Economic Inclusion

Discussant Comments
FDIC Consumer Research Symposium
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### Table 7. Unbanked Rates for Immigrants and Native Born: 2013 and 1996-99

<table>
<thead>
<tr>
<th>Immigrants</th>
<th>2013(^1)</th>
<th>1996-1999(^2)</th>
<th>Change</th>
<th>Native Born</th>
<th>2013(^1)</th>
<th>1996-1999(^2)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>28</td>
<td>53</td>
<td>-25</td>
<td>Black</td>
<td>21</td>
<td>24</td>
<td>-3</td>
</tr>
<tr>
<td>Latin Amer</td>
<td>18</td>
<td>37</td>
<td>-19</td>
<td>Hispanic</td>
<td>12</td>
<td>22</td>
<td>-10</td>
</tr>
<tr>
<td>Europe</td>
<td>3</td>
<td>17</td>
<td>-14</td>
<td>Other Race</td>
<td>7</td>
<td>26</td>
<td>-19</td>
</tr>
<tr>
<td>Asia</td>
<td>3</td>
<td>20</td>
<td>-17</td>
<td>White</td>
<td>3</td>
<td>14</td>
<td>-11</td>
</tr>
</tbody>
</table>

\(^1\)2013, June CPS, authors’ calculations.  

From “Use of Bank and Nonbank Financial Services: Financial Decision Making by Immigrants and Native Born” by Joyce M. Northwood and Sherrie L.W. Rhine
Problem Addressed, in Several Words

• Large portions of the U.S. population remain un or underbanked

• From 2013 FDIC survey
  • 28% of immigrant households from Mexico are unbanked
  • 21% of native Black households are unbanked
  • 12% of native Hispanic households are unbanked

• While unbanked rates have fallen, still remain high for many groups

• Concern because banks provide safe and low cost savings instruments and the means to increase investment in a home or business
  • Lack of formal banking relationships may inhibit the wealth accumulation of unbanked and underbanked households
General Summary

• Questions two papers tackle
  • What characteristics are associated with being un or underbanked?
  • What helps determine use of banking services?

• What we learn
  • Early life experiences have an affect on the use of financial services, specifically credit
  • It may take a long time for individuals to catch up
  • Exposure to “banking culture” matters
  • Similar characteristics are associated with use of nonbank financial services for those with and without bank accounts.
  • Interesting because it raises the question of what individuals without bank or nonbank financial services do
Policy Recommendations

• Exposure to finance matters
  • What can U.S. policy makers do, given that it’s difficult to increase exposure to banks by mandating branching (Indian rural banking law, Burgess & Pande 2005)?
  • Also unclear that this will work without accompanying interventions

• Financial education
  • But what type and to whom?

• Experiments in financial education have yielded mixed results
  • Experiment giving financial education to high school students in Brazil (Bruhn et. al. forthcoming AEJ: Applied) improved savings and budgeting, but increased use of expensive consumer credit
  • “The minimal impact of a large scale financial education program in Mexico City” (Bruhn et. al., JDE 2014)
  • Paper from India and Indonesia, education only effective for those with less financial literacy. Price subsidies more effective (Cole et. al. 2011)
Novel Interventions

• Re-thinking financial education may help

• Start younger

• Novel forms of delivery
Specific Paper Comments
Growing up Without Finance

• Very interesting. Great use of a quasi-experiment
• Convincing that different legal status led to different levels of financial development
• Convincing that previous levels of economic or financial development did not determine subsequent legal environment
• Therefore makes sense that this will lead to different levels of aptitude with navigating formal finance
• So the story is compelling and I really want to believe it…
• But I think more can be done to provide more evidence in favor of the story
Channels need to be clearer

• Legal framework → level of financial development (bank branches)
  • → entry into consumer credit markets
  • → credit score and success in obtaining credit

• But is behind the second arrow?

