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Latinos in 2030: Securing Our Financial Future

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Introduction

Over the last several years, researchers, policymakers, the financial services industry, and community advocates have had significant discussion surrounding the Hispanic[1] unbanked and underbanked consumers in the United States. Some financial institutions and community organizations have made efforts to move the unbanked into mainstream financial institutions and away from check cashing and thrift financiers who offer alternative lending and credit sources at staggering costs. Yet despite these efforts and the increased visibility of the issue, a sizeable number of Hispanics remain unbanked or underbanked. According to market research, approximately 35% of the unbanked population is Hispanic and Hispanic consumers are nearly three times as likely as the average adult to be unbanked[2]. Furthermore, the Hispanic population in the United States will account for 60% of the nation's growth between 2005 and 2050, establishing them as the fastest growing major race or ethnic group.[3]

Most industry experts are aware of this rapid population growth – and the opportunity for consumer growth it represents – yet the financial services industry is not successfully reaching out to this population. Historically, financial institutions have cited a variety of reasons to explain their reluctance to reach out and serve unbanked Latinos. Most recently, they cite the current economic, arguing that pursuit of innovative strategies to reach and serve the unbanked would too costly and probably unsuccessful. Yet, numerous documents, cited later in this paper, illustrate the importance of bringing more unbanked Hispanics into the mainstream financial system, including the long-term benefits to Latino consumers and the long-term gains for the industry.

Given the projected growth of the Hispanic population, it is crucial that Latinos are connected to financial institutions so that they can become financially prepared to make sound investments in housing, education, and retirement. A study by the Pew Hispanic Center of 1,540 Latinos aged 18 and older found that 57% of their Latino respondents reported that they did not have a very good understanding of the recent financial problems involving financial institutions and the housing market.[4] More importantly, they found that Latinos held a negative view of their own financial situation and 84% of foreign-born Latinos stated that their current personal finances are in either fair or poor shape. This survey also found that 8% or 1-in 10 Latino homeowners say they were denied a home equity loan within the past year. These findings echo a study done in 1999 by Freddie Mac that found that 28% of Latinos said they knew "very little" or "nothing" about managing their finances.[5] The Federal Deposit Insurance Corporation projects that approximately half of the retail growth in banks will come from Hispanics, of whom 20 million are without checking accounts by 2015.[6]

According a financial literacy study, financial struggles experienced by low-income children are likely to persist into their own adulthood. In addition, children, especially the majority who do not achieve higher education, are quickly faced with adult financial tasks and responsibilities.[7] A survey of unbanked or underbanked residents in three predominantly Hispanic immigrant communities in Los Angeles, each at different stages of socio-economic assimilation, suggests that the financial integration process is often lengthy. Persistent barriers and biases to the mainstream banking system – such as cultural distrust, lack of documentation, and lack of products that serve their needs – can keep this community unbanked for years. The survey findings suggest that "it can take generations for immigrants to become fully banked."[8] On the other hand, children who have access to financial education during high school or earlier, demonstrate higher savings rates into adulthood[9]. Other studies of financial habits of immigrants indicate that financial behaviors learned at an early age can affect this behavior for decades[10].

The current economic crisis and changes in the economy make the need for Hispanics to have greater access to and use cost effective and sound financial institutions even more urgent. The growth of the younger population provides an opportunity for the next generation of Latinos to be more financially savvy and build wealth. In addition, focusing on the next generation of Latino consumers could be a two-fold strategy for an entrance point for financial institutions. Banks could use children as outlets to reach unbanked parents while creating a generation of future customers[11].

This paper will examine the current financial practices of unbanked Latinos and the key barriers that hinder Latinos from accessing mainstream banking services. These barriers include the lack of effective outreach strategies by financial institutions and lack of clarity in regulatory guidance. This paper will then look at examples of successful strategies for banking the unbanked, and highlight policy actions necessary to ensure more Hispanics in the next generation are integrated into the mainstream financial system.

