INCREASING WEALTH IN THE LATINO COMMUNITY

A TRPI Conference Summary Report

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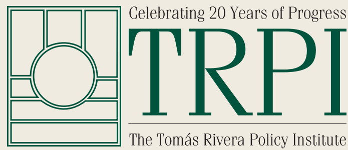

The Tomás Rivera Policy Institute (TRPI) advances informed policy on key issues affecting Latino communities through objective and timely research contributing to the betterment of the nation.

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Conference Rapporteur: Lois Pilant Grossman

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INTRODUCTION

Business leaders throughout the country have begun to notice that Latinos,[†] once regarded as predominantly lower income, are fast becoming the nation's largest population, with the extraordinary potential of also becoming one of its most affluent. The Latino community has spending power into the trillion-dollar range. It is marked by its diversity and youth. Its work ethic, combined with its sheer numbers, means Latinos could have the power to influence the entire U.S. economy in the coming years.

And yet this community is also the most underserved by the American financial system.

American business, in its nascent efforts to tap into this market, has not been hugely successful. Business executives don't always understand that accessing the Latino community requires more than putting the employee with a Spanish surname in charge of marketing. Market penetration takes more than a single Spanish-language advertisement on Spanish-language television or radio. Success requires an understanding of the Latino community that goes beyond advertising: It requires business strategies that actually address Latino needs.

When viewed within the traditional context of American business, certain segments of the Latino community are a financial anomaly. Many Latinos are unbanked, with no relationship to the U.S. mainstream financial system. They pay bills in cash or with money orders. They do not have savings or checking accounts. Because they are unbanked, they turn to alternative financial services providers, such as payday lenders and check cashers. As a result, many Latinos are unable to build a credit history, and this keeps them out of the financial mainstream, limits them to alternative services, and in the case of future homeowners, can relegate them to subprime purgatory.

Those who do have a credit history rarely make use of revolving credit, preferring instead to pay off credit cards monthly. These customers are averse to risk and are more likely to buy life insurance or government securities than invest in the stock market. Those who are more affluent typically gather financial advice piecemeal, from individual advisers, rather than bringing their advisers together to create a holistic financial or estate plan.

The Latino business community is full of entrepreneurs. Latinos own manufacturing companies, construction firms, restaurants, and real estate. Their businesses are small but successful; their many businesses are each individual family's main source of income and the foundation on which the family will build future generations.

Yet the founders do not look like the typical American entrepreneur. They don't think like the typical American entrepreneur. And they don't see themselves as the typical American entrepreneur. In many instances, Latino entrepreneurs' early goal when starting their business wasn't necessarily to make a profit, but to put food on the table. And when they pass the business on to the next generation, their children often see the legacy of the family business from a more Americanized point of view—without emotional attachment and with an eye toward either selling it or bringing in outside investors to facilitate a large-scale expansion.

It is important that any company or service desiring to reach the Latino market begin to look at the characteristics of the market, the needs of its potential customers, and find a way to meet those needs. The strategy sounds almost too simple to be realistic—until one realizes that the American business landscape is littered with marketing strategies that failed because they demanded the Latino community adapt to the standards and practices of the U.S. financial mainstream instead of providing a way for that to happen, or considering how to reach that community.

† TRPI uses the terms Hispanic and Latino interchangeably to refer to individuals who trace their origin or ancestry to the Spanish-speaking parts of Latin America and the Caribbean.

The Tomás Rivera Policy Institute's conference, "Growth Strategies for Corporate America: Increasing Wealth in the Latino Community," brought together executives from all areas of the U.S. financial system to discuss the resources of the Latino community and how best to serve its needs while finding a way to tap into this potentially lucrative market.

THE PICTURE TODAY

The Last Generation of Vaqueros

> "Vaqueros are the original American cowboy. I interview them and I photograph them because I want them not to be forgotten. When we talk, they say, 'I am the last generation of vaquero. All my kids are in college now. They are not going to be riding horses and working like crazy for long hours.' This is a new attitude, one of higher expectations for our children. It is a new way to perceive ourselves and what we expect of ourselves as a community."
>
> *Lionel Sosa, Executive Director, Mexicans and Americans Thinking Together*

The "working like crazy for long hours" that Sosa recalls was a way of life for many first-generation Latino immigrants steeped in Catholicism, Spanish Colonialism, respect for tradition, and the interdependence of family and community. As the immigrants became acculturated in the United States, their values bumped against American values, gradually changing their way of life.

According to Sosa, this convergence has created a kind of transformation.

Latino Interdependence	American Independence
Family first	Me first
Family helps family.	Helping self helps family.
Faith in God	Faith in self and God
Humility	Self-expression
Work hard.	Work smart.
Sacrifice	Pay your dues.
Stability	What's new? What's next?
Respect authority.	Challenge authority.
Modesty	Toot your horn.
God loves the poor.	God loves the rich, too.
I accept life's problems.	I solve life's problems.
Small success is good.	Big success is better.
Whatever God wants.	What I want, too!
I hope to achieve.	I believe I will achieve.

Acculturation that merges the tradition of the Latino culture with American independence and ambition is at the core of the Latino middle class and the growing ranks of the wealthy Latino community.

The result is a blend of the best of both worlds, with Latinos still putting family first, but believing that dropping out of school is no longer the best way to help the family. Changing attitudes hold that getting an education is powerful and one of the only ways to ensure the success of future generations. Stability is important, but sometimes a little risk isn't such a bad thing. One can respect authority but still challenge the old way of doing things while finding new ways to see the world and themselves in it.

This acculturation, merging the tradition of the Latino culture with American independence and ambition, is at the core of the Latino middle class and the growing ranks of the wealthy Latino community.

> "My parents moved here from Colombia in the mid-1940s. One had a first-grade education and the other was a high school graduate. Their sons became a banker, a civil engineer and a professor. Their grandchildren include a doctor, an attorney, a public manager and two teachers. My family's history is not unique. It represents hundreds of thousands, if not millions, of Hispanic families today."
>
> *Harry P. Pachon, Ph.D., President and CEO, The Tomás Rivera Policy Institute*

This is big news to mainstream America. Most often the Latino media picture is about illegal immigration—a story of undocumented immigrants pouring over the borders, working for slave wages, devouring American resources for themselves and their American-born children. To mainstream America, this is often where the story ends. But, as Pachon says, for "hundreds of thousands, if not millions, of Hispanic families," it is only one aspect of the community's complex portrait.

One reason the immigration rate is leveling out may be due to the declining birth rate. In 1970 in Mexico, there were 6.8 babies born per female. Current birth rates range from 2.2 to 2.4 babies per woman. Leading European nations have seen births fall to 1.3 per woman. Asian countries, such as Japan and Korea, have fallen to 1.2 babies per woman.

