IMPROVING ACCESS TO THE U.S. BANKING SYSTEM AMONG RECENT LATIN AMERICAN IMMIGRANTS

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Introduction

Last fall, the Multilateral Investment Fund (MIF) asked the University of Massachusetts Center for Public Policy and Administration to undertake a research project on ways to improve Latin American immigrants' access to the U.S. banking system.[1] The request was precipitated by MIF-sponsored research showing that while U.S. banks and credit unions have made major inroads into the remittance market, usually offering a significantly cheaper alternative to traditional wire transfer, most Latin American immigrants continue to use private money transfers services to send money home.[2] The research identified a number of factors that discouraged Latin American immigrants from establishing accounts at a depository institution, the most important of which was their legal status and lack of documentation, but also included fears about minimum balance requirements, high fees, and a general distrust of banks.[3]

We conducted preliminary interviews in October and November of federal financial regulators, advocacy groups, and industry experts to identify key issues affecting Latin American immigrants' access to the U.S. banking system and to solicit the names of banks and credit unions that seemed to be successful in expanding services to the Latin American immigrant community. Extant literature related to the "unbanked" and Latin American immigrant access to financial services was also reviewed. Based on these preliminary interviews and research, we developed a written survey covering areas such as marketing, bilingual services, product design, fee structure, financial education, customer identification and verification, compliance with anti-money laundering and terrorist financing requirements, and the Community Reinvestment Act. Ten institutions were included in our written survey.[4] In December and January, we conducted field visits of nine institutions as well. Follow-up interviews and survey data were collected in January and February. Case studies were developed and best practices identified based on the survey results, interviews with regulators and community groups, and existing literature.

Consistent with the MIF's interest, the report focuses on *access* issues related to *recent* Latin American immigrants, i.e., those in the country for less than ten years. Thus it gives particular attention to best practices suited for a customer base that may lack

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[1] References to the U.S. banking system include all *federally* insured depository institutions including, banks, thrifts, and credit unions, whether federal or state chartered.
[2] Billions in Motion: Latino Immigrants, Remittances and Banking (Pew Hispanic Center and the MIF Nov. 2002)
[3] Ibid, at pp. 13 - 16
[4] The list of institutions surveyed for this report should in now way be viewed as exclusive. We came across scores of banks and credit unions in communities throughout the country making major commitments to expand services to Latin American immigrants. However, given finite resources, we had to limit the number of institutions surveyed, and believe their efforts are representative of the many other banks and credit unions serving Latin American immigrant communities.

conventional documentation ordinarily available to U.S. citizens, have limited English speaking ability, a cultural distrust of banking institutions, and minimal experience in dealing with the U.S. banking system. It also concentrates on access issues relevant to individuals with lower income and education levels, given census and other data showing that recent Latin American immigrants lag behind their native born counterparts in these areas. In this regard, the report draws heavily upon extant research regarding "unbanked" populations, whether or not it was specific to the Latin American immigrant community.

Anti-money laundering and terrorist financing issues are discussed at length in a separate section because of their integral relationship to banks and credit unions' ability to successfully serve the Latin American immigrant market; because they are driven as much by statutory and regulatory requirements as they are by good business practice; and because they appear to be perceived as a primary obstacle to access, both by Latin American immigrants as well as some financial institutions. The report concludes that under existing proposed regulations, anti-money laundering and terrorist financing compliance issues can be successfully balanced with programs designed to bring Latin American immigrants into the financial mainstream.

I would like to thank everyone who agreed to be interviewed in the preparation of this report. The complete list of contacts is included in the appendix. I would also like to express my deep appreciation to my research assistant, Ellen Hatch, for her tireless contributions to this project.

Overview

Today there are 35.3 million Hispanics in the United States; one in eight Americans is Latino. We are more than one in ten workers, one in five students, and are a vital part of the economies of states, cities, and communities across the country. ...Latinos now have a buying power that exceeds $450 billion annually."

Raul Yzaguirre
President
National Council of La Raza
Before the U.S. Senate Committee on Banking, Housing and Urban Affairs
February 6, 2002

Ten years ago, community advocacy groups bemoaned the scant interest being paid by major financial institutions in serving low-income communities. Bank branch closings in economically distressed inner cities and predominantly minority neighborhoods were all too commonplace. Community banks and credit unions struggled to fill the void, but alternative service providers quickly seized the business opportunity presented by these underserved neighborhoods. From 1993 to 1999, the number of check cashing outlets in this country doubled, and payday lending grew from 300 to 8,000 stores. By the year 2000, 11,000 check cashing outlets generated $60 billion in business annually.[5]

Today, it is a much different story. It seems not a week passes by without another press story heralding the efforts of major financial institutions to expand services to minority communities. The industry's premiere trade journal, *The American Banker,* has run an entire series on the efforts of major banks to develop multi-cultural marketing programs and compete head on with alternative service providers in cultivating minorities for their customer base.[6]

For the Latin American immigrant community, this new marketing effort seems to be driven by a number of factors. First and foremost is the dramatic and growing market potential of this community. U.S. census data show that in 2000, 14.5 million individuals born in Latin American lived in the U.S., a marked increase from the 1.8 million in 1970. Mexico alone counted for 7.8 million of the total.[7] Some studies project Hispanic buying power to reach 800 billion dollars by the year 2007.[8] Second, new research – much of it sponsored by the Multi-Lateral Investment Fund – has documented the tremendous volume of remittance dollars being sent to Latin American countries by immigrants living in this country – and the lucrative fees being charged by traditional money transfer services. The ability to offer lower cost remittance products has enticed many banks and

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[5] *Community Developments* (Office of the Comptroller of the Currency Community Affairs Newsletter Summer 2001) p. 9 (citing the Fannie Mae Foundation)
[6] Big Banks Angling for More Minority Depositors (American Banker January 30, 2003) (first in the series)
[7] Coming to America: A Profile of the Nation's Foreign Born (US Census Bureau Feb. 2002)
[8] "Ethnic Minorities, Financial Services and the Web (Celent Communications January 28, 2003)

credit unions into the remittance field. [9] Finally, depository institutions have received a boost from the Federal Government. In a March 22, 2002 report to Presidents Fox and Bush, the Partnership for Prosperity – a public/private coalition led by the U.S. Treasury and State Departments to foster economic growth in Mexico – committed to "lower the cost to Mexicans working in the United States of sending money home by, in part, encouraging more banks to market aggressively the opening of accounts to Mexican workers and offer remittance features in their accounts."[10]

Wells Fargo was among the first to offer a remittance product – *InterCuenta Express* in 1997, which was followed by the more recent *Dinero al Instante.* Within the last two years, Bank of America has begun offering its SafeSend card; Citibank has rolled out two new remittance products, C2it and Money Card. Officials from all three banks were interviewed for this report, and all three reported that their interest in the Latin American immigrant community extended far beyond providing remittance services. Their strategy is long-term. Their goal is to build stable account relationships with this new customer base, and eventually cross-sell other products such as mortgages and consumer loans. "We believe remittances can be an important tool in bringing previously unbanked Latin American immigrants into the financial mainstream," says Jane Hennessey, a senior vice president in Wells Fargo's International Group. Anecdotal evidence suggests that these banks are successfully converting remittance purchasers into regular bank customers.

Community banks and credit unions are also focused on remittances as a marketing tool. Ken Guenther, President of the Independent Community Bankers Association (ICBA), calls remittances the "link to the Hispanic customer base that can eventually lead to normalized banking relationships involving other products and services." His trade association is working on a new remittance product that will cost $9 and be distributed through Travelex, which boasts a growing base of 600 outlets in Mexico alone. The World Council of Credit Unions has developed the International Remittance Network (IRNet), an electronic funds network that allows its members to transfer funds to 41 countries, including Mexico and others in Latin America, and thousands of distribution points. In 2001 – it's first full year of operation – IRNet was used to transfer $4.2 million. Last year, that number jumped to $50 million.[11]

In addition, a growing number of depository institutions, large and small, have simply started offering dual ATM cards with accounts opened in the U.S. The account-holder sends one of the cards to the beneficiary in Mexico or other Latin American country, and money in the account can be accessed at an ATM in that country for the cost of the network fee. Finally, once the Federal Reserve completes extension of its Automated

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[9] A January, 2002 study by Manuel Orozco of the Inter-American Dialogue prepared for the MIF showed, for instance, that in 2001 it cost from $15 to $24 to send a $300 remittance with Western Union. Though high, the cost still represented a significant decline from 1999, do doubt because of increased competition from banks and credit unions. A February 11, 2003 analysis by the Greenlining Institute shows Western Union charging from $22.02 to $36.70, including both the fee as well as the spread on the foreign exchange rate. Major bank remittance charges ranged from $14.76 to $20.20

[10] Partnership for Prosperity, Report to President Vincent Fox and George W. Bush, Monterrey Mexico, March 22, 2002. p. 3

[11] "Wire Transfer Service" (Credit Union Journal Feb. 24, 2003)

Clearing House (ACH) system to Mexico, and eventually other Latin American countries, electronic funds transfer will be accomplished at very low cost, just as they are now to Canada. The Federal Reserve hopes to begin testing transfers to Mexico under the system in the third or fourth quarter of this year.

As competition and technological developments drive profit margins down on remittance products, will banks and credit unions remain committed to the Latin American immigrant community? And notwithstanding their increasingly intense marketing efforts to this community, will they be able to overcome cultural distrust and fears about documentation, product complexity, and fees to make significant inroads in that 43% of Latin American immigrants who are currently "unbanked." U.S. Treasurer of the United States, Rosario Marin, thinks that they can. "Latin Americans coming to this country want to fully participate and contribute to the U.S. economy. Having a bank account helps them achieve those goals." Treasurer Marin believes that financial education and outreach will be key to banks' efforts. She speaks from experience. She came to the US from Mexico when she was 14. She is now the highest-ranking Mexican American woman serving in the Bush administration, a financial expert, whose signature appears on new U.S. currency.

Charles Kamasaki, Senior Vice President of the National Council of La Raza believes financial institutions efforts to "bank" Latin American immigrants will have staying power, because of the tremendous economic power this community represents. "It's being driven by business motives, and because of that, it will last."

Anti-Money Laundering and Terrorist Financing Requirements

Interviews with financial institution officials, community activists and others involved in efforts to bring more recent Latin American immigrants into regulated, federally insured depository institutions cite requirements under the Bank Secrecy Act (BSA) [12] and last year's USA PATRIOT Act [13] as potential obstacles to their efforts. The problem is two fold. For banks, particularly smaller community banks, the fear is that acceptance of foreign issued documents, provision of remittance services, and/or maintenance of a customer base that includes a large number of foreign immigrants will target their institutions for heightened scrutiny by federal regulatory officials and require significant and costly enhancements to their BSA compliance programs.

