

Financial Literacy Among South Bend Latinos

VOLUME 2, ISSUE 5

DECEMBER 2008

Overview of the Research



Above: A Wells Fargo bank in South Bend displays a "Se Habla Espanol" sign

This research is intended to offer a community-based perspective on an important and relatively unaddressed issue: financial literacy in the United States, especially among immi-

grant communities. We studied the Mexican community in the city of South Bend, Indiana, in order to explore four major points of study. While somewhat limited by both depth and

breadth in the exploration of these issues, we nonetheless hope that our findings can offer insight and suggest future courses of actions to those involved with the Mexican community in South Bend, as well as other immigrant communities.

The four major points of our research are: basic knowledge and utilization of the financial system, perceptions of finance and banking, financial perspectives related to education, and finally, gender roles in financial decision-making. The methods used in our research consist of the following: surveys, interviews, and academic research.

Issues Facing Latino Migrants in South Bend

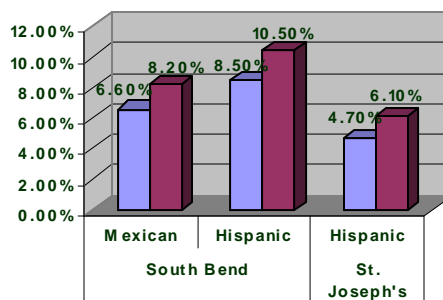
Many problematic issues exist in the South Bend community that influenced our decision to research financial literacy among Mexican migrants. Clearly, financial literacy is a problem for most Americans, as evidenced by the recent financial crisis. Immigrants are especially vulnerable to negative externalities of the financial system, as they often do not speak English or have relevant financial experience in their countries of origin.

Mexicans constitute the largest immigrant group at about 30% of the total immigrant population. Mexicans are demographically young, and more migrants are coming every day, so there can be no doubt that the Mexican popula-

tion in the U.S. will continue to grow. Socio-cultural factors, such as distrust of banks and government, affect Mexicans' ability to adjust to the financial system as well.

Another important financial issue arises from educational costs associated with college, which are on

the rise in the U.S. at an unprecedented rate. Mexican immigrants again face distinct issues, as they are often wary of debt or cannot apply for loans requiring documentation. Finally, gender issues specific to Mexican migrants influence financial decision-making in the family sphere.



Sources: incontext.indiana.edu, US Census Bureau (census.gov)

2000 census
2007 (est.)

*Note: this data relies on the assumption that, while the overall population of Mexicans has changed, the proportion of Mexican to other Hispanic immigrants has continued at a comparable rate. That is, both Mexican Hispanics and non-Mexican Hispanics are migrating at roughly the same rate.

Utilization of the Financial System and Basic Knowledge

OUR RESEARCH:

In our surveys and interviews, we often used the possession of a checking or savings account as a measure of financial activity. These accounts are a sort of “doorway” into banking, and often are the first step for many new users. In our survey, about half of the respondents had checking accounts, while slightly more (60%) had savings accounts. Interviews with a bank employee at Wells Fargo on the West Side supported this data, as our interviewee reported a fascination with savings accounts for Hispanic clients. Very few of the respondents (only one) owned a credit card, and our source at Wells Fargo also added that they cannot give out credit cards without a Social Security number, and many of her Hispanic clients are not attracted to them.

Most of those surveyed responded that they use Wells Fargo, Notre Dame Federal Credit Union, or 1st Source Bank.

ACADEMIC RESEARCH:

Utilization of the financial system is low among Mexican immigrants, even when compared to other immigrant groups (see table below). This can be attributed to a number of factors:

1. Mistrust of financial institutions can be influenced by experiences in the home country. Mexican banks are viewed with mistrust, especially since the banking crisis of the mid-1990s, as well as the corruption and fraud that pervade the system.
2. Low education levels reduce the probability of banking.
3. English proficiency raises likelihood of banking, whereas many Mexicans in heavily Spanish-speaking areas need not learn English.
4. Immigrants in clustered, homogenous communities tend to use informal lending systems rather than banks, and the Mexi-

can population is tightly clustered.

