

An Outlook On The Growing Hispanic Market Segment And The Abilities Of The U.S. Banking Industry To Effectively Penetrate The Hispanic Market Segment

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ABSTRACT

The purpose of this paper is to provide an outlook on the growing Hispanic Market Segment and the ability of the U.S. banking industry to effectively penetrate the Hispanic Market.

Keywords: Hispanic market segment, U.S. banking industry

PART I

CULTURAL MEANING OF MONEY TO THE HISPANIC SEGMENT

Prior to discussing the demographics and market characteristics of the Hispanic segment, we must first understand the cultural meaning of money to the Hispanic population. For the purpose of this evaluation, the article entitled *The cultural meanings of money: The case of Latinos and Anglo-Americans* provided a basis for understanding the Hispanic culture. The symbolic and concrete meanings of money, and cultural differences between Hispanics and Anglo-Americans, were discussed within several themes. The themes that I have chosen to provide a better interpretation of the Hispanic culture are: individualism and collectivism; spending on family rituals; communication style; closeness and distance variables; balance of work and leisure; religious beliefs and money (Falicov, 2001, p. 1).

INDIVIDUALISM AND COLLECTIVISM

One of the greatest differences between Hispanics and Anglo-Americans resides in the individualistic and collectivistic value that stem from their traditionally preferred forms of family structures. The prototypical mainstream American nuclear family is generally defined as two adults, husband and wife, with approximately two children. In contrast, the nuclear Hispanic household is embedded in a complex extended network of families and friends based on a collectivistic belief system. Financial responsibilities are often shared and reflect various forms of interdependence among family members. Although money is earned and saved individually, it is often shared, particularly in times of need. As among Anglo-Americans, there is a tendency to derive self-worth from self-sufficiency, but personal ownership or accumulation may be flexible when necessary (Falicov, 2001, p. 3).

SPENDING ON FAMILY RITUALS

The Hispanic culture reflects and reinforces the importance of family with the rituals that represent a key component of Hispanic collectivism. Hispanic rituals are extended –family celebrations that proclaim and reaffirm unity and connection from birth to death, the Hispanic life-cycle stages are honored and celebrated with traditional rituals. The emotional investments that are made by family members find part of their symbolic expression in the actual amount of individual and shared money that is spent on these rituals. One of these rituals is the quinceanera, a ritual that accompanies a girl's entrance into the romantic and premarital arena. The quinceanera occurs on the girls 15th birthday in which parents and relatives host this elaborate party, which includes a religious ceremony, a dinner and a dance for 100 to 500 people. The protocol is formal attire for the event. This event could be compared

to that of a debutante ball or a sweet 16 party. The quinceanera is common at all Hispanic social levels, but the tradition tends to be more preserved by Mexican Americans (Falicov, 2001, p. 3).

COMMUNICATION STYLES

The Hispanic culture being collectivistic in nature favors indirect and covert communications. Bonds are reinforced by positive emotional expressions, which are presented through words of endearment, affection, and compliment. For example, to minimize their request for material or financial help, or any sense of shame or failure, Hispanics use indirect emotionally “undercharged” language such as “may I ask for a little favor” or a “little assistance”. In other cases, dramatic language is used in making the request, such as “You will save my life”, “I will be forever grateful to you”, and “God will reward your generosity of spirit”. These emotional overtures provide a sense of bonding between the individuals.

CLOSENESS AND DISTANCE VARIABLES

There are several factors that influence the frequency and intensity of financial exchanges between Hispanics. These include physical distance and ideological difference.

In terms of physical distance, if the extended family lives close to each other, there is more opportunity to share material and financial resources on a frequent basis. Distance can also promote financial exchange. It is common for Hispanic immigrants in the U.S. to send money back to their families and they feel that it would be disgraceful if they did not. It is in this particular area of the Hispanic culture that banks have developed a relationship with the Hispanic segment by offering products that provide remittance services, which allows for the transference of funds from the U.S. to their homeland. Many Hispanics also have the hope of returning home and they send money not only to their families but to their communities as well. The proceeds are used by the communities for education, food, and shelter.

Within the Hispanic culture it is extremely common to maintain the extended family by sending financial support for elderly parents left behind in the countries of origin. The ideological difference is best demonstrated in this story of a young Mexican American named Jose who was extremely concerned with sending money to his parents in Mexico while trying to save enough money to get married here in the U.S. Jose felt that sending the money was an inescapable duty and obligation and believed that he if he was unable to do so he would be committing a sin. Jose was able to get through this situation with counseling from his priest. It is very evident that family ideologies are a leading factor in determining the financial decisions within the Hispanic culture (Falicov, 2001, p. 4).