It is important to first debunk the myth that illegal immigration is escalating out of control for the most complete picture of today's Latino community. According to USC researcher, demographer and conference presenter Dowell Myers, it has leveled off, and in some states, particularly California, it has been diminishing for several years. In 1990, California's arrivals totaled 367,375; in 2000, that number dropped by 8.3 percent to 336,680; in 2005, it dropped again by 10.4 percent to 301,501. In the U.S. overall, the number of arrivals spiked by 55 percent from 1990 to 2000, from 975,105 to 1,516,388; however, it dropped 4.8 percent by 2005 to 1,443,604.[1] It is a pattern that has existed since the days of the Gold Rush, with immigration waxing and waning over a period of decades.

The true Latino picture also is obscured by the influx of newcomers to non-traditional, immigrant-receiving states—mostly those with affordable housing—and by continued media and Congressional attention on the subject of illegal immigration.

> "America has been wallowing in despair since 1973. It's the Peter Pan fallacy where Latinos never change. They stay the same and pile up as newcomers. The rest of society then doesn't see any prospects in that community and doesn't want to invest in it. We need to adopt a 'hope model,' which is based on facts. It shows us that a different future is unfolding. Immigration is not accelerating. It's holding steady. We have a community of mostly settled immigrants who are great business prospects and who are going to be generating economic benefits for America. They are seen as newcomers, but the truth is they are upwardly mobile and are going to be the economic engine of the future."
>
> *Dowell Myers, Director, Population Dynamics Research Group; School of Policy, Planning, and Development, University of Southern California*

This "economic engine of the future" exists along a continuum that begins with the new immigrant, who is typically at the low end of the economic stratum, and moves toward what is considered to be an affluent economic class, those with more than $100,000 in annual income.

An Economic Continuum with Potential

At the lowest end of the current American economic continuum are those whose current income is 2/3 of white household income. One presenter cited the four poorest counties in the U.S.—Cameron County, Texas; Hidalgo County, Texas; Bronx, New York; and El Paso County, Texas—as having an average rate of poverty of 35 percent and an average Latino population of 78 percent. The four poorest states—California with 1.9 million severely poor, Texas with 1.6 million, New York with 1.2 million, and Florida with 900,000 severely poor—have the highest percentage of Latinos in the country. In many of these areas, a family of four has an average annual income of $9,900. Citing research from the Pew Hispanic Center, the presenter held that 26 percent of Latino families have zero net worth. They have nothing. In contrast, the average white household in America has a net worth of $88,000.

These disparities exist for many reasons, including that it takes a Latino immigrant at least 20 years to catch up with a U.S.-born Latino in terms of asset accumulation. On average, Latinos also are younger than their white and non-Hispanic counterparts, and have had less time to amass wealth. Latinos are

generally less educated and have limited access to financial markets. They also tend to concentrate in some of the most expensive regions of the country, such as California, Florida and New York, and thus have less access to the homeownership market, which is the principal American machinery for amassing net worth. In many cases, they also are responsible for the support of people in their home countries. A large portion of their earnings is remitted every year, leaving less money available to save or invest.

> "We know that as difficult as some of these and explainable as some of these disparities are, they are also resolvable, that is to say we are achieving higher levels of education than ever before. We are moving to lower-cost areas of the country, like Georgia, Arkansas, and the heartland of the country. Therefore, our homeownership rate is increasing, and immigrants are or will be assimilated. So a lot of these dynamics in the macro picture will begin to address themselves."
>
> *Henry Cisneros, Chairman, American CityView*

The growing middle class of Hispanics is generally either foreign-born and has been in the U.S. many years, or are their first- and second-generation children. They have started businesses; they are the new entrepreneurial class with their Mexican or Cuban restaurants, hair salons, mechanics shops, construction companies, and landscaping or housekeeping services. These thriving businesses form the foundation of family and community stability, helping to ensure their future. These businesses are also the springboard from which their children begin to build their own lives.

> "My parents owned a Mexican restaurant, which is the best place to learn about small business because you're responsible for every aspect of the business. I told my mom one day that I wanted to be the manager. I told her I was ready. She said,"You're right. Now get the broom and sweep the floor."
>
> *Michael L. Barrera, President and CEO, U.S. Hispanic Chamber of Commerce*

Near the far end of this economic continuum are those considered to be affluent Hispanics. Research shows that this is yet another fast-growing group, comprised of Latino households earning more than $100,000 per year. Latinos in this population range in age from 45 to 54, and they typically have school-age children and possibly a number of extended family members at home. Seventy-five percent are married, with both adults working outside the home. Seventy-five percent also are homeowners. Estimates are that this group numbers about 3.7 million nationwide and has a purchasing power in excess of $1 trillion.

> "Fifty percent of affluent Hispanic householders are foreign-born, which means we've had an influx of middle- and upper-class Latin American immigrants. It's important to remember that not every immigrant who comes to this country is walking across the desert."
>
> *David Perez, CEO, Latin Force LLC*

Finally, there are Latinos who can be considered truly wealthy with a net worth in the millions. This group is primarily self-made. According to a presenter who provides financial services to this group, these businesses were started from scratch, usually with borrowed money or, in some cases, foreign capital. They are manufacturers and large-scale construction contractors. They own chains of Hispanic-related grocery stores or have significant real estate holdings in the U.S. and possibly in their home country. As a group, they are typically an equal mix of first- and second-generation Latinos. They also are well-organized, with a business plan to guide how the business will evolve in the next several years. And although they are open to receiving business advice, their cultural loyalty carries a tendency to seek it from other Latinos or people they know.

> "Contrary to the image of Latinos as being primarily the illegal, the poor and the uneducated, the reality is that economic mobility does occur. There is a growing Latino middle class and an increasing number of Latino families who are investors, professionals, and represent a dynamic segment of the current and future economy."
>
> *Harry P. Pachon, Ph.D., President and CEO, The Tomás Rivera Policy Institute*

Sidestepping America's Financial Institutions

A common thread running through this economic continuum affects almost every aspect of the relationship that ultimately will make it possible for Latino families to move from the lower end of the continuum into the economic middle class and beyond. This relationship is between the individual consumer or family and America's financial institutions and poses challenges for both sides.

> "For the majority of the (lower income) population, the idea of wealth in the Latino community is a myth. I remember my father struggling to make the mortgage payment or to come up with money for something unusual or unexpected. A flat tire could set you back a week."
>
> *George A. Ramirez, Senior Vice President, Union Bank of California*

The low-income end of the economic stratum has perhaps the most difficult challenges, the first being a traditional and inherent mistrust of financial institutions. Confusion about documentation compounds the reluctance to access American financial services. Many immigrants believe they must be naturalized citizens or Legal Permanent Residents, or supply a Social Security number to open a bank account. They may not know that a Matricula Consular (an identification card issued by the Mexican and other Latin American governments) and/or an IRS-issued tax identification number (ITIN) may suffice. This confusion often exists despite having lived in the U.S. for more than a decade.[2]

Low wages and remittances also can reduce income to the point where bank fees and minimum balances make checking or savings accounts financially out of reach, leaving many immigrants "unbanked," without bank accounts or credit cards. They live in a cash-only economy. They are paid in cash, use money orders to pay bills, and cash checks at local supermarkets or fee-based check-cashing agencies. Not only does this leave a large proportion of the Latino community out of the financial mainstream, it also has created a group of consumers who think their only option is to deal with alternative institutions such as payday lenders, businesses offering tax refund anticipation loans, and fee-based check cashers.