5. Some banks require a minimum balance on accounts, which may be difficult to maintain for some migrants. They also have sharp penalties for not maintaining that minimum.
6. Immigrants with documentation issues are less likely to use banks because they think they lack the documentation required. Studies show that 25% of Latino migrants thought they needed a Social Security number to open a bank account (this is not the case).
7. Many Mexican migrants already utilize alternative financial institutions for sending remittances. These institutions are more familiar and friendly to them, so Mexicans will often use them despite high check-cashing fees.

Why use checking accounts as a measure?

- Most jobs pay in checks
- Doorway into more sophisticated tools
- Safe way to keep money
- Immigrants often use expensive alternative check-cashing locations

Fact:

In the year 2000, Mexicans comprised 66% of total Hispanic immigrants in the United States. Hispanics are the largest minority population at 12.5% of the total U.S. population.

Additionally, while the U.S. population grew by 13.5% from 1990 to 2000, the Hispanic population grew by 58%.

Bank Account Utilization by Immigrant Country of Origin

	Checking	Savings	Checking or Savings
Mexico	27%	26%	40%
China	48%	61%	78%
Philippines	63%	52%	76%
India	65%	56%	77%
Vietnam	49%	28%	56%
Cuba	49%	34%	59%
Korea	56%	38%	68%
Canada	75%	57%	85%
El Salvador	34%	25%	44%
Germany	72%	66%	87%

Source: Federal Reserve Bank of Chicago

Perceptions of the Financial System

OUR RESEARCH:

Our surveys included a section with a few brief questions about the respondents' perceptions of the financial system, particularly banking. Our hypothesis upon starting research was that most Mexican immigrants feel uncomfortable about banking, which contributes to low utilization.

All respondents replied that they have felt at least a little disadvantaged because of language, and almost all (90%) agreed that banks do not offer sufficient materials in Spanish. Upon visiting the Wells Fargo branch on the West Side (which, according to our source there, has a 70% Hispanic clientele), we noticed that most materials were offered in Spanish as well as in English—deposit slips, brochures, and guides to saving. Additionally, our source noted that almost all the employees speak Spanish, and a Spanish-speaking manager had been specifically hired for the bank's Hispanic clients. Other banks in South Bend, depending on the demographic profile of their clients, offer fewer materials in Spanish.

We also included a section on the perception of debt and indebtedness, which we hypothesized would be overwhelmingly negative. Our results more or less indicated that our hypothesis was correct, but also explored indebtedness to friends (informal lending). These results were somewhat more surprising (see chart below). When respondents were asked to clarify the situations under which debt was ac-

ceptable, they replied with:

- "to build good credit"
- being in debt is "only okay when you really need it"
- "in an emergency"

What are the banks doing to change this perception? Our source at Wells Fargo indicated that the corporate headquarters of the national banking giant produces and sends materials in Spanish, which is a huge advantage when catering to a Latino clientele. Additionally, Wells Fargo offers a program called Hands-On Banking to educate Latinos in the community about the financial system. She also mentioned that many immigrants come to South Bend as a result of secondary migration from Texas, California, or other western states, where Wells Fargo is much more prominent. Therefore, many clients are already familiar with the bank by the time they arrive in South Bend. Finally, she explained that she attends consular events for the region, which attracts many Hispanic immigrant clients.

ACADEMIC RESEARCH:

Our research showed that immigrants in general have higher levels of alternative financial institutions utilization, such as check-cashing and money-sending companies, rather than banks. These institutions often charge high fees for check-cashing and sending remittances, but nonetheless enjoy a huge immigrant client base. Possible explanations for this phenomenon include the following, and support our initial hypothesis:

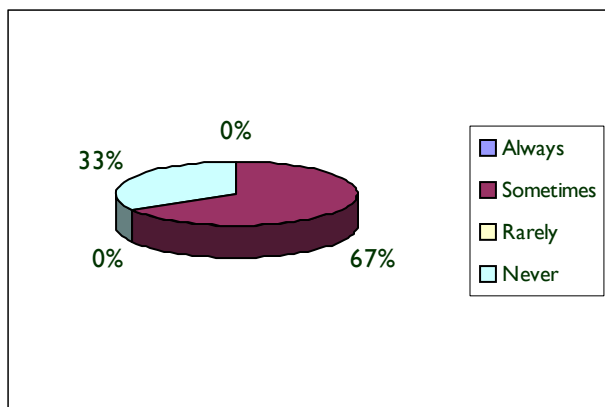
1. Banks are not viewed as welcoming

to many Latinos.