BALANCE OF WORK AND LEISURE

Hispanics value time with family, and possessions may be seen as enhancing bonding or simply fit into the family contexts. For example, a Hispanic family may spend a considerable amount of money on a huge television to be watched by everyone in the living room, rather than spending a similar amount on two or three smaller televisions to be used in the privacy of one’s own room. This is in contrast to Anglo-Americans who would most likely prefer the later option. In the workplace, being treated with respect by employers and coworkers is extremely important to Hispanics. Rather than valuing status, recognition, and the next promotion, Hispanic immigrants are concerned above all with being treated with dignity and respect. As a result they may have a much stronger emotional relationship with employers than Anglo-Americans do with their employers. Anglo-Americans’ focus on work is unquestioned, whereas Hispanics, possibly Mexicans much more than Cubans, (who have achieved a higher socioeconomic level), worry more profoundly about sacrificing family leisure time in the pursuit of economic advancement. This leads us to the most profound component in understanding the Hispanic culture as it relates to money.

RELIGIOUS BELIEFS AND MONEY

The Roman Catholic religion is a critical component in understanding the Hispanic culture and its relationship with money. The Hispanic and Anglo-American cultures differ in the degree to which their people believe that life is or is not under one’s direct control. This notion has been described in social science as an

external or internal locus of control. For Hispanics, God, fate, or destiny is in charge, rather than solely oneself. Many Hispanics will use phrases such as “God will provide”, “God willing”, or “God has willed it”. The Anglo-American work ethic has fostered an internal locus of control and responsibility, who tend to feel a sense of control over their destiny. The internal belief system is one of “if I work hard, I will be rewarded in this life.” Hispanics, on the other hand, have more of an external locus of control. Rewards for hard work and good life may only occur in the afterlife rather than in the present. These rewards are often beyond one’s control and expressed as “God’s will”. I have attempted to provide much background information concerning the Hispanic culture by explaining the various themes and how they compare to those of the Anglo-American. It is from here that we will better understand the remaining four parts of this paper and will see how understanding the Hispanic culture is the basis of the U.S.

Banking Industry’s ability to effectively develop products and services that will penetrate the Hispanic market (Falicov, 2001, p.1-10).

**PART II
THE OVERALL DEMOGRAPHIC & MARKET CHARACTERISTICS OF THE HISPANIC SEGMENT IN THE U.S.**

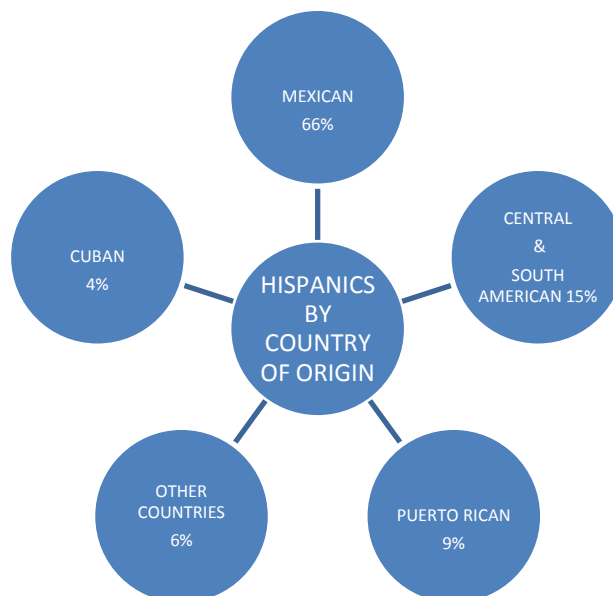
The Hispanic demographic population is comprised of over 45 million consumers with annual purchasing power of more than \$750,000 billion (Aronauer, 2007, p. 12). The Hispanic populations is projected to double between 2000 and 2030, totaling more than 73 million people (FRB, 2006, p. 3). The Hispanic market is not a homogeneous group and is comprised of a very diverse constituency. Hispanics can vary in terms of their national backgrounds, racial backgrounds and regional and language preferences. An American Hispanic can be derived from any one of the following 20 countries:

Table 1: National Backgrounds

1. Argentina	6. Cuba	11. Honduras	16. Peru
2. Bolivia	7. Dominican Republic	12. Mexico	17. Puerto Rico
3. Chile	8. Ecuador	13. Nicaragua	18. Spain
4. Colombia	9. El Salvador	14. Panama	19. Uruguay
5. Costa Rica	10. 10. Guatemala	15. 15. Paraguay	20. 20. Venezuela

Source: <http://www.bankersonline.com/tools/hispanicmarketing2005.pdf> author Jesse Torre

The largest group of American Hispanics are by far of Mexican ethnic origin, comprising around 66%, as noted on diagram 1 below (del Valle, 2005, p. 171).