Background

The Latino Population

The Latino population is the fastest growing minority group in the United States. The United States Census Bureau projects that the Hispanic population will increase from an estimated 46.7 million in 2008 (or 15% of the total population) to 130 million (or 30% of the total population) in 2050.[12] Driving this projected increase in the Hispanic population will be an 82% increase in the number of immigrants expected to arrive from Latin America countries between 2005 and 2050.[13] Thus by 2050, the Hispanic population will be made up of an estimated 67 million immigrants and 50 million U.S.-born children or grandchildren of immigrants.[14]

Overall, the Latino population is younger. The U.S. Census Bureau's 2005-2007 American Community Survey estimates there are 15 million Hispanic youth under the age of 18, with Hispanic youth ages 5 to 17, making up the greatest percentage of the total Hispanic population at 23.2%.[15]

The extent to which these projections may be affected by the current economic crisis is as yet unknown. However, recent studies have found that the rate of growth of U.S. Hispanic immigrant population may be shrinking and future levels of immigration from Latin America may be curtailed.[16]

The Unbanked

Who are the unbanked?

The unbanked are defined as consumers that do not have an account with a depository financial institution. Studies indicate that approximately 40 million households (106 million individuals) in the United States are unbanked.[17] Additionally, a Federal Reserve-sponsored survey found that households that use a nondepository institution for financial services nearly doubled to 60% during 1992-2004.[18] Findings from various sources, as reported by Jean Fox, Director of Financial Services for the Consumer Federation of America, indicate that payday borrowers, one example of a nondepository institution, tend to be low- to moderate-income individuals, minorities, and younger individuals. For example, in one study in California, the concentration of payday lenders in Latino and African American neighborhoods is 2.4 times that in majority white neighborhoods.[19] While nondepository institutions may provide some needed services, they do not offer long-term products, such as savings accounts, to help Latinos work towards building credit and wealth. Unbanked households have the following characteristics:

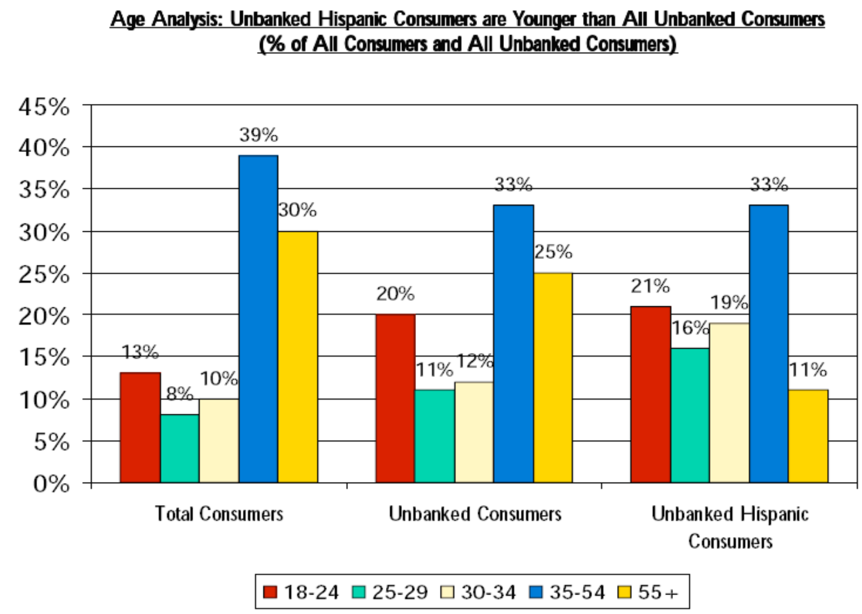
- Young (42% being between the ages of 18 and 34[20])
- Female (54%)
- Low income levels (70% have an annual household income less than $35,000[21])
- Low levels of academic achievement (42% are high school graduates)
- Employed (47% of the unbanked population are employed full-time)

A 2008 report by the National Council of La Raza found that 35% of Latinos and 45% of foreign-born Latinos in the United States do not have a checking account.22 Research findings suggest that the determining demographics of the Latino unbanked population are age (more likely to be young) and length of time in the U.S. (more likely to be recent arrivals).[23] Unbanked Latinos are twice as likely as all Latinos to have been in the U.S. for 3 to 4 years.[24]

As the above demographic data indicates, the Latino population is younger compared to the non-Hispanic white population overall. The majority of this population (45% – 50%) is foreign-born or considered first generation. The Social Compact Survey suggests that recent immigrants may be easier to reach as they express a higher interest in learning about banking.[25] This represents a large opportunity to reach this target population and create a strategy to increase market share in the future.

Why are they unbanked?