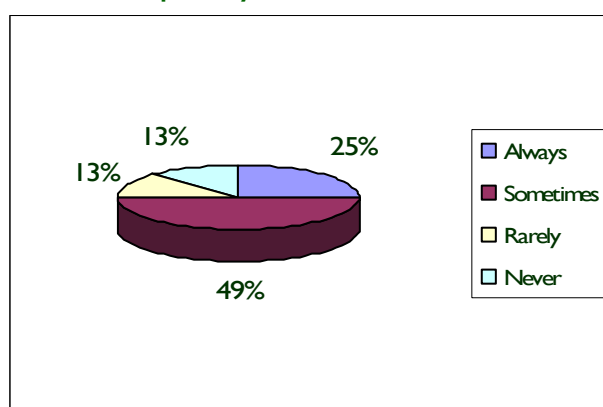
2. Banking hours are often inconvenient for many immigrants' long work hours.
3. Banks in areas with low Hispanic populations do not offer sufficient materials in Spanish, whereas money-transfer companies usually employ members of the immigrant community that speak the language. They are also often conveniently located in ethnic grocery stores or in heavily clustered neighborhoods.
4. Smaller banks tend to cater more towards immigrant groups, although recently large banks are using their extensive resources to create nationwide outreach efforts. (i.e. Wells Fargo's materials and programs in Spanish)
5. Building trust is a key step in attracting immigrant clients, and large banks have struggled with this in the past. Community outreach programs, ESL classes, or sponsorship of ethnic festivals can facilitate trust-building.
6. Many immigrants believe that complete identification is needed at banks, although this is simply not the case. Loans and credit cards require Social Security at most banks, while checking and savings accounts do not. Individual Taxpayer Identification Numbers may be used as financial services documentation at some banks.

A national study showed that over 50% of unbanked Hispanic migrants earned less than \$15,000 annually, and another 25% earned between \$15,000 and \$30,000.

Acceptability of Indebtedness to Financial Institutions



Acceptability of Indebtedness to Friends



Additional Information

Facts and Statistics regarding the Mexican migrant community and the U.S. Financial System

SOUTH BEND:

Percentage of Foreign-born persons in South Bend (2000): 6.4%

Language other than English spoken at home: 12.0%

Hispanic-owned businesses: 2.6%

In 2005, Latinos made up 12.5% of the population aged 5-19 years, compared to 9.4% of the population aged 25-54 years.

NATIONALLY:

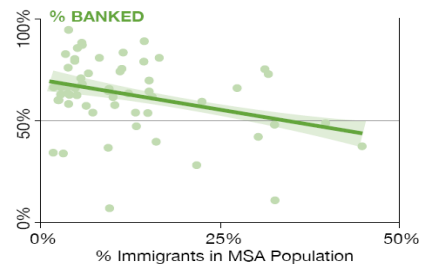
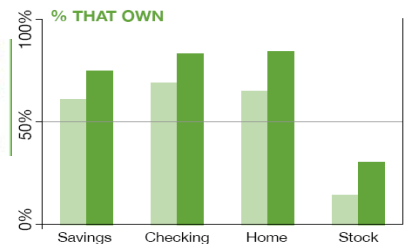
The foreign-born population is at its highest percentage since 1930.

Children of immigrants account for 22% of children under 6, and 20% of children aged 6-17.

In 2004, remittances to Latin America and the Caribbean totaled **\$34 billion**, costing immigrants **\$2.4 billion in fees**.

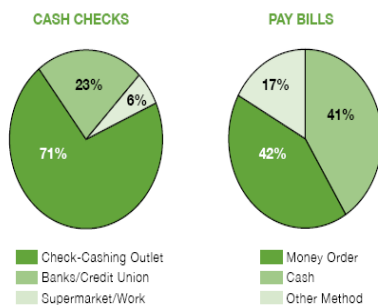
Cutting fees in half would create additional wealth of \$155 per annum for every U.S. immigrant.

Financial Activities of Immigrants and the Native-Born



Source: Federal Reserve of Chicago

Immigrant Utilization of Financial Tools



Source: Federal Reserve of Chicago

Mexicans constitute **almost 30% of the total immigrant population** in the United States, far and away the largest group from a single country. The next largest immigrant group is from China, at 4.9%

The **quality of home country financial institutions** can explain 50% to 83% of the gap in financial market participation between immigrants and the native-born.

