1951-1959 (1970).
[40] 31 CFR 103.11(c).
[41] 31 CFR 103.11(uu).
[42] Pub. L. No. 107-56.
[43] 31 CFR 103.22.
[44] 31 CFR 103.29.

record the name and address, and record the identity, account number and the social security number or taxpayer identification number, if any, of any person or entity on whose behalf the transaction was conducted. Verification of identity is made by review of a document known in the community as a means of identification when cashing checks for nondepositors.[45] The transaction itself is not a violation of these rules, but the failure to report such a transaction in the manner prescribed does constitute a violation.

AML Compliance Program

Banks[46] and money services businesses[47] among others are required to implement and maintain anti-money laundering compliance programs. There are four components to this requirement: (i) adoption of internal polices, procedures and controls aimed at compliance with the BSA; (ii) designation of a compliance officer charged with day-to-day responsibility for the compliance program; (iii) implementation of an ongoing employee training program; and (iv) initiation of an independent audit function to test these programs. The USA PATRIOT Act requires regulations to be promulgated requiring every financial institution on the statutory list of financial institutions to be subject to the AML compliance program requirement, and the Treasury Department continues to finalize these requirements for those businesses.

Customer Identification Program

The USA PATRIOT Act[48] mandates that regulations be promulgated requiring all financial institutions on the statutory list to implement a customer identification program (CIP) when establishing an account at a covered financial institution, such as a bank, in order to obtain information concerning, and to verify the identity of, any person seeking to open an account, to the extent reasonable and practicable. An "Account" in this context is not just a deposit account, but includes other ongoing customer relationships such as a bank loan to the customer. The CIP requirement is risk-based: the regulations do not spell out everything that must be in the CIP, so long as certain items are covered. Money services businesses are not subject to the CIP requirement, but if a transaction exceeds $10,000, then identification would be required in accordance with the cash reporting requirements described above.

New customers are required to provide the following information: (i) name; (ii) date of birth, for an individual; (iii) address; and (iv) identification number, which, for a U.S. person, is a taxpayer identification number (social security number) and, for a non-U.S.

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[45] 31 CFR 103.28.
[46] 31 CFR 103.120.
[47] 31 CFR 103.125.
[48] Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act) Act of 2001, Pub. L. 107-56 (codified in scattered sections of U.S.C.) (2001).

person, is one or more of the following: a taxpayer identification number, passport number and country of issuance, alien identification card number, or number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard. The Mexican consulate issues an identification document called a *matrícula consular*, which is a picture identification with security features added over the last few years to make it less vulnerable to alteration. Under its CIP, the bank determines what forms of identification are acceptable, and the regulation permits the use of foreign government-issued identification, such as the Mexican *matrícula consular,* if the bank wishes to do so.[49]

Currently, final regulations are in place requiring that banking institutions,[50] mutual funds, broker-dealers, futures commission merchants, and introducing brokers establish a CIP.

Suspicious Activity Reporting

Banks[51] and money services businesses[52] currently are among those businesses subject to the requirements for reporting suspicious transactions. The general reporting standard is essentially the same for all businesses: the amount involved in the transaction aggregates at least $5,000 ($2,000 for money services businesses) and the financial institution knows, suspects or has reason to suspect that the transaction: (i) involves funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirements; *or* (ii) is designed to evade any requirements of the BSA and its regulations; *or* (iii) has no business or apparent lawful purpose; *or (*iv) is not the sort of transaction in which the particular customer would normally be expected to engage and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

The Suspicious Activity Report (SAR) must be filed within 30 days after initial detection of facts that may constitute the basis for filing. The fact that a SAR was filed cannot be revealed to anyone involved in the transaction being reported. The activity need not involve currency to be deemed suspicious, and different businesses may have different indicia of suspiciousness.

Once a SAR is filed, the bank does not have to terminate the relationship. The financial institution should take a risk-based approach to the issue to decide whether to close the account. Sometimes, law enforcement may request that the account be kept open so that the activity through the account could be observed. The financial institution's policies and procedures should specify the criteria for determining when an account should be

[49] 68 Fed. Reg. 25090, 25098, May 9, 2003, available at http://www.fincen.gov/326bankfinal.pdf.
[50] 31 CFR 103.121.
[51] 31 CFR 103.28.
[52] 31 CFR 103.20.

closed after a SAR has been filed on a transaction involving the account or the account's owner(s).

