MONEY UNDER THE MATTRESS: An Examination of Mexican Immigrants’ Banking Habits in the U.S.

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OUTLINE

Introduction to topic
Policies *in depth*
Review of the Literature
Hypotheses
Methodology
Results
Conclusion
Questions
ROLE OF MEXICAN IMMIGRANTS

United States: 7.8 million (3% population, year 2000)
  • California: 4 million (11.7% population)
  • Texas: 2.1 million (9% population)
  • Illinois: 668,000

U.S. Economy
  • 700,000 undocumented
  • 600,000 documented

Financial Institutions
GOVERNMENT POLICIES

USA PATRIOT Act (2001)
- Prevents money-laundering, fraud
- Heightens identification requirements

Endorsement of the Matrícula Consular (2002)
- Form of identification
MAIN QUESTION

How do the following policies and factors influence the likelihood of a Mexican immigrant to open a bank account in the United States?

* USA PATRIOT Act
* Matrícula Consular
* Personal Characteristics
USA PATRIOT Act

- Decreases likelihood of opening account
  * Analysis #1: California & Texas
  * Analysis #2: Bordering States

Matrícula Consular

- Increases likelihood of opening account
  * Analysis #1: California & Texas
  * Analysis #2: Bordering States

3rd Analysis: Illinois

- PATRIOT Act increases likelihood
- Matricula decreases likelihood
INITIAL RESULTS

Personal Characteristics
(no particular order)
Age
Monthly Savings
Years of Education
Credit Card Ownership
Level of Language Skills
Method of Payment (check, cash, etc.)
Months of Experience in United States
Number of Banks in Mexican Hometown
SIGNIFICANCE

Policies
  ▪ Public policies, personal decisions

Characteristics
  ▪ Personal characteristics, financial choices

Programs
  ▪ Tailored financial programs for certain populations
USA PATRIOT ACT

Established after September 11, 2001

“Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism”

Goals

- To fight terrorism
- To defend country against money laundering, illegal immigration
Section 326:

- Financial institutions must:
  * verify identity of customer
  * maintain records of customer
  * consult lists of known terrorists to rule out as threat

- Secretary of Treasury must recommend:
  * proper ways of to attain, use information of foreign nationals
  * protocol for attaining tax IDs for foreign nationals
“...the unintended effect was to deal a big blow to many community-based banks whose customers include a large number of undocumented immigrants.”

~ Larry Tung, Gotham Gazette
**MATRÍCULA CONSULAR**

Form of identification

- issued by Mexican consulate
- birth certificate + official ID + proof of U.S. address
- used mostly to open bank accounts
- growing popularity among banks, immigrants
- other countries using consular IDs:
  * China
  * Peru
  * Honduras
  * Poland
U.S. Treasury Memorandum (July, 2002)

- Endorses *matrícula consular*

- Results at Wells Fargo Bank, California
  
  * 2002 – 2003:
    
    - seven-fold increase in number of accounts opened by immigrants between
      
      - 3,400 accounts / month $\rightarrow$ 22,000 / month

  * 2004:
    
    - number of accounts opened using *matrícula* reaches 500,000
MATRÍCULA CONSULAR

- National results:
  * July 2004
    - 178 banks, 33 states, 163 counties, and 377 cities recognize matrícula

*Matrícula* holders are “bringing [them] all the money that has been under the mattress” ~ Wells Fargo Branch Manager
Amuedo-Dorantes, Bansak, Pozo (2005)

- Mexican Migration Project

- Results
  * increase in proportion of banked migrants
  * banked are younger, documented, fluent in English
  * banked have more banks in Mexican hometowns than unbanked
Amuedo-Dorantes & Bansak (2005)

- Examine banking, remittance habits

- Results:
  * most significant factors, banked vs. unbanked:
    - Documentation status
    - Level of English knowledge
    - Monthly earnings in the U.S.
    - Duration of last trip to U.S.
    - Leaving a spouse in Mexico
    - Residence in Florida or Kansas

- Timeframe of study unclear
Bair (2005)

- Interviews 10 U.S. financial institutions
  * Immigrants, banking, PATRIOT Act, *matrícula*

- Institutions’ concerns
  * Regulations (PATRIOT Act, discouragement of *matrícula*)
    will decrease immigrant customer base
    → forces immigrants “to rely on higher cost, [and] less regulated financial service providers”

- Stress need for tailored financial programs
Appleseed Foundation

- Ongoing examination of immigrant banking habits

“accepting the *matrícula consular* as identification... is important in attracting the Mexican immigration population that does not have access to a Social Security number”
HYPOTHESES: Effects of variables (expected to be most significant) on the likelihood of opening a bank account

Personal Characteristics:

- **Documentation** - if documented, likelihood will increase

- **English skills** - if able to speak English, likelihood will increase

- **Months of U.S. experience** - as months of U.S. experience increase, likelihood increases

- **Number of banks in Mexican hometown** - as number of banks in hometown increases, likelihood increases
HYPOTHESES: Effects of variables (expected to be most significant) on the likelihood of opening a bank account

Policies

▪ USA PATRIOT Act will decrease the likelihood
  * increased identification requirements

▪ Endorsement of matrícula will increase the likelihood
  * proper form of identification for immigrants
HYPOTHESES: Effects of variables (expected to be most significant) on the likelihood of opening a bank account

Documentation and States

- Individuals most affected by policies will be undocumented immigrants in California, Texas, Illinois

  (1) California, Texas, Illinois have highest numbers, percentages of Mexican immigrants

  (2) Many undocumented have insufficient identification to open accounts

  (3) Matrícula provides undocumented with sufficient identification
Regression Analysis