Numerous studies conducted over the years suggest the following factors contribute to the high numbers of unbanked Latinos. One study in particular, conducted by the FDIC's Money Smart financial education program, found that 20.3% of unbanked Latinos indicated that they would open a bank account. The study further highlighted the barriers they face to opening an account. These included: lack of service in the client's



Source: Scarborough Research[26]

native language, ability to participate, cultural experience, immigration status and/or distrust in financial institutions.27 Each of these barriers is discussed in greater detail below:

Lack of documentation — For immigrant families, it is often difficult to establish a relationship with a traditional financial institution because they do not have the official documentation needed to open an account. According to the Social Compact Survey, in a community made up of 75% of immigrants, more than 40% surveyed stated that they had never had a bank account and more than 50% had no current account. The lack of a social security number was the most common reason for not banking.[28]

Distrust of the banking system — Immigrants may be separated from mainstream financial intuitions because of distrust in the banking system, due to experiences in native countries. Further, lack of information perpetuates erroneous beliefs about using financial services.

Access — Immigrants often have limited access to opportunities to become banked; traditional financial institutions have been absent in low-income communities of color. Thus, unbanked Latinos utilize fringe banking providers for services such as check cashing, paying bills with money orders, and sending remittances to home countries.

What will it take to bank the unbanked?
The barriers cited above suggest that both building trust and removing practical barriers are key. To gain trust, financial institutions need to understand the needs and fears of immigrant consumers. Luis Pastor, CEO of the fastest growing credit union in the country- The Latino Community Credit Union- states that “Every [employee] working here needs to know what it’s like not to be living in your environment…if you know what it’s like, it’s easy to understand their fears.”[29] By understanding these fears, a different approach to practices could be applied; by changing these practices, banks could increase participation of the unbanked in financial institutions. Pastor notes, “Bankers are just now learning…what credit union’s founders have always known, which is that immigrants make their loan payments on time and consistently, because they are motivated and hungry to achieve financial stability.”

Studies have found that financial education is also critical to increasing the number of consumers who use mainstream banking methods. The greater that degree of outreach and education, the greater the likelihood consumers will participate and use more financial products beyond checking and savings accounts, to include asset and wealth building.[30] With greater outreach and education, the potential for Hispanic consumers to be valued lifetime members of financial institutions is very high.

While 63% of banks report providing financial education materials — typically in the form of brochures and pamphlets — to the unbanked and/or underbanked, only 25% of banks use targeted marketing to reach unbanked Latinos. Thus despite the efforts made to increase financial education, Latino consumers are still not receiving the information they need to move them into conventional banking.

Financial Institutions Practices

Efforts to Reach Out to the Unbanked
In the last decade, financial institutions have begun to reach out to unbanked Latinos. Several studies document how small community banks and large financial institutions are reaching out to the unbanked. However, these studies also show that such efforts are scarce and not always successful. According to a recent study done by the FDIC,[31] “73% of banks are aware that significant unbanked and/or underbanked populations are in their market areas, but less than 18% of banks identify expanding services to unbanked and/or underbanked individuals as a priority of their business strategy.” This statistic illustrates the limited efforts of financial institutions to reach out and create a comprehensive and effective

strategy to serve the unbanked. Of those institutions that do perform some sort of outreach and offer services to serve this population, the effectiveness of these practices is poor.

Barriers to Greater Efforts

Despite numerous community and policy reports offering practical and policy recommendations stressing the importance of serving the unbanked, and reports outlining winning strategies to reach this group, financial institutions are still reluctant to do so. The FDIC report cited above found that financial institutions cite the following as primary reasons why expanding services to unbanked and/or underbanked individuals has not been a priority:

Lack of Profitability — Financial institutions cite the lack of profitability as a major obstacle to serving unbanked and underbanked individuals. However, 77% of banks indicated that they have not conducted any research on potential unbanked customers in their CRA assessment areas. This suggests that banks perhaps have made decisions on assumptions and perceptions, rather than on definitive research empirical data supporting this claim.

Regulatory Barriers — Financial institutions cite compliance with the Bank Secrecy Act (BSA) and the USA Patriot Act as potential barriers to serve this population. These concerns have been addressed as reports have outlined best practices and provided clarity to offer applicable products to this community while remaining compliant. Moreover, federal officials have conveyed their commitment to overcome bank misconceptions and offered assistance to facilitate serving the community[32].