For immigrants, many believe (wrongly) that a social security number – generally only available to US citizens and foreign nationals with work permits – is required to open an account. Alternatively, they fear that regulated banks will share information about their identities with immigration officials. Thus they prefer more expensive alternative money service businesses (MSBs), because, in general, MSBs do not require identification documentation unless a transaction exceeds $3,000.[14] As will be subsequently discussed, the growing number of banks willing to accept foreign government issued ID and Individual Taxpayer Identification Numbers (ITINs) in lieu of Social Security numbers has gone a long way to address these fears and bring thousands of "unbanked" immigrants into the financial mainstream. Education efforts by banks, credit unions and community groups regarding banks reporting obligations to federal officials has also helped ease concerns about identification information being shared with immigration officials,[15] while these education efforts also emphasize that having a bank account in no way "legalizes" the status of any immigrant.

Interviews with federal officials as well as analysis of the BSA compliance practices of the growing number of banks and credit unions which are successfully serving the recent Latin American immigrant community suggest that BSA/USA PATRIOT Act requirements need not be an impediment to "banking" unbanked immigrants so long as appropriate procedures are followed. James F. Sloan, Director of the Financial Crimes Enforcement Network (FINCEN) expressed concern in an interview that there is a perception by some that federal regulatory and law enforcement officials are biased

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[12] 31 USC Sections 5311-5330 and 12 USC Sections 1818(s), 1829(b) and 1951-1959

[13] Uniting and Strengthening American by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (hereinafter referred to as the "Patriot Act"), P.L. 107-56

[14] Money Service Businesses (MSBs) such as wire transfer firms must obtain and verify customer identity and record beneficiary information for funds transfers of more than $3,000.

[15] Federally regulated depository institutions, while keeping extensive records, generally are only required to notify federal officials of individual customer transactions where an activity is "suspicious" or involves a cash transaction in excess of $10,000. See, e.g., Bank Secrecy Act/Anti-Money Laundering Comptrollers Handbook, Comptroller of the Currency (September 2000)

against banks or other financial service providers serving particular ethnic groups or immigrant communities. "It's simply not the case, and we are actively engaged in community outreach to address that issue." [16]

The following sections discuss, in more detail, "best practices" in connection with offering remittance products; the proposed regulations implementing Section 326 of the Patriot Act, which require financial institutions to establish minimum procedures for identifying and verifying the identity of customers seeking to open an account; analysis of the use of Mexican "Matricula Consular" and ITINs as acceptable identification documents under the proposed Section 326 regulations; and finally, a discussion of immigration-related concerns in connection with banks and credit unions' use of those documents.

I "Best Practices" in Providing Remittance Products

As recent studies document[17] and data collected in connection with this report confirm, U.S. banks and credit unions are entering the remittance market at a rapid rate. Though much of the recent expansion has focused on the Mexican market, many banks and credit unions are providing services to other Latin American countries as well.[18] As previously mentioned, one method being increasingly utilized by banks and credit unions to remit money involves the issuance of dual debit cards when an immigrant opens an account, one of which can be sent to the remittance beneficiary in Mexico or other Latin American country and used to access funds in the US account. Several of the larger U.S. banks have also become money transfer agents through arrangements with Mexican banks. In addition, traditional wire transfer continues to be pervasively used.

In addition to these more common forms of remittance products, some banks are offering the creation of special savings accounts that are periodically swept into the bank accounts of beneficiaries in Latin America. Another, relatively new form of remittance --stored value cards (SVCs) which can be "reloaded" using cash, credit or debit cards – seem to be gaining popularity. [19] Like wire and third party transfers, SVCs can usually be purchased from banks by both account and non-account holders.

Bank regulatory officials generally feel that the entry of regulated depository institutions into the remittance area can have positive enforcement benefits in terms of bringing these transactions into a more transparent environment. Federally insured depository institutions are subject to extensive federal regulation and routine examinations by highly trained bank regulatory staff. Banks, in general, are subject to much more extensive

[16] Interview with James F. Sloan, Director, Financial Crimes Enforcement Network (January 13, 2003)
[17] See, e.g., "Changes in Atmosphere? Increase of Remittances, price decline, but new challenges (Manuel Orozco, Inter-American Dialogue Aug 8, 2002)
[18] A number of institutions surveyed provided wire transfers throughout Latin America, though third party transfer arrangements at this point seem to be confined primarily to Mexico.
[19] See, e.g., "Prepaid Cards Get a New Target Market: Unbanked" (American Banker January 10, 2003

record keeping and reporting requirements, as well as customer identification and verification rules. As a consequence, to the extent international money transfers are carried out by account holders in regulated institutions, greater scrutiny may be given to the originators and recipients of such transactions and more extensive records kept, enhancing the ability of federal officials to monitor such transactions and distinguish legitimate transfers from those conducted for money laundering or terrorist financing purposes.

Though there are enforcement benefits to be derived from regulated depository institutions' expansion into the remittance area, such institutions should offer remittance products with the understanding that the products can pose high risks – risks which must be addressed with the adoption of appropriate due diligence, monitoring and other controls. It must be acknowledged that these products can allow for quick, inexpensive transmission of funds across borders and depending on the method of transmission, provide an uncertain audit trail. Purchasers of remittance products such as SVCs and the beneficiaries of remittances do not necessarily have to have accounts[20] and thus may not be subject to the same identification documentation requirements as account holders. In addition, beneficiaries of debit cards and SVCs may pass these instruments on to others, in which case there is be no record of the identity of the remittance beneficiary.

Below is a list of "best practices" gleaned from interviews with federal bank regulators and industry experts to address risks associated with remittances. In presenting this list, it should be understood that federal regulators are still gaining experience with new forms of remittances such as dual ATM cards and SVCs. As a consequence, approaches to addressing risks associated with these products are still developing and will no doubt evolve over time.

Due Diligence on Purchasers and Beneficiaries of Remittance Products: Steps should be taken to appropriately identify and verify the identities of purchasers of remittance products (the originators) *and* the beneficiaries, even though identification information is only legally required for individuals either opening accounts or remitting funds in excess of $3,000.[21] Ideally, the same type identification documents would be obtained for any purchaser and beneficiary of a remittance product as is required for customers opening accounts, though this may not be practicable for remittance beneficiaries in remote, non-US locations. (Identification documentation requirements for opening accounts are discussed in the following section.) At a minimum, however, bank staff should seek to determine the name and address of the beneficiary, his/her relationship to the purchaser of the remittance and, where dual access to an account will be provided, the nature and frequency of the beneficiary's use of the account. Account holders should also be asked to promptly update beneficiary profiles. Many banks surveyed already formally or informally conduct this type of due diligence, as a matter of sound business practices, as well as for BSA compliance purposes.

[20] Customer identification and documentation requirements apply to all account-holders under the USA Patriot Act. In general, they do not apply to so-called "one off" transactions by non-account holders unless the transaction exceeds $3,000.
[21] See Section 326 of the USA Patriot Act; 31 CFR 103.33.

Bank regulators also express a strong preference for banks to control the mailing of debit cards and SVCs, or the distribution of funds, again, as a way to check the identify of the beneficiary, and guard against theft or misuse of the card. Finally, both purchasers and beneficiaries of remittances must be checked against the OFAC list as well as any other list of known or suspected terrorists circulated by an agency of the federal government, as referenced under Section 326 of the USA PATRIOT Act.

Card and Transaction Limits: Daily and/or monthly limits should be established for remittance products. Virtually all banks surveyed established some type of limits. Daily limits frequently ranged from $200 to $1,000, though could go as high as $3,000 for wire transfers. Monthly limits ranged from $1,000 to $3,500. Some banks also put a limit on the maximum balance that could be maintained in an account with multiple access, or an SVC.

Monitoring: Institutions should institute monitoring programs to identify unusual activity. For instance, these programs should be able to flag and analyze remittances that exceed a certain dollar amount over a month's time, accounts with unusually large balances, and accounts where withdrawals are made at unusual locations, or in locations that pose very high risks for money laundering, such as many locations in Colombia. They should also be able to identify, evaluate and monitor remittances with the same beneficiary or address.

II. Account Opening Requirements

A. Section 326 of the USA PATRIOT Act

On October 26, 2001, President Bush signed into law the USA PATRIOT Act, PL 107-56. Passed in the aftermath of the September 11 terrorist attacks, the USA PATRIOT Act was designed to give federal law enforcement and financial regulatory officials important new tools in the fight against terrorist financing and money laundering. These included several changes to the Currency and Foreign Transactions Act, more commonly known as the Bank Secrecy Act, originally enacted to prevent banks and other financial service providers from being used as conduits or repositories to hide the transfer or deposit of funds derived from criminal activity. Among the many new provisions added to the BSA by the USA PATRIOT Act was a requirement under Section 326 that the Secretary of the Treasury prescribe regulations setting forth minimum standards for the identification and verification of persons who apply to open an account at a financial institution.

On July 23, 2002, the Treasury Department published jointly with federal financial regulators[22] proposed rules implementing Section 326. [23] The proposed rules apply not

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[22] The rules applying to banks, savings associations and credit unions were issued jointly with three bureaus of the Treasury: the Financial Crimes Enforcement Network (FinCEN), the Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision; The Board of Governors of the Federal Reserve System (FRB); the Federal Deposit Insurance Corporation (FDIC); and the National Credit Union Administration (NCUA). The Treasury Department also issued joint Section 326 rules with the

only to federally insured depository institutions, but securities brokers and dealers, mutual funds, futures commission merchants, and introducing brokers, as well as credit unions, private banks and trust companies that are not generally subject to federal regulation. Consistent with the prescriptions of Section 326, the proposed regulations require financial institutions to establish a customer identification program (CIP) for all new accounts, regardless of whether the customer is a US citizen or foreign national. The CIP must be in writing and approved by the institution's board of directors or committee of the board, and must specific procedures in the following areas:

1) **Identification**: The CIP must specify the type of identifying information required to open an account. For US citizens, the institution must obtain at a minimum, the name, address, taxpayer identification number and date of birth. For non-US citizens, the draft regulations give the institution discretion as to whether it will require a taxpayer identification number. Other acceptable documents include "a passport number and country of issuance; an alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard." The summary of the proposed Section 326 regulations contained on the Treasury Department's website[24], as well as Treasury's Report to Congress on Section 326[25] state that "the proposed regulations do not discourage bank acceptance of the "Matricula Consular" identity card that is being issued by the Mexican government to immigrants.

