

perspectives

Federal Reserve Bank of Dallas

BANKING & COMMUNITY PERSPECTIVES

2004, ISSUE 1



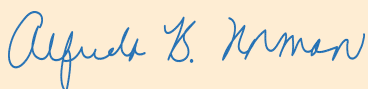
*Meeting in the
Mainstream*

Meeting in the Mainstream

One of the first projects I've had the pleasure of working on as the Dallas Fed's new Community Affairs officer is our upcoming conference, "The Business of Immigrant Markets: Providing Access to Financial Services." The conference will highlight the latest research on immigrants' role in the economy, explore innovative ways to provide them with banking and community development services, and identify business opportunities presented by this growing market.

This issue of Perspectives examines how and why it is important to invite the largely unbanked Mexican-immigrant population into the financial mainstream. The 2000 census estimated that nearly 2 million Mexican immigrants live in Texas, almost double the number in 1990. What do these potential new customers need most from a financial institution? How can Mexican immigrants overcome the barriers to accessing financial services? How do we meet in the middle of the road—in the mainstream? Finding the answers to these questions provides leadership opportunities for us all.

I hope you find this issue of Perspectives intriguing and informative.



Alfreda B. Norman
Community Affairs Officer
Federal Reserve Bank of Dallas

Financial Services and the Mexican Immigrant

Q&A with Ann Baddour and Rebecca Lightsey

The Mexican-immigrant population in Texas has grown significantly in the past decade—107 percent, according to the 2000 census. Mexican immigrants come to the United States seeking decent wages for hard work and a better life. These workers send much of what they make back to Mexico, fulfilling a commitment to financially support families at home. In 2003, the U.S. population of Mexican immigrants sent back more than \$13 billion—a 35 percent increase over 2002.

It is estimated that less than 50 percent of Mexican immigrants have relationships with traditional financial institutions. This is partly attributable to their experience with an unstable peso, a cultural preference for cash and a belief that banks are for the wealthy. Texas financial institutions have a tremendous opportunity to move the unbanked Mexican-immigrant community into the financial mainstream.

Two nonprofit organizations, Texas Appleseed and Community Resource Group, are working on the issue of financial access for Mexican immigrants. Both organizations are concerned that most of these immigrants do not use the basic services banks and credit unions offer, choosing instead alternative financial service providers and cash-based transactions.

To see how well the products and services of Texas financial institutions meet the needs of Mexican immigrants, Texas Appleseed and Community Resource Group surveyed 33 institutions in the state between October 2003 and January 2004. Eight multistate

banks, 15 Texas banks and 10 credit unions were surveyed. The resulting report, *Meeting the Financial Service Needs of Mexican Immigrants: A Survey of Texas Financial Institutions*, was released earlier this year.

Perspectives recently discussed the survey with Ann Baddour, program manager of Texas Appleseed, and Rebecca Lightsey, colonia program director of Community Resource Group.

Tell us how you went about conducting the survey.

Baddour: We selected financial institutions from East Texas to El Paso that marketed their acceptance of the



matrícula consular card, with the idea that if they accepted the card, they would be more than likely to

offer services that would meet the specific needs of the Mexican-immigrant community.

In conducting the survey, our goal was to compile the information from a customer's perspective. We called financial institutions' customer service lines so that we could have a sense of the "front line" and what kind of information people would get. We asked for key information that we knew would be important for a person who was just entering the banking system. We inquired about free checking accounts and products and services that the Mexican-immigrant customer commonly uses,

such as money orders and international remittance services—products that are of special interest to this community. There are many models that have successfully moved people into the formal financial service sector by offering products (at a comparable price) they are accustomed to using, so that they have a comfort zone while making the transition.

What did you learn from the survey? Please share some anecdotes.

Lightsey: The survey opened up very interesting issues in terms of some financial institutions' policies versus their



practices. We met with the staffs of several financial institutions. During those sessions, several of the

institutions told us they accepted the *matrícula* card as identification for opening an account. However, when we later called these institutions' customer service lines, the people we spoke to didn't know what the card was and had no idea what we were talking about when we asked about acceptable forms of identification other than Social Security numbers and passports.

