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Financial Insecurity Amid Growing Wealth: Why Healthier Savings Is Essential to Latino Prosperity

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INSIDE

INTRODUCTION

The economic boom of the late 1990s facilitated movement up the economic ladder for most Americans and helped to improve the financial security of their families. Many Latino** families also shared in the benefits of the expansion and experienced notable gains in income and reductions in poverty levels during this period. However, for many Latinos, unlike most Americans, these improvements did not translate easily into material increases in long-term financial security. According to a study based on data from the Federal

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** The terms "Latino" and "Hispanic" are used interchangeably by the U.S. Census Bureau to identify persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, and Spanish descent; they may be of any race.

Reserve's Survey of Consumer Finances, between 1995 and 1998, the net worth – the value of assets minus debt – of the average Hispanic family dropped 43%, from $5,300 to $3,000 in inflation adjusted dollars. By comparison, the average White family net worth increased 25% between 1995 and 1998, from $65,200 to $81,700.[1] As these data show, despite the economic gains experienced by Latino families through the 1990s, many remain financially vulnerable, maintaining just 4% of the wealth of the average White family. Moreover, evidence reveals that the wealth gap is widening.

Many Latino families are less financially stable than their counterparts because many have not acquired assets, the financial bedrock of most American families. The widening wealth gap between White and Hispanic households reflects a growing disparity in asset holdings between families. Many Hispanic families have not been able to obtain assets because many have been unable to save money, at least in the traditional sense, and disposable income is a critical ingredient to begin the process of acquiring assets. As a result, Latinos maintain the lowest homeownership rates and are the least likely of any other major U.S. race and ethnic group to invest in stocks and bonds.

Notwithstanding these concerns, the data and research show that a sizable share of Latinos do actively save, and many more would begin to save and acquire assets if provided appropriate targeted economic incentives. Comprehensive wealth-building strategies targeted to low-income Hispanic families could effectively create substantial economic opportunities that help Latinos close the wealth gap and permanently move into the ranks of the middle-class. Such strategies include capitalizing and expanding on federal programs already in place, such as the Earned Income Tax Credit (EITC) and Individual Development Accounts (IDAs). These programs could help to tap savings potential, encouraging financial institutions to become proactive and creative in their outreach to Latino customers, and increasing the number and support of financial education programs.

Demographics reveal that intervention is imperative. The U.S. Census shows that the Hispanic population grew by 58% between 1990 and 2000 and is now nearly 13% of the U.S. population. As this growth continues, the nation's economic prosperity increasingly depends on the financial strength of Hispanic households. In 2001, Hispanic purchasing power was $452.4 billion, an increase of 118% over 1990, demonstrating growing economic clout.[2] Nevertheless, low and declining net worth for Hispanics is an indicator of growing financial instability among these American families. The effect of rising instability will be felt most acutely as the economy heads into more uncertain times and with particular intensity in areas where large numbers of Latino families reside. Furthermore, the growing gap between White and Hispanic households signals greater economic polarization among different groups of Americans, which has wide-ranging social and political implications. Nevertheless, policy-makers, researchers, and financial experts have not paid much attention to these challenges, and few have explored Latino savings patterns at all. However, without a better understanding of the barriers that may inhibit saving for Latinos, it is difficult to determine how best to improve net worth for Hispanic households and close the wealth gap between American families.

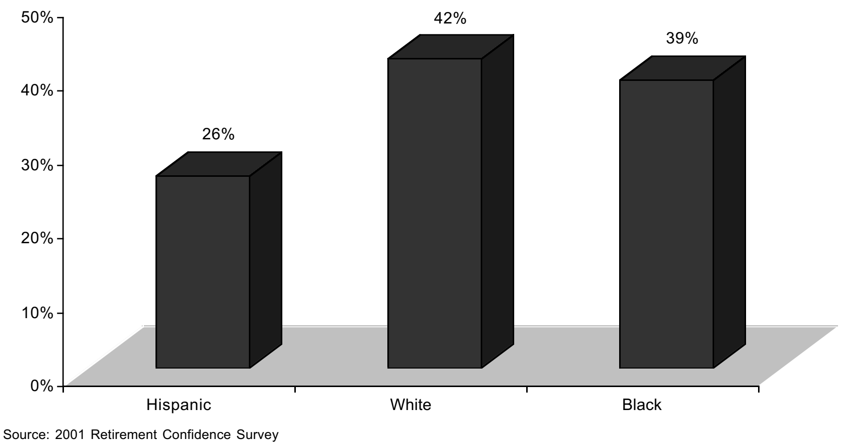
Accordingly, this issue brief examines the issues and factors that contribute to lower savings for Hispanic Americans. The brief summarizes relevant research and data and highlights strategies that promise to increase savings among Hispanic workers and families. The brief concludes with policy recommendations for improving efforts to promote and assist Hispanics in saving money and improving their economic mobility.

