

Use of Bank and Nonbank Financial Services: Financial Decision Making by Immigrants and Native Born

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FDIC National Survey of Unbanked and Underbanked Households

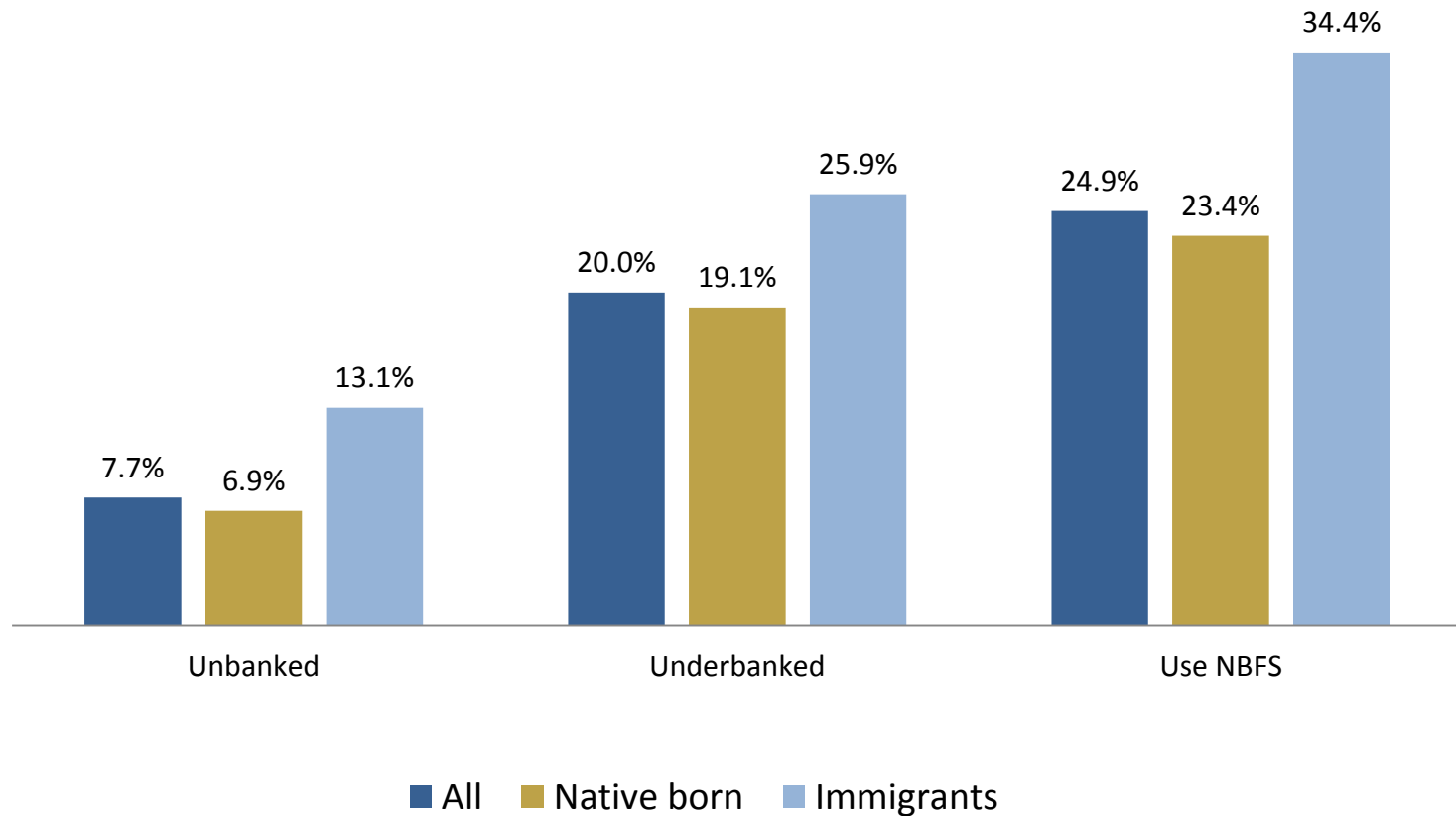
- Supplement to the Current Population Survey (CPS), sponsored by the FDIC and administered by the U.S. Census
- Includes a full array of socioeconomic and demographic variables as well as information on bank account ownership and the use of numerous transaction and credit financial services offered by nonbanks