Surveys indicate that, among Latin American immigrants, negative perceptions of banks coincide with **beliefs about high minimum balance requirements**.

70-80% of all remittance sending is done through alternative money-sending businesses, such as Western Union or MoneyGram, whereas only 3-11% is done through banks that offer lower-cost (but identical) services.

Of immigrants with bank accounts, **only 22% used their banks for remittance-sending**. Studies suggest that this is due to ignorance regarding services offered by banks.

Current law **permits banks to choose whether or not to accept ITINs** for opening accounts, but obtaining them is increasingly difficult for immigrants due to more stringent regulations by the IRS.

While **banks often want to increase their portfolio and client base by using ITINs** for loans, critics fear deportation risk and moral issues.

Financial Knowledge Regarding Education



Source: Excelencia in Education

STUDENTS

In order to assess the knowledge of children of migrant parents in relation to paying for college, five interviews were administered to teens in attendance at a local Catholic parish's youth group meeting. The respondents ranged from ages 14 through 16 and were between the 9th and 11th grades.

Four out of the five indicated they wanted to go to college and one indicated that she wanted to go to beauty school. Of the 5 respondents, 3 were born in Mexico, and this was a constant concern in terms of how it would affect both their acceptance in college and their ability to pay for their education. One student explained her worry, "Since I am a non-citizen I might have to pay for college."

In general, the students seemed not to have a very good idea of what options were available to them for paying for college. Most were also fairly unsure of what their own plan would be, although most agreed that they hoped to get scholarships (the Indiana government's 21st century scholar program, a scholarship to Indiana schools for

families of low or moderate-income was mentioned several times) and that taking out loans was a bad alternative because it would bring them debt. When asked if they would consider taking out loans, the students' responses varied but seemed to range mostly on the negative side. Two of the 5 simply said no and seemed to base their answers on a fear of not being able to pay back their loans. Of these two informants, one explained "I don't like the idea of owing anybody anything, and I don't want to have to pay it back – I don't know what the future holds and I might not be able to pay it back. The thought makes me uncomfortable." A third respondent cited loans as her "last resort" since her parents "don't like the idea because they don't want me to have to pay it back."

PARENTS

In order to assess the knowledge of parents in relation to paying for college, a survey was administered to 10 adults from an ESL program at a local Catholic parish. Seven of the 10 respondents had children.

When asked how they planned to support their children financially while in college, parents provided various responses including working (2 responses), saving (2 responses), opening an investment account (1 response), and taking out a loan from the bank (1 response). Two of the responses were harder to decipher: ("economic with a lot of communication" and "supporting her economically and morally"), which suggests that these respondents either did not understand the question or did not know how to answer – which itself may be indicative of limited knowledge about financing higher education. When asked if they would encourage their children to take out student loans, the answers also varied. Two of the respondents responded with only "No." A third respondent more hesitantly answered, "If it was necessary, yes." The remaining 3 respondents seemed to have more positive perceptions. One father grudgingly supported student loans, explaining, "Yes, because it would be for their education." Thus, the perception of Mexican parents towards student loans is not altogether positive, although many *would* encourage their children to take out loans only because they recognize their usefulness in paying for college.

Facts at a Glance:

- Among Latinos, almost half of undergraduates are of Mexican descent (48 percent).
- 86 percent of both Latino parents and students surveyed had expectations for the student to go to college.
- While the Supreme Court ruled in 1982 that undocumented students have a right to public education, these students do not qualify for post-secondary financial aid in most states, making it even more difficult to afford the astronomical costs of higher education (Washington Post).
- Research by the American Council on Education indicates there are more than 1 million students across the country who may very well be eligible to receive aid but are not getting it because they don't understand how to fill out the 145-question FAFSA.
- A report released by Excelencia in Education and the Institute for Higher Education Policy (IHEP) for 2003-2004 finds that, although the percentage of Latino students receiving financial aid for college is the highest ever, they receive the lowest average federal aid awards of any racial or ethnic group.
- In 2003-04, half of Latinos received grants while less than one-third received loans (30 percent). Latino students were the most likely of all racial/ethnic groups to receive grants, with the exception of African Americans, and were one of the racial groups least likely to receive loans. First-generation Latino college students were more likely to receive grants than students whose parents had higher educational attainment. However, the average loan amounts Latinos received were higher than the grant amounts they received.
- Latinos were more likely to be first-generation students (49 percent), and to have relatively low family incomes. According to the Department of Education's report "Getting Ready to Pay for College," disadvantaged families—those in which neither parent had attended college or those with low incomes—tend to be the least informed about college costs. The report goes on to say that 33.8 % of white students and 60.9% of white parents were aware of the costs of tuition, compared to 26.2% of Latino students and 32.9% of Latino parents.
- Compared with parents of white students, parents of Latino students were less likely to have started saving money or to have made other financial plans for their children's postsecondary education (37.7% compared with 64.5%). Non-English-speaking parents were less likely to have saved or made any financial preparations for their children's postsecondary education (26.2% compared to 62.0% of English-speaking parents).