In another case, one representative of a financial institution told us that it did not accept the *matrícula* card. But when we later called the institution's customer service line, we found out that it did, indeed, accept the card.

Baddour: We also discovered there were some institutions that accepted the *matrícula* card but also required a Social Security number or passport. More than anything, we observed that when you stray from the typical mainstream customer profile, there is confusion on the front line.

Lightsey: In summary, we found there is a great deal of interest among financial institutions in serving this population, and there is a lot of innovation taking place. However, initially we thought that if we identified financial institutions that offered low-balance or zero-balance checking accounts, the Mexican-immigrant customer would go in and sign up and everything would work smoothly. But that's not the case.

Baddour: There really is a need for financial education.

Lightsey: What we recognize now is that it's a two-way street. Financial institutions need to be welcoming to this new customer, and the new customer needs to value the importance of establishing a relationship with a financial institution.

What can financial institutions do to attract the business of Mexican immigrants and other unbanked populations?

Baddour: Here is a sample of best practices that have helped financial institutions in Texas and elsewhere in the country earn the business of these groups:

- Accessible hours and branch locations in nonintimidating environments
- Low-cost accounts, money orders and check cashing
- Savings accounts that offer incentives for monthly deposits
- Simple account fee structure
- Bilingual staff, web site and literature
- Financial education initiatives
- Community relationships that create trust
- Clear policy on identification
- Intervention on overdraft accounts to reduce fees
- Savings accounts that serve as free overdraft protection
- Higher monthly account fees to avoid unexpected charges

Using the *Matrícula* Card to Open Accounts

The long-standing requirement that an individual have a Social Security number to open an account had been a barrier for financial institutions in serving recent immigrant populations. On Sept. 18, 2003, the Treasury Department affirmed earlier rules for implementing the USA PATRIOT Act. The final rules provide discretion to financial institutions to accept foreign-issued identification to open accounts.

Under the new regulations, a financial institution must have an individual's name, date of birth, street address and an identification number to open an account. For a non-U.S. person, the identification number can be a taxpayer identification number, passport number with country of issuance, alien identification card, or other government-issued identification with number and country of issuance.

One of the most common identification cards used by Mexican immigrants to open financial institution accounts is the *matrícula consular* card, which is issued by Mexican consulates in the United States. Mexican consulates require that the applicant appear in person and present proof of nationality, identity and address. Currently, at least 70 financial institutions and 800 governmental entities nationwide accept the *matrícula* as official identification.

One bank that has been at the forefront of outreach efforts to Mexican immigrants in Texas opened 30,000 accounts, with a total of \$50 million in deposits, using the *matrícula consular* card nationwide in a six-month period. In the Midwest alone, approximately 50,000 accounts were opened using the *matrícula consular* card over 18 months, collecting over \$100 million in deposits.

This article was adapted from Meeting the Financial Service Needs of Mexican Immigrants: A Survey of Texas Financial Institutions, May 2004.

Lightsey: The goal should be to maintain a long-term relationship with these individuals, not just get them in the door. Financial education is key to changing the perceptions of unbanked individuals.

Now that the report is complete, what will you do with it? And why are the conclusions important?

Lightsey: We want to disseminate the report in various forums and continue working with individual financial institutions on initiatives to serve immigrant communities. We hope this report will spark dialogue and coalitions that will create new underwriting and credit-

scoring criteria. We hope these new programs, products and services will eventually be part of the mainstream business of financial institutions.

Baddour: Why are the results important? When people walk around with a lot of cash in their pockets, they are vulnerable to crime. At the other end of the spectrum, the conclusions are important because the Mexican-immigrant population in Texas is a huge component of our economy, and right now they are outside the mainstream. Bringing them into the financial mainstream benefits this community by giving them a safe place to keep their money and build credit. It also brings financial institutions a very large

market with tremendous future potential. Mexican immigrants make up nearly 10 percent of the total population of the state of Texas. You can't ignore the numbers.

The report by Texas Appleseed and Community Resource Group includes tables with account and service information for the financial institutions surveyed. Meeting the Financial Service Needs of Mexican Immigrants is available online at www.texasappleseed.net. For additional information, contact Ann Baddour at abaddour@texasappleseed.net.