BACKGROUND

Savings is important for individuals and families because disposable dollars are typically necessary to purchase a home, buy stocks and bonds, gain access to and acquire a lower cost of credit, or pay for college education. This is especially important for low-income and asset-poor families. The aggregate value of these investments leads to higher standards of living for families, allows for upward economic mobility, and builds security for families against unforeseen economic hardships. In addition, savings and other assets may be used for retirement income. The more that people plan and save for retirement, the more likely they are to be able to maintain the quality of life they had before retiring, and the less likely they are to be poor or have to continue working when they become seniors.

Despite the obvious importance of saving, the national personal savings rate (not including corporate savings) recently dropped below zero and was at -.8% in the fourth quarter of 2000, down from 2.2% in 1999.[3] However, the personal savings rate is not a completely effective indicator of financial stability because it does not include capital gains and because more families and individuals are using existing assets to acquire other assets instead of saving money. In other words, when a family simply uses the value of property or stocks to purchase

WORKERS WHO SAID THEY HAVE MONEY SAVED, NOT INCLUDING RETIREMENT SAVINGS
By Race/Ethnicity
2001



Source: 2001 Retirement Confidence Survey

more property and stocks, savings is not required. Therefore, despite a negative personal savings rate, the net worth of the average American family has still grown. Yet, for many Latinos personal savings remains important. Because many Hispanic households do not have assets, increased savings for Latinos is essential in order to begin the process of asset accumulation and achieve a commensurate level of financial security. For this reason, data that reflect low savings among Latinos is troubling. According to the Federal Reserve, in 1998 over half (55.1%) of Hispanic families spent equal to or more than their annual income, effectively saving nothing.[4] Moreover, the Employee Benefits Research Institute (EBRI) Retirement Confidence Survey (RCS) revealed that only one-fourth (26%) of all Latinos surveyed, compared to about two-fifths (42%) of all White workers surveyed, reported having any money saved besides what they may have put aside for retirement.[5] Furthermore, according to Census data, only 27% of Latinos between 15 and 65 years of age reported receiving interest from savings,* compared to 59% of their White non-Hispanic counterparts.[6]

Even among the share of Hispanics who do actively save, data show that they appear to save much less than other workers, which causes them to remain less secure financially and more vulnerable to unexpected changes in the labor market. According to EBRI, only 15% of all Latinos surveyed and 24% of Latino retirement savers reported having more than $50,000 saved for retirement, compared to 24% of all workers surveyed and 33% of retirement savers.[7] Moreover, according to the U.S. Census Bureau, of Latinos who received interest from savings in 1999, the average sum was $817, which is significantly less than that of their White ($1,538) and Black ($1,200) counterparts.[8]

Implications of Low Savings Among Latinos

For Latino families, in particular, low savings often means less of a chance to buy a home, invest in a business, purchase stocks and bonds, otherwise build net worth and financial wealth, and ultimately ensure that their families can weather hard economic times.

For instance, homeownership has long been seen as a primary source of security, mobility, and wealth for families – a "forced savings plan" – as well as an investment. Homeownership is a major step toward financial security and is the largest single source of wealth for most Americans; renters have a median net worth that is just 3% of a homeowner's net worth.[9] For Latino families, owning a home is especially important in strengthening financial security; in fact, home equity represents a median of 71% of the net worth of Latino homeowners, compared to 40% for White and 57% for Black homeowners.[10] Nevertheless, the homeownership rate for Hispanics was measured at 46.7% in the third quarter of 2000, compared to a record high of 67.7% for all households and 74.3% for White

* Income includes interest on bonds, treasury notes, IRAs, certificates of deposit, interest-bearing savings and checking accounts, and all other investments that pay interest.

households.[11] The disparity between Latino and White families in homeownership is one of the most significant reasons for the difference between Hispanic and White wealth. While admittedly there are serious barriers to homeownership for Latinos which extend beyond low savings, including low income, high housing costs, lack of knowledge of the home-buying process, and discrimination,[12] it is difficult to purchase a home without having saved any money and virtually impossible in the case of low-income families with no savings.*

Median Family Net Worth and Financial Wealth

By Race/Ethnicity

1992-1998

	1992	1995	1998
NET WORTH			
Hispanic	$4,300	$5,300	$3,000
Non-Hispanic White	$71,300	$65,200	$81,700
Non-Hispanic Black	$12,000	$7,900	$10,000
FINANCIAL WEALTH			
Hispanic	0	0	0
Non-Hispanic White	$21,900	$19,300	$37,600
Non-Hispanic Black	$200	$200	$1,200

Source: Wolff, Edward. "Recent Trends in Wealth Ownership, 1983-1998," Jerome Levey Economics Institute, April 2000.