Living in the Middle

Some say the middle class is defined by the acquisition of such things as a home, at least one car, a variety of consumer items, and enough money to educate children and save for retirement. Others have tied the definition to educational attainment and certain occupations. Others link it specifically to income levels and how far income levels rise above the poverty line.

Regardless of how the middle class is defined technically, the very idea is central to American life and values. It is built on the concept of upward mobility, of a progressively higher income over a period of years, along with the attainment of material goods and the education of one's children, all with the hope that the future generation will surpass the success of their parents.

Homeownership is an intrinsic part of being middle class. It is the locus of a middle class life and a symbol of upward mobility. It also is the primary way Americans build wealth and amass net worth. It is a family's most significant asset, accounting for one third of the net worth of the average American household. Yet for low-income families, particularly Hispanic families that are essentially unbanked, buying a home is one more insurmountable obstacle. They cannot get or build credit because they live in a cash economy. They don't trust financial institutions nor do they have accurate information about the American financial system, if they have any information at all.

It is a very different world from the one created by the U.S. government following World War II. According to one of the conference's keynote speakers, the goal at that time was to construct a national infrastructure that would be a vehicle for building a new middle class. Post-war education levels rose with the GI Bill and later, with the Higher Education Act of 1965; both increased college access and affordability. Homeownership increased through government programs that helped people get loans and turned mortgage interest into a tax deduction. Programs also supported suburban housing

Frequently-used Services Outside the Mainstream Financial System

Alternative financial services tend to keep the low-income, unbanked consumer outside of the mainstream financial system. In addition, almost none of them report to credit repositories, preventing the customer from building a credit history and making any financial headway on the economic continuum.

• ***Payday lenders*** use a post-dated check or electronic checking account information as collateral for a short-term loan. Borrowers need personal identification, a checking account, or verifiable income to qualify. Payday lending typically keeps borrowers in debt due to the interest charged—an annual rate of up to 400 percent. Interestingly, a discussion occurred among presenters on this rate. Most felt it was a usurious rate, though one argued that if an individual was willing to lend to a high-risk market, he or she should enjoy the profit margin that places their funds at risk. Some also asserted that the industry operates under the premise of lending money to one-time users for short-term financial emergencies, yet it collects 90 percent of its revenue from those who cannot pay off their loans when they come due; borrowers who get five or more loans a year account for the lion's share of the lender's business. According to 2006 data, the payday lending industry brings in more than $28 billion annually, while costing consumers $4.2 billion per year in fees.[3]

• ***Refund anticipation loans*** are short-term cash advances that use an anticipated income tax refund as collateral. These loans have high interest rates ranging from about 40 percent to more than 700 percent annual percentage rate. In 2005, an average refund of $2,000 required that the customer pay tax preparation fees of more than $100, in some cases an administrative fee of about $30, and, for those who wanted a same-day refund, an extra $20 to $40.

The National Consumer Law Center and the Consumer Federation of America in 2003 showed that refund anticipation loans brought in more than $1 billion in loan fees plus another $389 million in other fees from more than 12 million American taxpayers.[4] According to the IRS, these taxpayers could least afford it: 79 percent had adjusted gross incomes of $35,000 or less. In addition, research showed that 21 percent of Latino taxpayers and 28 percent of African-American taxpayers took out refund anticipation loans compared with 17 percent of white taxpayers.

• ***Check cashers*** are routinely used by low-income individuals to cash checks, pay bills and wire remittances—all for a fee. Fees vary widely by region and the type and amount of the check. Typically, however, fees range from 1.5 to 3.5 percent.

Data shows that the industry annually processes approximately 180 million checks totaling $55 billion and generating $1.5 billion in fees.[5] About 80 percent are payroll checks, and 16 percent are government benefit checks. Frequenters of check-cashing companies also often make use of other services offered, such as money orders, wire transfers, motor vehicle registrations, and bill-paying services. In areas where traditional banks no longer provide services, usually inner city areas, check cashers have become the community's primary financial resource.

developments, while government reforms battled discriminatory lending practices. A mandated minimum wage strengthened the economy and the labor market.

However, the government programs did not find ways to bring Latinos and African Americans into the middle class. That required passage of the Civil Rights Act, anti-discrimination reforms, anti-redlining measures [††] and affirmative action. Admittedly, Latinos and African Americans benefited. Yet these two groups still are significantly lower in educational attainment, homeownership, and income levels than their white counterparts.

In recent years, the post-WWII infrastructure has become less effective. College is more expensive and less accessible. Housing costs are up as is the cost of health care. Jobs with a guaranteed pension are disappearing, leaving employees to figure out their own retirement strategies.

So the challenge facing Latino middle class growth is two-fold: How does the low-income family enter the middle class, and, as the cost of living gets higher, how does the middle-class family keep from sliding back? The answers lie in finding ways to reach them both.

NEW STRATEGIES FOR WEALTH-BUILDING

Mainstreaming Low-income Workers

> "It is worth noting that although many immigrants have thin or no credit histories, few of them have negative credit histories, which makes them better candidates for prime-rate financial services. Repayment histories to date are proving to be excellent. For example, according to the nation's largest mortgage insurance company (Mortgage Guaranty Insurance Corporation), of the 1,800 ITIN (Individual Tax Identification Number) home mortgage loans they have insured to date there has been only one 30-day late payment."
>
> *Expanding and Improving Financial Services for Low- and Moderate-Income Immigrant Communities: Next Steps, Conclusions from a National Convening; Appleseed, 2006*

In many ways, the low-income Latino consumer is the square peg and the American financial system is the round hole. In short, they don't fit well together. The Latino consumer differs from the typical American consumer of financial services. To the low-income Latino consumer, the American financial system often is little more than a series of closed doors, particularly in banking, where deposits and loans drive the relationship. Some companies have been successful in reaching this community, but it has not been by asking the low-income Latino consumer to adapt to U.S. practices. Instead, these companies have hewed to the reality of the market and adapted policies and products to the Latino culture.

The most common reason reported for not having a bank account was that the family did not write enough checks to make account ownership worthwhile (27.9 percent). Another 14.4 percent said they did not have enough money, and 22.6 percent said they did not like dealing with banks.

Survey of Consumer Finances, Federal Reserve System, 2004

> "Our customer is the working class laborer who came from Mexico, Nicaragua, Honduras. Check cashing is this consumer group's core financial transaction. In fact, we have bank customers who bring us their checks to cash, and then they go put that cash in their bank. They do this because a bank will hold a big check for 14 days, and these guys need to pay their employees today. You have to go where they are if you expect to teach them how to move up. We have to learn what they need, track what they do, apply normal lending standards to it, report to the credit bureau, and through these practices, bring them into the financial mainstream."
>
> *Drew W. Edwards, CEO, Banuestra Financial Corporation*

Getting low-income workers into the financial mainstream has been the goal of many financial institutions in recent years. Several presenters cited certain strategies and products that provide new or low-cost services. These include:

†† The term "redlining" comes from the practice of drawing a red line on a map to define areas where banks would not invest. Redlining was most often used in inner city, minority neighborhoods.