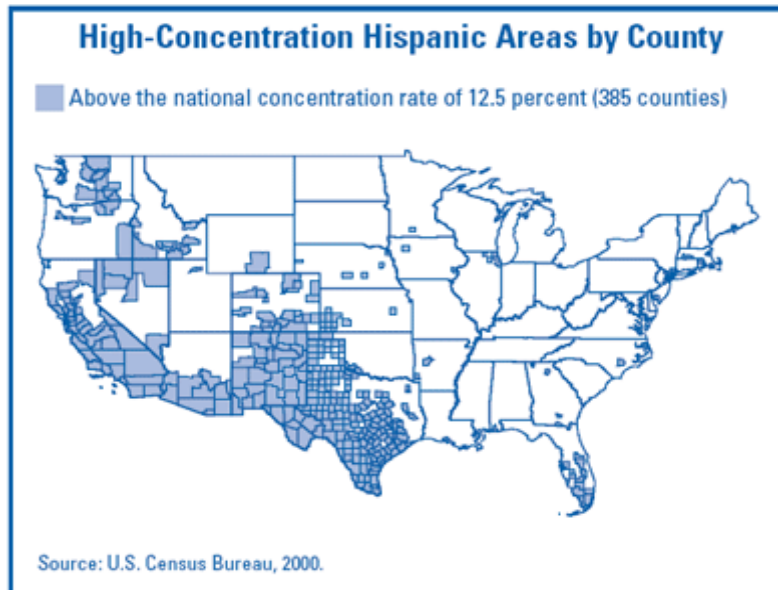
The Hispanic demographics include both high-concentration and high growth areas in the U.S. as depicted in the accompanying Maps that were taken from the FDIC in their 2004 Winter Outlook.

Map 1 shows counties with the largest concentration of Hispanics in the United States based on 2000 census data. As of July 1, 2002, more than three quarters, (over 30 million), of Hispanics live in seven states:

States with the Highest Hispanic Populations

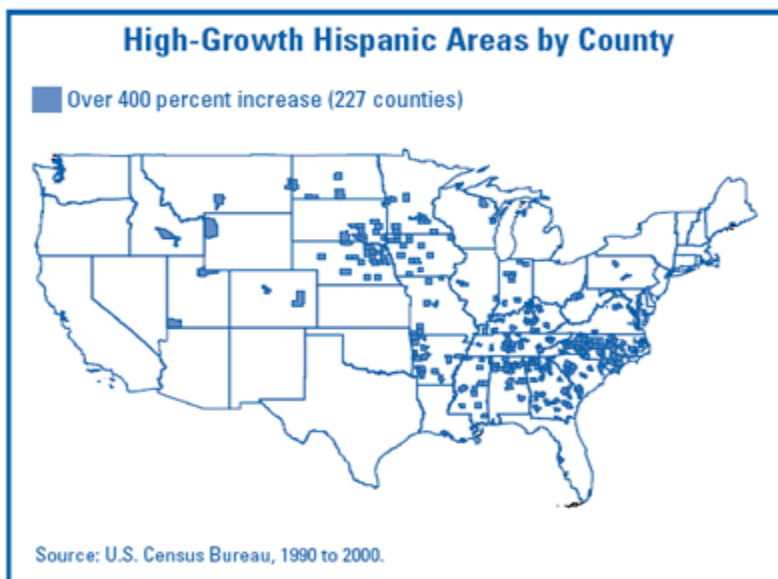
California: 11.9 Million, Texas: 7.3 Million, New York: 3.1 Million, Florida: 3.0 Million
Illinois: 1.7 Million, Arizona: 1.5 Million, New Jersey: 1.2 Million

Map 1



Source: http://www.fdic.gov/bank/analytical/regional/ro20044q/na/2004winter_05.html

Map 2



Source: http://www.fdic.gov/bank/analytical/regional/ro20044q/na/2004winter_05.html