Bank Provision of Check Cashing and Cash Remittance Services to Non-customers

While banks usually provide most of their banking services to their accountholders, banks may provide banking services to non-customers, such as cashing checks or accepting cash for transfer to a third party, thus providing a way for those unable to afford a bank account the ability to use the local bank for necessary check cashing and remittance services without paying high fees at a local money services business.

Check Cashing

A bank may cash checks for a customer who is a non-accountholder who is employed by an accountholder. For example, a company may draw its payroll checks on an account at a particular bank, and the company could arrange for its employees to be able to cash the payroll check at that bank for a fee. The bank also might request identification from the customer regardless of whether it involves cash in an amount that would trigger one or more of the reporting, recordkeeping or identification requirements discussed above, and it is within its rights to do so.

In other instances, a bank may have branches in certain neighborhoods where it will offer fee-based check cashing or cash remittance services to non-accountholders in order to reach out to a large number of the "unbanked" that might live in the area. The bank may ask for identification prior to cashing the check and has to comply with the cash reporting regulations described above, with some heightened requirements particular to non-accountholders.

Cash Remittance Services

A bank also may undertake a funds transfer for a non-accountholder paying in cash for such transfer. While some banks offer programs to encourage immigrants to use a bank for their remittance activities, these programs often require opening a regular or limited purpose bank account from which to facilitate the transfers. However, a bank is free to offer such remittance services to non-accountholders.

Federal regulations require that banks record and retain specific records when conducting a funds transfer for a customer, whether an accountholder or not, if the transfer is in the amount of $3,000 or more.[53] When the bank is originating the funds transfer for its

[53] 31 CFR 103.33(e). The regulations govern the bank's role as originating bank, intermediary bank and beneficiary bank. This section will focus exclusively on the bank's role as originating bank for these transfers, as it is this role most likely to played by a bank with respect to an in-person cash remittance transaction with a customer who is not an accountholder.

customer, then the bank must obtain and retain the name and address of the customer, the amount of the payment order, the execution date of the payment order, any payment instructions received from the customer, the identity of the beneficiary's bank, and as many of the following items as are received with the payment order from the customer: the name and address of the beneficiary, the account number of the beneficiary, and any other specific identifier of the beneficiary.

If the originator is not an established customer,[54] in addition to obtaining and retaining the information required above, if the transfer is requested in person, prior to accepting the order, the bank must verify the identity of the customer in the same manner as described above. If the bank accepts the order for the transfer, then it must record the name and address, the type of identification reviewed, the number of the identification document (*e.g.*, driver's license), as well as record the customer's social security or employer identification number or, if none, alien identification number or passport number and country of issuance, or a notation in the record of the lack thereof.

Home Mortgage Lending

Beyond the broader regulatory requirements relating to equal credit opportunity, housing discrimination, and immigration control initiatives—and apart from the CIP rules discussed above—mortgage lending to Latin American immigrants does not present significant regulatory compliance issues. The current loan examination guidelines used by federal regulators make no distinction between home loans made to U.S. citizens and those made to foreign nationals. In the context of determining credit quality of a home loan or compliance with lending regulations generally, the citizenship, nationality or immigration status of borrowers are not considered to be relevant. There are, however, several practical aspects of home mortgage lending to immigrants in general that will be of special interest in this context. Although these do not typically present regulatory compliance challenges, they often present *de facto* barriers to banks serving this market.

Special Documentation Requirements

Home loans to foreign nationals will often involve a "layered" underwriting process by the lending institution, requiring documentation of available funds of the borrower from multiple non-traditional sources, including the borrower's family members, employers, community housing programs and local government housing authorities, as well as "soft" second mortgages for down payments. In such cases, the underwriting process must

[54] An "established customer" is defined as a "person with an account with the financial institution, including a loan account or deposit or other asset account, or a person with respect to which the financial institution has obtained and maintains on file the person's name and address, as well as taxpayer identification number (*e.g.*, social security or employer identification number) or, if none, alien identification number or passport number and country of issuance, and to which the financial institution provides financial services relying on that information." 31 CFR 103.11(l).
[55] The AML manual can be accessed at http://www.ffiec.gov/pdf/bsamanual.pdf.

normally be performed manually, as the documentation requirements for these loans are not compatible with typical automated loan underwriting software applications. Because of the increased volume and complexity of the documentation involved and the increased opportunity for human error, particular care is required in documenting these loans, to avoid adverse classification of the loan—not because of any underlying credit risk—but simply on the grounds of inadequate or incomplete loan documentation.