Likewise, personal savings rates for Latinos correspond with financial wealth levels, or net worth minus home equity. As the table shows, in 1998, the average Hispanic family had a financial wealth value of zero, while the median financial wealth value for White families was $37,600.[13] Partly because of low savings, Latino families have significantly fewer investments in the stock and bond markets than other American families. In 1996, 11% of Hispanic households owned stock or bond mutual funds, compared to 22% of all U.S. households.[14] Therefore, while these investments contributed substantially to growing net worth among many American households during the 1990s, Latinos were largely left out of this wealth boom and their net worth declined.[15]

Low savings and declining net worth among Hispanic families has major implications for the nation as well. The Hispanic population is growing rapidly and will increasingly influence the U.S. economy and has already begun to play a more vital role in important economic sectors. For instance, although the home-ownership rate remains comparatively low for Latinos, the number of Latino families buying homes has grown in recent years. Should this trend continue, Latinos will be a boon to the homebuyer's market, which is an important national economic indicator. Between 1998 and 2000, Latino homeownership jumped from 4.0 million to 4.5 million. This growth accounted for 17.5% of the overall rise in U.S. homeownership levels during this period.[16] However, while these data offer a glimpse of the positive potential clout Latinos may have on the economy, there is another side to this

* According to the Joint Center for Housing Studies (JCHS), in 1999 the median price of a home in the United States was $133,300. The JCHS finds that if a family were to buy a house at this price and make the traditional 20% downpayment, it would need $26,600 and then $762 per month for mortgage payments. Even if the family were able to place a smaller downpayment on the home, mortgage payments would rise. Accordingly, without a sufficient amount of personal savings most Hispanic families will not be able to purchase a home.

RETIREMENT SAVINGS

One of the most important reasons to save money and accumulate assets is to improve retirement security. Little or no preparation for retirement leaves many seniors in difficult financial circumstances as they reach their retirement age. Adequate preparation prevents retirees from becoming destitute and helps them to maintain their pre-retirement standard of living.* There are three sources of income that support workers during retirement: private pensions, personal retirement savings and investment income, and Social Security benefits. These three sources, commonly referred to as the "three-legged stool" of retirement, are needed to provide adequate retirement income. However, many Latinos do not have pension income or retirement savings, and far too many are forced to rely on Social Security benefits as a sole source of income.

According to the Social Security Administration (SSA), in 1999, for those people 65 years and over who received private pensions,** this income constituted approximately one-fourth (26%) of the total annual income of recipients.[17] The mean income from private pensions alone was $11,658 that year.[18] This income, coupled with Social Security and other savings, is often enough to keep seniors out of poverty. Yet, few Latinos have a pension. In 1999, only one-fourth (28%) of Hispanic workers participated in an employer-provided retirement plan, compared to nearly half (47%) of similar White and 42% of comparable Black workers.[19] Therefore, not surprisingly, in 1999 less than two in ten (18.5%) Hispanics 65 years and over received pension income.[20] Meanwhile, data show that this income constituted a mean of 30% of the annual income of Hispanic elderly who did receive it.[21]

Furthermore, data reveal that few Hispanic workers have personally saved for retirement. Retirement savings is important to supplement regular and stable pension income and Social Security benefits. Moreover, savings is also well suited to be accessed in large amounts if needed in order to cover long-term care or health emergencies that may arise during retirement years. However, EBRI showed that less than half (47%) of Hispanic workers reported having personally saved for retirement, compared to 65% of all workers who reported having done so.[22] Data also indicate that only one-fourth (24.5%) of Hispanic households with a currently employed householder have adequate retirement savings, compared to nearly half (47.6%) of White households.[23]

Consequently, because many Latinos do not receive income from pensions or personal retirement savings, Social Security is their most common and critical source of retirement income. In 1999, Social Security benefits made up an average of 63.5% of the annual income of all those 65 years and over who received it, and 74% of the annual income of retired Hispanics.[24] Moreover, SSA reported that, in 1999, Social Security benefits were the sole source of income for two-fifths of Hispanic (39%) and Black (40%) retirees, while the same was true for only 16% of White recipients.[25]

But despite the importance of Social Security benefits in supporting Latino seniors, Social Security benefits alone too often are not enough. Because benefit levels are determined by wage and earnings histories and because many Hispanic workers tend to be concentrated in low-wage jobs,[26] Latino retirees typically receive the lowest Social Security benefit payments. In 1999, retired Hispanics received a mean annual benefit of $7,584, compared to $9,360 for elderly Whites and $7,771 for elderly Blacks.[27] As a result of these factors, in 1999 nearly one in five (18%) retired Latinos remained in poverty despite receipt of Social Security benefits, compared to 7% of White and 24% of Black retirees.[28] Therefore, while the Social Security system works well for Latino retirees, these benefits alone typically are not enough to support a Hispanic retiree or keep these seniors from being poor.*** Taken together, lack of retirement savings of Latino workers often means that too many will be poor once they stop working.

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* Financial advisors estimate that it takes about 75% of a family's pre-retirement income to maintain its standard of living.