Map 2 indicates that many Hispanics are settling in places that had very little Hispanic immigration before the 1990's. In the 1990's the rural, suburban and urban settings of the U.S. experienced an increase in Hispanic populations. Map 2 shows high-growth counties, defined as those experiencing Hispanic population growth of 400% or more between 1990 and 2000. In contrast to the concentration in Map 1, much of the high growth is centered around Midwestern and Southeastern states. While Hispanic populations continue to grow in the highly concentrated areas via immigration and birthrates, a smaller fast-growing new wave of Hispanic immigrants are seeking new destinations, particularly in suburbs and medium-size cities. These areas will continue to experience rapid population growth through the networks of families and friends now being established in these communities. An increasing number of second-or higher-generation Hispanics from high-concentration counties are also migrating to high-growth counties. It is important to note the socioeconomic differences between Hispanics in the fastest growing areas of the country and those in traditional settlement areas such as the Southwest. Table 2 compares the demographic differences between these two groups. Hispanics in high-concentration counties are more likely to be bilingual or speak English, have slightly higher incomes, and have more education than their counterparts in high-growth Hispanic areas. A major reason for the difference between the two groups is that many Hispanics in high-growth areas, (25%), tend to be recent immigrants (FDIC,2004, p. 3).

Table 2
Demographic Characteristics: High-Concentration versus High-Growth Counties

	High Concentration¹	High Growth²
Population		
Total Population (as of 2000)	86,147,017	13,447,705
Hispanic Population (as of 2000)	25,891,446	712,162
Total Population Growth Rate (1990 to 2000)	17.0%	25.4%
Hispanic Population Growth Rate (1990 to 2000)	49.4%	629.5%
Share of Hispanic Population	30.1%	5.3%
Hispanic Mobility		
Moved from Different State	3.6%	18.6%
Moved from Different Country	6.9%	25.1%
Hispanic Citizenship		
Noncitizens (Number of Hispanic Origin)	7,507,927	387,627
Noncitizens as a Share of Hispanic Population	29.0%	54.4%
Hispanic Language Dominance³		
English Dominant	16.9%	12.9%
Bilingual (Spanish)	54.7%	37.8%
Spanish Dominant	28.4%	49.3%
Hispanic Educational Attainment⁴		
Less Than High School	50.4%	59.6%
High School Graduate	21.6%	18.6%
College Graduate	8.8%	8.9%
Household Income		
Average Household Income	\$60,498	\$52,486
Hispanic Average Household Income	\$43,301	\$43,286
Average Household Income Growth (1990 to 2000)	44.2%	56.8%
Hispanic Average Household Income Growth (1990 to 2000)	46.7%	31.0%
Notes: ¹ See Map 1. ² See Map 2. ³ Language dominance is for the age cohort 18 to 64. ⁴ Educational attainment is measured for those over 25 years of age.		
Source: U.S. 2000 Decennial Census and authors' calculations.		