FDIC National Survey of Unbanked and Underbanked Households

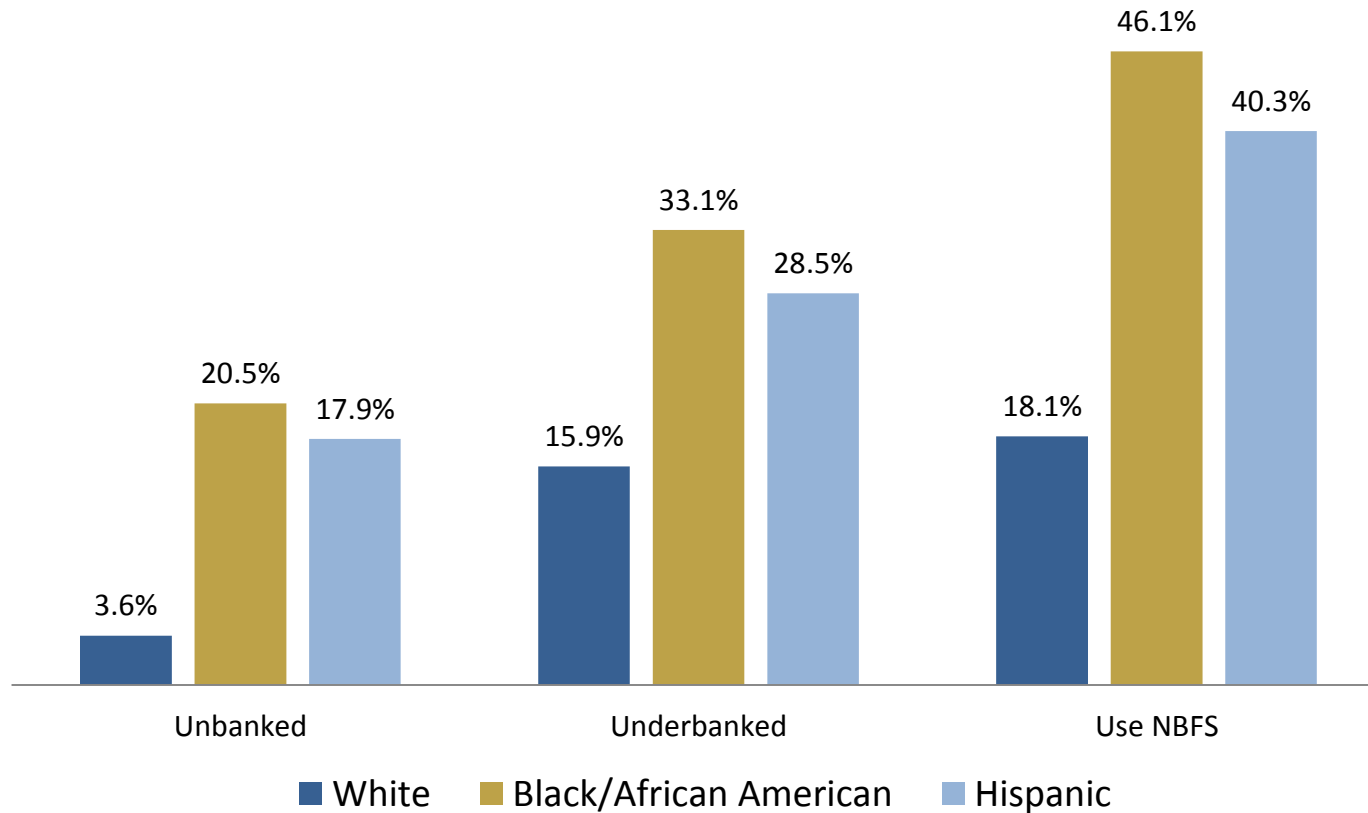
Banking Status

- Unbanked – Do not have a deposit account (savings and/or checking) at an insured institution
- Underbanked – Do have a deposit account, but also have used nonbank financial services (NBFS)
- Nonbank financial services --
 - Transaction services: check cashing, money orders, remittances
 - Credit services: payday loans, pawn shops, refund anticipation loans, rent-to-own services, and auto title loans

Unbanked, Underbanked, and Use of NBFS, 2013



Unbanked, Underbanked, and Use of NBFS, 2013, Native Born Only, by Race/Ethnicity



Purpose

To understand immigrant and native born households' decisions to use bank and nonbank financial services and the factors that influence the use of these services.