Fraud Concerns — Financial institutions believe they have a limited ability to offer services to unbanked consumers, especially those widely used by Hispanics such check cashing, money orders and international remittances, due to concerns about compliance with the Bank Secrecy Act, the USA Patriot Act and the Anti-money Laundering (AML) guidelines. They are hesitant to offer check cashing services due to the potential financial loss if fraud were to occur. Under Section 326 of the USA Patriot Act, banks are required to establish a customer identification program (CIP) with minimum standards for the identification and verification of persons who apply for a bank account regardless if citizenship status. To verify the identity of clients, banks most often rely on government-issued forms of identification such as a driver's license or passport. Common forms of identification used by unbanked Hispanics, however, such as an Individual Tax Identification Number (ITIN)[33] or the Matrícula Consular[34] are less often accepted by banks (83% of banks do not accept ITINS and less than 43% of banks accept the Matrícula Consular) despite the fact that the cited regulations do not discourage or prohibit the use of such forms of identification.

These objections are heightened in the current economic climate as financial institutions have implemented conservative agendas to remain profitable. However, as the successful strategies described below and case studies described in the Appendix suggest, serving traditionally unbanked and underbanked Hispanics can be profitable in the long run.

Successful Banking Strategies

There are many examples of successful strategies used by community organizations, small community banks and large financial institutions alike, although community banks have been more successful. The following are common elements of efforts that have been successful in reaching out to and serving unbanked and underbanked populations:

- Creating partnerships for outreach and education with third party organizations that know and serve the community, such as schools, non-profits, community organizations and assistance agencies. Such partners can offer culturally relevant financial literacy education.
- Expanding access through employer programs.
- Creating a unique and comprehensive strategy to reach the community that adapts to their demographics rather than expecting them to change their behavior. Strategies that have been used include:
- Offering appropriate affordable products and services to meet customer needs, such as: check cashing, remittance services, entry-level or transition accounts, low or no minimum balance accounts, and alternative savings accounts (IDAs).
- Making retail branches more accessible by offering extended hours, hiring bilingual staff, and offering bank services in a less formal setting.
- Reducing regulatory barriers to open accounts by allowing use of alternative government identification, such as Matrícula Consular, and allowing use of alternative credit scoring models.

Although successful, these strategies have not reached a large scale. In general, community banks, and especially minority banks have been both more willing to try different strategies and more successful in implementing them. Unfortunately, according to banking regulatory agencies, Latino-owned banks account for only 25% of minority banks in the U.S. and are small in number overall relative to the banking industry. Community banks are better positioned to adapt to the suggested localized business model rather than following a "mass-market" approach for the following reasons:

- They can implement sound risk management techniques while serving the individual needs of the clients because decisions are made locally.
- They are better able to form partnerships with local non-profits

who can facilitate outreach and access to this community while reducing marketing costs.

- They can ensure that accurate financial information is disseminated in a personal and one on one manner to ensure biases and misconceptions are eliminated. Doing so can ensure the implementation of an effective strategy, ensuring that the financial needs of unbanked Hispanics are met in a culturally relevant manner, such as by using more written materials and in-person outreach given that an estimated 70% of the unbanked do not use the internet.
- They are better positioned to recruit and hire employees who know the community and can offer a personalized service needed to reach this target population.

Unlike large financial institutions, however, community banks are in greater need of support and resources because they face greater challenges. Community banks, especially those that are smaller, confront greater risks due to lack of geographic and portfolio diversity. In addition, they may face difficulty serving their primary customer base while expanding and attempting to compete with larger institutions. [35] Thus, technical assistance is necessary to ensure they correctly address all regulatory issues necessary to remain compliant with banking regulation. In addition, bank management must demonstrate a commitment to pursuing this approach as a long term strategy designed to cultivate a relationship with this community that will result in long-term loyalty and growth.

Pending And Proposed Legislation

The current financial and housing crisis has led to greater discussion and visibility – both in policy circles and in the national media - of issues pertaining to consumers' rights and protections. Furthermore, the billions of dollars in federal aid provided to financial institutions, has increased the scrutiny that Congress is placing on the banks' business practices and leading to an overhaul of the regulatory oversight of the financial services industry. The current crisis presents an opportunity for policy makers to focus not only on the short-term economic recovery of our financial institutions, but also on the long-term financial health – including expanding savings and investment opportunities - of all individuals. Below, we present a brief overview of key current and proposed legislation that can potentially address the needs of minority and low income populations.

