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**FROM: UCLA North American Integration and Development Center**

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**REG: Final Report**

**PROJECT TITLE: Developing Mexican and Salvadoran Immigrant Participation in Credit Unions via Home Town Associations and Remittance Programs**

## **I. INTRODUCTION**

This is a final report on the “First Accounts Project” collaboration between the North American Integration and Development (NAID) Center and California Credit Union League (CCUL), funded by the Ford Foundation and RMJ Foundation. The title of this project, “Developing Mexican and Salvadoran Immigrant Participation in Credit Unions via Home Town Associations and Remittance Programs,” is very revealing about our thinking when we designed it in cooperation with the CCUL. At the time, the NAID Center was in the midst of working with Home Town Associations (HTAs) to define productive investment projects that they could fund in their home villages. NAID had also been working for a number of years on the high costs of remitting money back to the villages. It seemed logical to us that these HTAs could be a vehicle through which to reach out to immigrants and bring them into U.S. credit unions, thereby providing them with low-cost bank accounts and eliminating the fees they paid to cash checks. We also thought that offering low-cost remittance services would be a particular enticement to join the credit unions.

As discussed below, over the course of the project our thinking changed. First, NAID discovered that, for various reasons, the HTAs with whom we worked in Southern California are not the best organizations for the credit unions to focus on in their outreach efforts. It may well be that these or other HTAs will prove useful in bringing more immigrants into the credit unions through word of mouth once an initial group from a village join, but based on our experience, HTAs do not appear to be the best place to start.

Second, over the course of the project the remittance industry changed drastically and became much more competitive, leading to significantly lower costs of remitting money to Mexico and El Salvador, while not necessarily increasing the range of financial services offered to remittances senders. Third, NAID also discovered that technological innovations are likewise accelerating in ways that could allow for a convergence of a broad range of remittance and other financial services organizations across borders, although there are still significant challenges to the broad implementation and use of these new technologies (such as reload-able debit cards and phone based transactions) by

credit unions on both sides of the border. The outcomes of the project, therefore, are different from what we expected. Nevertheless, the credit unions found ways to reach out to immigrants and this process caused the credit unions to become more committed to the Latino community. The credit unions in turn have shared their experiences with other credit unions, and certain practices are emerging that will broaden financial opportunities for immigrants in the United States. This project has played a role in defining those practices and demonstrating the feasibility of targeting the Latino immigrant community.

The NAID Center has documented these practices and experiences during the course of the project in interim reports submitted to the Ford and RMJ Foundations, and most recently in a report presented to the foundations at an April 13, 2005 site meeting in Los Angeles. In this report and earlier interim report, the NAID indicated it would add to its analysis, another collaboration initiated in late 2004 to increase Latino credit union membership between the Water and Power Community Credit Union (WPCCU) and El Rescate, a Latino community based service organization in Los Angeles. This analysis is provided below in this final report, as are the important lessons learned from the project in general.

## **II. CREDIT UNION PROJECT PARTICIPANTS**

Under the auspices of the CCUL, four credit unions initially participated in the First Accounts Program; Water and Power Community Credit Union (WPCCU) in West Los Angeles and later, the down-town Pico-Union area; Arrowhead Credit Union (ACU) in San Bernardino; Southern California Edison Federal Credit Union (SCEFCU) in East Los Angeles; and Coast Hills Federal Credit Union (CHFCU) in Santa Maria, California. NAID Center researchers conducted interviews with representatives of these four credit unions to identify best practices employed in outreach to prospective Latino members that were then distributed to the project participants and CCUL. Interview transcriptions and other materials the NAID Center developed with the CCUL and respective credit unions comprised part of earlier program activities as reported in the interim reports.

By June 2004, Coast Hills elected not to continue its participation in the project, a decision initiated in part by the closing of the community service organization in which the CHFCU (Coast Hills) out-reach office was located and by a change in Coast Hills management. A lengthy discussion of the Coast Hills –AMUCCS partnership experience is provided in the NAID Center July 2004 interim report. Some of the lessons learned from the Santa Maria experiences are nonetheless noteworthy and thus recounted here in particular as they inform the outreach office/mini-branch strategy undertaken by WPCCU and “outside-the-branch” strategies employed by other financial institutions in the country.

## **III. COMMUNITY PARTNERSHIPS AND “OUTSIDE-THE-BRANCH” CREDIT UNION SITES**

Some US financial institutions engaged in outreach to “unbanked” and immigrant populations have partnered with community based organizations (CBOs) servicing these

groups as did the four credit unions involved in this First Accounts Project. Coast Hills FCU and WPCCU took the additional step of locating a credit union out-reach office within the buildings housing their community partners and to which unbanked immigrants were already coming for other services. These offices were opened to take advantage of immigrants' familiarity with these sites, their relationships of trust with the CBO staff, and proximity, the latter as many credit union branches are not located near immigrant residences or work sites. While not full-service branches, information and services designed to attract and sign up Latino members were offered, with mixed results.