2) **Verification:** The CIP must establish procedures for verifying the identity of customers seeking to open an account. The procedures must be risk-based and take place within a reasonable period of time after the account is opened. While setting minimum standards, the proposed rules provide institutions with flexibility regarding how verification will be accomplished. Ultimately, the institution is responsible for "exercising reasonable efforts to identify customers" that enable it to "form a reasonable belief that it knows each customer's true identify."[26]

3) **Record keeping:** Institutions must maintain records of the information used to obtain and verify a customer's name, address, and other identifying information. Where discrepancies have been found, there must also be a record of how the discrepancy was resolved.

Securities and Exchange Commission and the Commodity Futures Trading Commission that apply to accounts with securities and futures firms. Though separate rules were issued to accommodate differences in business models, they are designed to ensure that minimum requirements be standardized across the various financial industry segments.

[23] Federal Register, Vol. 67, No. 141, Page 48290 (July 23, 2002) (Hereinafter referred to as the "Draft Section 326 Regulations")

[24] www.Treas.gov

[25] See, "A Report to Congress in Accordance with Section 326(b) of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA Patriot Act) (Submitted by the Department of the Treasury October 21, 2002) p. 16 (Hereinafter referred to as the "Treasury Section 326 Report"

[26] Ibid. at 17

4) **Comparison with Government Lists:** Institutions must check the names of customers against any list of known or suspected terrorists or terrorist organizations circulated by the Federal government. Procedures must also be in place for responding when a customer is determined to be on such a list.

5) **Account Refusal/Closing:** Institutions must develop procedures for determining when an account should not be opened, or when an existing account should be closed, as a result of an inability to verify the identity of a customer. The procedures must also specify the circumstances under which an account may be opened pending verification, and whether a suspicious activity report (SAR) should be filed.

B. Best Practices in Account Opening Procedures[27]

Virtually all institutions surveyed exceed the minimum requirements of the proposed Section 326 regulations by requiring at least two forms of documentation, typically a Matricula Consular for Mexican immigrants, or comparable form of government issued photo ID for other Latin American immigrants[28], and an Individual Taxpayer Identification Number (ITIN). Several surveyed institutions required both a primary (photo) ID (the Matricula Consular being one acceptable form), and a secondary ID, in addition to an ITIN. Most surveyed institutions emphatically stressed that their ability to bring recent Latin American immigrants into the banking mainstream hinged on their ability to accept non-US government identification and ITINs in lieu of a Social Security card.

Anecdotal reports associated with the increasingly widespread acceptance of the Mexican government's "Matricula Consular" bear this out. For instance, Wells Fargo estimates that it opened at least 60,000 new accounts with the Matricula Consular since November, 2001, when it first started accepting the card. The Mexican Consulate in Chicago has undertaken an aggressive campaign to "bank" unbanked Mexican immigrants, utilizing "mobile units" which consist of consulate representatives, banking officials and an IRS Acceptance Agent for ITINs. Last year, the Mexican Consulate partnered with several financial institutions serving Mexican immigrants, including North Shore Bank in Milwaukee and Banco Popular in Chicago. The unit was physically set up in the offices of the financial institution. Using a "one-stop" approach, the units simultaneously accepted and processed applications for Matricula Consular, ITINs, and a bank account.

[27] Consistent with the subject of this report, the discussion of best practices under Section 326 is confined to identification documentation issues associated with recent Latin American immigrants. For a complete discussion of "best practices" associated with the draft Section 326 regulations, see, e.g., the American Bankers Association "Industry Resource Guide: Identification and Verification of Accountholders" January 2002.

[28] On September 16, 2002 the Guatemalan government began issuing the Guatemalan Consular Identification Card. Wells Fargo, among others, has begun accepting the card as one form of identification for opening an account.. Other Latin American countries are rumored to be following suit.

Thousands of immigrants turned out for these mobile units,[29] and more are planned for next year.[30]

According to an article published in the March 2002 issue of "Enlace" the monthly newsletter of the Consulate General of Mexico in Chicago, more than a half-a-million Matriculas were issued nationwide in 2001. During this time, the Chicago Consulate issued 92,688 matricula. Carlos Sada, the Consul General of Mexico in Chicago, has estimated that as many as 25% of those applying for the Matricula do so to obtain access to bank accounts.[31] All evidence indicates that mainstream financial institutions' acceptance of the Matricula Consular and comparable forms of non-US government identification has removed a major impediment to bringing unbanked Latin American immigrants into "banked" status.

1) **The Matricula Consular**: Federal officials have not endorsed use of the Matricula, going only so far as to say that the draft Section 326 regulations do not "discourage" its use. The clear intent behind the draft Section 326 regulation is to give institutions flexibility in designing their CIP to fit their individual business operations. "Banks will differ significantly in terms of their business model, products, and customer base. We wanted to give them flexibility to design CIPs that best suited their own operations," according to David Aufhauser, General Counsel of the U.S. Treasury Department and the Department's lead in drafting the USA PATRIOT Act regulations. Aufhauser also emphasizes that ultimate responsibility resides with the institution as to whether sufficient efforts were made to form a reasonable belief that it knows each customer's true identity. Thus, in the final analysis, it is up to the institution to determine whether the Matricula Consular is a reliable form of identification for opening customer accounts.

   Advocates of the Matricula Consular seem to have a good case that the new High Security Matricula Consular (MCAS) is one of the more secure forms of identification available. Following the September 11 attacks, the Mexican government realized the enhanced need of U.S. law enforcement officials to document all persons residing within the U.S. As a consequence, Mexican officials took several steps to strengthen the security of the Matricula Consular, to assist U.S. law enforcement and to enable undocumented Mexican citizens living in the US to come out of anonymity and fully contribute to the economy without the use of false documents.

   To obtain a Matricula Consular, the applicant must present an original birth certificate, another official ID with a photo, personal information, and a document with the applicant's current address, such as a utility bill.[32] The MCAS has

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[29] See, e.g., "Banking on ID Cards" Milwaukee Sentinel, October 29, 2002
[30] Interview with Carlos Sada, Consul General of Mexico (January 9, 2003)
[31] " IDs Open Bank Doors for Mexican Immigrants" (Chicago Tribune April 21, 2002)
[32] Information provided by the Consulate General of Mexico, Sacramento. See also, "Mexico ID Like Money in the Bank" Chicago Tribune (April 21, 2002)

nearly a dozen security features designed to deter falsification.[33] These include a holographic image with hidden marks, such as the person's name appearing over the picture when viewed with a decoder; an official seal appearing over the photo that changes color in natural light; and issuance on green security paper with the Mexican seal printed in a special security pattern. The Mexican government boasts that the security standards used with the MCAS are the same as those used by the United States government in its own official documents.

To be sure, no form of identification is immune to falsification or fraudulent use. Government officials have testified before Congress about the relative ease with which US official documents can be falsified, including Social Security cards.[34] The standard under Section 326 is to verify the identify of customers "to the extent reasonable and practicable" taking into account "the types of identification available."[35] Under this standard, use of the MCAS to open accounts would seem appropriate in most cases under the draft Section 326 regulations.

Industry Bank Secrecy Act (BSA) experts who have reviewed the card have expressed comfort with banks' acceptance of it for identification documentation in appropriate circumstances. [36] Nearly forty financial institutions are accepting the card in the Midwest alone,[37] and as previously noted, a number of major banks including Citibank, Bank of America, Wells Fargo, and U.S. Bancorp now accept the card nationwide. Consumer advocacy groups express the concern that the policy of accepting Matricula Consular is not filtering down to the bank staff – the persons who are actually opening the accounts, particularly at branches where the customer service area is not predominantly Hispanic. [38] Though they welcome validation of the Matricula Consular by the leadership of major banks, they feel more needs to be done to educate bank employees, particularly at the "teller window."

Though the MCAS is gaining increasing acceptance among financial institutions, large and small, a number are still reviewing it, and some have decided against accepting it. [39] It's use is also garnering criticism from immigration control groups, as is discussed in Section III.

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[33] Id. See also "Enlace" (Publication of the Consulate General of Mexico in Chicago) (March 2002)
[34] See fn 13, p. 10, citing the Statement of Michael Robinson, Special Agent, Office of the Inspector General, Social Security Administration before the Subcommittee on Social Security, House Ways and Means Committee (May 22, 2001)
[35] Draft Section 326 Regulations, fn 11, at page 48292
[36] A Card Allows US Banks to aid Mexican Immigrants (NY Times July 11, 2002) quoting John Byrne, Senior Counsel and Compliance Officer, American Bankers Association, "The consular ID is a form of identification that the private sector finds acceptable."
[37] FDIC, Chicago Regional Office
[38] Interview with Charles Kamasaki, Senior Vice President, National Council of La Raza (February 3, 2003)
[39] See, e.g., Legal, Political Risk in Ethnic Marketing (American Banker Feb. 14., 2003)

2) **ITINS**: Social Security numbers (SSNs) generally are available only to U.S. citizens and aliens authorized by the Immigration and Naturalization Services (INS) to work in this country. In certain limited circumstances, SSNs can also be issued to aliens who do not have work permits for certain non-work purposes. The Internal Revenue Code requires all individuals to file U.S. tax returns if they have gross income subject to U.S. tax that equals or exceeds the exemption amount.[40] Non-US citizens are classified as resident and nonresident aliens.[41] No distinction is made between legal and illegal status.

For most taxpayers, the IRS uses their SSN as their tax identification number. In 1996, the IRS introduced the ITIN to facilitate voluntary compliance with federal tax laws for those who cannot obtain a SSN, including nonresident and resident aliens, their spouses, and dependents. However, because the ITIN was designed solely for tax compliance purposes, the IRS did not adopt the same rigorous documentation standards employed by the Social Security Administration for SSNs. For instance, the IRS will accept notarized documents in lieu of originals, and does not verify birth certificates with issuing agencies. Applicants do not need to appear in person, but rather may apply for an ITIN by mail or through an authorized ITIN Acceptance Agent.[42] The IRS has issued over 5 million ITINs since the program's inception, and receives over 1 million applications for ITINs each year. In the 2000 tax year, however, only 1.5 million ITINs were reflected in filed returns. [43]

The relatively low proportion of ITIN recipients filing tax returns, instances of state and local governments misusing the ITIN for issuing identification documents such as driver's licenses, as well as reports of abuse of the ITIN to facilitate refund fraud has caused the IRS to initiate a review of its ITIN program.[44] In its report to Congress on Section 326, the Treasury Department concluded that until a more reliable US government system for identifying foreign nationals could be developed, financial institutions should try to obtain ITINs for foreign nationals not eligible for a SSN at the time of account opening. The report also cautioned, however, that "because they are issued without rigorous verification, *financial institutions must avoid relying on the ITIN to verify the identity of a foreign national*." (Emphasis added) [45] The Report points out that when used in conjunction with other, more reliable forms of identification, the availability of an ITIN could "provide law enforcement with important clues in the event of an investigation" and "could be used to link various transactions together." [46] At the same time, the Report does not require that financial institutions obtain an ITIN from foreign nationals, given its limited utility and the

[40] Internal Revenue Code Section 6012
[41] Internal Revenue Code Section 7701(b)
[42] Information about the ITIN program and the application process can be found at the IRS website, www.IRS.treas.gov
[43] The Treasury Section 326 Report, at p. 23
[44] Interview with David Aufhauser, General Counsel, U.S. Treasury Department (January 12, 2003)
[45] The Treasury Section 326 Report, at p. 23
[46] Id.

fact that requiring it may not be appropriate in all circumstances, e.g., when a foreign national who does not reside in the U.S. places savings here because of the integrity of the U.S. financial system.