- **Standard checking and savings accounts with small minimum opening and average balance requirements.** For example, if opening an account requires $100, a bank might reduce that minimum to $10. To keep bank costs down, customers are provided with a debit card instead of checks.
- **"Second chance" accounts for those with a history of overdrafts.** These customers must first complete a financial education program.[6]
- **Microloans for customers with no credit history or "thin" credit.** These mini-loans range from $200 to $3,000. When the customer pays the loan off, he or she is eligible for another loan, but one at a lower interest rate. Thus, the customer begins to build a credit file.
- **CD-guaranteed loans.** In this scenario, a customer borrows $1,000 from the bank and uses the funds to buy a one-year bank CD. The CD serves as collateral for the loan, which is generally priced from 2 to 3 percent above the interest rate on the CD. The customer makes monthly payments of principal plus interest and after 12 months gets the $1,000 principal plus interest from the CD along with the beginnings of a credit history.
- **Cash-based services to get customers in the door.** These include check cashing, facilitating remittances and bill payment, and selling money orders and prepaid telephone cards. Some banks have enrolled non-account holders as regular check cashers and provided them an identification card to make regular visits less time-consuming.
- **Non-recourse check cashing.** With recourse check cashing, which is standard practice for American banks and financial institutions, the amount of a check returned for insufficient funds is deducted from the customer's account. With non-recourse check cashing—generally offered by a nonbank or check casher—the amount is absorbed by the check casher, which may then take legal action against the check writer rather than penalize the customer. Some banks that offer check cashing services have attached a fee to non-recourse check cashing, while recourse check cashing is free. (Many financial institutions, however, still see check cashing services as too risky and offer limited services, such as cashing only government checks or those drawn on the bank's accounts.)
- **Remittance services.** Many banks offer remittance services, in part because they may have a large immigrant customer base. Some banks offer these to account holders, while others use them as a way to attract new customers. For account holders, this service might be free, while non-account holders are charged a fee. Research has found that customers have a high degree of loyalty to those who provide remittance services, and they are not particularly picky about price. Research also has found, however, that banks and financial institutions must offer a host of other services if they are to retain this kind of customer loyalty. Remittance services are simply not enough.

> "While credit risk has not been a serious obstacle, the strident anti-immigrant sentiment of some media figures, politicians, and organizations have made it harder for financial institutions to serve the immigrant market. One important issue to be addressed is the perception that a large majority of immigrants are undocumented, though fewer than 30 percent are. The political environment has created uncertainty about identification and lending practices and other regulatory issues, and has made some financial institutions reluctant to take a lead in this market."
>
> *Expanding and Improving Financial Services for Low- and Moderate-Income Immigrant Communities: Next Steps, Conclusions from a National Convening; Appleseed, 2006*

FACILITATING REMITTANCES

There are a number of ways to facilitate remittances for banks and other financial institutions. One type of transfer involves U.S. banks developing a joint arrangement with banks in foreign countries that allow account-to-account transactions. Another method has the bank issuing an ATM card that can be used only to withdraw funds from bank accounts in other countries. Yet another example is the bank that uses a money-transfer operator, which allows account holders and non-account holders to bring cash to a bank branch and send it abroad.

Reaching the Latino Homebuying and Credit Markets

> "The Latino community is now of such a scale, such magnitude, that as we move the needle for our own community, we move the needle for the United States."
>
> *Henry Cisneros, Chairman, American CityView*

American business has recognized that the Latino market is much more robust than was previously thought. American business also has recognized that the Latino market is more complex, nuanced and

dynamic. It is continually evolving and maturing with second and third generations becoming increasingly affluent and accumulating far greater wealth than their parents or grandparents.

To find out more about this growing market, its needs and how to meet those needs, one lender in 2005[7] conducted a survey of its Hispanic customer base (drawn from loan applications) to identify the variables tied to buying a home. One of the survey's most important findings was that the Latino market was not homogenous: One size of mortgage product did not fit all. Instead, the survey revealed nine segments of buyers and potential homebuyers from the 4,000 people surveyed:

1. Established Traditional Latinos
2. All American Latinos
3. Establishing Newcomers
4. Latino Urban Achievers
5. Stable Mature Immigrants
6. Self-made Middle Class
7. Striving Blue Collars
8. Transient Workers
9. Low-income Strugglers

According to company representatives who discussed the survey at the TRPI conference, the company conducted one-on-one interviews with 400 people from each segment, with the goal of identifying which segments were ready to buy and which mortgage products and financial services were appropriate for each one.

The survey showed that the top five segments were already homeowners or were ready to buy homes, and they were savvy about financial products and services. Latino Urban Achievers, for example, generally had two earners at home, were saving money, and had a plan to buy. The top five groups had homeownership percentage levels ranging from the mid-40s to above 80 percent. They were in their prime earning years and mostly married with children. They spoke Spanish and English, were largely computer literate, and were more likely to read *The Wall Street Journal* than *El Mundo*.

The last four segments had lower homeownership levels and were either younger or considerably older than those in the top five segments. The survey found that getting a mortgage was not a top priority for these groups. They had limited English proficiency and were less computer literate. One out of three planned to save money to return to their native country.

Homeownership continues to be the preferred and most stable path to the middle class and the ability to build net worth. Yet the gap between Hispanic and white homeownership remains wide, in many cases because Latino families lack a credit history and seem to fall between the cracks of the American credit scoring system. Under FICO (Fair Isaac Corporation), Latinos do not fare well. FICO scores applicants anywhere from 350 to 850, with 620 and below being the benchmark for an "at risk" applicant. FICO looks at how long the applicant has had credit, the type of credit, the number of credit applications, payment history, and the amount owed in the application. This means that those who live in a cash economy and are averse to accumulating revolving debt—traits endemic to the Latino culture—are hardly a blip on the FICO radar.

There has been much discussion in recent years about how the American financial system—namely FICO—assigns scores and what happens to customers who have "thin" credit scores or are labeled as "unscorable." Several presenters noted that there is movement on the part of mainstream lending toward tracking non-traditional data. In fact, Fair Isaac found that about 25 percent of all adult U.S. consumers either lacked credit reports entirely or had credit reports with too little information to accurately predict their credit risk. In response, Fair Isaac created its FICO Expansion Score, which analyzes non-traditional credit data, such as deposit account records, payday loan cashing, and performance on purchase payment plans.

But Fair Isaac isn't the only one with an eye toward tracking non-traditional data. Some banks are looking at things such as water, electric or gas company payments; telephone and cable company payments; car insurance, homeowner's insurance, rent payments, child care payments, health care payments, certain retail payments, and some unsecured credit cards.