** Private pensions include non-employer plans, such as IRAs (Individual Retirement Accounts) and Keogh accounts, and employer-provided plans, which include defined benefit pensions and defined contribution plans. Defined benefit plans are a guaranteed benefit based on workers' salaries and years of service, whereas defined contribution plans, such as a 401(k), are based on the amount of money that the employer and/or employee contributes during working years plus accumulated interest.

*** Another contributing factor to poverty for Latino seniors is that a smaller share of Latinos qualify for Social Security benefits and, consequently, many Latino seniors have no "retirement stool" at all. In 1999, 91.3% of people 65 years and over with income received Social Security. However, just 85.2% of elderly Hispanics received it, compared to 92.5% and 88.5% of their White and Black peers, respectively.

equation. Declining wealth among Latino families could also have a potential negative impact on sectors of the economy. Moreover, growing financial insecurity for a burgeoning share of American families poses serious challenges to cities, counties, and regions of the country where large numbers of Latino families reside. Demographic projections suggest that without increasing personal savings and, correspondingly, the level of asset holdings for Latino families, ensuring financial stability and prosperity throughout the country will become more challenging. [See box on page 6 for implications of low savings on retirement security.]

Ability and Opportunity To Save

Increasing the Latino savings rate involves more than simply articulating the importance of saving to Hispanics. There are specific barriers to saving which must be acknowledged if solutions that increase Latino savings are going to be implemented effectively.

A. Income

The most obvious barrier to saving is income. The Survey of Consumer Finances (SCF) showed that, in 1998, only three in ten (30.7%) families who earned less than $10,000 and two in five (40.2%) families who earned between $10,000 and $24,999 were savers, while at least 58% of families who earned or had incomes over $25,000 had saved.[*29] Put simply, savings rates rose with income, making these data especially relevant for Latino families who are more likely to be low-income. In 1999, the U.S. Census Bureau reported that 39% of all Hispanic families earned less than $25,000, compared to 18% of similar White families. In addition, 10% of Hispanic families earned less than $10,000, while the same was true for 4% of White families.[30]

Low income is not the only obstacle however. Hispanic families above the median income level also tend to have less disposable income than similarly situated families. EBRI data reveal that Latino workers have more financial dependents than other American workers do. In the 2001 RCS, nearly three in ten (29%) Latino workers reported that they were financially responsible for at least three people, other than themselves; this was true for only one in five (20%) White respondents.[31] Limited disposable income appears to be an issue for Latino families across all income levels.

B. Financial Markets

The workings of financial markets can also be a significant barrier to saving for many Latinos. Many financial institutions, in an effort to increase revenue, have passed significant fees and other costs on to customer accounts. For many Latino families, banks can be more of a financial burden than a vehicle to encourage money management. With regular banking fees and the prospect of overdraft fees, owning an account often can cost more than paying a fee at a check-cashing outlet.[32] This explains, in part, the tenuous relationship that many Latino families have with financial institutions. In

* The Federal Reserve defines "saving" in the SCF as spending less than the total of one's annual income in the given year.

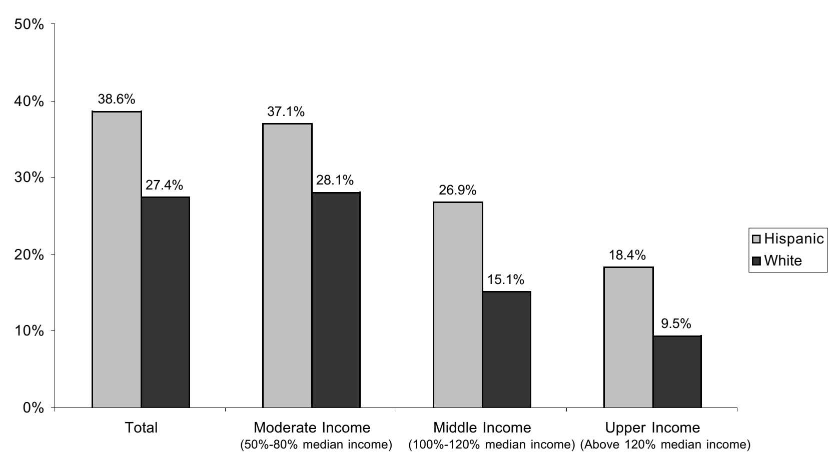
1995, 87% of all families had a transaction account, yet only 70.3% of Hispanics had one, compared to 92.5% of Whites.[33]

In addition, many U.S. banks have sought to appeal to customers with little more than "free checking" services. However, the SCF found the number one reason for not having a checking account was because families did not write enough checks to make having an account worthwhile financially.[34] Besides trying to appeal to the unbanked market with ineffective products, many financial institutions have not marketed their services to Hispanic consumers at all. This includes providing branches in Latino communities, supporting Hispanics businesses, employing Hispanics, and, in some cases (when necessary), providing bilingual materials.