As previously indicated, none of the institutions surveyed for this report relied solely on an ITIN as proof of identify for new customers. Interviews with bank officials suggested that they were well aware of the ITINs limited utility. “We obtain it for tax reporting purposes. It’s not viewed as an identification document,” commented one senior bank official.[47]

Additional Observations: Survey results and interviews with bank officials suggest that institutions marketing to the Latin American immigrant community take their obligations under the Bank Secrecy Act and USA PATRIOT very seriously. Most conducted extensive due diligence regarding adherence to account opening, identification, verification and record keeping procedures. Several bank officials interviewed pointed out that their marketing strategies of community outreach, hiring bank staff from the community and relying on “word-of-mouth” to bring in new customers had important benefits from a security standpoint as well. They expressed the view that bringing in new customers who are acquainted with bank employees, or who are the friends and neighbors of other long-standing bank customers helped them to develop better knowledge of their new customers and guard against identify fraud. [48]

III Immigration Related Issues Regarding Implementation of Section 326

Notwithstanding its increasing acceptance among financial institutions, the use of foreign government issued-ID, and in particular, the Matricula Consular, is coming under criticism from immigration control groups. For instance, the Federation for American Immigration Reform (FAIR) charges on its web site that acceptance of the Matricula undermines immigration enforcement and compromises U.S. security. Congressman Tom Tancredo (R-CO), the Chairman of the Immigration Reform Caucus, has introduced legislation to prohibit federal agencies from accepting foreign government issued ID. The Center for Immigration Studies recently published an analysis of the Matricula Consular calling it a “piecemeal approach to securing an amnesty for the 3 to 5 million Mexican illegal aliens in the United States.”

Latino advocacy groups counter that the Matricula Consular is simply an identification card. It does not legalize the status of any immigrant, nor can it be used to obtain public benefits. Consistent with arguments advanced by the Mexican government, they believe that there are important law enforcement benefits to be derived from the U.S. and Mexican governments working together to secure identification so that both countries can

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[47] Interview with Yolanda Brown, Senior Vice President, Union Bank of California (Feb 4, 2003)
[48] Ibid. Interview with John Herrera, Latino Community Credit Union, (December 19, 2002)

know who is in this country. They challenge the assumption that the Matricula Consular is only for undocumented immigrants. They point out that there are many people in this country lawfully who may not have a passport or picture ID.[49] One of their allies, Cong. Ruben Hinojosa (D TX), has introduced legislation expressly authorizing financial institutions to accept the Matricula Consular as valid identification for customers opening accounts.

Bank officials and federal regulatory officials generally expressed aversion in interviews to wading into the public policy debate over immigration policy. They did, however, express universal opposition to requiring banks to check and verify the immigration status of foreign account holders. The Treasury Department's Section 326 report to Congress explained that banks could not currently verify the identity of foreign nationals by comparing the names against government databases because no such comprehensive databases exist or are available to banks. The Report concluded "Any system requiring further verification of the identity of foreign nationals by consulting with appropriate government agencies would be inappropriate given the current situation." Report, at p. 25.

The crux of the problem, according to the Treasury report, is that the U.S. government lacks a universal type of documentation for foreign nationals and central database for tracking foreign nationals residing in this country. The report points out that there are multiple categories and types of visas issued to foreign nationals. There are also a number of classes of visitors who can visit this country lawfully with no status or identification document. Thus, the report recognizes an "inherent need" to allow banks to rely on foreign documents to verify identity. It concludes that financial institutions should not be required to consult with the INS to verify the identify of foreign nationals "until there is a single database that is accessible by financial institutions and contains the relevant information needed to verify the identity of foreign nationals." Report, at p. 25

The Treasury Report also recognizes the need to balance issues associated with the use of foreign government –issued identification with the benefits of bringing "unbanked" immigrants into the financial mainstream. [50] Having a bank account provides immigrants with a safe, low-cost place to deposit their paychecks and build their savings. It eliminates the need to carry around large amounts of cash, making them less tempting targets for criminals. News articles have described how criminals target unbanked immigrants for robbery as they leave check cashing outlets. Others have cited cases of people losing their life savings in fires because they kept it hidden in their homes in cash.[51]

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[49] See, e.g., www. NCLR.org. See also, "Fact Sheet: Proposals to Preclude the Use of Foreign Identity Documents (National Immigration Law Center.)

[50] Treasury's Section 326 Report at p. 14-15

[51] See, e.g., *Credit Unions Testify Provisions of the Patriot Act could Harm Immigrants* (Credit Union Journal (Feb. 25, 2002); *Money in the Bank: Accounts Helping Wary Immigrants Park Cash Safely, Send it Home,* (Dallas Morning News Aug. 19, 2001).

Banks and credit unions can also provide a lower cost, safer venue for remitting money back home. As Treasurer of the United States Rosario Marin has pointed out[52] an increase in the level of remittances can have a significant positive influence on local economies in Latin America, and -- over the long run -- improved local economic conditions in Latin America will ameliorate incentives to immigrate to the U.S.

It would seem highly questionable whether the ability to have a bank account would materially influence an individual's decision to immigrate or remain in this country illegally. As a consequence, denying banks' the ability to serve this community might not do much to accomplish immigration control objectives. It would, however, force this population to rely on higher-cost, less-regulated financial service providers, with the resultant loss in regulatory oversight and transparency of Latin American remittances. It could also prompt retaliatory measures against U.S. government-issued identification to the detriment of U.S. citizens visiting or residing within Latin American jurisdictions.

[52] Interview with Rosario Marin (January 12, 2003)

Customer Service Issues Associated with Serving Recent Latin American Immigrants

In discussing issues associated with banks and credit unions serving recent Latin American immigrants, consumer advocates, regulators and industry experts generally separate those issues into two categories. First are issues such as identification documentation requirements, language barriers, and cultural differences that are of particular relevance to this community. Second, are issues that are generally applicable to serving the "unbanked." A survey conducted in late 2001 by Bendixen Associates of 1,000 Latin American immigrant families showed that 44% had no formal relationship with a depository institution, with the number rising to 62% for those respondents making less than $20,000 per year.[53] And unfortunately, recent census data indicates that Latin American immigrants, as a group, continue to have lower income and fewer assets, and are younger with less education than native-born residents.[54] This data is consistent with broader surveys showing that "unbanked" households tend to be over-represented among minority families with lower incomes. [55] As a consequence, the following discussion addresses both issues of particular relevance to Latin American immigrants, as well as those generally applicable to serving low-income individuals with limited experience dealing with financial institutions.

Immigration Status Issues: Latino advocacy groups generally point to immigration status and identification document requirements as threshold questions which must be resolved to successfully bring "unbanked" Latin American immigrants into banks and credit unions. Survey data of "unbanked" Latin American immigrants also show that legal status is the predominant reason why they have not established bank accounts. As previously discussed, institutions surveyed for this report agreed and seemed to be

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[53]" Survey of Remittance Senders: U.S. to Latin America," prepared for the Multilateral Investment Fund (Bendixen and Associates November/December 2001). See also, Billions in Motion: Latino Immigrants Remittances and Banking" Suro & Bendixen (Pew Hispanic Center and the Multilateral Investment Fund (November 2002) This survey of 302 Latinos living in Miami and Los Angeles in July 2002, found 43% of participants "unbanked."

[54] "Coming to America: A Profile of the Nation's Foreign Born (2000 Update) U.S. Census Bureau (February 2002) For instance, the median household income for Latin American immigrants in the U.S. is $29,400, compared to $41,400 for a native household. The poverty rate among Latin Americans is 22%, compared to 11% for the native population. Only 50% of Latin Americans have a high school education, compared to 87% for the native born population.

[55] Statistics regarding the size of the "unbanked" population range from 10 to 12 million. See, e.g., "Fostering Mainstream Financial Access," Michael H. Moskow, Chicago Fed Letter (Feb. 2001); "Serving the Financial Needs of the Unbanked," Marie Friederichs, Community Affairs Specialist, (Community Liason, Office of Thrift Supervision March 2002) Surveys have found that the groups most likely to be unbanked are low-income, households headed by African-Americans and Hispanics, households headed by young adults and households that rent homes. See, e.g., Bringing Unbanked Households into the Banking System, John P. Caskey, Capital Xchange (Brookings Institution Jan. 2002)

making significant efforts to address the documentation question. Most had adopted institution-wide policies to accept reliable foreign-government issued identification documents and ITINs to open accounts. In Chicago, several institutions reported partnering with the Mexican Consulate in reaching out to unbanked immigrants through “mobile units.” The “mobile units” are staffed with consular officials to process MCAS applications, an IRS Certified Acceptance Agent for processing ITINs, and a bank official to process account applications. They have reportedly been highly effective in opening new accounts. Other Mexican Consulates, in partnership with financial institutions, may wish to consider undertaking the same type initiatives in their regions.

Bilingual Services: Provision of bilingual services is similarly viewed as a core access requirement, so much so that advocacy groups have opposed bank mergers under the Community Reinvestment Act (CRA) in cases where they believe insufficient bilingual services are provided to predominantly Latino communities.[56] Bob Gnaizda, General Counsel of the Greenlining Institute, believes out that it is not enough to simply provide written bilingual materials and that bilingual staff should also be available “behind the table” to provide assistance. [57] All surveyed institutions placed a high priority on providing a full complement of bilingual services. All provided account opening documents, product descriptions, financial education materials and other key documents in both Spanish and English. Several reported providing Spanish language information on their websites as well. Many also reported providing Spanish language assistance at their customer call centers. Virtually all placed a high priority on hiring and training bilingual staff to assist customers with limited English speaking ability.