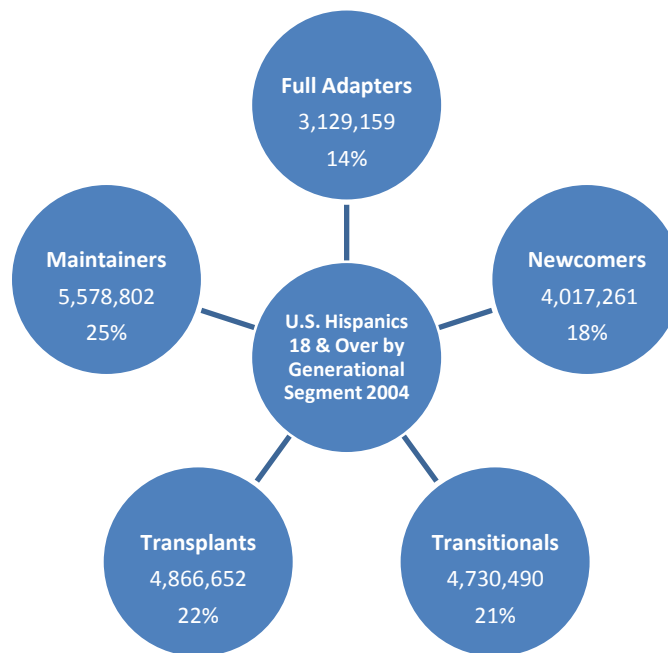
Source:FDIC Outlook Winter 2004,

The information in table 2 provides a demographic comparative analysis of the high concentration Hispanic areas in the U.S. as well as the high growth areas. To better understand the motivating factors linked to the Hispanic purchasing decisions we need to analyze beyond the level of acculturation, which is the extent to which a Hispanic has adopted American traits or culture as well as level of category and brand familiarity. Generational distance is used to define the amount of time a Hispanic has resided in the U.S., and this measure has shown to be relatively accurate in predicting both language and cultural influence (del Valle, 2005, p.85) Table 3 identifies five distinct generational distance segments, allowing for sizeable segments and identifiable demographic characteristics ranging from Newcomer who is foreign born with less than one third of their life in the U.S to an Adapter who is a U.S. born Hispanic, fully integrated into the general Market. In four of the five segments, the home country and parents home country culture is the driving force behind the emotional reasons in purchasing decisions, even though as the resident spends more time in the U.S., noticeable improvements in their English language capability occur. The U.S. born Maintainers, while fully fluent in English, have a good command of Spanish, and have chosen to maintain the culture of their parents in their home and with their children. This is critical to understand when marketing to the Hispanic segment. Even though they may understand and speak English, the advertising is not reaching them emotionally, a core element in the purchasing decision-making and brand loyalty generation process.

Table 3: Five Distinct Adult Hispanic Market Segments –Bilingual Spanish &English

Generational Distance	Country of Birth	Percent of Life in the U.S.	Language
Newcomers	Foreign Born	Less than 1/3	Spanish Only
Transitionals	Foreign Born	1/3 to 2/3	Spanish Mostly
Transplants	Foreign Born	Greater than 2/3	Equally Bilingual
Maintainers	U.S. Born	100 Percent	Mostly Bilingual
Adapters	U.S. Born	100 Percent	English Only

Diagram 2: Hispanic population 18 and over by Generational Segment



Source: (del Valle, 2005, p. 86-87)

English language advertising only fully resonates with the Adapter Segment, who account for 14 percent of Hispanics. Table 3 explains the five segments and their characteristics. The Maintainers, born in the U.S., are the largest segment, accounting for 25 % of the adult population. Transplants and Transitionals follow closely. From a strategy perspective, we can group Newcomers and Transitionals, and Transplants and Maintainers as they follow similar language usage patterns and are either closer to their home country culture or slightly more acculturated as in the case of Transplants and Maintainers (del Valle, 2005, p.91).

One of the most important marketing segmentation factors that I found among U.S. Hispanics was their country of origin and their language. The U.S. Hispanic market is comprised of subcultures from over 20 countries as indicated in Table 1: National Backgrounds, with the majority, 66% of American Hispanics, being of Mexican Heritage. The culture, beliefs, opinions and consumer behavior patterns of U.S. Hispanics are not identical, as a result of the influence of differences in their native countries' geography, indigenous ancestry and colonial origins. The one common characteristic that this segment does hold is the Spanish Language. As the U.S. Banking Industry attempts to market and bank this segment of the U.S. population it will be crucial that they understand the five distinct Adult Hispanic market segments when trying to communicate their products, services and brand.

PART III

THE HISPANIC SEGMENTS ATTITUDES REGARDING BANKING SERVICES IN THE U.S.

A large percentage of Hispanics do not use banks in the U.S. According to the U.S. 2000 Census Bureau survey of Income Participants, one-third of U.S. born Hispanic residents are unbanked and 53 percent of Mexican immigrants are unbanked and 37 percent of other Hispanic American immigrants are unbanked. With unbanked statistics this high for the Hispanic population and with the future growth trends for this segment to continue growing, research has been conducted by the Federal Reserve Bank of Kansas City in their January 2006 report. The FRB of Kansas City conducted a field study in Garden City, Kansas due to the high number of Hispanic residents relative to other rural Kansas counties. The survey included responses from 109 Hispanic consumers and asked questions regarding residency characteristics, banking habits, methods for accessing pay and paying bills, and methods for sending money to their country of origin. It should also be noted that 35 percent of the respondents have lived in the U.S. for less than five years and half of the respondents have resided in the U.S. for more than 10 years. Although the survey was small, the outcome was similar to those found in other formal studies (FRB, 2006, p. 5). I will reference this survey to provide insights into the attitudes of the Hispanic population regarding banking services.

