

Prepared Remarks of Charles Kamasaki
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at:

Passage to Banking:
Linking Immigrants to Mainstream Financial Services
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Introduction

My thanks to the Federal Reserve Bank of New York for the opportunity to speak to you today, and especially to Sabrina Su of the Bank's Office of Regional and Community Affairs for her hard work, professionalism, and courtesy in putting this event together.

I am also thankful to the audience. I've been working on immigration and financial services – and the intersection of these issues – for a long time. Until very recently, I think I could've counted on one hand the number of people who had any interest in these issues. So it's very gratifying to see so many of you here this morning.

As you may know, the National Council of La Raza is the nation's largest Hispanic civil rights organization. Some of you may be familiar with our research, policy analysis, and advocacy work, but may not know that we also represent 300 affiliates: local, community-based organizations working in education, housing, workforce development, and social services. So I hope to bring both a policy and a program perspective to this discussion.

I know that you already have a number of NCLR publications in your binder. If you're interested in getting more information on Latinos, I encourage you to log onto our website at www.nclr.org. At least in theory, you should be able to find the publications you need by clicking on either the publications icon or on an issue icon; our financial services work is conducted under the auspices of our Economic Mobility Initiative, so that's one place you may want to look.

I am compelled to start with some caveats. I've been asked to address issues facing all immigrants, but my professional experience obviously is mainly with the Hispanic population. In addition, it's terribly difficult to generalize about groups as diverse as the immigrant population, so please forgive me in advance for any oversimplifications.

In my remarks today, I'll start with a discussion of the financial service needs of immigrants, then identify some key barriers that immigrants face in seeking mainstream financial services, and conclude with some specific strategies and recommendations.

Needs

At one level, immigrants have the same need for financial services as everyone else: **deposit services** to safeguard cash; **investment services** to save for retirement and their children's education, and to buy a home; and **insurance services** to protect against the unexpected.

But at another level, I would argue that, if anything, immigrants have a greater need to access mainstream financial institutions than their native-born peers. One basic reason is to **avoid being victimized by crime**. For example, immigrants who don't have access to deposit accounts must carry around a lot of cash, a phenomenon that hasn't escaped the attention of criminals, many of whom also know that immigrants may be less likely than others to report crimes.

The practice of **remittances** has gotten a lot of attention recently. It's estimated that Latin American immigrants alone send over \$8 billion back to their countries of origin every year. The cost of sending these remittances historically has been very high – as much as \$20 or 10% per transaction. There's a lot of money that could be saved if these immigrants used mainstream institutions and products.

And, if you think about it, there are **other reasons why immigrants need access to financial services** even more than the native-born. Research shows that immigrants, particularly Hispanic immigrants, are much less likely to have health insurance than their native-born peers. Similarly, immigrants are less likely to have friends and family to help with big-ticket items, such as a home purchase or seed capital to start a business. If you can't count on insurance, friends, or family to pay a big bill, or to put a downpayment on a home, or to purchase inventory or equipment for a start-up firm, you need your own source of capital. That means immigrants, perhaps more than the native-born, have an acute need to the savings and investment services provided by mainstream financial institutions.

Despite these needs, I believe it's clear that immigrants overall have much less access to financial services than their native-born counterparts. Why? In part because they face significant barriers.

Barriers

In discussing barriers to financial services, I will focus on three sets of issues – socioeconomic status; cultural issues, in other words what immigrants bring to the country; and access issues, or what happens to immigrants once they get here.

With respect to **socioeconomic status**, as a group immigrants have lower incomes and less assets, and are younger and less educated than their native-born peers. Each of these factors tends to be associated with lower levels of use of basic financial services. However, while the data in this area are incomplete, I feel safe in asserting that it is almost certainly the case that immigrants have much less access to financial services than the native-born, at every income, age, and education level.

So, socioeconomic status is not a complete explanation for disparities. Another explanation is culture. And, while I believe it's important not to overstate its importance, I do believe that **culture matters**.

- For some immigrants, **religious beliefs** may complicate access to certain financial products. Later on today, you'll hear more about these issues from our panelist Wafiq Fannoun, from the Northside Residents Redevelopment Council in Minneapolis.
- So-called "**old country knowledge**" is a barrier for other groups. Research by the Fannie Mae Foundation shows that bank failures and the absence of safeguards such as deposit insurance in their countries of origin make some immigrants suspicious of financial institutions.
- Latino immigrants tend to be financially **very conservative and risk averse**, as shown by research from the Department of the Treasury and others. And maybe this is not an irrational posture given their socioeconomic status.
- And, almost by definition, most immigrants **lack a tradition** of using U.S. financial services. Think about how most of us learned about banks, insurance, or mutual funds – we were introduced by family or through the workplace.

Although these factors are very real, my personal belief is that they pale in comparison to the barriers based on real experiences faced by people once they get here, which leads to **access issues** that deny or deter immigrants' use of financial services. I've grouped these into two categories: "traditional" access barriers that affect all low-income folks; and "immigrant-specific" issues.