Texas Appleseed

Texas Appleseed is one of 18 centers operating under the umbrella of the Appleseed Foundation, a Washington, D.C.-based nonprofit that traces its roots to a 1993 Harvard Law School reunion. Classmates decided to establish a network of centers around the country that would harness the pro bono efforts of lawyers and prominent law firms in a systemic approach to social reform.

Each of the centers functions independently and decides which issues are most important to its community. In the case of Austin-based Texas Appleseed, started in 1996, those issues have been diversity in the legal field, indigent defense reform and fair immigration policy.

It was examining immigration issues that led the Texas center to look at the financial products and services offered to

the Latino community. Texas Appleseed's goal is to improve immigrants' access to low-cost services that will help them build credit. To achieve this, the organization is working with banks to develop policies that are welcoming to the Latino community, creating financial education materials, and expanding consumer protection and providing information in the area of remittances.

Community Resource Group

Community Resource Group (CRG) has been helping low-wealth, low-income communities develop long-term solutions to their problems since 1975. The nonprofit organization, based in Fayetteville, Ark., has operations in that state and in Tennessee, Alabama, Mississippi, Oklahoma, Louisiana and Texas. CRG's main expertise is in the areas of water and wastewater systems, low-income housing

and community transportation.

CRG has been active in Texas since the mid-1990s, working in colonias—unincorporated, impoverished subdivisions along the Mexican border that often lack basic infrastructure. After a 1995 lawsuit revealed that the developers of one Starr County colonia had sold lots to multiple buyers, the state appointed CRG receiver to sort out the resulting maze of title problems for over 1,000 acres of property.

CRG's chief goal in the colonias is asset building, and housing assistance was the logical next step. The organization has used state and federal money to rehabilitate more than 100 homes. Another project, Nuestra Casa, is a privately funded microloan program that's giving colonias residents access to credit so they can pay to improve their most important asset—their home.

Finding a Place in the Mainstream: One Immigrant's Story



Madge Vasquez, loan officer for Austin Community Development Corp., believes Jesus Becerra epitomizes the immigrant who's realized the American Dream. She describes her client as a visionary—an energetic, hardworking man, committed to both family and community. “He has an indefatigable spirit, a good sense of humor and a humility that is refreshing,” says Vasquez.

Becerra surely needed all those qualities to achieve what he has. The Mexican boy who arrived in Austin 30 years ago with 500 pesos now owns a thriving business that he hopes to someday pass on to his children.

Becerra was 14 when he immigrated from Guanajuato to Austin with the equivalent of \$40 in his pocket and little education. Having worked in his family's bakery in Mexico, he found a job at La Reyna Restaurant, a South Austin restaurant and bakery owned by Vicente Hernandez. For the next nine years, Becerra also held a second job as a baker at an H-E-B store.

After 15 years at La Reyna under Hernandez's mentorship, Becerra had considerable expertise managing the operation. He had also gained the respect of its owner, who upon deciding to sell the bakery portion of the business, offered it first to Becerra. “He was the only person able to do it,” says Hernandez.

Becerra purchased the bakery in 1989, using \$6,700 of his own savings for a down payment and owner financing for



the remainder. A year later, he incorporated his sole proprietorship and began looking for his own space. Every day, he passed an abandoned building one block south of the restaurant and dreamed of owning it for his bakery. For over two years, he and his CPA monitored the price of the property.

In 1992, Becerra's dream became reality. With the help of an SBA loan secured through NationsBank, he purchased the building, moved and bought equipment for expansion. He used personal savings to pay for subsequent building improvements.

La Reyna Bakery got off to a strong start in its new location. In 1993, it racked up sales of \$385,000, and in 1994, revenues reached nearly \$500,000. In 2002, now operating under the name La Mexicana Bakery, the business expanded to include a restaurant, and by June 30, 2003, revenues were at \$1.2 million.

Unfortunately, in fall 2003 business dropped off when road construction obstructed the entrance to the bakery. In addition, Becerra was making large payments on three investment properties across the street. Using loans totaling \$275,000 from the Austin CDC and the Texas Mezzanine Fund in Dallas, he refinanced the investment property and obtained \$25,000 in working capital. This past summer, Becerra sold those properties. He'll use the profits to pay off the loan and plow another \$190,000 back into his business.