First American has created a nontraditional score, called "Anthem," that follows traditional scoring models but incorporates data from a wide base of sources including rental and utility payments, non-deductible insurance payments, and child care expenses. Anthem uses a two-tiered score: The first comes from its nontraditional credit report; the second is a numerical risk assessment score. Scoring is based on payment history. In building the risk score, Anthem takes into account how long a consumer has been paying bills on time and the type of credit the consumer is using.[8]

An Arizona-based financial services corporation, "eFunds," created the DebitBureau database, which contains more than three billion records related to checking and savings account opening and closing information, checking account collections data, overdraft histories, and check order histories. eFunds has integrated its DebitBureau database into its Debit Report suite and ChexSystems reports to provide a history of a person's payment, spending, and lending habits.[9]

PRBC (Payment Reporting Builds Credit, formerly "Pay Rent, Build Credit") is a credit reporting agency that scores users on a scale from A to D. It lets consumers proactively build a credit profile by tracking rent, private mortgages, phone, utility, insurance premiums, and child care payments. The system is entirely voluntary, allowing customers to list companies they use to pay bills with the PRBC service.[10]

In 2006, the three credit reporting agencies—Equifax, Experian, and TransUnion—created VantageScore, which uses credit information from all three agencies and scores a customer from 501 to 990. The system was created as a way to level out the differences between the scores generated by the three credit reporting agencies. It has been marketed, in part, as helpful to lenders who are working with customers with thin or absent credit histories. Whether it actually will help this group remains to be seen.

In considering a customer's credit risk, some banks are looking at things such as water, electric or gas company payments, telephone and cable company payments, car insurance, homeowners insurance, rent payments, child care payments, health care payments, certain retail payments, and some unsecured credit cards.

Increasing the Numbers of Fixed-rate Home Loans

It is no secret that the recent housing boom, built on extraordinarily low interest rates, allowed those who were teetering on the edge of a thin credit score to finally afford homeownership, but there was a price to pay. In stretching to afford a home, these buyers, unable to qualify for a fixed-rate loan, turned to expensive mortgage products. These products were targeted specifically to the credit poor, and though they had higher interest rates, they initially lowered the buyer's monthly payment.

These included the adjustable-rate mortgage, which sets a new interest rate after an initial fixed-rate period; interest-only loans, which defer principal payments for a set number of years; the payment option loan, which lets borrowers make minimum payments that are even lower than the interest due on the loan and then roll the balance into the principal; and low-documentation loans, which let borrowers with inconsistent income or income difficult to document provide limited details about their resources and assets. In 2005 alone, $500 billion in loans was made to subprime borrowers. These loans are now resetting and, unfortunately, borrowers are defaulting.

> "I call it the subprime tsunami. The degree to which people were put into products that simply were not appropriate for them is going to come back to hurt them individually and will hurt the community and the economy. My sense is that the subprime loans originated in 2006 may be the single worst performing vintage of loans in 10 years. People felt they could construct any kind of product and sell it to any kind of person. And honestly, that's just wrong."
>
> *David H. Katkov, President and COO, PMI Mortgage Insurance Co.*

Yet, hidden among the distressing evidence of loan defaults, is the fact that household growth is increasing. With more than a million young foreign-born adults arriving in the U.S. each year, household formations in the next several years will substantially outdistance those from the last decade.

The challenge now falls to the American financial system to help people get out of subprime loans and into something safer and more affordable, and to provide newly formed households with access to homeownership.

The consensus among the conference's financial experts seemed to be that the answer lies in rethinking credit scoring methodologies and tracking non-traditional financial activity. The problem with this solution is that tracking non-traditional credit sources generally is a manual process, but in the world of mortgage lending, automation is king. It's fast. It's easy. It makes a person's credit history a quantifiable entity, but it also leaves potential Latino borrowers out or sends them into subprime purgatory, and it leaves lending institutions unable to tap a potentially lucrative market.

> "The challenge of realizing the dream of increasing the homeownership rate is going to be how we use non-traditional credit. How do we find other ways to measure credit worthiness, and how do we do it with scale?"
>
> *David H. Katkov, President and COO, PMI Mortgage Insurance Co.*

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Automated underwriting tools were introduced to the lending industry more than 20 years ago, at a time when loans were typically processed manually and decisions to fund were often inconsistent and based on subjective criteria. The underwriting process for prime loans (often referred to as "A-paper") changed fundamentally when Fannie Mae and Freddie Mac introduced their own automated underwriting systems (AUS), referred to as Desktop Underwriter and Loan Prospector, respectively. These systems provided consistent, objective and rapid loan purchase decisions. Fannie Mae and Freddie Mac were not the only market participants to rely heavily on AUS. The two largest mortgage lenders in the U.S., Countrywide and Wells Fargo, built their own proprietary systems and used them successfully for well over a decade.

Addressing the efficacy of scoring methodologies in the context of non-traditional financial transactions is a whole new ballgame. One can construct a credit profile, but there is not yet a broad, uniform agreement about the validity or the value of its individual elements.

> "This is what makes non-traditional credit challenges formidable. In the next three to five years, people will recognize that the millions of people who are here illegally are going to stay, and they are going to have to be housed. If the mortgage business is a big driver of the economy, and these people need homes, we are going to have to find a way to bring standardization to credit decisions. No one has yet cracked the code of how we're going to do that."
>
> *David H. Katkov, President and COO, PMI Mortgage Insurance Co.*

Catering to the Affluent

The number of Hispanic households earning more than $100,000 annually grew 126 percent from 1991-2000, compared with 77 percent for the general population. In fact, the number of Hispanics who earn $100,000 and have at least $500,000 in assets is growing eight times faster than the non-Latino market.

As discussed previously, this group has many of the cultural characteristics of those at the lower and middle income levels. What is interesting, however, is that at this income level, these traits manifest differently and at times in a contradictory manner. For example, an extensive online survey by one presenter's firm showed that this group is also averse to acquiring revolving credit. If they have a credit card, it is most often a card that must be paid in full every month and, as such, is not reported to a credit reporting organization. For the same reason, affluent Latino consumers are high frequency users of debit cards because the funds are deducted immediately from what typically is a non-interest earning checking account.

This group is relatively new to homeownership and less likely than their non-Hispanic counterparts to use a home equity line of credit. They are younger than their non-Hispanic counterparts and are more technologically savvy. Although they aren't afraid to bank online or by telephone, they are unlikely to

use direct deposit. When necessary, they favor visiting a traditional bank branch and will generally visit a teller to solve customer service problems.

Savings may be in the form of remittances, which go to accounts in foreign countries or are invested in foreign homes or businesses. Latinos' desire to ensure the financial future of their children tends to appear in the purchase of life insurance or government securities rather than investments in IRAs, pension funds, or the stock market.

> "The challenge for reaching this group is not to change the products but to change the message. Let them know how important it is to invest and make their money work for them, rather than putting it all in life insurance. They are a younger group so they can actually invest in something a little bit riskier."
>
> *Julie Pabich, Consumer Research Consultant, Integras, a Division of Claritas, Inc.*

The wealthy Latino community, whose net worth is in the millions, also keeps its cultural proclivities. Wealthy Latinos are generally self-made, having started their businesses on a shoestring, often with borrowed money, and invested the profits back into the business. They tend to have strong emotional attachments to their business, which they view as more than a family enterprise. It is their legacy and their children's inheritance. Yet this sentiment is one their children don't always share. The next generation tends to see their business with a more practical eye and may be willing to either sell it or bring in investors to expand it far beyond what their parents originally envisioned.