No Effective Secondary Market for ITIN Loans

For "ITIN loans," that is, loans made to persons on the basis of an ITIN identification and without a social security number, a special problem is presented because there is currently no widespread secondary market for ITIN loans. The principal secondary market providers, Fannie Mae and Freddie Mac currently do not accept ITIN loans unless the borrower can demonstrate that he or she is residing in the U.S. lawfully, whether through a visa permit or other proof of lawful immigration status. Fannie Mae does offer several programs intended to serve non-U.S. citizens, provided that borrowers can demonstrate their lawful residency status.

Some lenders have set aside a portion of their resources to provide ITIN loans on a portfolio basis, where the originating institution continues to hold the mortgage; there are also a few special local and regional programs that provide limited resources for the purchase of ITIN loans. Freddie Mac is reportedly reviewing its current policies in this regard and may possibly provide some liquidity for ITIN loans in the future. However, as practical matter, institutions originating ITIN loans in the current market will generally expect to continue to hold them indefinitely, which may keep many lenders from entering this market.

Mortgage Insurance

HUD and FHA do not currently insure mortgage loans to borrowers who cannot demonstrate lawful residency status. MGIC, a private mortgage insurer, has, however, been pursuing this market aggressively with its new "Building A Life In America" program. Under this program, MGIC employs non-traditional credit underwriting guidelines tailored to the special circumstances of immigrants. This program is aimed specifically at ITIN loans and may significantly reduce the credit risk aspect of ITIN lending.

Recent Agency Interpretive Guidance

Money Laundering

On June 30, 2005, the banking regulators—OCC, OTS, NCUA, FRB and FDIC, with assistance from the Conference of State Bank Supervisors and the Treasury Department's

Financial Crimes Enforcement Network (FinCEN)—issued an anti-money laundering compliance manual for bank examiners.[55]

In issuing the manual, the banking agencies and FinCEN noted that it was intended to be a compilation of previously issued guidance and is intended to provide consistency in AML examinations. The manual reiterates the need for banks to institute risk-based policies and procedures to comply with relevant laws and regulations. The manual is divided into an overview of an effective AML compliance program, and specific examination procedures reviewing compliance with relevant laws and regulations, including specific guidance on unique issues arising in such areas as private banking, trust and management services, electronic payment services, and accounts for nonbank financial institutions.

With respect to banks maintaining accounts for nonbank financial institutions, such as money services businesses, the manual notes that the nature of the business might pose specific money laundering risks, and that it was essential under those circumstances to make a careful risk-based assessment of the customer.[56] For nonbank financial institutions, relevant risk factors may include the types of products offered by the business, the locations and markets the business serves, anticipated account activity, and the purpose of the account. Banks are urged to consider risk mitigation policies and procedures such as ensuring that it accurately identifies such pertinent relationships, assesses the risks posed by such relationships, conducts adequate and ongoing due diligence when necessary with respect to these relationships, and ensures that these relationships are appropriately incorporated into the bank's suspicious transaction reporting procedures.[57]

Banking Services Provided to Money Services Businesses

Money services businesses may also be required to register[58] with the Treasury Department and may be subject to licensing, regulation and supervision in many states. Banks recently have been reluctant to maintain accounts for money services businesses, as a result of concern over the extent to which they must ensure that the money services businesses meet their own BSA requirements.

In response to these concerns, FinCEN and the banking regulators issued additional guidance on April 26, 2005, regarding banking services provided to money services businesses.[59] The guidance notes that these businesses provide important services and that these customers should be assessed on a risk-focused basis, as all potential customers should be. The guidance also indicates that "[w]hile banking organizations are expected to manage risk associated with all accounts, including money services business accounts,

[56] AML Manual, page 20.
[57] AML Manual, page 157-159.
[58] 31CFR 103.41.
[59] Available at http://www.fincen.gov/guidance04262005.pdf and http://www.fincen.gov/fincenadv04262005.pdf.

banking organizations will not be held responsible for their customers' compliance with the Bank Secrecy Act and other applicable federal and state laws and regulations."[60] This advisory also provides guidance to money services businesses and the information and documentation they should be prepared to provide to their bank as part of opening and maintaining an account.[61]

[60] *See* Interagency Guidance at http://www.fincen.gov/guidance04262005.pdf, page 1.
[61] *See* FinCEN guidance at http://www.fincen.gov/fincenadv04262005.pdf.

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