Purpose (continued)

We look at the household's joint decision about using nonbank financial services and owning a bank account from a consumer choice theoretical framework using a bivariate probit model.

Immigrant Enclaves

- Immigrants tend to cluster in areas with other immigrants
- The existence of and concentration of an immigrant's ethnic group is an important determination of destination choice
- Several studies show that immigrants residing in more concentrated enclaves have an increased likelihood of being unbanked
- More precise measure of immigrant enclaves (for each country of origin in each MSA), where for immigrants from home country i living in MSA j , $\text{Enclave}_{ij} = \frac{\sum x_{ij}}{\sum x_j}$

Home Country Banking Institutions

- World Bank's Global Financial Development Database (GFDD)
 - The percent of the household's home country population that is banked
 - Bank branches per 100,000 persons

Factors That Impact Banking Status and Use of NBFS:

- Immigrants
 - Enclave measure
 - Country-of-origin institutions
 - Banked rate of home country
 - Bank branches per 100,000 persons
 - Year of migration
 - Age at migration
 - Citizenship
 - Country/Region of Origin
 - Europe
 - Asia
 - Latin America
 - Mexico

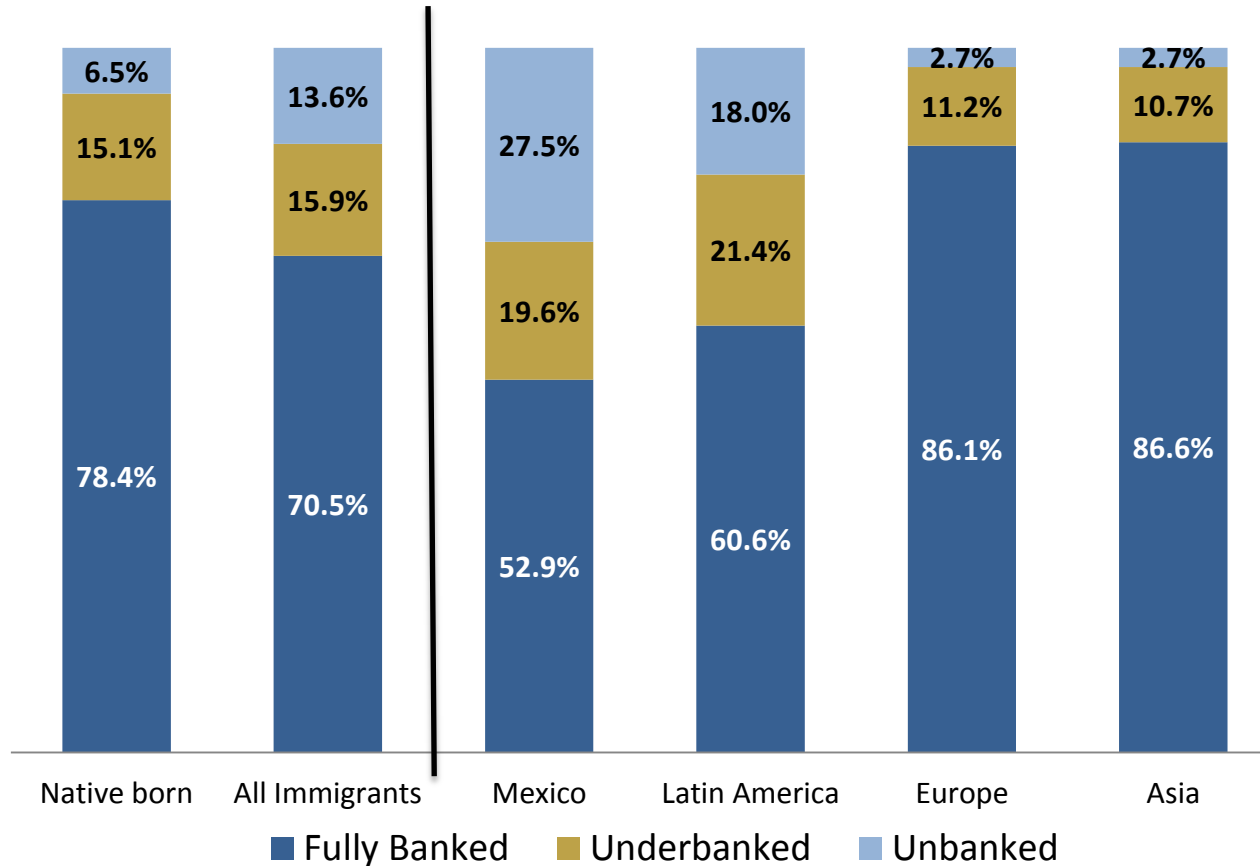
Factors That Impact Banking Status and Use of NBFS:

- Native born
 - Race/Ethnicity
- All households
 - Age
 - Family income
 - Years of education
 - Employment status
 - Home ownership
 - Marital status, family size, and number of children
 - U.S. region

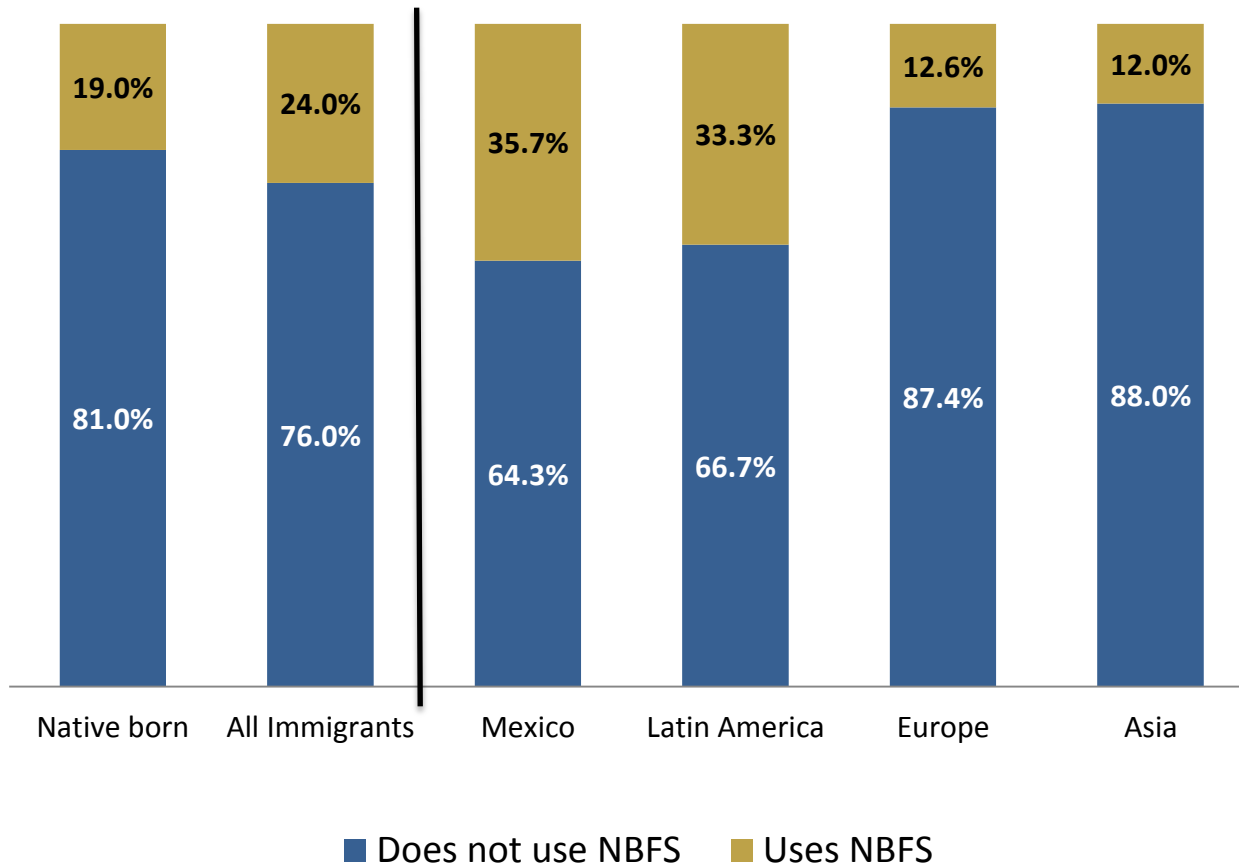
Data

- 28,329 household observations
 - 3,668 immigrant households
 - 24,661 native born households
- 214 MSAs