Today, the 6,282-square-foot La Mexicana has four large industrial ovens and produces more than 100 types of pastries, cakes and cookies, as well as breakfast tacos, tamales and a variety of lunch and dinner entrees. Three vans make deliveries for the business, which operates 24 hours a day, seven days a week.

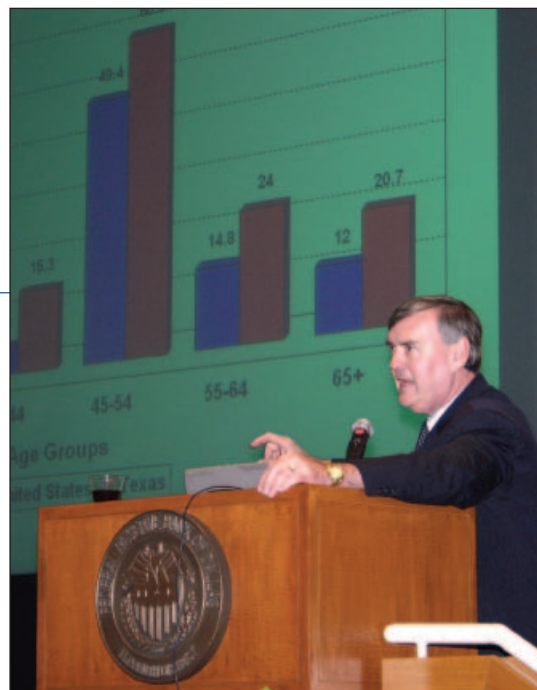
Previously an abandoned building, La Mexicana Bakery brightens the South Austin landscape with its neon red, white and green signage—a feature Becerra feels is welcoming to Austin's growing Hispanic community. His ultimate goal is to be the best bakery in Austin and pass the business on to his daughters and sons.

Vasquez once reminded Becerra of the common Mexican saying, “No te apures, para que dures.” Translated: “Don't rush around so much, so that you can live a long life.” Becerra's response was, “Pero no mas tengo una vida para vivir. Tengo que aprovechar.” Translated: “But I only have one life to live. I must take advantage and live it to the fullest!”

The Texas Challenge in the 21st Century

by Steve H. Murdock

Steve Murdock is director of the Institute for Demographic and Socioeconomic Research, University of Texas at San Antonio. He is also the official demographer for the state of Texas. Murdock has authored 11 books and more than 150 articles and technical reports on the implications of demographic and socioeconomic change. In May, he received the 2004 Hobby Visionary Award from the Center for Public Policy Priorities, a nonpartisan, nonprofit research organization that works on issues that affect low-income Texans.



In the latter part of the 20th century, many policymakers, analysts and academics began to recognize that the population of Texas was changing rapidly, with dramatic implications for the state. By 1950, Texas was no longer primarily rural. By the end of the century, it had become the second-largest state in the country and home to its second-largest Hispanic population.

Demography may not be destiny, but demographic factors are key determinants of other socioeconomic changes in our society. Three of the most important factors shaping Texas are the rate and sources of population growth, the aging of the population and the growth in non-Anglo populations.

Population Growth

Texas entered the 21st century with a population of almost 21 million, up dramatically from 7.7 million in 1950 and 16.9 million in 1990. In the 1990s, Texas added nearly 3.9 million people—the equivalent of another city of Houston, plus another Dallas, San Antonio and Corpus Christi. Texas had the second-largest numerical increase and the eighth-largest percentage increase of any state. The Dallas and Houston regions experienced increases

greater than 40 of the 50 states, and Laredo, McAllen–Edinburg–Mission, Austin–San Marcos, and Brownsville–Harlingen–San Benito were among the nation’s 10 fastest growing metropolitan areas in percentage terms.

Since 2000, Texas’ population growth has slowed somewhat, although not as markedly as other parts of the country. The Census Bureau estimates that from April 2000 to July 2003, Texas added roughly 1.3 million people. This numerical rate of growth was second only to California’s, and the percentage rate of growth—6.1 percent—was the fourth fastest among the states.

Obviously, the magnitude of growth impacts many facets of life in both the private and public sectors. But the source of such growth is also important.