Three of the banks surveyed for this report: Wells Fargo, Bank of America, and Union Bank, were also included in a survey of bilingual services conducted last October by the Greenlining Institute. Site inspections were conducted of bank branches serving California’s Imperial and Coachella Valleys, which are 70% Latino, and the San Joaquin Valley, which is 40% Latino. In general, the three institutions received good marks, with the Greenlining Institute’s report concluding that they “demonstrated a sincere desire to serve the needs of the Spanish-speaking community by providing the bilingual staff and literature necessary for cultivating successful banking relationships with their customer base.”[58]

Credit History: Lack of credit history can be a particular problem for recent immigrants who have not utilized mainstream banking services. In addition, immigrants in seasonal jobs may establish different patterns of debt-payment history, accumulating high levels of debt when they are not working, and being debt-free when they are. [59]

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[56] Interview with Bob Gnaizda, General Counsel, The Greenling Institute (Feb 13, 2003) (regarding the acquisition of VIB by Rabobank.)
[57] Ibid.
[58] “Part II: Due Diligence Report by the Greenlining Institute on VIP’s Bilingual Services” p. 6
[59] See, e.g., Remarks of Charles Kamasaki, Senior Vice President, National Council of La Raza, “Passage to Banking: Linking Immigrants to Mainstream Financial Services” sponsored by the Federal Reserve Bank of New York November 21, 2002

Many, but not all of the surveyed institutions had developed alternative products and/or criteria for serving customers with little or no credit history. Most indicated that they tried to provide products and services tailored to meet customers' individual needs. Most offered secured credit cards and loans to customers with little or no credit history. Some had specific programs to help customers without credit histories. For instance, the Latino Community Credit Union reported providing small, unsecured loans of up to $500 for customers who for six months, have been LCCU customers, or lived at the same address, or worked for the same employer. Timely repayment of the loan helps the customer build an account history and qualify for larger loans. Arvest reported offering a "CD loan." The bank loans the customer $1,000 which is used to open a CD, which in turn, is used as collateral as the customer pays back the loan to establish a credit history. Second Federal Savings had instituted a First-Time Borrowers program that would make loans of several thousand dollars to customers with no credit history, so long as they met alternative criteria, such as whether they had consistently paid their utility bills on time.[60]

Regarding customers with impaired credit histories, several surveyed institutions reported participation in the "Get Checking Program." This program provides six hours of basic instruction in managing personal banking services, including how to budget, and manage credit and a checking account. Those who complete the course and pass a skills test, and repay any outstanding credit balances, receive a certificate that allows them to open a qualified checking or savings account at the participating institution.

Product Structure and Costs: Accounts with high minimum balances, initial deposits or monthly service fees can be prohibitively expensive for lower-income Latin American immigrants, and other underserved populations. Moreover, checking accounts which charge stiff overdraft penalties, or overdraft protection at high cost can be as or more expensive than fees charged by alternative service providers such as payday lenders. Indeed, a recent survey by Roberto Suro and Sergio Bendixen[61] suggests that negative views about the cost structure of checking accounts discourage many Latin American immigrants from opening accounts. Though the single largest impediment among survey respondents was the perception that banks required documentation of legal immigration status (39%), a not insignificant 13% cited minimum deposit requirements and fees as reasons for not opening a bank account.

Virtually all financial institutions surveyed offered introductory, no-fee savings accounts with relatively low minimum balance requirements to new "unbanked" customers. Frequently, these accounts also provided debit card access. Most institutions gave these customers time to gain experience with their savings accounts, as well as financial educational resource materials, before trying to introduce them to a checking account. Institutions varied regarding how quickly they would try to cross-sell checking accounts, with smaller, community based organizations generally taking longer to transition new customers into checking accounts.

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[60] "Finding a Place for the Unbanked" Sam Quinones (Community Banker November 2002)
[61] "Billions in Motion: Latino Immigrants, Remittances and Banking" Suro&Bendixen (Pew Hispanic Center and the Multilateral Investment Fund (November 2002)

The Suro/Bendixen survey strongly suggests that many Latin American immigrants may not want checking accounts. Rather, their financial needs consist of a safe place to deposit their money and grow their savings, remit money back home, and pay a small number of bills each month. This is consistent with research by the National Council of La Raza, which concludes that many Latino families do not want checking accounts because they do not need to write a sufficient number of checks to make it economically worthwhile. [62] Reflecting this, several surveyed institutions offered bill-paying services that did not require having a checking account, as well as low cost or free money orders to individuals with savings accounts.

Consumer advocates interviewed for this report expressed particular concern about so-called "overdraft protection" policies of many major banks (though these concerns were not mentioned with reference to surveyed financial institutions.)[63] According to Martin Eakes, CEO of Self-Help Credit Union in North Carolina, overdraft protection is frequently offered as part of a "free" checking account to bank customers who are not experienced in managing a checking account and/or who do not fully understand the high costs of the service. He and other critics argue that charging fees as high as $35 for overdraft protection far exceeds a bank's actual cost in providing the protection, and point out that the bank has low risk in providing the protection for direct deposit customers. They compare the "service" to high-cost "payday loans" provided by alternative financial service providers. Proponents counter that customers want the service, that the fees are justified, and that it is better for consumers to have their overdrafts covered with a one-time fee, than have a check bounce, miss a car or mortgage payment, and pay even higher penalties. [64] However, some industry proponents have acknowledged that there have been problems with the manner in which certain overdraft programs have been designed and marketed.[65]

There are significant regulatory issues associated with overdraft protection programs. Regulators have pointed out that such programs could have ramifications under the Truth in Lending Act, Truth in Savings, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, as well as the Federal Trade Commission Act's prohibition on unfair and deceptive trade practices, as well as safety and soundness issues.[66]The Office of the Comptroller of the Currency has raised both legal and policy issues with at least one overdraft protection program, noting that it was designed to encourage customers to write checks from accounts with insufficient funds and that "[t]his use of the Program could promote poor fiscal responsibility on the part of some customers." [67]

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[62] See, NCLR Issue Brief "Financial Insecurity Amid Growing Wealth: Why Healthier Savings is Essential to Latino Prosperity" (August 2001) p. 8, citing data from the Federal Reserve Board's 1998 Survey of Consumer Finances.
[63] Interview with Martin Eakes, Self-Help Credit Union (November 19, 2002)
See also, ""Banks Encourage Overdrafts, Reaping Profits" (NY Times January 27, 2003); Free Checking can cost you a pretty penny" (Deseretnews.com November 13, 2002)
[64] "In Defense of Check Overdraft Coverage Policies (The American Banker January 29, 2003)
[65] "Overdraft Program Well Worth the Effort, if Run Responsibly (The American Banker February 7, 2003)
[66] Interpretive Letter #914 (Office of the Comptroller of the Currency September 2001)
[67] Ibid, at p. 4.

It seems clear that overdraft protection, while perhaps responsive to the needs of some customers, could easily be inappropriately used by inexperienced bank customers and quickly result in high transaction costs – thereby defeating a key benefit of bringing "unbanked" individuals into banks to begin with. Competitive market forces may, however, provide at least a partial solution. For instance, the North Carolina State Employees Credit Union is now offering its members a "Salary Advance" loan program that offers an open-end, re-useable line of credit with a maximum loan level of $500. To participate, members must have their payroll check direct deposited into their account at the credit union. The loan balance is repaid in full on the member's next payday by means of automatic transfer. The annualized percentage rate (APR) on the advance is 11.75%, which the credit union estimates to be less than $2.50 for most borrowers. [68] The program was launched on January 2, 2001. As of December 5, 2002, it was operating at a profit for the institution, with over 22,000 members using the service.[69] The North Carolina program seems to suggest that overdraft protection can be provided at relatively low cost, and will perhaps provide competitive impetus for other institutions to lower charges for this service.

Financial Education: Closely related to the cost issue is the need to provide financial education support services to many Latin American immigrants. Virtually all banks and credit unions surveyed indicated that they were interested in building long term relationships. Thus, they were willing to provide extensive one-on-one financial education support in the hope of establishing a permanent and growing customer base to which they could eventually cross-sell other financial products such as car loans and mortgages. To accomplish this objective, educating their customers about product options and the fee structures attendant with each would seem crucial. If this new and growing group of customers begins to run into trouble with high fees, penalties or overdraft charges because of a lack of understanding of product features, they will no doubt quickly close their accounts and return to alternative service providers.

As important as financial education is, it must be quality information delivered by well-trained staff and provided at a time when customers are receptive. "It's like a murder case. You need motive and opportunity," says Charles Kamasaki, Senior Vice President of the National Council of La Raza (NCLR). "You need the opportunity to present the information and the customer needs to have the motive to receive it." Kamasaki believes financial education programs are most effective when provided at a time when the customer is undertaking a significant financial transaction, e.g., opening an account, preparing a tax return, or taking out a loan. He indicates that NCLR has had particular success with its Individual Development Account (IDA) and homeownership counseling programs.[70]

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[68] SECU Launches Low Cost Alternative to Payday Lenders (Grassroots January 2001)
[69] SECU Press Release (December 5, 2002)
[70] See also, prepared statement of Raul Yzaguirre, President, NCLR before the Senate Banking Committee, hearings on "The State of Financial Literacy" (Feb. 6, 2002)

Consistent with this thinking, several surveyed institutions provided financial education at account opening, most notably the Latino Community Credit Union, which provided a 45-minute one-on-one session for new customers. Similarly, Citibank provided financial education when opening accounts under its "Bank at Work" program. First Bank of the Americas among others reported providing financial education in conjunction with free tax preparation services. Wells Fargo offered a first time homebuyers bilingual training program. Virtually all had some type of loan counseling programs.

Through community outreach, banks are also finding venues outside their institutions to provide financial educational services. All institutions surveyed partnered with community groups and faith-based organizations to provide information about the services they offer and their costs as compared to alternative service providers. In Chicago, First Bank of Americas has partnered with Kennedy-King College to provide financial training as part of their ESL program. A number of surveyed institutions have established school-banking programs, which they find to be particularly effective for the children of immigrant families. [71] Native-born residents typically learn about opening bank accounts from their parents. However, in a high percentage of Latin American immigrant families, the parents are unbanked. [72]Thus, school banking programs are a good way to introduce these children to bank accounts – and, as FBA's Pamela Voss points out, the students share the information they obtain at school with their families at home.[73]

Lack of knowledge and awareness of banking technology may also impede the ability of Latin American Immigrants to make effective use of lower cost bank/credit union services. The Suro/Bendixen survey suggests that many Latin American immigrants do not have first hand experience with ATMs, online banking, and other types of technology that are common place in personal banking services, and that this was a potential obstacle – though not an insurmountable one -- for some in using ATMs as a low cost way to remit money back home. The problem arises with regard to ATM usage on this side of the border as well. For instance, officials at the Latino Community Credit Union reported that they were having great difficulty convincing customers to use the ATMs located outside their offices, so much so that teller lines were becoming long and unmanageable. As a consequence, in addition to providing individualized instruction on ATM usage, they initiated a raffle, with eligibility for the prize being dependent upon using the ATMs.