The loyalty for which the Latino community often is noted also appears in this economic stratum. Business owners are open to advice and generally choose to get it from other Latinos, usually from a friend or through the referral of a friend. This may keep Latino business in the Latino community, but it is not always advantageous for the business owner. Experience has shown that loyalty can trump good business sense if a business owner follows advice because the adviser is Latino or a friend, rather than because the adviser has the appropriate level of knowledge or depth of experience.

Although this group generally is well-organized regarding business plans, research has shown that only 33 percent have a personal financial plan, and 59 percent have an estate plan. In addition, the plans that do exist may have been done piecemeal and may not be as comprehensive as they should be, or they have not been updated in several years. The experience of financial planners shows that this consumer group typically has multiple advisers (CPAs, attorneys, insurance professionals, etc.), none of whom know or consult with one another. All of these factors make providing the client with quality advice a challenge.

> "These people don't think of themselves as wealthy. They don't think they qualify for this kind of service. They don't see themselves as the kind of people who would deal with someone in a high-rise downtown. They have many millions of dollars. So their not seeking quality advice is a challenge because they may see you as suit-and-tie coming at them."
>
> *Ray Cherry, Vice President and Senior Wealth Advisor, Union Bank of California*

> "Affluence cuts across acculturation, language, or life stage. This person could be an industrialist coming in from Argentina and landing his G4 in Miami. Or it could be the guy walking into the bank in paint-splattered overalls who wants to cash a $400 check. Or the guy who owns five body shops, or the woman who owns a string of beauty salons. They may not look or speak like the affluent, but they are. They may not have a college degree or an MBA, but their business needs are the same. They need access to capital. They need financial advice. They want to preserve and grow their wealth. They want to take care of their kids and provide for their education. They have all the same goals as everyone else, but this audience is not being well-served."
>
> *David Perez, CEO, Latin Force LLC*

These clients are looking for education planning for their children; advice about long-term health care for their parents or extended family; financial, investment and estate planning; as well as information about business succession, charitable contributions, and philanthropy. Developing trust is the first task

in reaching this community. One speaker suggested that this begin with a discovery process to uncover the client's motivations, desires, fears, or obstacles. The resultant plan should not be based on the purchase of a particular product or on the adviser's agenda, but on the client's values and goals. It is also important that advisers provide some kind of help with financial literacy and the terminology that may be a somewhat new or even indecipherable language for the client.

> "This is not a quick sale. But once you establish yourself, they put a lot of trust in you, regardless of who you are or where you come from."
>
> *Ray Cherry, Vice President and Senior Wealth Advisor, Union Bank of California*

Working with the New American Entrepreneur

Entrepreneurship is yet another avenue to accumulate wealth. More important, however, is that it provides independence and the ability to be the boss and grow the business according to one's own values and ambitions. Creating a successful business isn't necessarily easy, but almost all businesses begun in the U.S. started small. In fact, there are more than 24 million business entities filing income tax returns.[11] A significant number are part-time ventures whose owners are full-time employees elsewhere.

Hispanic-owned businesses follow this general profile. They are small with annual revenues of less than $250,000. They typically have fewer than four employees and do business within their home state and particularly in their own neighborhood. According to the U.S. Hispanic Chamber of Commerce, there currently are 2 million Hispanic-owned businesses in the U.S. generating $350 billion annually. By 2010, there will be 3.2 million generating $465 billion annually.

It is interesting to note that Latina-owned businesses have grown dramatically. Between 1997 and 2006, the number of firms majority-owned (51 percent or more) by Hispanic women increased by 121.3 percent. Research shows that 80 percent of these businesses are in the service sector; 9.2 percent are in retail; and 4.5 percent are in real estate, rental and leasing.[12]

Small businesses are the engine that drives the American economy. Their health is critical to the economy, particularly since they employ more than 50 percent of all U.S. workers. Yet, as an economic entity, they often are ignored by mainstream corporate America. One entrepreneur speaking at the TRPI conference related that most Fortune 1000 companies spend less than 3 percent of $12 trillion in annual purchasing with minority-owned businesses.

> "When I started my second radio station, people said to me, 'Hispanics don't have any money. How will they buy what I'm advertising?' That was in the early 1990s."
>
> *Thomas H. Castro, President and Co-founder, Border Media Partners, LLC*

Another challenge has been at the federal level, where bundled contracts (the practice of combining two or more contracts into a single agreement) reduce opportunities for small and minority-owned businesses. This was recently addressed by the U.S. House of Representatives in the passage of H.R. 1873, the Small Business Fairness in Contracting Act. The bill amended the definition of bundled contracts and requires agencies to better justify the need for large contracts. It also raised from 23 to 30 percent the federal government's goal of acquiring goods and services from small business, and requires the Small Business Administration to develop new regulations and databases, and to encourage and promote the use of small businesses in government contracting.

Challenges to creating a successful business aren't only at the bureaucratic level, however. Many stem from the tradition, culture and, in some cases, the experience of the owners themselves, i.e., the businesses aren't always run with an eye toward significant asset accumulation or return on investment. According to one statewide study, less than half of Latino business owners promote their Latino heritage. As business owners, they do not network with other Latino business owners, nor are they certified as a minority-owned business. Only 8 percent are members of a Hispanic organization or association.[13]

Latino business owners also are reluctant to go into debt to grow their businesses, and in many cases are unwilling to bring in outside investors. Yet that does not mean they have access to investment capital. According to the study, 72 percent of non-minorities said they did not seek credit because they did not need it, while only 40 percent of minorities said the same. Also, 41 percent of Hispanics did not apply for credit for fear of being turned down.

> "Immigrants founded 25 percent of U.S. companies that were venture-backed over the last decade, amounting to $500 billion in capitalization. Among them are names you would recognize: Intel, Sun Microsystems. Ebay, Yahoo, Google. I looked at the 121 largest companies founded by immigrants, and only one was founded by a Latino. And that was by a Cuban. Zero of those companies had Mexico, Central or Latin American origins. I believe in the entrepreneurial potential of Latino immigrants, but unless we want to live in an America where the Latinos form the small mom-and-pop grocery stores and the small neighborhood establishments and the gardening places and the truck repairs and the mechanics shops, and somebody else creates the Ebays and Googles and Sun Microsystems, then again we confront this issue of education and the challenge of access to capital and the other things that are going to make it possible. So while the entrepreneurship strategy is important, we have to address this segmentation, this bifurcation that will otherwise be our story unless we're able to break into the venture capital markets and create real economic opportunities."
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> *Henry Cisneros, Chairman, American CityView*

Another challenge for Latino entrepreneurs is to understand the potential power they have to change things for the better in their communities and the potential impact they can have on public policy.

