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LATINO COMMUNITY INSIGHTS: FINANCIAL ACCESS AND INCLUSION*

Latino[†] households continue to experience limited access to mainstream, affordable financial products and services; yet, the need to stabilize households could not be greater. The Latino community lost more than 66% of its wealth in the recession[1] and has not yet recovered lost ground. In 2013, 17.9% of Latino households were unbanked, more than double the national rate of 7.7%.[2] The rate is even greater for immigrants who are not yet citizens at 22.7%.[3] Falling outside the traditional banking system has a negative effect on Latino families. Without affordable options, they often pay significantly more for financial transactions from nonbank institutions such as check cashers, remittance providers, and payday lenders. Additionally, Latinos are less likely to have a traditional credit history and more likely to have credit scores damaged by unemployment or underemployment during the recession. Understanding these factors are critical to finding solutions that enhance the financial security of Latino families.

This profile is part of a series that explores the observations of Latino community leaders working to help low-income communities achieve economic security and build wealth. For this issue, we surveyed NCLR Affiliates who are members of the Financial Services Advisory Council[‡] (FSAC) to learn about their perspectives on bank account usage and what type of bank products and services are most effective for their clients, who are among the most vulnerable—very-low and low-income Latino and immigrant families.

ACCOUNT OPENING AND MAINTENANCE

Survey respondents noted a variety of reasons why their clients do not open a bank account. These include bank infrastructure, product features, personal finance constraints, and immigration status (see Table 1 for a full list of responses). In the communities where these Affiliates are located, it seems there is sufficient branch coverage, as respondents indicated that ATM and bank branch availability was not a significant barrier.

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† The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout this document to refer to persons of Mexican, Puerto Rican, Cuban, Central American, Dominican, Spanish, and other Hispanic descent; they may be of any race.

‡ The NCLR Financial Services Advisory Council (FSAC) includes 10 NCLR Affiliates who serve more than 40,000 clients annually. The results in this document are from a 23-question survey completed by representatives from each FSAC member in November 2015. Survey question types included interval scale, open-ended, and multiple choice. Due to the small sample size, these findings are not generalizable and only represent the results of NCLR's survey.

TABLE 1

Reasons Clients Do Not Open a Bank Account

For clients who are trying to open a bank account, how often are the following cited to you as reasons why they do not open the account?

Minimum balance requirements	91.6%
Fees are too high	83.4%
Negative records/previous trouble	83.3%
Client immigration status/no ID/only ITIN	75%
Overdraft fees	66.7%
Fees are not transparent	66.6%
ATM fees	50%
Not enough branches	41.6%
Not enough ATMs	16.7%

Note: Percentages represent those responding sometimes or often. Response options included never, rarely, sometimes, and often.

When people open an account, they may encounter challenges maintaining those accounts to keep them open. Survey respondents indicated that the three biggest obstacles clients have in maintaining their bank accounts are overdraft fees, high account fees, and minimum balance requirements.

Survey respondents also offered suggestions on features that traditional financial institutions either already have or could adopt to meet the unique profile of their Latino clients:

- Twenty-four-hour grace periods on overdrafts.
- Accelerated savings products (savings accounts that offer, for example, matches or incentives).
- Products and services available to those with Individual Taxpayer Identification Numbers (ITIN).

LOW-FEE ACCOUNTS

Survey respondents noted that "checkless" accounts offered at a low monthly fee are promising. They cited several benefits of these accounts, including that they come with all the protections of a bank account and are a reasonably priced option as opposed to high-fee, nonbank alternatives like check-cashing services. These accounts vary by institution but typically have monthly fees less than $5, do not allow customers to use checks, and do not allow Automated Clearing House electronic payments to third parties. Further, the transparent, flat monthly fee helps clients avoid hidden or per-transaction fees, plus many of these accounts do not permit overdrafts, which helps people manage their money more efficiently.

Despite the many benefits, respondents also noted that these "checkless" accounts are often inaccessible or do not serve all of their clients' needs:

- Some consumers still need paper checks to pay rent, and without checks, consumers resort to more expensive products like money orders.
- Traditional banking accounts are preferable for their clients because they offer more features and typically waive monthly fees if consumers meet certain requirements.
- Half of respondents noted that for very low-income consumers, any monthly fee is not an affordable option.

> These are more affordable than check cashing, but they are still not as accessible to our clients. A lot of clients are also not aware that these exist.
>
> ***–East LA Community Corporation, Los Angeles, California***

LOANS AND CREDIT PRODUCTS

Products designed to help consumers rebuild, improve, or build a credit profile–like secured credit cards and credit-building loans that include a full or partially secured deposit feature–were cited by three-fourths of survey respondents as helpful products for Latino consumers.