Community Reinvestment Act (CRA)

The Community Reinvestment Act was enacted in 1977, requiring depository institutions offer equal access to bank services in their geographic assessment area (at least 3-5 miles from each branch; larger banks with multiple branches might have a larger geographic area (county or state). Community organizations have used this legislation for the past 30 years to increase the flow of capital, and expand access to banking services, for low-income and minority individuals in the community.

For the last 30 years, CRA has seen little change in its original law. The spirit of the law remains the same - to increase the flow of capital and expand access to banking in low- and moderate-income communities and communities of color. However, CRA's broad goals allow financial institutions to determine how best to meet the needs of their community, which can vary if you are a community bank or a national bank (with multiple branches). This flexibility means that the requirements are not standardized – i.e., there can be many different determinations and outcomes for how these goals are met.[36] The following highlight the development of CRA to date and the challenges going forward:

1. Strong pressure from activists in the 1970's to prevent banks from "redlining"- a term to describe banks refusal to provide equal services to low-income communities and people of color- led to the passage of this law; federal provisions for financial institutions have undermined CRA since its inception.
2. There is no specific measurement or a numeric test to determine an appropriate number of CRA credits for each bank. Every CRA bank examination is subjective.
3. Public comment periods for CRA exams and mergers have not been as effective due to very few expansion requests being denied and negotiating CRA agreements with national banks difficult.

The Assets for Independence (AFI) Act of 1998

The AFI Program is administered by the Office of Community Services in the U.S. Department of Health and Human Services, and awards grants to nonprofit community-based organizations, state and local agencies, and financial institutions to implement and demonstrate an asset-based approach for offering low-income families help out of poverty. AFI has provided an annual appropriation of $25 million to fund Individual Development Account (IDA) matches. Participants of the program create an IDA, which allows them to save earned income in a matched savings account; every dollar in savings is matched from $1 to $8 by the AFI Program. Participants use their IDA savings, including the match funds, to acquire any of the following assets:

- A first home
- Start, or expand, a small business
- Pay for education or training

A recent report by the National Bureau of Economic Research pointed out "that while most Americans acknowledge the benefit of savings, the most effective means of savings is through 'forced' methods, such as high tax withholdings or pension plans, whereby savings are automatically deducted from a worker's wages."[37] Additionally, the 2002 American Dream Demonstration (ADD) project evaluated 14 IDA programs to determine that an effective way to help Latinos increase their savings is to combine financial education with a savings tool.[38] Recommending, rather than requiring financial education, is just one concern of the existing legislation; others include:

1. IDAs are one low-risk method to introduce unbanked individuals to banking; through these savings accounts, individuals can expand on other products such as credit cards, investments, and insurance.
2. This program makes a strong case for banks who are trying to market to consumers who use non-traditional banking services; these transactions account for $250 billion annually.
3. Some IDA programs may disqualify individuals with poor credit or heavy debt.
4. In many cases, programs require some type of financial education training; however, it is not mandated across the board.
5. Funding come primarily from the AFI Act, with other public and private sources being state programs, non-profits, philanthropic groups, etc.; 33 states have laws or policies that support IDA programs.
6. No national framework for IDA accounts; many different programs at the state and local level.

The Federal Deposit Insurance Reform Act of 2005 and **The Federal Deposit Insurance Reform Conforming Amendments Act of 2005** (Collectively known as the Reform Act)

The law of concern here is the latter. The Reform Conforming Amendment Act requires that the FDIC conduct bi-annual surveys of insured depository institutions' efforts to bring unbanked individuals and families into the conventional finance system, among other conforming and reporting requirements. The following questions are listed in the legislation as reporting criteria:

- To what extent do insured depository institutions promote financial education and literacy outreach?
- Which financial education efforts appear to be most effective?
- What cultural, language, and identification issues as well as transaction costs appears preventative?

H.R. 384- TARP Reform and Accountability Act of 2009 (In the Senate)

This bill was introduced by Barney Frank, Chairman of the House Financial Services committee, to reform the Trouble Assets Relief Program (TARP) of the Secretary of the Treasury to strengthen accountability and transparency. It also permits smaller community financial institutions to participate on the same terms as large financial institutions that have already received funds.