Banking Status, 2013, All Households in Study



Use of Nonbank Financial Services, 2013, All Households in Study



Bivariate Probit Model:

$$y_{ij,1}^* = \beta'x_{ij,1} + \varepsilon_{ij,1},$$

$$y_{ij,2}^* = \beta'x_{ij,2} + \varepsilon_{ij,2},$$

$$y_{ij,1} = 1 \text{ if } y_{ij,1}^* > 0, 0 \text{ otherwise,}$$

$$y_{ij,2} = 1 \text{ if } y_{ij,2}^* > 0, 0 \text{ otherwise,}$$

The disturbances are jointly normally distributed with

$$E[\varepsilon_{ij,1}] = E[\varepsilon_{ij,2}] = 0,$$

$$\text{Var}[\varepsilon_{ij,1}] = \text{Var}[\varepsilon_{ij,2}] = 1,$$

$$\text{Corr}[\varepsilon_{ij,1}, \varepsilon_{ij,2}] = \rho.$$

Findings:

- We find evidence of joint financial decision making
 - The estimated correlation coefficient, ρ , is significant in all models
- Immigrant households – controlling for all other factors -- are more likely than native born to use NBFS, regardless of whether they are banked or unbanked

	Immigrants	Native Born	Percent Difference
Unbanked	55.0%	48.0%	14.6%
Banked	19.0%	15.0%	26.7%

Immigrant-Specific Attributes

- Region of origin has an impact on use of NBFS
 - Immigrants from Mexico and Latin America are more likely to use NBFS, regardless of whether or not they have a bank account
- Home country banking features do not have a significant effect on the use of NBFS for either banked or unbanked
 - But do have a positive impact on the likelihood of being banked

Immigrant-Specific Attributes (continued)

- The more concentrated an ethnic enclave, the less likely a household uses NBFS, regardless of whether banked or unbanked
 - It has an insignificant influence on the decision to have a bank account.

Native-born specific attributes

- Black and Hispanic households are more likely to use NBFS relative to Whites and Non-Hispanics, regardless of bank status
- They are also more likely to be unbanked

Economic and Demographic Attributes

- Other factors that lower the likelihood of using NBFS regardless of bank status

Immigrants

- Education
- Family Income
- Own Home
- Citizenship

Native Born

- Education
- Family Income
- Own Home
- Married

Economic and Demographic Attributes

- Other factors that increase the likelihood of using NBFS regardless of bank status

Immigrants

- Being in the Labor Force
- Being Younger
- Family Size

Native Born

- Being in the Labor Force
- Being Younger
- Family Size

Unbanked Rates for Immigrants and Native Born: 2013 and 1996-99

	2013	1996-1999	Change		2013	1996-1999	Change
Immigrants				Native Born			
Mexico	28	53	-25	Black	21	24	-3
Latin America	18	37	-19	Hispanic	12	22	-10
Europe	3	17	-14	Other race	7	26	-19
Asia	3	20	-17	White	3	14	-11

Source:

2013, June CPS, authors' calculations.

1996-1999, SIPP panel, U.S. Census. See Rhine and Greene (2006).

Discussion

- Although gains have been made to lower unbanked rates for immigrants and minority native-born households, further progress is needed
- Some banked households are still relying on NBFS
- These households represent growing market opportunities for mainstream financial institutions
- Banks can offer NBFS type services such as check cashing and money orders

Discussion

- Financial institutions can partner with local community organizations to:
 - Provide information
 - Build trust
 - Create stronger cultural and social ties
- Offer financial education/conduct outreach and marketing about basic products tailored to serve immigrant populations

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