Gender Roles in Financial Decision-making

South Bend:

Our contact at La Casa Amistad who teaches financial literacy courses observes, “Now, it is more the woman that are in control. Men often just give the check to their wives, because it is the wives that are paying the bills. The women know English because the men don’t have time to go to school to learn it, as they are often working.”

In assessing the financial literacy of Mexican migrant families, it is important to understand how the financial decisions of the household are made. Thus, it is of particular interest to us to examine the role of gender in the family’s decision-making processes.

As Jennifer Hirsch argues in her work *A Courtship for Marriage*, in this age marked by increasing migration and transnationalism, the trend in Mexican marriages has been one towards relationships based on *confianza* (trust) rather than *respeto* (respect) – meaning that

relationships in the present, in contrast to those in the past, are more likely to be formed in hopes of fostering an intimate, emotional companionship between husband and wife. In this system, the lines between gendered spaces and work are blurred as more women are working outside the home or are given more liberty to leave the home. From the perspective of Hirsch’s work, this trend seems to be in part generational. In her research, Hirsch notes that a series of transformations undergone by Mexico in recent years suggest various reasons behind the shift in gender/marriage attitudes. Mass media, taken in the context of the

structural and economic changes which allow families the luxury of buying satellites and televisions, has a profound influence on sexuality. Meanwhile, educational influences, including the curricular addition of sex education and rising literacy rates, mean that women “can seek out information about their bodies, sex, and reproduction” (83). Related to this, says Hirsch, is the increasing average age at marriage. Finally, there have been several significant demographic changes, including the increased adult life expectancy, which means that adults will likely spend more time alone as a couple after their children grow up (11).

At the same time, it is likely that the act of migration itself further promotes equality in the relationship. Indeed, helping the family to survive in the United States has been used to justify the gradually increasing presence of women in what was traditionally a male role for Mexicans: the breadwinner and economic provider of the family. Working outside the home has in turn allowed women to have greater say in the family’s financial decisions. This suggests that we should expect to see both husbands *and* wives involved in the financial decision-making of the family and contribute to the family’s financial literacy profile.

A survey was administered to students of an adult ESL program. A total of 10 surveys were returned, 6 from females, 3 from males, and 1 from a respondent who chose not to reveal his/her gender. The age range of the group was between 23 and 50 years of age.

This data seems to suggest that women are playing a role in the financial decision-making of the household. Of the 5 female informants that responded to the question, 4 reported that they were involved somehow in the household financial decisions. Of these 4 informants, 2 reported that only the husband worked – which suggests that even when the woman is not contributing to the household income, both spouses collaborate in the financial decision-making. As with the information collected on female informants, the male informants report that regardless of who the main breadwinner of the family is, both spouses collaborate when making household financial decisions (in 3 out of the 3 relevant cases). On the other hand,

only the husband worked, but the wife was the one in charge of all economic decisions. In her response, she affirmed that the arrangement had always been like this “because it’s better and I am the one that makes all the payments.”

While women played a role in household financial decision-making in most cases, the completion of taxes seemed to be more gendered. If the husband was the sole breadwinner, he was also more likely to be the sole spouse in charge of the taxes. On the other hand, in several of the cases (3 out of the 5), the woman reported being involved somehow in the taxes, including one instance in which she was the sole spouse in charge. Even while women report playing less of a role in the household taxes, this does not necessarily mean they are not involved in the family decision-making. In summary, these data suggest that women do play a role in the household financial decision-making; this has several implications for studies of financial literacy among Mexican migrants.