• Various features of environment make this discussion important

• “Thus judicial uncertainty that caused differences in local banking and branching across reservations did not also directly affect how households access most consumer credit products“ (from intro)

• Demand for consumer credit and provision of mortgage loans similar

• Then why is the legal framework hypothesized to affect people’s behavior in consumer credit markets?
  • It is not about differential access to consumer credit?
  • Is this about just seeing a bank? Is it about using a bank for deposits? Is it about small business loans?
More on Credit Scores

• More discussion of how credit scores are determined
• Helpful to understand both the sample and a key outcome variable
• Example: a history of credit matters, which is why earlier entry into credit markets will impact credit scores later on

• Some important questions:
  • If you’ve never had credit, are you given a credit score?
  • If not, how can credit scores be so different for people who have only had one or two credit products?
  • How much of a role does having a checking and/or savings account play in determining credit scores?
  • How can a credit score improve? (Why would moving away from a tribal court area, for example, improve one’s credit score over time?)
Discarding Threats to Identification

• Two main threats to identification:
  • Differences in economic opportunities across state and tribal court reservations
  • Selection—better or worse borrowers differentially leave different areas

• Economic opportunities
  • Falsification Tests. Can you use outcomes that would be affected by economic opportunities by not, necessarily by bank branches? High school graduation rates, teen pregnancy, smoking deaths, etc.
  • IBBEA: Formal test of difference of tribal court dummy across slow and fast adoption states (Confidence intervals overlap). Also only 4 states have both tribal and state courts, so coefficient on interaction term identified using only these states

• Selection
  • I don’t find movers exercise to be convincing. In absolute terms movers look similar, but in relative terms they are pulled from different parts of the distribution
  • Ex: a risk score of 650 represents a different part of distribution (Figure 5)
  • Test if they look different relative to stayers as well
Other Details

• Claim that one contribution is looking at the impact of financial development on consumer rather than firm level outcomes:
  • “…there is much less evidence on the implications of financial development for household financial health and consumer-level outcomes.” (page 5)
  • But this needs more detail. Mean specifically in the U.S.? Or macro level analyses?
  • If not, I argue that there is a large and ever growing literature in development on the impact of credit, savings and insurance on household level outcomes

• Rich set of geographic and time-varying fixed effects, but tables suggest the only controls for economic opportunities are Census region fixed effects (and region-time FEs)? There are no state or Census tract level controls? (ex: what happened to economic controls?)

• Age cutoffs unclear. Young borrowers, ≤ 25. Older borrowers, ≥ 28. What happens to 26 and 27 year olds?

• Ability to obtain credit for less risky borrowers? (limit sample to credit scores below 640.)
Use of Bank and Nonbank Financial Services

• Like that the decision is modeled as a joint one
• Exercise tells us about differences across banked and unbanked individuals’ decisions to use nonbank financial decisions
• Comments about sample and certain variables that may shed more light on decisions being examined in the paper
Data Questions

• How are the bank use variables constructed?
  • Salient question is if the household is banked, not an individual.
  • In current write up it’s unclear how the outcome variables are defined. Do they capture bank use for the respondent or for the household? How was the question asked in the survey?

• Reduction in size of the immigrant sample (Footnotes 21 and 22). In total 843 immigrant HHs in sample are removed from analysis. Constitutes 18.7% of immigrants in survey.
  • It appears there are 315 households from Africa and Oceania? This is too small to include? Argument that these were taken out due to insufficient sample size, but 315 does not seem too small
  • 528 HHs removed due to missing home country banking information. What if you just used one of the variables?
  • What do results look like if you put these households in?
Immigrant Sample

• Perhaps re-think classification of immigrant regions
  • Latin America actually is Latin America and the Caribbean minus Mexico. Europe actually is Europe plus Canada plus Australia (but yet Oceania is not included?).
  • Not entirely clear why we want to think about Mexico separately from the rest of Latin America.

• Also leads to questions about enclaves. Is it just the country, or does language also matter?
  • Ex: if you’re from Honduras, does the concentration of other Central American immigrants not matter? Does the concentration of Mexican immigrants not matter?
  • Robustness checks for broader definition of enclaves (say by region)
  • Also wonder if total immigrant concentration is correlated with financial decisions.
Other Suggestions

• Language: All coefficients are correlations. No causality is established.

• Why not make the results that include region covariates, MSA unemployment and state fixed effects the ones you report?
  • Natural concern that there are no geographic variables except ethnic concentration in reported results. So this might just be picking up MSA level variation as opposed to enclaves. Also, no controls at all for MSA level variation on native sample results

• Home country bank variables
  • Sign on percentage banked is positive. Counter-intuitive
  • Worth thinking about what is going on here

• Differences between native and immigrant results
  • Unemployment more highly correlated with use of nonbank financial services for natives than immigrants. Perhaps a story about social safety net?
  • Marital status is negative and significant for natives, positive and insignificant for immigrants
References