The combination of these factors means that many Latino families have limited savings options because they do not have deposit accounts or relationships to banks, credit unions, or any other financial institution. The lack of interaction with the financial services market further exacerbates the low savings and assets of Latinos since they are often unable to establish a credit history, which is the standard evaluation tool used by the financial marketplace to determine access to credit, such as mortgage loans. For those with low participation in the market or with a flawed record due to persistent economic hardship, their resulting impaired credit history leaves them dependent on check-cashing outlets and unscrupulous high-cost lenders, limiting a Latino family's opportunity to become economically mobile.[35]

Lastly, discrimination plays a role in keeping many Hispanics from accumulating wealth and achieving financial security. For example, in 1999, nearly two-fifths (38.6%) of Hispanics were denied conventional home purchase loans, compared to about one-fourth (27.4) of Whites; Latinos were 1.4 times more likely than Whites to be denied these loans.[36] This higher denial rate seems to hold across income groups, suggesting that it cannot be attributed to Latinos' poor credit history. For example, upper-income Latinos (earning more that $60,240) were nearly twice as likely to be turned

DENIAL RATES FOR CONVENTIONAL HOME PURCHASE MORTGAGES
By Income and Race/Ethnicity
1999



Source: "Home Equity and Inequity," ACORN, Washington, DC, September 2000.

down for conventional loans than Whites at the same income level and were even more likely to be denied loans than middle-income Whites earning between $50,000 and $60,000.[37]

C. Cultural Factors

An issue that has not been suficiently documented, but which has begun to receive some attention in the literature, regards the degree to which cultural factors play a role in limiting the savings rates and habits of Latinos. In addition to NCLR's general knowledge of the community and its sense that Hispanics tend to be more conservative and risk-averse regarding money and participation in the "financial mainstream," recent surveys and articles have suggested that Latinos, as a group, share some characteristics that have affected their savings patterns and relationships with financial institutions.

Data from the 2000 EBRI survey found that one in five Latino workers (19%), compared to 10% of all workers, said that the following statement described them "very well": "I am not willing to take any financial risks, no matter what the gain." An additional one-fourth (26%), compared to 18% of all workers, said that this statement described them "well."[38] In addition, the University of Michigan's Panel Study on Income Dynamics shows that income and race are powerful predictors of whether Americans are likely to own stock.[39] The study found, not surprisingly, that people in higher income groups were more likely than those in low-income brackets to invest in stocks, and that while 41% of all Americans participate in the stock market, only 14% of African Americans do. Although the study does not provide data on Hispanics, it does suggest that their patterns would mirror those of African Americans. Taken together, a tendency to be conservative, coupled with race/ethnicity and income, may help to explain why Latinos are less likely than other Americans to invest in stocks or bonds, access loans (raise capital), or open up interest-bearing accounts.

Another factor that limits the savings rate of Latinos and may explain some of their risk aversion, particularly for Hispanics who are recent immigrants, has to do with a distrust of banks and financial institutions.[40] Some Latino immigrants have deposited money in banks in their home countries only to have it lost when the bank went out of business or devalued because of a weak economy. Such personal experiences lead some Latinos to prefer whatever is perceived to be "safest" to the possibility of a profitable rate of return on investments. Further exacerbating the problem is the failure of most banks and other financial institutions to reach out to the Latino community, especially in a way that addresses these concerns.[41] Furthermore, for some Latinos, language and other barriers, like inconvenient hours and locations, deter them from approaching a bank. Like most Americans, Latinos may not take what they feel is a risk of depositing their money into the hands of an institution with which they lack a relationship.

A related issue is that many Latino workers and families send disposable money abroad to help support family and friends in their native countries. In 1999, over $13 billion was wired from the U.S. to Latin America.[42] If the definition of "savings" and the idea of asset accumulation is broadened to include remittances, since these can be considered "deferred consumption" and since many families use remittances to invest abroad, these data suggest that Latinos save and invest much more than general savings statistics indicate. While this is very positive, this support of families abroad still leaves Hispanics in the U.S. with less money to invest or deposit in a savings account that would assist them in accumulating wealth in the U.S.

In addition to caring for relatives abroad, Latino workers and families are more likely than other American workers to have expectations and tendencies about caring for parents and grandparents in the U.S. EBRI data reflect this cultural characteristic. The RCS finds that almost three-tenths (28%) of Latino workers expect to be supported during retirement to some degree by family members. In comparison, only 16% of White workers said they expected support from family members to be a source of income during retirement.[43] Accordingly, not only do Latino workers have less money to save because they are supporting their family members, but there is less incentive to save if they expect to be supported by their children once they retire.