Like most consumers, Hispanics interact with the financial services industry to access their income from working. In this survey 79% of respondents received some form of formal paycheck through their employer and 68% use banks to cash their checks. Of this 68%, 60% use cash to pay bills and they have bank accounts. 39% use money orders to pay their bills. Unlike other consumers, Hispanics have a significant need for sending money to their families in their home country. These services are called remittances and have traditionally been provided by MSB's- money service businesses, such as MoneyGram and Western Union. 32% of the respondents said that they use one of these services to send money abroad as least once per month. Although 60% of the survey participants have bank accounts they choose to take the money from their bank accounts and walk into MSB's to remit their money to family members abroad. Again this finding is consistent with other studies on remittances (FRB, 2006, p. 6). The six factors that influence the type of remittance method used by Hispanics, ranked from most important to least were as followed: 1-Security, 2-Customer Service, 3-Speed, 4-Exchange Rate, 5- Personal Preference, 6- Total Cost. Security was the most important concern as it related to the security of their family members in their home country as well as convenience. For instance many of the MSB's are located at a convenience store within their homeland and their families in the homeland can have the proceeds within 10 minutes of the remittance being sent from the U.S. (FRB, 2006, p.6).

While several participants in the survey, 60%, indicated that they had some type of bank account with a financial institution, the remaining respondents noted seven factors that contributed to their unbanked status. 1- Lack identification documents ,55%; 2-language barrier, 50%; 3-distrust banks, 25%; 4-Financial Literacy, 21%; 5- Use MSB's 205, 6- Rejected in the past, 18%; 7- Cost is too high, 18%. These factors mirror findings in other large scale surveys that have been conducted around the attitudes of the Hispanic segment regarding banking. These

factors are a key influence in the development of attitudes surrounding the Hispanic segment and the banking industry. I can speak personally to the number one factor preventing Hispanics from banking, that being lack of identification documents. Every bank in the U.S., as required by the U.S.A. Patriot Act, has a Customer Identification Policy that requires the bank holder to present multiple validated forms of identification such as a Driver's License, Passport, Credit Card, and or Government Issued ID. Financial institutions are strictly audited to the enforcement of their companies CIP program as it is mandated by the USA Patriot Act. Failure to do so can result in severe financial and legal penalties. As a result of this requirement many Hispanics are discouraged to use banks (FRB, 2006. p.7).

Language barrier was the second most important factor leading to the high percentage of unbanked Hispanics. In all of the research that I have read through, the common theme from Hispanics is that they want to do business where someone speaks Spanish and understands them. As stated earlier in the paper, the one common thread among all Hispanics is their language and that being Spanish. When looking at Table 2 found the dominant language in high concentration and high growth areas is Spanish. Even though banks employ bilingual frontline staff, Hispanics maintain relationships with MSB's out of loyalty. Their family and friends continue to use the MSB's, so they too use the MSB's (FRB, 2006, p. 8).

The third greatest area of concern for Hispanics in determining their attitudes regarding banking is their distrust in banks. Many Hispanics choose not to keep all of their finances with a bank because in many of their homelands the banking systems are corrupt and as a result their families have never really used banks for financial matters. As referenced earlier in the paper when speaking to the Hispanic culture, their family ideologies play a significant role in determining their financial attitudes and the survey has validated this cultural characteristic. Many factors contribute to the attitudes that have shaped the Hispanic segment regarding the banking industry, identification requirements, language barriers and distrust of banks in general being the most prevalent. This leads us to address the issue as to how the banking industry has marketed to the Hispanic segment.

PART IV HOW THE BANKING INDUSTRY HAS MARKETED THE U.S. HISPANIC SEGMENT

“More than half of all U.S. retail banking growth in financial services during the next two decades will originate from the growing Hispanic market” as reported by Federal Deposit Insurance Corporations 2004 report (FDIC, 2004, p.1). With this in mind and knowing that the Hispanic population is exploding, what have banks done to penetrate this market segment? As I researched through the vast amount of information that is available pertaining to the Hispanic segment, I was alarmed to find less information than I had anticipated that would discuss how the banking industry is going to or has strategically approached the incredible opportunity that lies in this market segment. There are few banks that are on the cutting edge of this market.

One common objective that I found all banks being faced with when implementing their strategy was developing a relationship with the Hispanic market and overcoming language barriers. Several banks are using financial education to develop these relationships and are doing so by teaming up with major employers and school districts that have large Hispanic populations. I can speak from a personal experience regarding local employers that have large Hispanic populations. At the bank we often team up with businesses that have seasonal employees who are of a Hispanic decent. Most employers have staff that is bilingual and they aid with the language barrier when trying to educate the customer. M&T Bank does offer bilingual services however we do not have a bilingual staff member in every branch location, but we do have a telephone banking area that provides translation services for the branches.