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[71] A recent report issued by the U.S. Treasury Department underscores the importance of school-based financial education programs, because it is a venue that can reach so many, particularly in low and moderate income neighborhoods. "Integrating Financial Education into School Curricula" (U.S. Department of Treasury October 2002)

[72] A recent Chicago Fed Letter notes the success of Mitchell Bank in Milwaukee's high school banking program, which is open to both students and parents. Mitchell opened a branch at Milwaukee's South Division High School, which is located in a predominantly Hispanic neighborhood. Open for only two years, it logs over 350 personal transactions a month, and maintains deposit account balances in excess of $300,000. ("Tapping the Potential of the Unbanked – Private Sector interest increases" Chicago Fed Letter January 2003 by Doug Tillett and Liz Handlin)

[73] "Serving Chicago's Mexican-American Community" by Pamela Voss (*Community Developments*, Office of the Comptroller of the Currency, Summer 2002)

They report the strategy was highly successful, dramatically reducing lines at their teller windows, and will continue offering the raffles from time to time.

Finally, financial education, combined with community based marketing and outreach (as discussed below) are important to overcome trust issues. Research conducted by the Fannie Mae Foundation indicates that historically unstable banking industries in some Latin American countries, combined with a lack of deposit insurance, make many immigrants suspicious of U.S. banking institutions.[74] Distrust of banks was cited by 9% of respondents in the Suro/Bendixen survey as their reason for not opening a bank account.[75] Institutions surveyed for this report also frequently pointed to distrust of banks as a key impediment to their efforts to open accounts in Latin American immigrant communities.

In addition to educational efforts by financial institutions, federal financial regulators seem uniquely suited to help address the trust issue. In this regard, the Federal Deposit Insurance Corporation (FDIC) has seized upon it role as guarantor of bank deposits up to \$100,000 to become highly pro-active in providing financial education to the public generally, and the Spanish-speaking community specifically. The FDIC's "Money Smart" adult education curriculum – which includes 10 modules covering everything from checking accounts and credit cards to homeownership and household money management --is provided free of charge to interested parties, and is becoming more and more widely used throughout the country. The FDIC projects that one million people will learn financial education through Money Smart over the next five years.

The program became available in Spanish in June 2002. In announcing the Spanish language version of Money Smart, FDIC Chairman Don Powell stated, "We understand the importance of financial education in fostering financial stability," noting further that "healthy banking relationships benefit both the individual and the community." A number of institutions surveyed for this report provided the curriculum to their Latin American immigrant customers, and/or provided funding for it to be taught in adult continuing education classes.

The Office of the Comptroller of the Currency (OCC) has also been active in supporting efforts of the banks it regulates to market to Latin American immigrants and other underserved communities. In the summer of 2001, it devoted an entire newsletter to "Growing Diverse Banking Markets." In that publication, Comptroller John D. Hawke, Jr., stated, "Our diversity is to be celebrated, not glossed over" and challenged banks "to develop products and services that meet the changing needs of our increasingly diverse communities." The following summer, OCC sponsored a Hispanic Banking Forum in Chicago that was cosponsored by the Federal Reserve Bank of Chicago and the FDIC.

The Chicago Federal Reserve Bank has taken a leadership role in conducting research and community outreach designed to bring more Latin American immigrants and other

[74] www.fanniemaefoundation.org

[75] Suro/Bendixen Survey at p. 14

unbanked populations into the financial mainstream.[76] Similarly, the New York Federal Reserve Bank sponsored a conference in New York in November 2002 "Passage to Banking" which focused on ways to link immigrants to mainstream financial services. The fact that regulators have given public support and assistance to efforts by banks and credit unions to reach out to Latin American immigrants should help re-assure the Latin American immigrant community that federally insured depository institutions are a safe and stable place to keep their money.

Physical Access: The lack of bank branches in inner-city communities and minority neighborhoods is a serious problem of long-standing concern. The complexities and economics of banks' decisions regarding the opening and closing of bank branches are beyond the scope and resources for this report. Suffice it to say, individuals interviewed in connection with this report uniformly expressed the view that physical access is critical to serving the Latin American immigrant community: personal interaction with bank staff – particularly with those hired "from the neighborhood" -- is key. Institutions that want to market to this community will have to provide that access. If they do not, community-based institutions and alternative providers that are located in easily accessible locations will have the competitive edge.

The trend of bank branch closings appears to be reversing in some regions. Michael Frias of the FDIC's Chicago regional office indicates that many of Chicago's large banks are going back to bricks and mortar. They have found that banking by phone or the Internet are poor substitutes for serving inner city neighborhoods, and that they are losing market share to community banks. Several large banks are eyeing Latino neighborhoods for new branches. Two, LaSalle Bank and Charter One, have recently opened new offices in predominantly Hispanic neighborhoods.

Several individuals interviewed pointed out that check cashers and other alternative service providers are more accessible with regard to hours of operation, as well as physical location. These alternative providers are frequently open late into the evening and on weekends, which is important to low-income customers who may work long, or unconventional hours. As discussed in more detail below, three surveyed institutions, Union Bank, Banco Popular, and Bethex Credit Union have undertaken a hybrid competitive strategy in response, offering check-cashing services at unconventional locations and hours, and using the check cashing service as a marketing tool to convince unbanked users of this service to open bank accounts.[77] Moreover, it should be pointed out that one of the Wells Fargo branches we visited in El Paso was located in a grocery store, and was open on the weekends.

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[76] The Chicago Federal Reserve Bank's website at www.chicagofed.com is replete with excellent resource information regarding financial education and the "unbanked."

[77] Union Bank and Banco Popular's hybrid programs were discussed at the OCC's Hispanic Banking Forum in July of last year and will also be discussed in detail in an upcoming paper by the Brookings Institution for the Retail Financial Services Initiative. The Woodstock Institute also recently released a report, which discussed the Union Bank program. *The Foundation of Asset Building: Financial Services for Lower-Income Consumers,* Marva Williams and Kimbra Nieman (January 2003)

In addition to location, the physical appearance of a bank or credit union can impact its accessibility to Latin American immigrants. A number of individuals interviewed for this report suggested that check casher and currency exchange storefronts have a friendlier, more familiar feel in terms of their size and appearance. Banks in particular are often housed in large "institutional" buildings that may be threatening to immigrants already distrustful of banking institutions. To respond to this issue, some banks and credit unions in Latino neighborhoods have adopted more of a "storefront" appearance, with smaller buildings, and colorful, bilingual signage, -- some even providing play areas for children while their parents transact business. Chicago's First Bank of the Americas is a good example, boasting a colorful tile mosaic storefront, which assumes the festive, friendly atmosphere of the neighborhood and surrounding buildings. Bank of American and Wells Fargo have also decorated many branches in festive, Latin American colors and created more seating for the families of customers.

Marketing: All institutions surveyed had marketing strategies to reach the Latino community that were specifically tailored to address their particular needs in terms of language and culture. All also emphasized the importance of community outreach, including the hiring of staff from the neighborhoods their institutions served, as well as partnering with community groups and faith-based organizations to provide services to those neighborhoods. Not surprisingly, the larger institutions – in addition to community outreach – had committed substantial funds to marketing, the most noteworthy perhaps being the $40 million Bank of America has committed to multi-cultural advertising. BofA marketing, however, also recognizes the importance of personal outreach and incorporates recruiting and hiring from Latino communities, partnering with Hispanic grass roots organizations, and providing bank staff with Hispanic cultural awareness training. Bank staffs at all levels are provided with Spanish language instruction -- including Chairman and CEO Kenneth D. Lewis.

At the other end of the spectrum is the Latino Community Credit Union that reports no separate budget for paid advertising and marketing. The LCCU is opening several hundred new accounts each month, relying almost exclusively on word-of-mouth from bank staff and existing customers, thus underscoring the value of inter-personal relationships in marketing to the Latino community.

Products as Marketing Tools

A. Remittances: Survey data consistently shows that the ability to remit money back home is at the top of Latin American immigrants' financial services needs. Consistent with this, most institutions surveyed indicated that remittances were an important marketing tool, and had developed marketing strategies to offer accounts and other financial products using that tool.

Banks and credit unions are becoming more creative – and competitive -- in terms of the type of remittance product they are offering. As previously noted, dual ATM cards are increasing in popularity. Dual ATM cards are attractive because they have low cost and also require that the customer open a bank account to use the service. Surveyed institutions reported, however, that for some customers, dual ATM cards have significant downsides, particularly if the beneficiary does not have easy access to an ATM, or does not want to accept payment in foreign currency. For these customers, virtually all surveyed institutions indicated that they still offered more expensive wire or third party money transfers.

It is interesting to note that Latin American financial institutions are also trying to use American remittances as a marketing tool to persuade *beneficiaries* to receive and keep remittances through banking accounts. Perhaps one of the most interesting innovations comes from Mexico's Bank for National Savings and Financial Services (BANSEFI). BANSEFI operates 578 branches in Mexico, 300 of which are located in rural areas. It is working with other parts of the Mexican government and the Multilateral Investment Fund to enhance savings and expand access to regulated financial services, particularly in Mexico's poor, rural areas. Part of its strategy is to partner with US institutions to provide remittance products that will help Mexican beneficiaries establish relationships with BANSEFI branches and increase productive investment of remitted funds.[78]

The World Council of Credit Unions (WOCCU) is one of the U.S. financial trade organizations working with BANSEFI. According to David Grace, WOCCU's Financial and Regulatory Affairs Manager, WOCCU is also actively working in other Latin American countries, such as Guatemala, Honduras, and El Salvador, to utilize remittances as a tool to build financial infrastructure and "bank" unbanked beneficiaries. "We believe remittances can serve the Latin American community on both sides of the border," says Grace of WOCCU's efforts.[79]

B. Check Cashing: As previously mentioned, Union Bank, Banco Popular and Bethex Federal Credit Union have developed programs that seek to offer hybrid check cashing/banking services to Latin American immigrants and other underserved populations. The programs were developed in direct response to the exponential growth in the 1990's of check cashing outlets (CCOs) and other alternatives service providers in Latino and other minority neighborhoods. The leadership of the institutions recognized that the traditional product mix provided by depository institutions might not meet the needs of low and moderate income families living in these neighborhoods, and that a hybrid approach – focused on providing lower cost check cashing and money orders, combined with transitional products, such as a low minimum balance savings account – could make the institutions more competitive with CCOs.[80]

[78] Interview with BANSEFI's President, Javier Gavito Mohar (January 12, 2003)
[79] Interview with David Grace, Financial and Regulatory Affairs Manager, World Council of Credit Unions (Feb. 14, 2003)
[80] "Union Bank of California – Brings Convenience Banking to Communities" Richard Hartnack, Vice-Chairman, Union Bank of California; Keynote Speech of Mr. Roberto Herrencia, President, Banco Popular, North America (Hispanic Banking Forum Chicago, Ill. July 31, 2002)

According to survey data and information provided by the Retail Financial Services Initiative[81] Union Bank's "Cash and Save" program has shown significant success in converting CCO customers into depositors. Union Bank reports that of its repeat check-cashing customers, 43 percent convert to deposit accounts, and this percentage has been steadily increasing since 1992 when the program started. Product offerings include a $10 minimum balance savings account, a money order plan with which costs $10 a year for six money orders a month, and a basic checking account which costs only $1 to open and a $3 monthly fee. It includes an ATM card and five free checks a month. The bank offers services in such nontraditional locations as supermarkets and a shopping center.