Truth in Lending Act of 1968 (TILA)

This legislation was enacted to educate, and protect, consumers about credit by requiring "meaningful disclosure of credit terms." The law is designed in favor of the consumer; making businesses that extend credit comply with specific, standard, rules for disclosing their products (costs and charges), or be held liable. This allows the consumer to make the most informed choice despite no regulation on the actual charges that may be imposed.

Analysis And Recommendations

1. Policy makers should include provisions encouraging financial institutions to create a targeted outreach strategy for low-income, minority consumers as a requirement for receiving federal aid.

As the overhaul of the financial services industry continues to be debated, two bills, introduced in Congress this session, can address the concerns of low-income consumers., The first, the TARP Reform and Accountability Act of 2009, amends the TARP provisions under the Emergency Economic Stabilization Act of 2008 (EESA). As many banks continue to request federal funding from the government to increase the flow of capital, this bill proposes to provide a significant opportunity to write in legislation that ensures all banks receiving assistance are providing the financial services appropriate to serve the needs of low- to moderate-income Hispanics in the communities they do business. The following are proposed amendments:

- Requires quarterly reporting on the amount of increased lending for both insured depository institutions and non-depository institutions.
- Any new recipient of TARP funds must reach an agreement with the Treasury on the use of the funds.
- Directs Treasury to make funds available to smaller, community institutions, particularly Community Development Financial Institutions (CDFIs), whose purpose is to provide opportunities for housing and business development through loan products and financial education.

The second bill, the CRA Modernization Act of 2009, amends CRA, and includes stronger accountability measures for a broader group of financial institutions. CRA law is noted as one of the most important laws for building wealth and revitalizing neighborhoods. The amendments are:

- Require CRA exams to consider services to minorities in addition to low-income people
- Require federal regulatory agencies hold more public hearings when banks merge
- Apply CRA to a variety of non-bank institutions, including mortgage companies, credit unions, and insurance companies, for example.

2. Increase financial education efforts around banking services and asset-building programs for youth.

A new piece of legislation that would introduce federal guidelines around IDA accounts and programs has just been introduced to Congress in May. The Savings for Working Families Act of 2009 is intended to provide low-income individuals with an opportunity to build wealth and enter the mainstream financial institutions. The eligible funding and provisions are good opportunities to introduce financial education programs for youth, where a basic understanding of checking and savings accounts are first steps towards involvement with banks. The provisions proposed include:

- Allows for individuals as young as 18 to be eligible to establish an IDA account
- Requires IDA recipients complete financial education courses
- Allows financial institutions and non-profits a tax credit for providing IDA match funds
- Increases funding, in the form of grants, to the program
- The FDIC reports that banks provide 30% of the general operating funding to IDA programs. Eligibility for a tax credit may incentivize the program further.

3. Modify of existing legislation addressing consumer rights' and protections.

More efforts are being done to provide consumer protection rights for all consumers, particularly vulnerable consumers, who are often low-income consumers with poor credit histories; the unbanked fall in to this category as well. Two pieces of legislation are being proposed in Congress that will amend the Truth in Lending Act. The Credit Cardholders Bill of Rights Act of 2009 aims to provide transparency to credit card and bank account holders by prohibiting financial systems from arbitrarily renegotiating terms and making fees more obvious to the consumer. Additionally, the Payday Loan Reform Act of 2009 adds a section that establishes mandatory payday loan disclosure requirements, including materials in English and Spanish.

The Payday Loan Reform Act is a beginning step to provide consumers with full disclosure of payday lenders operations, even though it in no way restricts their presence or limits the concentration of their businesses in low-income, minority neighborhoods. Nonetheless, this legislation educates consumers of their rights and options, and ideally would raise awareness and education about the short-term products payday lenders offer. Banks have a significant opportunity to increase outreach to these consumers (considering some payday lenders require the borrower have a checking account to take out a loan) and should consider this legislation the start of a long-term strategy to receive revenue from these consumers that would otherwise continue to go towards payday lenders. The legislation calls for the use of a disclosure warning, 'This loan is not intended to meet long-term financial needs. This loan should be used only to meet short-term cash needs. The cost of this loan may be higher than loans offered by other lending institutions.' This is an important next step in addressing the lack of savings families have that use payday lenders- approximately ¼ of families who borrow from payday lenders identify themselves as savers.