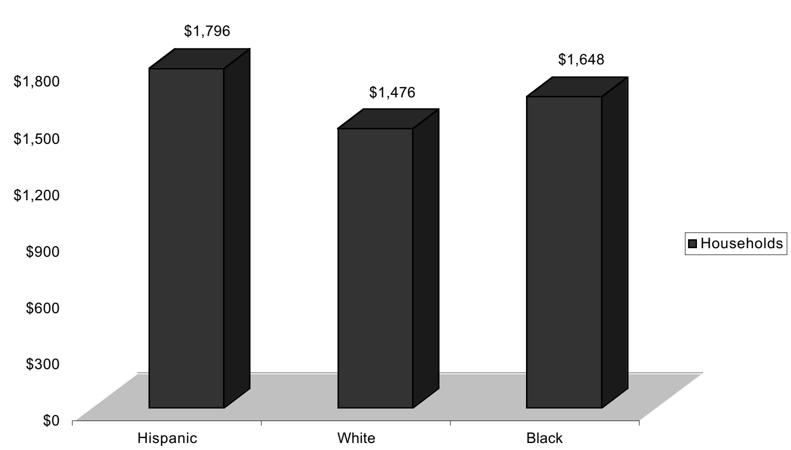
Promising Strategies

Despite the barriers discussed above, data also show that a significant share of Latinos have the ability and desire to save and have demonstrated potential to put money aside for emergencies and expected upcoming family needs. For example, EBRI data revealed that, of the 50% of Latinos who reported they had not personally put money away for retirement, over two-thirds (69%) think it would be "reasonably possible" for them to save $20 a week.[44] This willingness to save could be harnessed to improve substantially the financial security and net worth of Latino families if properly linked to important innovative private and public sector initiatives highlighted below.

A. Getting Past the Income Barrier

Although Latino families are more likely to be considered low-income than their White and Black counterparts – which hinders their ability to save – many low-income Latinos do have lump-sum disposable income that arrives in the

Average EITC Refund
By Race/Ethnicity
1999



Source: U.S. Census Bureau

form of a tax refund. The Earned Income Tax Credit (EITC) is a refundable tax credit intended to supplement the income of low-wage workers and offset the burden of payroll taxes. In tax year 1999, a total of $31 billion was refunded to families via this tax credit.[45] The EITC reaches most low-income families and is particularly beneficial to Hispanics since it is based on work effort and number of dependent children. In 1999, over one-third (34.4%) of Hispanic households received the EITC, compared to 12.7% of White and one-fourth (26.0%) of Black households. The average refund in 1999 was $1,796 for Latino households, compared to $1,648 for Black households and $1,476 for White households;[46] the maximum possible EITC refund in tax year 2000 was approximately $3,900 for a low-wage worker with two or more children.[47]

More encouraging, however, are data that show that many people who receive the credit recognize and welcome the opportunity to use the EITC for upward mobility. In a survey of EITC recipients, one-half of all respondents included saving some or all of their EITC check as one of their priority uses of the credit.[48] Because of the substantial amount of money refunded to low-income families and their interest in saving at least some of these refunds, the EITC has great potential to become a significant tool to allow low-income workers to save despite the immediate demands on their income.*

B. Federal Savings Programs: Individual Development Accounts

While the EITC and other refundable tax credits could be successfully linked to a number of financial service programs, one program in particular holds great potential for improving the savings rates of low-income Latino families. The Individual Development Account (IDA) program is targeted to low-income families and individuals and pairs saved income with matched contributions from private and/or public sources. Money that accumulates in the account may be used for the purchase of a home, to start a new business, or to pay for education. Despite low participation rates, preliminary results from a study of IDA programs found that Hispanic participants are successful savers. The study found that Latino participants saved an average of $30 a month, compared to $29 for White and $21 for Black participants.[49] Current estimates suggest that there are approximately 10,000 IDA accounts nationwide, and projections reveal that the program could expand to 25,000 if more financial institutions and local community-based organizations participate in the program.[50]

C. Market-Based Initiatives

Many Latino families do not have a productive relationship with a financial institution, in part because policies and practices in the market effectively limit access to these agents and

* It is also worth noting that the latest tax bill included new tax benefits for many low-income families. New provisions included making a portion of the child tax credit refundable and expanding benefits for EITC eligible families. These credits will significantly boost the opportunities for many low-income families to save.

inhibit Latino families from saving at high levels. It is virtually impossible to strengthen families financially, reduce the wealth gap between White and Hispanic families, and improve economic mobility for Latino workers without enhancing the position of Latinos in the financial services market. While many institutions have demonstrated an interest in targeting the Hispanic community, in many cases their approaches entail little more than translating documents and materials, which clearly overlooks the fact that the bulk of the Latino market speaks and understands English well. However, several market-based initiatives have shown potential to improve significantly the status of Latino families in the financial services market.