- Standard statistical method
- How values of independent variables “x” impact value of dependent variable “y”

Examples:

| What is the difference in likelihood of opening an account between a 50-year-old male immigrant and a 25-year-old male immigrant? English skills, U.S. experience, Income | What is the difference in likelihood of opening an account between a documented immigrant in California and an undocumented immigrant in that same state? Holding state constant, does documentation matter? |
METHODOLOGY

Equation Specification

- Binary choice model
  * Categorical dependent variable
    
    Bank Account = 1 if immigrant owns bank account
    Bank Account = 0 if immigrant does not own bank account

- Probit Regression Model

  Bank Account = $\beta_1 X + \varepsilon$

  “X” represents all explanatory variables; “$\varepsilon$” is error term
METHODOLOGY

Data and Variables

▪ Mexican Migration Project

* Princeton University, University of Guadalajara

* Data from Mexican migrants in U.S., Mexico since 1982

* Information at individual, household, community levels

* 6000 families

* Interviews in both countries

* Create a “representative binational sample” (MMP)
Regression analysis will find:

- factors that influence the likelihood to open an account
- magnitude of these factors’ effects
- statistical significance of each factor

Factors include:

- Personal characteristics
- General trends, 1982 – 2004:
  Has number of accounts opened in proportion to size of Mexican immigrant population increased or decreased?
- Policies
METHODOLOGY

- Household heads only ~ 6400 observations
- **Table 1.** Descriptive statistics of variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Account</td>
<td>6399</td>
<td>0.14</td>
<td>0.34</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

- *Income* variable omitted due to insufficient data
RESULTS

Table 2. Marginal Effects from Probit Estimation of Likelihood of Opening a Bank Account, California and Texas

- Most significant personal characteristics
  - Age
  - Education years
  - U.S. experience
  - Language skills
  - Credit card
  - Savings
  - Banks in Hometown

- Trend
  As these factors increase, likelihood of opening an account increases
  If immigrant owns a credit card, speaks English, or is paid in checks, likelihood of opening an account increases
RESULTS

Sample’s average likelihood of opening bank account = 7%

Examples: If immigrant owns credit card, likelihood of opening account increases by 57 percentage points to 64%.

If immigrant speaks English, likelihood of opening account increases by seven percentage points to 14%.

As months of U.S. experience increase, likelihood of opening account increases by .1 percentage points.
RESULTS

- Undocumented **not** statistically significant
  * Use *matrícula* to open account

- *Married not* statistically significant

- *Remittances* (sending money home) **not** statistically significant
  * Effective marketing tool?
  * Non-bank money transfer firms with same products
  * Marketing
    → Remittance/product base *vs.* Community/language base

- *Trend* variable shows slight decline
  1. Proportion of illegal immigrants not opening accounts increasing
  2. Less immigrants settling in U.S. → higher immigration restrictions
RESULTS

PATRIOT Act, matrícula in California

• California*Undocumented*Patriot
  Likelihood of undocumented immigrants living in California to open account decreases **seven percentage points** when associated with PATRIOT Act.

• California*Undocumented*Matrícula:
  Likelihood of undocumented immigrants living in California to open account increases **66 percentage points** after U.S. Treasury’s endorsement of matrícula.
RESULTS

PATRIOT Act, matrícula in Texas

- **Texas*Undocumented*Patriot**
  Likelihood of undocumented immigrants living in Texas to open account decreases seven percentage points when associated with PATRIOT Act.

- **Texas*Undocumented*Matrícula** :
  Likelihood of undocumented immigrants living in Texas to open account increases 93 percentage points after U.S. Treasury’s endorsement of matrícula.
METHODOLOGY

Table 2b. Marginal Effects from Probit Estimation of Likelihood of Opening Account, Illinois

- *Matrícula* decreases likelihood of opening account by seven percentage points
- PATRIOT Act increases likelihood of opening account by 18 percentage points
- Trend is negative
- Are policies less influential in Illinois?
  - farther from border
  - possible state financial regulations countering effects
RESULTS

Table 3. Marginal Effects from Probit Estimation of Likelihood of Opening Account, Bordering States
(California, Texas, Arizona, New Mexico)

- *Trend* variable is positive
  * Mexican immigrants in bordering states open more accounts each year

- *Border States* *Undocumented* *Patriot*:
  Same as California, Texas (seven percentage points)

- *Border States* *Undocumented* *Matrícula*:
  Increases likelihood of undocumented immigrants living in border states to open account increases **68 percentage points**
RESULTS

Further Analysis with Variables

- *Matrícula, PATRIOT Act more significantly affect immigrants* (all border states) *who:*
  - *have less months of U.S. experience*
  - *have less banks in Mexican hometown*
  - *do not know English*
  - *have more years of education*
CONCLUSION

Policies and Decision-making

▪ PATRIOT Act
  * more stringent identification measures
  * negative impact on banking decisions

▪ Matrícula:
  * provides sufficient identification
  * positive impact on banking decisions
CONCLUSION

▪ Effects most significant in California, Texas
  * Mexican immigrants in New Mexico, Arizona not as affected
  * Suggests potential influence of California, Texas on U.S. policy decisions

▪ Trend variable reflects increase in border states
  * Policies further influence (negatively or positively) this trend
CONCLUSION

Personal Characteristics and Decision-making

- Personal, cultural experiences impact financial choices
  - U.S. experience, total savings, English skills, etc.
- Translation of brochures into Spanish
  - necessary, not sufficient

Financial institutions should consider these factors when tailoring programs to Mexican immigrant population.
THANK YOU FOR COMING!

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