Population growth is a product of three processes—births, deaths and migration. The difference between births and deaths for a given period is called the “natural increase.” Migration can be either immigration from other nations or migration from other states.

The two sources of change have very different impacts on the economy. Growth as a result of natural increase tends to

have a smaller immediate impact than growth through migration because the latter involves a new household moving into an area—a household that will need somewhere to live and a variety of public and private services. As a result, in periods like the 1970s and 1990s—when the economy expanded substantially—migration was the largest source of growth. Generally, however, natural increase tends to be the major source of growth.

What kind of migration occurs also impacts the economy significantly. International immigration tends to involve a small proportion of highly educated and high-income people and a relatively large proportion of relatively poor and poorly educated people. This has been true from the very beginning of the nation. Domestic migrants to a state tend to be what demographers call “positively selected”—meaning that they tend to have higher levels of education and be employed in higher income jobs than the area’s indigenous residents. As a result, domestic migration generally has a more positive impact on an economy than immigration.

In Texas during the 1990s, migration accounted for 50.3 percent of the state’s population growth, 30.2 percent of it

domestic. From April 2000 to July 2003, however, migration accounted for 43.5 percent of the growth and domestic migration for only 8.8 percent. So although growth has been only slightly slower in the 2000s than in the 1990s, the economic implications have been quite different.

Aging

The Texas population, like that in the rest of the country, is aging. The baby boomers—those born between 1946 and 1964—constitute approximately 30 percent of the Texas and U.S. populations. As a result of their aging, the state’s median age has been steadily rising and by 2000 had reached 32.3 years. By 2040, one in five Texans—or about 20 percent—will be 65 years of age or older.

Equally important, the age structure of Texas shows an interrelationship with race/ethnicity. In 2000, whereas 72 percent of the population 65-plus was Anglo, 57 percent of those under 18 were non-Anglo. In 2040, 26 percent of Anglos but only 10 to 15 percent of Hispanics will fall into the 65-plus category. Young Hispanics will dominate the Texas population by 2040. For example, almost 70 percent of those under the age of 5 will be Hispanic, as will more than 60 percent of all groups through age 49.

These patterns suggest that at a time when Anglos will be increasingly concerned with issues involving aging, Hispanics will be focused on issues affecting younger people. The difference in age structure also means that growing numbers of older Anglos will be looking to an increasingly larger proportion of young non-Anglos for public and private services.

Racial/Ethnic Change

No factor is more important to Texas than the growth of its non-Anglo populations. If you wonder what the future of this country will look like and you live in Texas, all you need to do is look around you. The state is a precursor of what we can expect nationwide.

In 2000, 53 percent of the Texas population was Anglo and 47 percent was non-Anglo. By 2003, the Texas population was less than half Anglo. Assuming the growth rates of the 1990s continue, it’s projected that by 2040 the state will be about 24 percent Anglo, 59 percent Hispanic and 8 percent African-American, with another 9 percent of the population falling into the “other” category, but primarily Asian. (See the chart below.)

Roughly 96 percent of the net additions to the Texas population from 2000 to 2040 will be non-Anglos. Projections show that by 2040, under the trends noted above, eight of every 10 children in public elementary and secondary school, seven of every 10 college students and three of every four people in the labor force will be non-Anglos, and 68 percent of consumer expenditures will involve non-Anglos.

Implications

These trends would be of little interest to anyone other than demographers were it not for the fact that due to a variety of historical, discriminatory and other

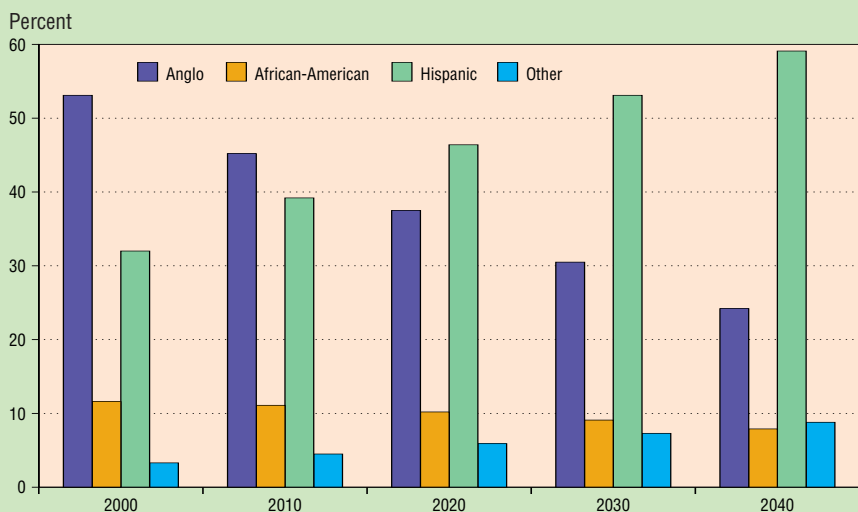
factors, sociodemographic characteristics are tied to these demographic characteristics.