> "My first job after Harvard was with a U.S. senator. I wanted to save the world, but I soon learned that he who has the gold rules. I would write position papers and get five minutes of the senator's time. Then the business guy would show up and the senator would defer to the business guy, who was a big taxpayer and contributor and usually saw it differently than my position paper. It showed me that the business community can have a big impact on public policy. I realized that if I was going to be effective, I had to do it from the private sector."
>
> *Thomas H. Castro, President and Co-founder, Border Media Partners, LLC*

> "We've had marches that were effective because they demonstrated that we have a message. Now we have to figure out how to deliver that message. We have to lobby and vote and contribute to political campaigns. Think about this: Give a candidate $50 and you get a nice thank you. Give $200 and you might get thanked by the chief of staff. Give $500 and you get thanked by the candidate. Give them $2,000, and they're wanting your phone number. They're calling you and asking for your help. This tells us that, as business owners, it's possible for us to be effective at the level of public policy."
>
> *Michael L. Barrera, President and CEO, U.S. Hispanic Chamber of Commerce*

Growth through Philanthropy

Philanthropy, as a practice, is applicable to the small business owner as well as the extraordinarily wealthy and mainstream corporate America. It can encompass everything from support of a local Little League team to large-scale donations that help rebuild neighborhoods and communities. At a personal level, it's the business owner wanting to provide others with opportunities provided to him or her. At a corporate level, it's a way to solve long-term problems and invest in the future of the community.

For example, a Bank of America representative detailed the bank's philanthropic efforts, saying it invested $200 million in 2006 and is doing the same in 2007 by investing in non-profit organizations at the local, regional and national levels. Its philosophy is that non-profits are its partners—the engines that will drive positive change by addressing some of society's most difficult challenges and focusing on under-served neighborhoods.

One aspect of that philosophy attempts to end the historical "funder-supplicant" relationship where the non-profit has to figure out how to get the grant while the funder holds the check. Instead, the bank believes, funding strategies should result from a conversation between the non-profit, which knows the community, and the funder, who seeks to invest in the community because its customers are the people who live there.

> "We found that general operating support is the hardest funding to get but is also the most important. Second is the problem of succession planning, identifying the next generation of leaders at these critical community organizations. Research tells us that in the next decade we're going to need 50,000 new leaders in the non-profit sector given the growth of the sector as well as the aging out of its leadership."
>
> *Andrew D. Plepler, Global Community Impact Executive, Bank of America*

The bank's Neighborhood Excellence Initiative, for example, provides two years of operational support in the form of unrestricted grants and customized leadership training for current and future executives. The institution also works with other non-profits that offer community services. For example, it provided a $500,000 grant to the United Way for an effort to make tax preparation accessible for low-income earners who have historically not claimed the Earned Income Tax Credit (EITC) to which they are entitled. It is estimated that $2 billion has gone unclaimed under the EITC program.

Effectively using research is one way to guide philanthropic strategies, the speaker said. For example, a Brookings Institution study on the cost of poverty found that those who live in low-income areas paid higher prices for everything from mortgages to groceries. Because residents typically had less money to deposit in interest-bearing accounts, on which banks make money, these areas had fewer bank branches and an abundance of alternative financial institutions (payday lenders, check cashers, etc.) Insurance costs were higher (credit scores are used in some states to set car insurance rates). Mortgages cost more, even though the median home price was 40 percent lower than other areas. Residents shopped at tiny and expensive markets because there were no large-scale grocery stores nearby. All of these factors tend to strip what wealth there is out of a community.[14] The bank used this study as a foundation for a project that enlisted the support of state and local officials to bring more services to inner city areas in several parts of the country.

Philanthropy isn't just the exclusive province of corporations, however. A study funded by Bank of America found that entrepreneurs are particularly generous donors. In comparing household donations by sources of net worth, entrepreneurs contributed an average of $232,206 annually. The next highest donors were those who inherited wealth, giving an average of $109,745. Yet that was still higher than those whose net worth came from savings ($84,882 donated), return on investment ($69,978), or real estate ($11,015).[15]

The study also found that:

- "Giving back" was more important than "leaving a legacy." Donors most often were motivated by a desire to meet the critical needs of the community. Other motivators included a desire to give back to society and the belief that those with more should give to those who have less. Leaving a legacy was cited by only 26 percent of the respondents.
- Those who wrote checks also tended to volunteer their time, and the more time they volunteered, the bigger the check. They also supported a broader array of causes when compared with giving among the general population.
- Nearly 65 percent of wealthy donors increased their charitable giving in the past five years. They also reported that tax considerations were minor, saying they would continue to give even if the estate tax were repealed or donations were no longer tax deductible.

In 2003, a group of activists, food industry professionals and public officials came together to address concerns regarding access to affordable and nutritious food in underserved communities. As a result of their efforts, the Fresh Food Financing Initiative (FFFI) was launched to increase the number of high quality food retailers in those areas. The initiative was seeded with $10 million from the Commonwealth of Pennsylvania, which The Reinvestment Fund (TRF, which managed the project) matched with $3 of private funds for every public dollar. In 2005, TRF reached its capitalization goal for FFFI; $32 million came from a bank pool comprised of JPMorgan Chase, Wachovia, PNC Bank, Merrill Lynch CDC, HSBC bank, and Citizens Bank. By early 2007, FFFI planned to finance 27 supermarkets statewide. The stores represent $22.9 million in financing, more than 2,400 new jobs, and 782,450 square feet of fresh food retail in underserved communities.

The Reinvestment Fund, "Reinvestment News," Spring 2007

POLICY RECOMMENDATIONS & BUSINESS STRATEGIES

Business and industry leaders will be better able to create mutually beneficial partnerships and opportunities by cultivating a better understanding of the characteristics and financial needs of the Latino community, and by offering products and services that are of real value to this particular market. Addressing the financial needs of the Latino community at the policy level will require an infrastructure that supports financial stability, builds credit, and provides avenues to the accumulation of assets and increased net worth. Ideas of the conference participants regarding policy recommendations and business strategies to reach those goals follow:

Examine policies to regulate business practices that draw money out of the community.

These practices include payday lenders, refund anticipation lenders, and unscrupulous check cashers. They also can include businesses that charge more to minorities or low-income buyers, such as those applying for home or automobile loans. For example, states that have banned payday lending saved their citizens an estimated $1.4 billion in predatory payday lending fees.

Consumer groups have applied increasing pressure to fight refund anticipation loans (RALs), the result of which has been a significant drop in RALs and three large tax preparation agencies dropping or reducing their application and document processing fees. There has been legislative movement as well, with states attempting to regulate RALs by enacting laws that primarily focus on disclosure requirements.[16]

Engage mainstream financial institutions in providing affordable products and services.

Such offerings would include checking accounts with affordable monthly fees, no minimum balance, free ATM transactions, bill payment and remittance services, and electronic benefit transfers so government checks go directly into the customer's account. Access to investment products and retirement accounts also would be offered.