Banco Popular's Popular Cash Express (PCE) offers check cashing, wire transfer, money orders and bill payment, as well as a host of non-financial services, such as stamps, copying, phone cards, and depending on the state, Department of Motor Vehicle documents. Because of bank holding company restrictions, Banco Popular is unable to offer depository account services at PCE offices, though PCE customers are referred to Banco Popular branches that are located nearby. PCE has 100 locations and over 50 mobile units that travel to worksites on payday to cash checks. PCE stores are open evenings and weekends.

Bethex has a partnership with RiteCheck in order to encourage people using check cashing to open a membership at the credit union. Bethex advertises at the check casher's store and also has a Bethex point-of-banking (POB) terminal. The POB terminal looks and functions like an ATM, except that when making a deposit, the customer hands the money to a cashier who verifies that the funds are deposited. Checks drawn on a Bethex account are cashed for free by RiteCheck. Those from other issuers are cashed at a discount rate for Bethex members. The credit union has a video playing at RiteCheck outlets that advertises the benefits of becoming a credit union member. RiteCheck cashiers also tell customers about the credit union. RiteCheck has 11 CCOs in the Bronx and Manhattan. Bethex has five full service branches, in addition to operating part-time teller windows in a church, senior citizens center, and several other nontraditional locations.

The melding of check cashing with traditional banking services has not been without controversy, though the programs summarized above have generally received good marks from community activists and the regulatory community. Some attempted affiliations have been blocked by regulators, however, based on safety and soundness issues, as well as "charter rental" concerns, i.e., where a pre-existing CCO seeks affiliation with a nationally-chartered bank to enjoy the benefits of federal pre-emption of state consumer laws. Some advocacy groups have also expressed concern about the provision of two-tiered banking services, one for low income neighborhoods which focuses on check

[81] The Retail Financial Services Initiative (RSFI) is a three-year project to expand access to financial services and wealth-building opportunities for low and moderate-income consumers. It was organized by the National Community Investment Fund (NCIF) that is an independent nonprofit trust and certified Community Development Financial Institution (CDFI). See also, "Bringing Unbanked Households Into the Banking System," John P. Caskey (Brookings Institution January, 2002)

cashing and basic life-line account services, and another for middle and upper income neighborhoods which offers the full complement of bank services. [82]

Employer Partnerships as a Marketing Tool

Most surveyed institutions had developed marketing programs centered on employer partnerships. Such employer partnerships represent a tremendous marketing opportunity for banks and credit unions: an estimated 25 million workers still receive paper checks.[83] Employer partnerships provide an excellent venue for financial institutions, frequently in partnership with community groups, to deliver financial educational material about banking services to large numbers of unbanked workers. Employers like being able to provide this service to their employees. In addition, if the bank or credit union is successful in convincing employees to open accounts, payroll checks can be deposited via direct deposit. Electronic deposit can mean payroll administrative savings for employers of up to 75%.[84] It is a safer, less costly way for their employees to receive their pay.

It can also be more convenient. A number of surveyed institutions indicated that they opened accounts for workers at the worksite, and also provided ATM access. Security Savings Bank in Salina, Kansas, recently went so far as to open a full service branch at the Iowa Beef Packing (IBP) plant located in nearby Holcomb, Kansas. The IBP plant employment base is 75% Latino and the plant branch customer base is 80 to 90% Latino. The branch is open from 11:00 a.m. to 7:00 p.m. Monday through Saturday. It's staff, most of whom are immigrants, are 100% bilingual. [85]

Payroll cards – a relatively new innovation -- are being marketed to "unbanked workers" by banks and credit unions, as well as being offered by alternative service providers.[86] A workers' pay is electronically transferred to a stored value card (SVC), which can then be used by the worker to withdraw cash from ATMs and make purchases where debit cards are accepted. Even when offered by banks and credit unions, the cards do not always involve establishing an account, and fees can be higher than they are for more conventional debit card-accessed checking or savings accounts. [87]Thus, while payroll cards offer advantages to both employers and employees over paper checks, they have disadvantages as compared to traditional bank accounts. In addition to being potentially more expensive, they do not establish a banking relationship that can provide the same opportunity for asset accumulation, the benefits of deposit insurance, and access to other

[82] See, e.g., *The Foundation of Asset Building: Financial Services for Lower-Income Consumers* (Woodstock Institute, February 2003)
[83] Ibid.
[84] "Payroll Cards: A Direct Deposit Solution for the Unbanked" (Celent December 19, 2002)
[85] Interview with Blake Waters, President, Garden City Region, Security Savings Bank (January 9, 2003).
[86] Ibid. See also, "A Satisfying Payoff: For Workers Without a Bank Account, Payroll Debit Cards Offer Convenience" (Orlando Sentinel December 4, 2002)
[87] According to Celent Communications, examples of fees charged by payroll card issuers included $7 to open the "account," monthly service fees of $4.30, and $10.50 to replace a lost card, and 40 cents to make an ATM balance inquiry. "Banks Charge Range of Debit Card Payroll Fees" Cardline January 10, 2003

bank products and services. To the extent banks and credit unions use payroll cards as transitional products to establishing accounts, they may be useful in reaching out to the unbanked. They are also useful for workers who have bad credit histories and thus cannot qualify for a checking account. However, debit card-accessed savings accounts may also be another good option for such workers.

Employer partnerships to bank "unbanked" employees can provide immediate benefits in terms of payroll savings for employers, and safety and convenience for employees. A pioneering program undertaken by First National Bank and Trust of Rogers, Arkansas (Arvest) nearly a decade ago shows that such partnerships can have longer-term benefits as well.

In 1994, Arvest entered a partnership with North Arkansas Poultry, a Tyson Food subcontractor with a work force that is over 90% Latin American immigrant. The program began with a series of financial literacy seminars that were offered in a classroom at the plant during regular working hours. Workers were paid to attend the seminars. A Spanish-speaking bank employee taught the course, which included instruction on how to establish credit histories and obtain home mortgages. The program was tremendously successful from both the employer and bank's perspectives, resulting in new customers for the bank and a more stable workforce for the employer. Through this and similar partnerships, Arvest was able to capture over half of the Latin American immigrant market in the Rogers area. This new business generated over $25 million, including $20 million in mortgage loans, $5 million in deposit accounts, and $1 million in consumer loans. As of November 2000, Arvest had helped over 700 immigrant families buy homes. North Arkansas Poultry's employee turnover rate declined dramatically. From 1990 to 1993, it stood at 200%. By 1995, it had declined to 15 to 20% by 1995. Other chicken processing plants partnering with Arvest saw similar declines.[88]

The Arvest project demonstrates the financial benefits of a marketing strategy that seeks to build long-term banking relationships with unbanked immigrant workers. Through low-cost introductory products, combined with financial education services, banks and credit unions can build a stable banking relationship based on trust. Such a strategy can eventually lead to significant increased savings deposit levels, as well as cross marketing of mortgages and consumer and commercial loans.

Tax Preparation Services

A number of surveyed institutions reported partnering with community and faith-based groups to provide free tax preparation services in low-income neighborhoods. Though offered primarily as a community service, free tax preparation can also lead to new accounts. Frequently, taxpayers open new accounts at the same time their taxes are being prepared. By doing so, they can use their new bank account number to obtain direct deposit of their refunds, thereby cutting weeks off the waiting time to receive the refund.

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[88] "Reaching the Immigrant Market: Creating Homeownership Opportunities for New Americans" (Schoenholtz and Stanton, Georgetown University for the Study of International Migration, prepared for the Fannie Mae Foundation). The report can be found at www.fanniemaefoundation.org.

The banks open new accounts. Previously “unbanked” taxpayers enter the financial mainstream with a new bank account, and a safe place to put their refund. [89]

Individual Development Accounts

Some institutions have found Individual Development Account (IDAs) programs an effective means of bringing unbanked Latin American immigrants and other unbanked populations into bank accounts. IDAs are dedicated savings accounts that are matched at specified rates by outside public and private sources. They are designed to help low-income families build savings for a particular purpose, e.g., buying a home, starting a small business, paying for education, or job training. Usually, they involve partnerships between financial institutions and nonprofit groups. Because of their forced savings feature, some view them as analogous to 401(k)s for low income families, helping families who would otherwise live paycheck-to-paycheck accumulate assets for specified needs. One of the surveyed institutions, Bethex Federal Credit Union, mentioned IDAs as a marketing tool to reach Latin American immigrants.

A recent article published in the Chicago Fed Letter found that IDA programs in the Chicago Federal Reserve Bank’s five-state region were flourishing. Sixty-three institutions were offering IDA programs, 49 banks and 14 credit unions. The article characterizes IDAs as “a mechanism for drawing “unbanked” households into the financial mainstream, while showcasing the importance of economic education.” [90] The article also observes that community service, not business motivation, is the primary incentive for institutions participating in IDA programs. Until the business potential of IDAs is proven, it may be difficult to achieve major expansion of IDA programs. For this reason, some IDA supporters, and their Congressional allies such as Senators Rick Santorum (R PA) and Joseph Lieberman (D CT) have proposed tax credits to mitigate the cost of IDAs for financial institutions.[91]

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[89] For instance, in Chicago under the auspices of the of the Center for Economic Progress, churches, community groups and banks have formed a consortium to provide free tax preparation in low-income neighborhoods. They cite such efforts as a way to combat so-called “refund anticipation loans” or RALs, which some major tax preparation firms are marketing in low-income communities, which can involve fees and interest of 200 – 400% on an annualized basis.

Some banks have “unbanked” outreach programs centered on the Earned Income Tax Credit (EITC). Because the EITC is available only to U.S. citizens, such programs may not be particularly effective in reaching Latin American immigrants. Non-U.S. citizens are eligible for the child-care tax credit.