### ***Coast Hills Federal Credit Union, Santa Maria, California***

This credit union - community partnership was unique among cases known to NAID researchers in that it involved a transnational partnership with a Mexican non-government organization (NGO), the *Asociación Mexicana de Uniones de Crédito del Sector Social* (AMUCSS). Founded by Isabel Cruz Hernandez, AMUCSS is a network of micro banks located primarily in rural locales in Mexico that lack other financial institutions, many sites of high out-migration to the United States. Mixtec migrants working and living in Santa Maria, California, emigrate from one such place. Santa Cruz Mixtepec is a mountainous village located in the Sierra Mixteca in the state of Oaxaca, three hours away by bus from the closest market town that has a bank. An AMUCSS employee was sent to Santa Maria for several months to work with Coast Hills credit union management and the local Mixtec migrant community. She also identified and trained a tri-lingual (Mixtec, Spanish, English) speaker residing in Santa Maria to work for Coastal Hills as a recruiter of prospective Mixtec and other Latino credit union members. The NAID Center contributed four new computers for migrants' use at the out-reach office; Coast Hills funded Internet service to further attract members. NAID Center director Raul Hinojosa also sought technological solutions to facilitate remittance transfers from the credit union out-reach office directly to the micro bank in Santa Cruz Mixtepec. The lack of such existing mechanisms in the market at the time revealed a major structural problem that would have to be addressed if the linking of credit union services across borders was to be successfully achieved

Despite this initial investment by project partners, a total of only nine accounts were opened with as few individuals enrolled in financial education courses. NAID earlier attributed this outcome to several problematics, some unique to this case but others also manifest in the WPCCU-El Rescate-No Borders out-reach office pilot project. These include:

- 1) *Need for more paid staff.* Outreach is so critical to success that a full-time employee is required for this purpose. To adequately operate staffed "Outside-the-Branch" offices *and* successfully recruit potential members in the community, a minimum of two full time persons appear to be necessary. Membership recruitment often requires working in the evenings and weekends at various sites while an out-reach office requires regular hours of operation convenient for clients. The Mixtec credit union employee worked 30 hours a week most of the time spent staffing the out-reach office, limiting her ability to recruit the target population. When this Membership Services Representative (MSR) did

venture into the community to recruit members, it required closing the office. Few immigrants walked into the office on their own accord; some who did and found the office closed could have been dissuaded from returning. Understaffing an outside-the-branch venture undermines the membership recruitment goals of the project, and affects assessments regarding the interest of the target population in credit union services and products as well as subsequent decisions regarding further investments, i.e., the feasibility and profitability of opening a full service branch at that location or at a location convenient to the target group; or, installing ATMs at these locations among other decisions. WPCCU experienced similar problems in this regard.

2) *Inability to accept funds at out-reach office.* Financial institution enrollment requires payment of member or account fees and/or monetary deposits yet staff at the Coast Hills and WPCCU out-reach offices were restricted from collecting funds. This restriction was for staff protection as they were often the only persons in the office. Holding money also requires other safe guards regulated by the banking industry. For these reasons, Coast Hills and WPCCU staff reported having to reject first time membership fees and deposits contributing to losing a number of enrollments. While staff helped new recruits fill out membership forms and directed them to the closest credit union branch, many new enrollees failed to make the extra trip to make their deposits. Closing down the office to take new enrollees to the credit union branch only underscores the need for more staff. Although installing an ATM may have resolved this problem, management needed to justify the expense required for an installation; justification was described as based on a demonstrated interest via membership enrollments.

3) *Less expensive remittance product not a sufficient draw.* The hypothesis that remittance services would be a big draw to the credit union did not prove to be true in Santa Maria. Although Coast Hills offered a less expensive remittance product than did local private money transfer businesses, the immigrant target population did not elect to make the transfers through the credit union. Instead, they chose to use the services of storefront operations known to them in Santa Maria. The migrants were more interested in relationships of familiarity and trust that they had with other money transfer operations, including perhaps language advantages. The storefront operations are also more conveniently located a decided advantage to a population dependent on public transportation, limited private transportation or patronizing businesses to which they can walk.

Taking advantage of Coast Hills' lower money transfer costs also entailed going to the credit union branches. The Santa Cruz Mixtepec migrants expressed much interest in sending remittances to the village micro-bank from the Coast Hills out-reach office. According to the Mixtec MSR, migrants regularly approached her to ask about this possibility when seeing her in town or at functions even after the office was closed down. Had this been possible at that time, it is more likely that migrants would have patronized the Coast Hills out-reach office to remit money and become credit union members; many were already patronizing several small businesses offering more expensive remittance services located right next door to the office. However, this would have also required

changes at the office to allow staff to accept and hold funds and thus investment decisions by Coast Hills to physically secure the office as required by bank regulations.

4) *Continued credit union management support for First Accounts Program.* Perhaps in part because of the challenges above, initial management support appeared to wane after the first year. More funds than those available through the First Accounts Program were needed to resolve several of the barriers to increasing immigrant membership enrollments; i.e., hiring and training additional staff for recruitment or outreach-office requirements; installing an ATM or other required physical safety features at the outreach office to permit taking in funds at that location. While the success of the program depends a great deal on the abilities of the out-reach staff, it also requires active engagement by lower and upper management charged with overseeing the program and staff.

