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

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Presentation at FDIC Consumer Research Symposium

October 28, 2016

The views expressed in this presentation are solely those of the authors and do not necessarily reflect the views of the FDIC.
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: 7.7%, 6.9%, 13.1%
- Underbanked: 20.0%, 19.1%, 25.9%
- Use NBFS: 24.9%, 23.4%, 34.4%

Legend:
- All
- Native born
- Immigrants
Unbanked, Underbanked, and Use of NBFS, 2013, Native Born Only, by Race/Ethnicity

- White
- Black/African American
- Hispanic

<table>
<thead>
<tr>
<th>Category</th>
<th>White</th>
<th>Black/African American</th>
<th>Hispanic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unbanked</td>
<td>3.6%</td>
<td>20.5%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Underbanked</td>
<td>15.9%</td>
<td>33.1%</td>
<td>28.5%</td>
</tr>
<tr>
<td>Use NBFS</td>
<td>18.1%</td>
<td>46.1%</td>
<td>40.3%</td>
</tr>
</tbody>
</table>
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, 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

<table>
<thead>
<tr>
<th>Category</th>
<th>Fully Banked</th>
<th>Underbanked</th>
<th>Unbanked</th>
</tr>
</thead>
<tbody>
<tr>
<td>Native born</td>
<td>78.4%</td>
<td>15.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>All Immigrants</td>
<td>70.5%</td>
<td>15.9%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Mexico</td>
<td>52.9%</td>
<td>27.5%</td>
<td>19.6%</td>
</tr>
<tr>
<td>Latin America</td>
<td>60.6%</td>
<td>18.0%</td>
<td>21.4%</td>
</tr>
<tr>
<td>Europe</td>
<td>86.1%</td>
<td>11.2%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Asia</td>
<td>86.6%</td>
<td>10.7%</td>
<td>2.7%</td>
</tr>
</tbody>
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Use of Nonbank Financial Services, 2013, All Households in Study

- Native born: 19.0% (35.7%), 81.0%
- All Immigrants: 24.0% (64.3%), 76.0%
- Mexico: 35.7% (66.7%), 33.3%
- Latin America: 12.6% (87.4%), 12.0%
- Europe: 12.0% (88.0%)
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, $\rho$, 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

<table>
<thead>
<tr>
<th></th>
<th>Immigrants</th>
<th>Native Born</th>
<th>Percent Difference</th>
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</thead>
<tbody>
<tr>
<td>Unbanked</td>
<td>55.0%</td>
<td>48.0%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Banked</td>
<td>19.0%</td>
<td>15.0%</td>
<td>26.7%</td>
</tr>
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</table>
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

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</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>28</td>
<td>53</td>
<td>-25</td>
<td>21</td>
<td>24</td>
<td>-3</td>
</tr>
<tr>
<td>Latin America</td>
<td>18</td>
<td>37</td>
<td>-19</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>7</td>
<td>26</td>
<td>-19</td>
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<tr>
<td>Asia</td>
<td>3</td>
<td>20</td>
<td>-17</td>
<td>3</td>
<td>14</td>
<td>-11</td>
</tr>
</tbody>
</table>

Source:
2013, June CPS, authors’ calculations.
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
Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection

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