One conference speaker cited an idea advanced in 2004 by the Brookings Institution, suggesting the creation of a First Accounts Tax Credit that would offer tax incentives for financial institutions offering low-cost electronic accounts for low-income customers. These institutions would get a tax credit to cover the administrative cost of offering the account. Banks using the First Accounts Tax Credit also could offer low-cost services to employers, such as direct deposit, financial education, and a significant payroll savings for employers whose employees opt for direct deposit.[17]

Other proposals included offering electronically based accounts that have a reduced risk of overdraft and a separate savings "bucket" within the account, offering accounts contingent on completion of financial counseling, expanding bank account access via the pre-paid cell phones commonly used by low-income people, and offering smart cards to unbanked customers, allowing them to conduct financial transactions at a relatively low cost.

Encourage the creation of a new kind of financial infrastructure, one that would begin at the city or municipal level and focus on the provision of financial services to local citizens.

Some examples of programs that are already operating:

- *America Saves* is a nationwide campaign in which a broad coalition of nonprofit, corporate, and government groups help individuals and families save and build wealth. America Saves has 65,000 enrolled "savers" and 1,000 nonprofit groups, employers, financial institutions, and government agencies working at the local, state, and national levels. Through information, advice, and encouragement, America Saves helps those who want to pay down debt, build an emergency fund, save for a home, save for an education, or save for retirement. The program has been replicated in many cities and has a Spanish-language component called Hispanic America Saves.[18]

- *Access Miami*, an acronym for Assets, Capital, Community, Education, Savings, and Success, is a program that brings together city resources with similar resources available in the public, private, and non-profit sectors. Its goal is to offer tools and education that enable residents to improve their quality of life.

  ACCESS Miami has four primary elements: access to existing benefits, access to capital, building wealth and accumulating assets, and improving financial literacy. It has collaborated with the U.S. Small Business Administration, the Internal Revenue Service, H&R Block, and the Mortgage Bankers Association to offer residents services such as financial seminars, workshops, and other financially related services. Thus far, more than $700,000 in microloans has been made to small business owners, city-affiliated tax preparation efforts have saved $800,000 in fees for more than 9,000 residents, and more than 300 residents have opened IRA savings accounts.[19]

- *Earn it! Keep it! Save it!* is a San Francisco United Way program that attempts to reduce poverty levels among low-income Bay Area workers. In the 2006 tax season, it provided free tax services that enabled 19,955 low-income residents to obtain almost $10 million in Earned Income Tax Credits, and more than $20 million in total refunds.

  Another city-based program known as the Working Families Tax Credit offers a direct cash payment based on a percentage of the federal Earned Income Tax Credit payment. Recipients must be San Francisco residents and have earned less than $39,000 in the previous year, be able to claim and qualify for the federal EITC, and claim at least one dependent child on their tax return. The program is designed to reward working people with several hundred dollars in additional income per year.[20]

The National Taxpayer Advocate devoted an entire volume in the 2007 Objectives Report to Congress on Refund Anticipation Loans (RALs). Recommendations regarding RAL practices included:

- Improving IRS oversight of tax preparers who are authorized to file electronically
- Eliminating the ability of return preparers to have an ownership interest in RALs
- Providing refund delivery methods other than checks to the unbanked population
- Closing the gap between the time it takes to receive RAL proceeds and the time it takes to receive a refund directly from the IRS
- Ensuring that taxpayers are adequately informed of the options and associated time-frames.

National Taxpayer Advocate's 2007 Objectives Report to Congress, Volume II, "The Role Of The IRS In The Refund Anticipation Loan Industry"

Address the question of Latino economic progress by planting the financial seeds for future generations.

One multi-year research initiative is addressing the logistics and effects of such a project. The Saving for Education, Entrepreneurship, and Downpayment (SEED) Policy, Practice and Research Initiative is a national asset-building effort to design, develop, and test matched savings accounts for children and youth. Twelve community organizations and one state are helping children of various ages establish savings accounts for long-term developmental purposes, such as going to college, buying a first home, or starting a business. The private foundations that fund the initiative provide money for initial deposits into SEED accounts, and deposits by parents, friends, and relatives are matched for a period of four years.

The goal of the initiative is to learn about the psychological, social, behavioral, and economic effects of SEED accounts; how to engage working-poor families; which public programs are most likely to garner support; and which systems deliver accounts efficiently to millions of children.[21]

Another savings initiative is modeled after the United Kingdom's universal children's savings policy, known as the Child Trust Fund. Similar legislation in the U.S. has been proposed in both the House of Representatives and the Senate but has never been acted on. In short, these types of savings accounts have the government investing a specific dollar amount for each newborn child and matching additional tax-free deposits from friends or family until the child turns 18, at which time the money can be withdrawn for—according to various proposals—education, homeownership or retirement.[22]

Support the efforts of those who want to improve their skills and advance their careers by creating savings accounts similar to a 401(K).

One way to do this may be contained in a Senate bill introduced in January 2007 that would encourage employees to set aside money for their education costs and would encourage employers to provide matching funds through Lifelong Learning Accounts (LiLAs). These accounts would be employer-matched, portable, individual savings accounts used to finance education and training. The Lifelong Learning Account Act (S.26) would offer tax credits for employer and employee contributions.[23]

Provide financial literacy education through local Chambers of Commerce, small business development centers, and programs at the city or county level.

Research has shown that low-income families do not understand financial services as well as those in higher income households and are less likely shop around for affordable financial services. According to one study, 14 to 20 percent of all mortgage borrowers pay higher interest rates and fees than their qualifications indicate that they should.[24]

Strengthen support of portal neighborhoods.

These neighborhoods are generally the first place of arrival for immigrants and act as a kind of way-station where newcomers can develop the necessary skills to integrate into the larger community. They find their first jobs here, enroll children in school, learn English, and figure out how to navigate the U.S. health care and financial systems. These areas typically house immigrants only until they are acculturated enough to move elsewhere. They include such places as West Lake in Los Angeles (Central Americans), Chinatown in New York City, the Bronx in New York (Dominicans), and Ironbound in Newark (Brazilians), as well as many other urban and inner-suburban areas.

Developing policies and strategies that strengthen these neighborhoods and provide the appropriate services will foster immigrants' integration into the community and create opportunities both for arriving immigrants as well as the neighborhoods themselves.[25]

These are only a few of the ideas generated by the TRPI conference participants, who also stressed that this was but a beginning.

> "I urge you to go beyond ideas to execution, and begin thinking about putting forward proposals that move their way to Congressional discussion, and proposals and bills and local initiatives that can work (toward) this agenda. We need to be at that point in terms of thinking imaginatively about the things that are going to move us forward. This is so critical for our community and so critical for our country. I believe in our community. I believe in our people, our families, our faith, our capacity for hard work, our determination, our entrepreneurial skills, our savings capabilities. America doesn't know it, but we're one of the best things to ever happen to this country, and the best is yet to come."
>
> *Henry Cisneros, Chairman, American CityView*

Reducing the cost of living for low-income families by just 1 percent would create more than $6.5 billion in new spending power for these families.

"From Poverty, Opportunity: Putting the Market to Work for Lower Income Families," The Brookings Institution, 2006

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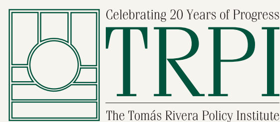

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