The leading bank in penetrating the Hispanic segment is Bank of America or B of A. This conclusion is based on my own interpretation of the research that I have found regarding the banking industry and the Hispanic segment. From *The Wall Street Journal* to various business periodicals, The Bank of America is always highlighted or used as the point of reference in the vast majority of communications concerning the Hispanic populations and the financial industry. Part of the reason why B of A has been so successful is because their branch network ranks number one in California and Florida and second or third in Texas, Arizona and North Carolina (Tully, 2003, p.2). As we know all of these states with the exception of North Carolina are located in high concentration Hispanic

states, with North Carolina being located in a high growth state. In California, for every four Hispanics that have a bank account, three are with B of A.

Bank of America's branch network is not the only reason they are leading the way with the Hispanic segment. B of A has figured out how to effectively penetrate the remittance market that the Hispanic segment dominates. B of A has penetrated this market by joining forces with Banco Santander Central Hispano in 2003 to buy almost 25% of Serfin, the third largest Mexican financial group (Buckley & Creswell, 2005, p. 1). As a result, Hispanic Americans can now send remittance payments to Mexico via Bank of America's SafeSend account which allows their family members to access the account via a network of more than 20,000 ATM's in Mexico (Tully, 2003, p.1). B of A's strategy or partnering with a Spanish Bank has provided a competitive advantage for their financial institution and has broken the barrier of mistrust that exists in the Hispanic communities as it pertains to banking. The Hispanic community is very loyal. While the non-Hispanic consumer focuses on getting the best rate and the cheapest account, the Hispanic consumer, in contrast, is primarily concerned with taking care of their family. Bank of America has been so successful due to their branch locations and capital. Bank of America, being the nation's largest bank, has capital expenditures to invest in new product development such as the area of remittance services. Given their strong capital base they also have the ability to purchase and diversify by investing in foreign financial institutions such as Serfin which enhances their Hispanic penetration.

The banking industry realizes that the Hispanic segment is the growth segment of the future. Larger national banks such as Bank of America, Wells Fargo, and Citi, have invested capital in developing products such as remittance services, credit cards, and mortgages. The larger banks and some smaller regional financial institutions have come to realize that marketing to the Hispanic segment requires an understanding of the culture that is deep rooted in family and trust. With this understanding, U.S. financial institutions will have a better chance of capturing market share among the Hispanic segment and developing products that are best suited for the needs of this growing market segment.

PART V

FUTURE TRENDS WITHIN THE U.S. HISPANIC SEGMENT AS IT RELATES TO THE BANKING INDUSTRY

As I searched for ground breaking information regarding the future trends of banking as it relates to the Hispanic segment I found three common themes, the first being legal immigrant verses illegal immigrant status, followed by credit issuance, and last of all, outreach and education. These three areas seem to be the issues that encompass the future trends in product development and growth of the Hispanic segment.

The first issue, legal immigrant verses illegal immigrant status, has a significant ramification. Every bank has a Customer Identification Policy, (CIP), as mandated by section 326 of the U.S. Patriot Act. The financial institution must establish a CIP that includes a determination of what types of information the institution will require in order to open an account. The minimum information includes: the customer's name, date of birth, address, and an identification number. The required identification number for U.S. citizens is the Social Security Number. Non-U.S. citizens must have at least one or more of the following: an Individual Taxpayer Identification Number or ITIN; passport number and country of issuance; alien identification card number; or number and country of issuance of any other unexpired, government-issued document evidencing nationality or residence and bearing a photograph or similar safeguard (FRB, 2006, p.7). Given the standards of the CIP program that banks must adhere, the issue of legal or illegal status can create a barrier to market growth for banks not only in the area of new account deposit acquisitions, but also in the area of credit. As noted in table 2, 29% of the Hispanic population in the high concentration areas are noncitizens which equates to 7.5 million people. The 2004 FDIC report does not state if the 7.5 million Hispanics are legal or illegal. The estimated number of illegal immigrants is thought to be about 11.1 million as of March 2005 (Passel, 2005, p.1).

