

Immigrant Financial Decision Making: Use of Bank and Nonbank Financial Services

Joyce M. Northwood, Federal Deposit Insurance Corporation¹
Sherrie L.W. Rhine, Federal Deposit Insurance Corporation²

Overview

This study extends earlier research by analyzing an immigrant's joint decision to use nonbank financial services (NBFS) and own a bank account using a bivariate probit model. We found that not only are these decisions made jointly but also that the probability of using nonbank financial services for immigrants is higher than it is for native born, regardless of whether or not they have a bank account. In addition to identifying how immigrant family socioeconomic and demographic attributes influence these joint decisions, our analysis took into account how home country retail banking characteristics and residence in an ethnic enclave influenced these decisions. To our knowledge, this is the first comprehensive study of immigrants' joint decision making about the use of nonbank financial services and bank account ownership using this approach.

Background

Having a banking relationship with a federally insured depository institution brings about numerous consumer protections such as Federal Deposit Insurance Corporation (FDIC) deposit insurance and safeguards covering debit card and credit users under the Electronic Fund Transfer Act and the Truth in Lending Act, among other protections (FDIC n.d.). Those without a banking relationship do not benefit from the consumer protections that cover banked households. According to a report published by the FDIC (2014), 7.7% of all U.S. households were unbanked in 2013.⁴ This translates to 9.6 million unbanked households meeting at least a portion of their financial transactions needs outside the financial mainstream. When viewed by nativity, the unbanked rate for immigrant households was 13.1%, substantially higher than the 6.9% for native-born households.

The FDIC report also showed that one-in-five banked households obtained certain financial services from nonbank financial services providers. These banked households, often referred to as underbanked, accounted for almost 51 million adults in the U.S. Our analysis showed that 32.8% of banked immigrant families obtained transaction-related (i.e., check cashing and money orders) financial services from nonbanks; whereas 20.1% of banked native born families used these financial services.

This study contributes to the existing consumer finance literature by analyzing an immigrant's joint decision toward use of nonbank financial services and bank account ownership. Having a better understanding of this joint decision will help inform policymakers, financial institutions, and others interested in assisting immigrants with integrating into the financial mainstream and gaining consumer protection benefits.

Data and Sample Description

For the empirical analysis, we used the 2013 FDIC National Survey of Unbanked and Underbanked Households, a supplement administered in conjunction with the Census Bureau's Current Population Survey (CPS). This dataset includes a full array of socioeconomic and demographic variables as well as information on bank account ownership and the use of transaction services, including money orders and check cashing services from nonbank financial services providers.

¹Senior Financial Economist, Division of Depositor and Consumer Protection, Federal Deposit Insurance Corporation, Washington, DC, 20429, USA. Phone: 202-898-6754. Email: jnorthwood@fdic.gov.

²Senior Economist, Division of Depositor and Consumer Protection, Federal Deposit Insurance Corporation, Washington, DC, 20429, USA. Phone: 202-898-3646. Email: srhine@fdic.gov.

The CPS data was supplemented by three additional sources of data: 1) the Global Financial Development Database (GFDD) from the World Bank, which includes country-level data on financial system characteristics, including variables on access to financial institutions in over 200 countries 2) the American Community Survey Public Use Microdata Sample (PUMS) from the Census Bureau, which will be used to estimate an enclave measure, the concentration of immigrants by country of origin in each metropolitan statistical area (MSA) analyzed; and 3) Bureau of Labor Statistics Local Area Unemployment Statistics (LAUS) to proxy local economic activity. There was a sample of 40,998 households who participated in the June CPS Unbanked/Underbanked Supplement. Omitted from this sample were households residing outside of metropolitan statistical areas (11,634 households), households residing in U.S. territories (192 households), immigrant households from countries outside the scope of analysis (315 households), and immigrant households for which home country banking information was not available (528 households). For our analysis there were 28,329 household observations: 3,668 immigrant households and 24,661 native-born households. The definitions and mean proportions of the characteristics from the household survey and supplemental datasets are reported in Table 1.