[90] “Financial Institutions as stakeholders in individual development accounts,” Robin Newberger, Research Analyst, Chicago Federal Reserve Bank (Chicago Fed Letter December 2002) at p.1 Research by the National Council of La Raza also indicates that IDAs can be highly effective in providing incentives for savings among low-income families, Latin American immigrant families, as well as basic financial education.

[91] S. 1025, the “Savings for Working Families Act.”

A Note About the Community Reinvestment Act (CRA)

One question on our written survey queried participating institutions about how CRA impacted their decision to market to Latin American immigrants and in general, did they feel the CRA gave enough credit to efforts to reach out to the "unbanked population."

The CRA does not appear to be a significant factor for banks and credit unions in deciding to actively market to the Latino community. All institutions surveyed recognized the community service benefits in reaching out to Latin American immigrants. All also indicated, however, that there were significant business opportunities in developing this customer base. They did not need CRA credit to provide motivation. CRA credit was simply "icing on the cake."

Institutions were split on the question of whether CRA sufficiently credited efforts to reach out to the unbanked. Some wanted no changes in CRA in this regard, fearing that it would involve tracking individual accounts and balances, thereby increasing record-keeping requirements and presenting privacy issues. Others thought more credit should be given to efforts to "bank" the unbanked, and specifically, that the emphasis should be shifted from lending to providing lifeline banking services to low and moderate income customers.

Some of the smaller institutions indicated that CRA was helpful in persuading larger banks to invest in their institutions, given their mission to serve unbanked low and moderate-income populations. They indicated that this source of funding help them serve neighborhoods that were not being served by larger institutions.

Summary of Key Findings

Anti-Money Laundering and Terrorist Financing Requirements

Banks and credit unions entry into the remittance market has important pro-enforcement benefits. Federally regulated depository institutions are subject to more extensive record keeping and reporting requirements, as well as customer identification and verification rules. In general, international money transfers carried out by account holders in these regulated institutions will provide for greater scrutiny of the originators and recipients of such transfers, enhancing the ability of federal officials to monitor such transactions and distinguish legitimate transfers from those conducted for money laundering or terrorist financing purposes.

Though there are enforcement benefits to be derived from banks and credit unions' expansion into the remittance market, remittances can pose high risk and thus must be accompanied with appropriate due diligence, monitoring and other controls. In this regard, performing due diligence on both purchasers and beneficiaries of remittances, imposing daily and/or monthly limits on the amount that can be transferred, limiting the number of debit or stored value cards issued to a customer, and instituting monitoring programs to flag unusual remittance activity are all critical tools in addressing this risk. Both purchasers and beneficiaries of remittances must be checked against the OFAC list as well as any other list of known or suspected terrorists circulated by an agency of the federal government.

Draft regulations implementing Section 326 of the USA PATRIOT Act, dealing with customer identification and verification requirements provide banks with the flexibility to accept foreign government issued identification from customers opening new accounts, including the Matricula Consular. This is subject, however, to the overall standard that bank and credit union officials have exercised reasonable efforts to identify customers and form a reasonable basis that they know each customer's true identity.

Under the draft rules, banks and credit unions must have a customer identification program (CIP) that has been approved by their boards. The CIP must include procedures for the type of identifying information required to open an account, risk-based procedures for verifying the customer's identity, record keeping, and procedures for determining when an account should not be opened or closed because of an inability to verify the customer's identity. In addition, the names of all account holders must be checked against the OFAC list as well as any other list of known or suspected terrorist or terrorist organizations circulated by the federal government.

The ability of institutions to successfully "bank" unbanked Latin American immigrants hinges on their ability to accept reliable foreign government issued documentation under Section 326, and in particular the Mexican government's Matricula Consular. There was clear consensus on this point among surveyed institutions, industry experts, and Latino advocacy groups. All expressed support for the approach in the draft Section 326 regulations that have been jointly proposed by the U.S. Treasury Department and financial regulators, but expressed concern these regulations might be revised on this question before they are finalized. The Treasury Department has specifically stated that the draft Section 326 regulations do not discourage acceptance of Matricula Consular as identification.

Institutions should consider requiring more documentation than a primary photo ID. Virtually all surveyed institutions exceeded Section 326 requirements by requiring at least two forms of documentation, typically a Matricula Consular or comparable form of foreign government issued photo identification, and an Individual Taxpayer Identification Number (ITIN). They also required separate verification of the customers name and address, through, e.g., a utility bill. Several institutions required two forms of identification, in addition to an ITIN. Though most institutions requested ITINs in the absence of a Social Security number, none relied upon it to verify customer identity and generally were aware of its weaknesses as an identification document.

The Federal government should not require banks and credit unions to verify the immigration status of customers and should finalize Section 326 regulations permitting them to rely on foreign government issued customer identification. Denying banks and credit unions the ability to serve immigrants lacking U.S. government identification would do little to accomplish immigration control objectives, but would force this population to rely on higher cost, less regulated financial service providers. This could result in less transparency and oversight of financial transactions, and potentially prompt retaliatory measures against U.S. government –issued identification in non-U.S. jurisdictions.

Customer Service Issues

In addition to accepting reliable foreign government issued identification, the following set of “best practices” are recommended for banks and credit unions to successfully “bank” unbanked Latin American immigrants.

Provision of bilingual services is a core access requirement. Virtually all surveyed institutions reported providing bilingual account opening documents, product information, financial education and other key materials. All placed a high priority on hiring and training bilingual staff. Several also had Spanish information on their websites, and provided bilingual assistance at their call centers.

Provision of products and services for individuals with no credit history is also crucial for immigrants who have not previously utilized mainstream financial services. All surveyed institutions offered secured credit products and counseling programs for customers with no or impaired credit histories. Some institutions reported a number of creative approaches to this problem, including making small, unsecured loans based on alternative criteria, such as work history or regular timely payment of rent or utility bills, to allow new customers to build a credit history.

Institutions should offer low minimum balance savings accounts on an introductory basis and use caution in introducing checking accounts with overdraft features, credit cards, or other products that could entail high fees if inappropriately used. Precipitous introduction of products inappropriate to inexperienced bank customers can quickly result in high transaction costs – thereby defeating a key benefit of bringing "unbanked" immigrants into depository institutions. High transaction costs will force many new customers to close their accounts, and return to alternative service providers, which is against their interests and the interests of financial institutions marketing to this customer base.

Financial education should be provided to help new customers understand banking services, and their attendant costs, but should not be offered in lieu of sound product design. Financial education appears to be most effective when offered in conjunction with a significant financial event, e.g., opening a new account or preparing a tax return. Some institutions reported providing intensive, one-on-one training to new customers opening accounts.

Financial education can also be used for effective outreach. All surveyed institutions reported partnering with community groups, faith based organizations, and schools to provide financial education to the community. School-based programs appear to be particularly effective, since in a high percentage of Latin American families, the parents are unbanked. School banking programs introduce children to bank accounts, and they share that information with their families at home.

Bank and credit union services should be provided in easily accessible, physical locations, and made available during nontraditional hours. Personal inter-action is crucial to serving the Latin American immigrant community and competing effectively with alternative service providers. Anecdotally, it appears some banks are returning to bricks and mortar and re-opening branches in Latino neighborhoods. Some are experimenting with nontraditional locations such as grocery stores and retail centers. Some have partnered or affiliated with check cashing outlets (CCOs) to expand their reach and hours of service.

An effective marketing strategy must be specifically tailored to the Latino Community in terms of language and culture, and based on inter-personal relationships. Paid media can be a useful marketing tool, but only to supplement a strategy based on word-of-mouth from bank staff and existing customers.

Product offerings can be highly effective marketing tools. Survey data consistently shows that remittances are at the top of Latin American immigrants' financial services needs. Remittances can be an effective way to bring new Latin American immigrant customers in the door. Surveyed institutions reported growing popularity of dual ATM cards to remit funds, but also indicated that many customers wanted traditional money transfer, and that both should be provided. Check cashing, money orders, and bill paying services are also products that some banks and credit unions are using to draw Latin American immigrants to their institutions.

Employer partnerships can be highly effective marketing tools. With an estimated 25 million workers still receiving paper checks, employer partnerships offer a tremendous business opportunity. "Best practices" should begin with financial education provided at the job site during regular work hours, followed by introduction of depository accounts, and later, mortgages and personal loans. Such partnerships have immediate benefit in facilitating direct deposit, which can mean significant payroll savings for the employer, and convenience and safety for the employees. Long term, it can also eventually lead to employee access to home mortgages and personal loans, contributing to a more stable work environment.

Payroll cards should be used as introductory, transitional products to a traditional depository account. Payroll cards have advantages over paper checks, but can cost more than traditional, debit card-accessed savings or checking accounts. They may also not offer the same opportunity for asset accumulation, access to other bank products, and the benefits of deposit insurance.

Free tax preparation can help convince unbanked immigrants to open bank accounts. A number of surveyed institutions provided free tax preparation in partnership with community and faith-based groups. They report that low-income taxpayers using the service frequently open accounts at the same time, so they can use their account number to facilitate direct deposit of their refunds.

Individual Development Accounts (IDAs) have the potential to become effective outreach tools, but may need a boost from the federal government. IDAs may be attractive to recent Latin American immigrants because of their forced savings/asset accumulation features. However, their business potential has yet to be proven, suggesting the need for tax credits to mitigate their costs for financial institutions.

Conclusion

The growing success of surveyed institutions, and many others throughout the country, in reaching out to "unbanked" Latin American immigrants indicates that this population can be brought into mainstream depository institutions with the right product mix and marketing strategy. Anti-money laundering and terrorist financing requirements need not be an impediment to institutions trying to bring Latin American immigrants into their customer base. On the contrary, interviews with industry experts, financial regulatory and enforcement officials suggest that there can be positive benefits to bringing "unbanked" immigrants into federal insured depository institutions.

All indications are that banks and credit unions are determined to include Latin American immigrants as an important and permanent part of their customer base. Advocacy groups for the "unbanked," as well as organizations such as the Multi-Lateral Investment Fund who are interested in Latin American economic development, seem determined to help them insofar as they provide an alternative to higher cost providers. In addition, federal financial regulators, and the U.S. Treasury Department, through its involvement in the Partnership for Prosperity, and support for programs such as First Accounts and Electronic Transfer Accounts (ETA), have signaled that they support the efforts of banks and credit unions to establish depository relationships with Latin American immigrants and other unbanked populations. It appears there is a "perfect storm" where the interests of business, community groups, and government have come together to the hopefully lasting benefit of Latin American immigrants and their families.

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