- **Financial Service Products.** Because reducing the number of "unbanked" people in the U.S. is a national priority, several years ago the government began an initiative to encourage banks to establish low-cost deposit accounts. The success of the "First Accounts" initiative has been, at best, modest. However, the notion of developing accounts with low fees as a means of bringing more families into the financial market is a good one and does not necessarily have to be solely supported by the government. Unfortunately, few banks have demonstrated a willingness to participate in the initiative because of the small profit margin, and the new Administration has proposed to eliminate the program. However, financial institutions such as credit unions and traditional insurance companies just entering the financial services market, in addition to banks, ought to consider how these low-cost accounts could assist them in attracting more Latino consumers and capturing a greater share of this emerging market. Financial institutions should also consider linking other services and products frequently used by low-income customers with savings products. Union Bank of California is one example of a financial institution adopting many of these approaches through a program called Cash and Save, a network of non-traditional branches that attract low-income and unbanked customers, the majority of whom are Hispanic. Among other things, these branches provide "nest egg accounts" that link check cashing services to goal-setting savings accounts. Cash and Save branches, located in low-income neighborhoods, also offer low-cost checking accounts to anyone, including people with a negative bank history; the accounts cost $1 to open, have a $3 monthly fee, and include five free checks a month.[51]

  In addition, financial institutions should consider creating programs that would allow people to send money abroad at a reasonable expense, while also encouraging them to save, see their money grow, and develop a relationship with a financial institution domestically. One example is the International Remittance Network (IRNet), an innovative program that allows credit union members to remit money through the credit union for a very small

The Role of Credit Unions

The promotion and support of credit unions among the Latino community could be greatly beneficial for low-income households. An alternative to banks, credit unions are nonprofit financial institutions, owned and controlled by the people who belong to them. Credit unions generally have lower fees than banks on checking accounts and credit cards, require low, if any, minimum balances, and are more targeted to the specific market they serve.[56] The National Federation of Community Development Credit Unions (NFCDCU) recently formed the Latino Credit Union Network. Through biannual conferences and other information-sharing tools, the network currently supports approximately 45 independent credit unions across the country which target Latinos in various communities. The expansion and strengthening of credit unions such as these could benefit the Latino community by addressing its financial, as well as cultural, concerns in a fair and helpful way.

fee. One benefit of such a program is that it combines the act of remitting with participation in a financial institution.

Finally, the idea of giving financial institutions the responsibility of intentionally reaching out to low-income communities is becoming more widespread. For example, economist John Caskey outlines such a strategy that encourages banks to provide outlets in low-income communities, deposit-secured emergency loans to those with a negative or lack of credit history so they do not have to go to high-cost lenders, such as payday lenders, and other products designed to attract underserved communities.[52]

- **Identification and Verification.** Latinos, including many Latino immigrants, tend to be distrustful of institutions. In addition, some are unable or unwilling to provide personal information, such as a Social Security number to verify identification, when opening accounts. Taxpayer identification numbers and other forms of verification often are all that is required to access financial services, but many banks and financial institutions do not acknowledge or accept these alternatives as a matter of institutional policy. This practice often serves as a deterrent for many Latino families, particularly immigrants, trying to access mainstream wealth creation tools. In addition, the lack of a formal credit history keeps many Latinos from accessing these tools. Financial institutions could attract more Hispanic customers if they consider alternative means of identification and verification. For example, Wells Fargo Bank is starting a program in Austin, Texas which will only require customers to show a government photo ID, which the Mexican consulate in Austin can issue, to open a non-interest-bearing account – no Social Security number or taxpayer ID is needed. While the program is targeted primarily at immigrants who have no other American identification, its purpose is also to tap into the growing Hispanic market.[53]

D. Financial Education

There are deep-rooted reasons that explain why many Latino families are risk-averse and, in general, not trustful of financial institutions; many of these are based on their personal experience, or lack thereof, with financial institutions. Whatever the case, a limited relationship to, or understanding of, the financial market reduces the chances of Latinos maintaining interest-bearing savings accounts and otherwise buying a home and building wealth. However, targeted financial education and literacy programs can help. Efforts directed at Latino families are underway from various quarters, including government consumer protection agencies, banks, and financial institutions. However, as alluded to previously, the hodgepodge of literacy programs and strategies currently operating typically entail little more than an exact translation of marketing materials, documents, and pamphlets. While there is limited information about what literacy and education strategy works best for Latinos, clearly such approaches offer limited potential for Latinos. To begin with, the substance of the education materials and documents oftentimes is not tailored to the specific interests and needs of the Hispanic community. Further, these strategies fail to address the financial literacy and education challenges facing Latinos who speak and understand English – the vast majority of the Hispanic community. And while translation of materials into Spanish is important in some cases, it can also be unnecessary or ineffective in others. For example, only one-fourth (25%) of Latinos who were interviewed in the EBRI Retirement Confidence Survey had the interview conducted in Spanish, despite the fact that over half (52%) of the Hispanic respondents were foreign-born.[54]

However, while it remains unclear what specific model is best for Latinos, there are detectable elements of success. For instance, the education and literacy components of IDA programs and homeownership counseling have effectively reached a large number of Latino families. Both programs are structured as public and private partnerships that involve community-based organizations, which have proven to be very effective,[55] and both link participants to access to a product upon completion of the literacy and education component. Some good program examples include the NCLR Homeownership Network (NHN), which includes 20 Hispanic community-based organizations in nine states providing pre-purchase counseling and post-purchase follow-up. Together, these organizations have counseled more than 35,000 Latino families about homeownership and assisted nearly 5,000 low-income Hispanic families to become homeowners. Programs such as these may serve as effective models for engaging Latinos in a serious way on issues of savings, investment, and wealth-building.