For example, incomes tend to be higher for middle-age people. Median income levels of African-American and Hispanic households are between 55 and 70 percent of those for Anglos, and poverty rates for those households are three times those of Anglos. Roughly 25 percent of Texas Hispanics and 23 percent of African-Americans lived in poverty in 2000, compared with roughly 8 percent of Anglos.

If the projected demographic changes take place, and the relationships between factors such as non-Anglo status and income do not change, Texas will be a poorer and less competitive state in the future. If the socioeconomic differentials that now exist are not changed, the Institute for Demographic and Socioeconomic Research projects that in 2040 the labor force will be less well educated, the number of households living in poverty will increase by 4 percent and the income of

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Projected Proportion of Texas Population by Race/Ethnicity



Note: 2000 data are from the 2000 census. Projections for 2000–40 assume that net migration continues at the 1990–2000 level.

Source: Department of Management Science and Statistics, College of Business, University of Texas at San Antonio.

Tu Banco Opens the Mainstream to New Customers



David Gottlieb, vice president of strategic relationships at Woodforest National Bank, was scouting for a new branch location in the heart of a Conroe Hispanic neighborhood when he came across Frutilandia Grocery. After meeting the store's owners, Gottlieb knew he'd found the right place. The store was small and locally owned; it felt like part of the community.

He then asked a group of Hispanic bank employees how to embrace and accommodate the branch's potential customers. While brainstorming on how to do so, the employees envisioned Tu Banco, "Your Bank." They also planned an outreach strategy to a community that was primarily unbanked.

The strategy they devised is clearly working. More than 900 checking and

savings accounts have been opened at Tu Banco since its start in November 2003. The branch is working to meet the community's needs with check-cashing fees that are currently 1 percent of the check amount, low compared with check-cashing services; Western Union transfers for remittances; postal services; and bilingual staff, literature, web site and ATMs.

Tu Banco also accepts various combinations of identification for opening accounts and cashing checks. The bank accepts the matrícula card, and when a minimum of 15 people need to apply for one, takes them by chartered bus to the Mexican consulate's office in Houston, 40 miles south of Conroe. The bank accepts utility bills in an applicant's name as identification. It also accepts an individual taxpayer identification number and pro-

vides forms and any needed assistance to apply for one. Once an account is opened, a customer receives a picture ID that's accepted at any Woodforest branch.

Tu Banco further accommodates its customers with long hours. It's open seven days a week, 9 a.m. to 8 p.m. Monday through Saturday and 9 a.m. to 3 p.m. on Sunday. Another component of the bank's strategy is financial education. Bank staff is actively involved in initiatives with Montgomery County Community College District and the Conroe Independent School District.

The model works. Employees, customers and, says Gottlieb, the second- and third-generation children of customers are proud and appreciative of efforts to welcome this community to their bank—Tu Banco!

Texas Challenge

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the average Texas household will be \$6,500 lower than in 2000 (in constant dollars).

The future of Texas will be increasingly tied to its non-Anglo populations,

and how well these populations do will determine how well Texas does. The demographic changes will have an impact on the demand for housing, education, welfare and employment services, as well as income and wealth and the state's costs and revenues. Steps must be taken

to ensure that all segments of Texas society are competitive in an increasingly global economy. We must draw together to meet this challenge, because how well Texas does will determine its economic and social future.

For more information, go to <http://txsdc.utsa.edu>.

perspectives 2004, Issue 1

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September 2004

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