Table 1. Description of Sample Proportions/Mean for Immigrants and Native Born

| | Description | Immigrants | Native Born |
|-------------------------------|--|------------|-------------|
| Dependent Variables | | | |
| Unbanked = 1 | Respondent or family member does not own a checking and/or a savings account | .13 | .06 |
| NBFS = 1 | Respondent or family member uses nonbank financial services (money orders or check cashing services) | .23 | .18 |
| Economic Attributes | | | |
| Education | Respondent has: | | |
| NoHighSchool | Less than high school | .245 | .075 |
| HighSchool | Completed high school | .217 | .256 |
| SomeCollege | Completed some college | .194 | .311 |
| College | Completed at least 4 years of college | .344 | .357 |
| Family Income | Family has: | | |
| Faminc1 | Quartile 1 family income | .215 | .239 |
| Faminc2 | Quartile 2 family income | .262 | .246 |
| Faminc3 | Quartile 3 family income | .254 | .307 |
| Faminc4 | Quartile 4 family income | .269 | .207 |
| Employment | Respondent is: | | |
| Employed | Employed, not self employed | .697 | .548 |
| SelfEmpl | Self-Employed | .086 | .070 |
| Unemployed | Unemployed | .040 | .040 |
| Nilf | Not in the labor force | .262 | .342 |
| Home Ownership | | | |
| OwnHome | Family owns a home | .520 | .656 |
| Demographic Attributes | | | |
| Marital Status | Respondent is: | | |
| Married | Married | .554 | .457 |

Table 1 Continued

| | Description | Immigrants | Native Born |
|---------------------------------|--|------------|-------------|
| Family Size | | | |
| Famsize | Number of adults and children in family | 3.046 | 2.386 |
| Children Present | | | |
| Children | Children < 16 years of age present in home | .420 | .268 |
| Race/Ethnicity-U.S. Born | | | |
| Respondent is: | | | |
| White | Race is white | -- | .743 |
| Black | Race is black | -- | .156 |
| Other Race | Race is Asian, Pacific Rim, and other | -- | .026 |
| Hispanic | Ethnicity is Hispanic | -- | .074 |
| Foreign-Born Attributes | | | |
| Home Country or Area | | | |
| Respondent's : | | | |
| Mexico | Home country is Mexico | .286 | -- |
| Latin America | Home country in the Latin America Region | .206 | -- |
| Europe | Home country in the European Region | .209 | -- |
| Asia | Home country in the Asian Region | .299 | -- |
| Migration Age | | | |
| Respondent's: | | | |
| MigratAge | Age at migration | 23.9 | -- |
| Years Since Migration | | | |
| Respondent: | | | |
| YR5074 | Migrated prior to 1950 until 1974 | .192 | -- |
| YR7583 | Migrated between 1975 - 1983 | .143 | -- |
| YR8489 | Migrated between 1984 - 1989 | .123 | -- |
| YR9095 | Migrated between 1990 - 1995 | .149 | -- |
| YR9601 | Migrated between 1996 - 2001 | .174 | -- |
| YR0207 | Migrated between 2002 - 2007 | .139 | -- |
| YR0813 | Migrated between 2008 - 2013 | .080 | -- |
| Citizenship | | | |
| Respondent is: | | | |
| Citizen | A naturalized citizen | .555 | -- |
| Ethnic Enclave | | | |
| Enclave | Home country population / total population in the metro area - defined for each home country immigrant group in every metro area | | |
| LnEnclave | Natural log (Enclave) | -4.882 | -- |
| Home Country Banking | | | |
| Hm_Bank | Percentage of the home country population banked | .454 | -- |
| Hm_Branch | Percentage of bank branches per 100,000 of home country population | .186 | -- |
| Sample Size (unweighted) | | 3,668 | 24,661 |

Economic Model and Econometric Framework

Two lines of investigation were pursued in this study. First, we examined whether home country retail banking characteristics significantly influenced a family’s likelihood of being unbanked as well as extended earlier research to identify how many years it took after migration for a family to financially assimilate in terms of having a bank account. Second, we analyzed an immigrant’s joint decision about use of nonbank financial services and bank account ownership. Of particular interest was how immigrant-specific attributes such as age at migration, years since migration, residence in an ethnic enclave, citizenship status, and home-country banking characteristics as well as other socioeconomic and demographic factors influenced these decisions.