Recommendations and Conclusions

The economic boom of the 1990s has demonstrated that increased employment and income and reductions in poverty alone are not sufficient indicators of economic progress and mobility for Hispanic families. The wealth gap between Latino and White households is growing, and for families in particular the disparities in financial wealth, net worth, and homeownership are staggering. Reducing persistent poverty among Latino families must include elements of asset-development if families are to move permanently into the ranks of the middle-class. As this brief illustrates, the first essential step in building assets for Latinos is increased personal savings. Low personal savings has hindered many Hispanic families from accessing financial service products (assets) that afford families greater economic security. However, the barriers to savings for Latinos are not insurmountable. There are a range of programs and initiatives that promise to increase savings, reduce the wealth gap, and improve the financial security of Latino families. These strategies should be expanded and better targeted. Accordingly, NCLR recommends the following:

- **Take steps to expand the Individual Development Account (IDA) program to ensure that all families who qualify have access to a matched savings account.** The IDA concept should be expanded to allow all American families with very low incomes who have no financial net worth to begin the process of building assets. Congress should substantially increase funding for IDA programs via the Assets for Independence Act (AFIA). Moreover, the IDA program requires several structural changes that would effectively allow more community-based organizations (CBOs) to implement them, allowing more Latino families to participate in the IDA program. In addition to legislation, financial institutions should take active steps to partner with local community-based agents to apply for and assist in developing and administering IDAs.
- **Expand free taxpayer assistance initiatives and link such programs to savings and other financial service products.** Tax cut legislation enacted in 2001 will provide tens of billions of dollars to low-income families in the form of expanded EITC benefits and a new refundable child tax credit. About one-third of these benefits is expected to go to Latino households over the next decade. Many families are unaware of the EITC and fail to submit the proper forms to claim the credit. Many other families who receive the credit remain unaware of the various opportunities to use the refund to save and enhance their financial security. The U.S. Treasury Department funds a modest program called the Low-Income Taxpayer Clinic (LITC) program, which supports organizations that provide legal assistance and free taxpayer assistance for families. This program should be significantly expanded, and such initiatives should develop stronger linkages to savings programs such as IDAs. In addition, financial institutions should form partnerships with community-based groups providing taxpayer assistance to develop a financial literacy component that affords low-income EITC-eligible families with useful low-cost financial services products.
- **Foster the creation of low-cost deposit accounts and other affordable low-risk products for**

low-income customers. An initiative similar to "First Accounts," which involves government support, as well as individual initiative on the part of financial institutions, may be helpful in reaching unbanked people in underserved communities. In addition to offering low-cost deposit accounts, financial institutions should link savings products with the most appealing aspects of check-cashing services and remittance services, not only to increase Latino savings, but also to allow Latinos to remit money in a safe and affordable manner.

- **Support initiatives that combat discrimination in the housing market and empower consumers to recognize discrimination.** Congress should increase funding for the U.S. Department of Housing and Urban Development's (HUD's) Fair Housing Initiatives Program (FHIP) and the Fair Housing Assistance Program (FHAP). Among other things, these grants go to public and private fair housing groups, as well as to state and local agencies, to educate people about their civil rights regarding fair housing, promote fair housing practices, and investigate allegations of housing discrimination. In addition, funding to the U.S. Department of Justice to enforce the Equal Credit Opportunity Act and to enforce fair lending laws should be increased.
- **Consider alternative means of verifying the identification and credit history of potential customers.** All bank tellers must be aware of the laws that regulate what forms of ID are necessary, or not necessary, to open an account. Further, financial institutions ought to consider and utilize alternative determinants of credit-worthiness other than simply traditional credit scores derived from traditional industry sources. This is particularly important in cities and regions with large numbers of new immigrants.
- **Fund a major financial literacy and education effort.** Successful homeownership counseling programs can serve as a very effective model for financial counseling. Evidence suggests that the best vehicle for such literacy initiatives is community-based organizations that already have relationships with the community and provide a range of social services for Latino families. The financial services industry should support the creation of a federal grant program and match government resources to support community-based financial literacy efforts. Such strategies can provide culturally relevant materials and training that directly link Latino families to appropriate wealth-building products.

These strategies must be comprehensive and involve both the financial services industry and government if they are to be effective in addressing a national priority: reaching Latino families and reducing the growing wealth gap between Latino and White families.

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