The whole issue of legal verses illegal immigrant status has been tackled by some banks and the most prominent bank that has taken a stance is Bank of America. Bank of America realizes that the issue of legal or illegal status can affect an immigrant's ability to obtain credit. Realizing this, Bank of America has tackled two of the trends that I uncovered –legal immigrant status verses illegal immigrant status and credit issuance. Bank of America has quietly begun offering credit cards to customers without Social

Security numbers - typically illegal immigrants. Bank of America has started a new credit card program that is open to people who lack both a Social Security number and a credit history. As long as the customer has held a checking account with the bank for at least three months without an overdraft, the client is eligible to apply. The program was tested last year in five branches in Los Angeles and expanded to 51 branches in Los Angeles County earlier this year. Los Angeles County has the largest concentration of illegal immigrants in the U.S. (Jordan & Bauerlein, 2007, p.1).

“We are willing to grant credit to someone with little or no credit history”, says Lance Weaver, Bank of America’s head of international card services, whose team designed the program based in part on the bank’s experience in markets like Spain, which lack conventional credit bureaus to rate a client’s credit-worthiness (Jordan & Bauerlein, 2007, p.1). As cited earlier, Bank of America partnered with Serfin a Spanish owned bank in 2003. To assess an applicant, the bank employs “judgmental lending”. The bank bases its evaluation of a potential client’s credit-worthiness on a subjective review by its employees rather than on standardized financial data crunched by a computer (Jordan & Bauerlein, 2007, p.2). Bank of America has managed to create a credit scoring process that is out of the traditional norm and by doing so they are addressing the issue of credit risk as it pertains to the Hispanic market. To date I have not found information regarding the success of their current credit card campaign or the default rates.

From a consumer standpoint the credit cards are not cheap. They come with a high interest rate, 21.4%, and an upfront fee of \$99 which is used as a security payment and is refunded to the customer after the customer has presented a timely payment history of three to six months (Jordan & Bauerlein, 2007, p.2).

Bank of America has entered the credit market with Hispanics because they estimate that there are 28 million Hispanics in its operating area and that most of them, regardless of immigrant status, do not have a bank account. It hopes that the allure of the credit card will persuade hundreds of thousands more to open bank accounts (Jordan & Bauerlein, 2007, p. 2). It should also be noted that Bank of America is bumping up against a regulatory cap that bars any U.S. bank from an acquisition that would give it more than 10% of the nation’s total bank deposits. That means B of A’s only way to grow domestically is to sell more products to existing customers and to attract new ones. The American Bankers Association also realizes the issue of credit risk and in their January 2005 issue they mention that financial institutions can’t ignore the large and growing Hispanic credit base and that in order to sustain growth and profitability they must change the way that evaluate credit. A few suggestions that were offered outside of the typical credit bureau would be proof of timely payment history via utility and telephone statements as well as rental history. Employment and bank account history are additional metrics for measuring credit risk (Kessler, 2005, p. 1-4).

The issues of legal and illegal immigration and credit issuance are at the forefront of future banking trends in the U.S. Commercial banks such as Bank of America are at the forefront in developing ways to address both issues. Outreach and education seems to be the methodology that smaller regional banks are taking in pursuit of the Hispanic market segment. The trend among credit unions and small regional banks is to offer seminars that provide general information regarding finance, followed by more specific subjects. One regional bank that has provided a continuity of education to the Hispanic population for more than a decade is Arkansas based Arvest Bank. Arvest has been offering seminars and education for years now. “It’s a slow process, but it’s a very effective process,” says Manuel Ocasio, Hispanic Marketing director for Arvest, “because it works by word of mouth”. Mr. Ocasio mentioned that Americans culturally tend to go to specialists when they need advice, but Hispanics tend to seek out the opinion of one trusted, respected advisor for many different matters (Cocheo, 2007, p. 1-2). Arvest realized that the greatest need for the Hispanic market is building deposits and credit. Education is a key factor in making this happen. As result of Arvest’s educational pursuits in the Hispanic community the bank maintains the largest share of the local Hispanic Market in Rogers, Arkansas (Cocheo, 2007, p. 1-2). The areas of immigration status, credit issuance and outreach and education to the Hispanic segment are the areas that comprise the future trends for the Hispanic segment as it relates to the Banking Industry. Some banks, such as Bank of America, have taken the lead in developing the Hispanic segment. Smaller banks are at a disadvantage going forward by not initiating a strategy to develop the Hispanic market around them. Some regional banks which have a limited population of Hispanics, particularly in the Northeast, will need to recognize the importance that his segment presents in the very near future.

The absence of a Hispanic Marketing initiative for a banking institution going into the future could result in a significant loss of future market share and profitability.

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