Our Research

	Age	Who in family works	Who in family is in charge of the taxes	Who in family takes the financial decisions
Female Informant 1	36	Only husband	Only husband	Only husband
Female Informant 2	50	Only husband	Only husband	Both spouses
Female Informant 3	27	Both spouses	Both spouses	Both spouses
Female Informant 4	43	Only wife	Both spouses	Both spouses
Female Informant 5	34	Only husband	Only wife	Only wife
Unknown Informant	--	Both spouses	Neither spouse	Both spouses
Male Informant 1	30	Unmarried	Unmarried	Unmarried
Male Informant 2	23	Only husband	Only husband	Both spouses
Male Informant 3	30	Both spouses	Both spouses	Both spouses

Survey Results for Role of Gender in Financial Decision-making

Conclusions and Recommendations

CONCLUSIONS:

Financial Utilization:

- Mexican immigrants are underutilizing the U.S. financial system. They instead largely resort to informal borrowing and lending amongst friends, as well as alternative check-cashing and money-sending institutions, which charge higher transaction rates than banks.
- Many factors contribute to this unfortunate reality, including economic, social, geographic, educational, and cultural factors.
- Mexican immigrants are much more likely to have checking or savings accounts than credit cards, as documentation issues often prohibit issuance of credit cards and loans.
- Since Mexicans are by far the largest immigrant group in the U.S., and since the population continues to grow rapidly, their financial situation is an important concern.

Perceptions of the Financial System

- Banks are perceived as unfriendly and intimidating to many Mexican migrants.
- Recently, some large banks have started offering increased materials in Spanish as well as outreach programs at the corporate level to increase Latino clientele and better relate to the Latino community.
- Familiarity and trust are key issues for attracting Latino clientele, as shown by the success of Wells Fargo on the West Side of South Bend.
- Mexicans generally view debt to financial institutions with suspicion, and are more willing to lend informally to friends. However, most of our survey respondents thought that certain mitigating circumstances made debt to financial institutions acceptable. While informal lending is not necessarily itself a negative thing, it may not be as

effective for larger investments (such as a mortgage on a home or financing an education), and is not insured by law against default.

Education-related Financial Matters

- Mexican-American youth are not very well-educated on the possibilities available to them for financing their education. They strongly prefer scholarships over loans, as they fear getting into debt.
- Parents, on the other hand, seem to



feel more open about taking out loans. This came as a surprise to us based on our initial hypotheses, and may be explained by several factors, including survey bias or increased familiarity with loans and debt in parents.

Gender Roles

- Women are involved just as often as men in the financial decision-making of the household, and in many cases may even be the main decision-maker.
- In the past, men tended to make more of the financial decisions. This egalitarian shift is caused by a variety of factors, including migration and generational trends.

RECOMMENDATIONS:

Education is key to addressing this problematic situation. Providing materi-

als and opportunities to Mexican migrants to inform and familiarize them with financial matters will become extremely important and may help to debunk negative perceptions regarding debt and corruption in banking. This involves targeting not only current students and youth, but also the older generation—women and men, as both are involved in the financial decision-making of the household.

In addition, the success of the Wells Fargo branch on the West Side illustrates the importance of building trust through community outreach and catering to community needs (such as Spanish-language materials and remittance-sending options). This responsibility rests not only with banks and financial institutions but also with schools and other organizations serving Latinos in South Bend, such as La Casa de Amistad.

It must be noted that many Mexican migrants are prohibited from enjoying financial success due to policy restrictions regarding documentation that many banks require (using Social Security Numbers versus ITINs for loans, for example). Understandably, many banks are unwilling to offer loans to applicants using ITINs due to the greatly increased risk of default (sometimes because of deportation of undocumented migrants). However, it is clear that this is a problem that needs to be addressed on a more fundamental level. Facilitation and shortening of the legalization and naturalization processes are the only ways to completely and effectively incorporate Latinos into the financial system, to the benefit of both financial institutions and the migrants themselves.

For More Information, please see:

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Mexican Immigration: A South Bend Case Study
Fall Semester 2008

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We thank the University of Notre Dame's
President's Circle and Office of Research
and

Saint Joseph Regional Medical Center
for their generous support of our project.