Traditional barriers include:

- **Physical access** problems: lack of branches in immigrant neighborhoods, inconvenient hours, and so forth make it more difficult for many immigrants to bank.
- In addition certain **specific practices**, such as high fees for accounts and returned checks, are a real issue. In this connection, some analyses show that, for many low-income immigrant families who write few checks but are vulnerable to layoffs and other emergencies, check-cashing may actually be a cheaper alternative to banks.
- The **digital divide** is an increasing problem as more transactions take place online. Many of us take for granted our workplace access to the Internet, something that's not available if one works in construction, a hotel or restaurant, or a garment factory as many immigrants.

Later this morning our panelist Michael Chan, from the Northeast Community Federal Credit Union in San Francisco, will address these issues in more depth.

In addition to these traditional barriers, there are many "immigrant-specific" issues, including:

- Questions around **immigration status and identification documents**, and just as important, great confusion among financial institutions about what the law actually requires. Luckily, later today you'll hear from the Fed's James Hodgetts and Diana Mejia of the Wind of the Spirit Immigrant Resource Center of Morristown about ways to respond to these requirements.

- Many immigrants also have practices that, while entirely rational, fall outside of mainstream models. These **nontraditional practices** include:
 - ✓ *Lack of credit*, even though in many cases this reflects a very safe and responsible form of cash management.
 - ✓ *Different perspectives* on debt. Many immigrants who work in seasonal jobs pay off their debts entirely when they're working, and accumulate debt when they're not. Many of them might wonder why, even when they're completely debt free, they are rated as less creditworthy than comparable folks with huge debts, but who are able to make small, regular payments.
- Good, old-fashioned **discrimination** is still a problem. Immigrants experience everything from being made to feel unwelcome, to being steered toward inferior products in too many financial institutions.
- And, of course, for many immigrants **language issues** are a concern, because too few financial institutions take the trouble to market their services to these consumers in languages they can understand.

In sum, there are significant barriers that constrain immigrants' access to financial services. I'd like to use my remaining time to discuss some *strategies and recommendations* for overcoming these barriers.

Strategies

My basic message is this – all of us need to **get serious** about removing these barriers. For *financial institutions*, we see lots of pilot programs, tests, and experiments targeting immigrants or certain ethnic groups as a “special market.” What I don't see is many institutions that have integrated these practices into their core business.

- For example, how many financial institutions have trained their staff – from the management to the front lines – about what documents people actually need to open accounts?
- Similarly, how many financial institutions have developed new products, such as remittance products or loans that can be paid on a seasonal basis, to respond to the needs of their immigrant consumers?

If you want more information about these strategies, you'll hear later today from Rebeca Vargas of CitiGroup's Hispanic Marketing Initiative.

I also think that *community-based advocacy and service organizations* need to get serious about these issues. While we know that the issue of “**financial literacy**” is getting lots of attention, to be honest many existing financial education efforts don't work. I think the reasons are obvious. Think of your own experience, and how and when you began to save. One of my responsibilities

as part of NCLR's senior management is to review the effectiveness of our benefits plan. A few years ago we looked at our staff's contributions to our pension plan, and an unmistakable pattern emerged. Almost irrespective of income or age, when people got married and especially when they started having kids, requests for financial planning information went up, and pension contributions increased.

So one lesson we've taken from that experience is that information is most likely to be effective when people are **motivated** to seek that information. In addition, we think that information is most likely to be acted on when folks are not just motivated, but also have the **opportunity and capacity** to save and invest. Based on this analysis, NCLR is exploring two promising models.

- First, we want to link financial literacy efforts and savings tools such as Individual Development Accounts (IDAs) to our very successful **homeownership education and counseling** programs.
- Second, we want to link such efforts to **taxpayer assistance programs**. Some of you may be familiar with the fact that recent tax cut legislation included substantial increases in credits for working families. We hope to expand immigrant access to taxpayer assistance, and encourage recipients of these credits to begin and/or enhance savings and investment efforts.

There's also a lot more that *regulators and policy-makers* can do; for example:

- The Fed itself, in concert with other regulators, can do more to educate financial institutions about identification issues. Events like this are a good start.
- Congress and the Administration can do more, including:
 - ✓ Expanding and enhancing IDA programs
 - ✓ Increasing funding for the Treasury's Low Income Taxpayer Assistance program

Over the longer term, I would encourage new and different strategies for financial education efforts. One strategy might be to **focus on young people**. Some of our society's most successful behavior modification efforts, such as anti-smoking campaigns or environmental awareness, have used kids as advocates within their families. In this context, this strategy is likely to be even more successful, since immigrant kids already often serve as translators and mediators between their parents and the society at large. This might be the kind of effort that the industry might lead, in cooperation with government and community organizations.

The barriers hindering immigrants' access to financial services are formidable. But I am convinced they can be overcome. Doing so, however, will require a much more serious commitment by all of us – industry, community organizations, regulators, and policy-makers.

Thank you for your attention, and I would be happy to answer any questions you have.