4. Greater data collection on unbanked population, and successful community bank best practices serving this population.

The FDIC, in compliance with the Reform Act, is leading an effort to collect much needed research and data on unbanked populations.[39] A separate household survey was sent out in January 2009, in partnership with the U.S. Census Bureau, to begin to fill in some of these gaps; the information will be available later this year. Although these efforts are a step in the right direction, more is needed. These reports may only capture statistics on service practices and number of unbanked clients, but may not go far enough to explain cultural nuances or prove the validity of bank objections as fact or perception.

This data can be valuable to assist financial institutions, especially large, national banks, to implement a successful outreach strategy. Studies can include unbanked demographics and behaviors, thereby providing a greater understanding of how best to implement best practices found. The availability of this data can provide large banks, as well as community banks-which often don't have the organizational capacity to collect large amounts of research- an enormous savings in time, resources and funding that can be used elsewhere and better allow them to reach out to and serve unbanked Hispanics. Second, reporting requirements can be expanded to include studies compiling successful community bank, best practices. These reports can provide proven ideas that other banks can duplicate, highlighting an increased market share and profitability.

5. Greater clarity by regulatory agencies to help overcome bank objections.

In addition to legislative proposals, regulatory agencies must play a greater role through guidance and enforcement of existing regulations. As previously noted, banks often cite compliance as an objection to serve the unbanked population. Oftentimes, the guidance provided by the agencies may be broad or be subject to interpretation in a manner that favors the financial institutions. While it is important to ensure that banks and others subject to regulation have the flexibility to implementing their business model, they should not use these regulations as an excuse not to serve a specific portion of the population. Thus, greater clarity in guidelines and regulatory requirements for existing and proposed legislation would ensure that financial institutions avoid this problem.

Conclusion

To ensure that the next generation of Latinos are integrated into the mainstream financial practices and have the same opportunities to build wealth, policy makers and financial institutions must meet the needs of the Hispanic unbanked. This population represents an increasing number of the unbanked in the U.S. and faces significant barriers in accessing credit and safe financial services. Given the current demographics and projections for growth, the failure to serve this population will not only jeopardize the financial prosperity of Hispanics but of the entire country and put our long-term financial stability at risk.

Appendix

Case Study Summaries

Case studies of institutions establishing bank branches in high school exemplify a strategy that banks can pursue to reach this population.

- **International Bank of Commerce (IBC), Laredo,TX**
  The bank visits high schools, vocational schools and colleges, workplaces, community-based organizations, and has two branch locations that operate mock banking services as part of an educational program at elementary schools. IBC has reported that outreach efforts, particularly in the Latino Community, have been successful in attracting new customers.

- **Mitchell Bank, Milwaukee, WI**
  Mitchell Bank Responded to changing demographics in its service area by reaching out to community groups to determine what products and services the bank should offer to best serve the Latino community. In 2000, the bank established a branch, branded as Cardinal Bank, in a high school located in predominantly Latino neighborhood. Cardinal Bank is a student-opened branch now open four days a week. Through this branch, Mitchell Bank is able to successfully provide products and financial education to both students and parents, many form unbanked households[40].

Results:

- Overcoming trust issues and teaching literacy
- Over 800 new accounts for unbanked families
- Students market bank to peers
- Students have become the family financial advisors[41]

- **Capital One Bank**
  In 2007, Capital One became the first bank to build a branch in a New York City public school. In 2008, they opened a second high school branch in Newark, New Jersey. Students receive extensive training by working in Capital One branches. Once trained, they then run the in-high-school branches, with support from local Capital One retail bank associates.

Goals:

- Promote mainstream banking
- Connect students to industry professionals for mentoring opportunities
- Bring financial educations to the local community[42]

Results:

- Our student bankers provide financial education seminars to their fellow students, encouraging them to share their banking knowledge with their family members and neighbors – thereby helping financial institutions introduce banking and savings to underserved neighborhoods.
- Through this program, students also receive college admission counseling and counseling to help them adjust successfully to their freshman year of college.[43]

Endnotes

1 The terms Hispanic and Latino are used interchangeably throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race.
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