In addition to credit-building or repair products, survey respondents identified several other credit products or features offered by banks–large, small, community, and credit union–in their communities that have been particularly helpful for their clients:

- Payday loan alternatives.
- Mortgages for clients with ITINs.
- Mortgage down payment assistance programs.

> We work closely with a local community development financial institution that offers low-cost credit-building loans for those clients that have no credit or poor credit. We've partnered with them to be able to offer their application in both English and Spanish and routinely sign our clients up for their orientations to get them started with their process.
>
> ***–Hacienda Community Development Corporation, Portland, Oregon***

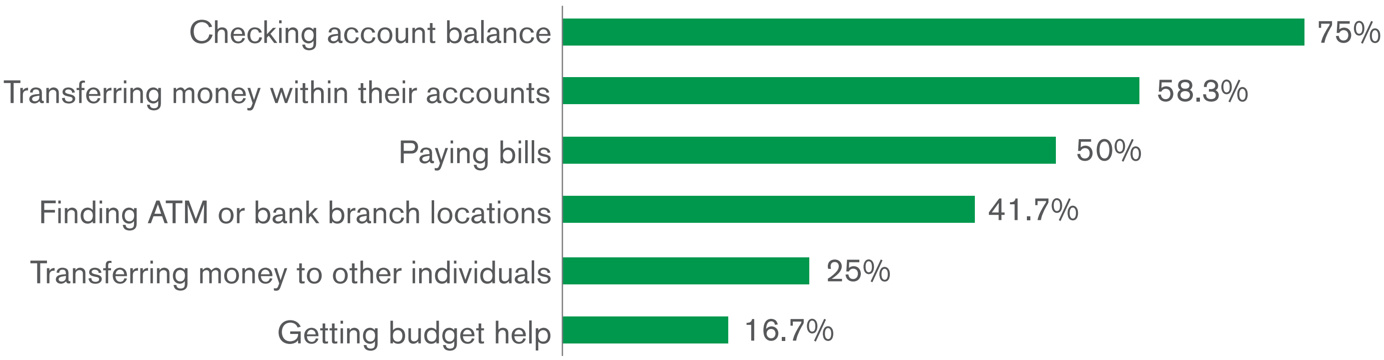
> I have been working very closely with … a community bank owned and operated by minorities. They offer a great product for credit-building and saving.
>
> ***–Cypress Hills Local Development Corporation, Brooklyn, New York***

ROLE OF TECHNOLOGY

Technology was also identified as a financial tool that could help low-income consumers overcome access barriers. However, the prevalence of bank smartphone app use as observed by respondents was mixed. Nearly 17% of respondents indicated their clients "never" use bank smartphone apps and an identical percentage indicated their clients use this technology "all the time." Three-fourths of respondents said clients who use bank apps do so to check their account balances, and more than 50% indicated these clients use these apps for transferring money between accounts and to pay bills (see Figure 1).

FIGURE 1

Types of Transactions Performed on Mobile Bank Apps



CONCLUSION

Many low-income Latino consumers still have difficulty opening and maintaining a bank account and lack products that will help them build or repair credit. Yet technology offers an opportunity to reach more Hispanic consumers through mobile banking apps. In order to ensure that this technology, as well as traditional accounts and credit products, serve harder-to-reach populations such as the very low-income and immigrants, the financial industry must continue to evaluate, innovate, and evolve to meet these consumers' needs. Specific interventions are essential in order to ensure Latinos, the nation's youngest and largest minority community, enter the mainstream banking sector, rebuild the wealth lost during the recession, and contribute fully to the American economy.

ENDNOTES

1 Rakesh Kochhar, Richard Fry and Paul Taylor, "Hispanic Household Wealth Fell by 66% from 2005 to 2009," Pew Research Center, Hispanic Trends, (Washington, DC: July 2011), http://www.pewhispanic.org/2011/07/26/the-toll-of-the-great-recession/.

2 Unbanked households are defined as those without a checking or savings account. Susan Burhouse, Karyen Chu, Ryan Goodstein, Joyce Northwood, Yazmin Osaki, and Dhruv Sharma, 2013 FDIC National Survey of Unbanked and Underbanked Households, (Washington, DC: FDIC, 2014), 16, www.fdic.gov/householdsurvey/2013report.pdf.

3 Ibid.