We treated the household’s joint decision about use of nonbank financial services and bank account ownership from a consumer choice theoretical framework. A bivariate probit model was employed to evaluate the linkage between these decisions for immigrants and native born, respectively. For household *i* in MSA *j* the decision to use nonbank financial services, $y_{ij,1} = \text{NBFS}$, is observed to equal 1 if the household uses nonbank financial services and 0 otherwise. Similarly, the household’s decision to hold a bank account, $y_{ij,2} = \text{BANKED} = 1$ if the household is observed to possess a checking or savings deposit account and equals 0 otherwise. The full model is:

$$y_{ij,1}^* = \beta \mathbf{x}_{ij,1} + \varepsilon_{ij,1}, \quad y_{ij,1} = 1 \text{ if } y_{ij,1}^* > 0, \text{ 0 otherwise,} \quad (1)$$

$$y_{ij,2}^* = \beta \mathbf{x}_{ij,2} + \varepsilon_{ij,2}, \quad y_{ij,2} = 1 \text{ if } y_{ij,2}^* > 0, \text{ 0 otherwise,} \quad (2)$$

where the observed effects, $\mathbf{x}_{ij,1}$ and $\mathbf{x}_{ij,2}$, respectively, represent the household’s socioeconomic and demographic characteristics and $y_{ij,1}$ and $y_{ij,2}$ denote NBFS and BANKED, respectively. The disturbances are jointly normally distributed with

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

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

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

With two observed decisions, the preceding specification defines a bivariate probit model in which the correlation of the unobserved effect is ρ (RHO). The joint decision results in four possible outcomes: (1) NBFS = 1 and BANKED = 1, (2) NBFS = 0 and BANKED = 1, (3) NBFS = 1 and UNBANKED = 1, and (4) NBFS = 0 AND UNBANKED = 1. Of particular interest to this study is the identification the specific socioeconomic and demographic attributes that influence the likelihood of using nonbank financial services (NBFS = 1) conditioned upon being banked (BANKED = 1) and the likelihood of using nonbank financial services (NBFS = 1) conditioned on being unbanked (UNBANKED = 1). The estimated correlation coefficient, RHO, will suggest whether these two decisions are being made jointly by immigrant and native born families, respectively.

Discussion About Study’s Implications

Several findings from our study have important implications for economic inclusion efforts of immigrants. As an example, our analysis showed that immigrant families were more likely than native born families to use nonbank financial services. Local organizations can assist immigrant families by providing financial education as well as English language skills in an effort to help streamline the assimilation process. To help engage and educate immigrant families, financial institutions can consider

collaborating with key local community organizations and agencies to provide information about the benefits of using mainstream financial services.

Organizations and agencies that provide services to immigrants may be a conduit for helping financial institutions build trust and familiarity with immigrant families. Community and agency partners also can advise financial institutions about how to develop and maintain strong, long-term relationships with immigrant populations in their market areas. Immigrant families who more easily assimilate into the financial mainstream can more quickly gain the benefits associated with consumer protections and access to tools needed to establish financial stability, resiliency, and economic mobility.

The completed paper will include a detailed discussion about the empirical results and the implications from the findings for immigrant and native born families.

References

- Federal Deposit Insurance Corporation. (2014). *FDIC national survey of unbanked and underbanked households*. Federal Deposit Insurance Corporation, Washington, DC. Retrieved from the FDIC website: <http://www.economicinclusion.gov/surveys/2013household/>.
- Federal Deposit Insurance Corporation. (n.d.). *FDIC law, regulations, related acts*. Retrieved from the FDIC website: <https://www.fdic.gov/regulations/laws/rules/6500-100.html>.

Acknowledgements

The views expressed in this presentation are solely those of the authors and do not necessarily reflect the views of the FDIC. The authors would like to thank Lariece Brown, William Greene, Alicia Lloro, and participants at the FDIC DCP research workshop and the 2015 Boulder Summer Conference on Consumer Financial Decision Making for very helpful comments. We also thank Ross Dierdorff for his technical assistance.