### ***Towards the Banking of the Santa Maria & Santa Cruz Mixtepec Unbanked***

Although the Coast Hills-AMUCSS First Account Program did not succeed in bringing the Latino immigrant population into the formal banking system in Santa Maria, it did contribute to the success of “banking” the formerly unbanked migrant *and* villagers in Santa Cruz Mixtepec, Oaxaca. The NAID Center and AMUCSS was successful in convincing the Santa Cruz Mixtepec migrants to send their money to relatives’ accounts in the AMUCSS micro-bank in their village. In fact, the migrants from Santa Cruz Mixtepec were even willing to use an inadequate approach to transferring the money to the micro-bank: transferring via VIGO to an account in Bancomer in Tlaxiaco, Oaxaca, which the micro-bank then sorted out and moved into the appropriate accounts in the micro-bank. This system is still functioning as of February 2006, because AMUCSS is still not part of a direct transfer service, even though the NAID Center initiated discussions among CCUL, WOCCU, and AMUCSS in early 2003 to bring AMUCSS into the VIGO network.

In order to convince the migrants to send their money to the micro-bank, it was not sufficient to have Isabel Cruz from AMUCSS explain it to them. Instead, it was necessary to bring the *Agente Municipal*, an authority from the village to translate her presentation into Mixtec, which allowed a full discussion of the concerns of the migrants, and then to have one of the micro-bank employees from the village, work with the migrants in Santa Maria to make the transfers. Only through the assurances of such authorities and fellow villagers were the migrants willing to trust the operation of the micro-bank. This suggests the importance of connecting the end-points between the migrants and the village if remittances are to be leveraged through the financial system.

One result of the NAID Center’s experience in Santa Maria was the formation of the firm No Borders by Raul Hinojosa, an attempt to further reduce the costs of remittance transfers through debit cards that could be accessed over the internet even in remote micro-banking settings. Another result is the NAID Center project about to start with the Inter-American Development Bank and the International Fund for Agricultural Development to specify remittance “corridors” and work simultaneously at the endpoints

to reduce costs and direct remittances directly into savings accounts in local Mexican financial institutions.

#### **IV. The Water & Power Community Credit Union-El Rescate-No Borders Inc. Partnership: A Credit Union -Community Based Organization – Private Enterprise Collaboration**

In an April 13, 2004 NAID Center report to the Ford Foundation, the NAID Center indicated it would follow the experience of the WPCCU and El Rescate partnership and its proposed out-reach office as the latter was due to open in late 2004. Founded over 25 years ago, El Rescate is a Salvadoran community based organization that services other immigrant populations as well in the Pico-Union district of Los Angeles. The WPCCU out-reach office was located in the building in which the El Rescate offices and operations are held, to take advantage of the CBO's established immigrant clientele who utilize its legal, immigration and other services. El Rescate and NAID Center personnel sought out and recommended potential out-reach office staff who are Salvadoran or otherwise worked on behalf of the Salvadoran and immigrant communities.

Given the limitations of an out-reach office discussed above; i.e., inability to take funds and thus offer a remittance product at such locations; a private financial services provider No Borders Inc., was invited to become a project partner to better leverage the penetration of the community. The WPCCU-El Rescate-No Borders partnership and opening of the out-reach office was publicly inaugurated on December 4, 2004. Its Latino membership enrollment record in its eleven months in operation was far more successful than in the Coast Hills-AMUCSS case; approximately 250-300 accounts were opened from December 2004 to October 2005. To date, 209 accounts remain active and 7 members have taken out automobile or personal loans. Still, the results of the pilot project are also mixed due in part to the abrupt closure of the out-reach office. On October 17, 2005, a serious fire at the building housing the out-reach office and El Rescate forced all building residents to look for other accommodations.

El Rescate plans to move back into the building once repairs are completed. It remains to be seen if WPCCU will elect to reopen the out-of-branch office at that location or at all. The out-reach office Member Services Representative (MSR) now works out of the Sunset branch office where she processes new memberships, loans and other membership services. In interviews conducted by NAID research associate Dr. Paule Cruz Takash with the MSR, WPCCU employees involved in the First Accounts Program, and El Rescate and No Borders representatives, some of the same limitations of outside-the-branch locations detailed above in the Santa Maria case were also identified as contributing to the mixed project outcomes including:

*1) Need for more paid staff.* The MSR hired to staff the WPCCU out-reach office at El Rescate proved to be an excellent recruiter and employee. First contacting schools in the Pico-Union area that provide evening adult and ESL courses, this First Account Program partnership was given access to assemblies of 400 to 500 students, many of them Latino immigrants. The El Rescate staffer provided legal information about immigration; the

WPCCU MSR delivered information about the out-reach office and credit union services; and the No Borders representative described the lower cost financial services including remittance fees the company sought to provide new credit union enrollees and other clients as part of the First Accounts partnership.

These assemblies were held in the evening at different school locations two or three times a month. The partners also provided this information at *Charlas* (meetings) held every Wednesday afternoon and TPS (Temporary Protective Status) meetings held Saturdays at the El Rescate offices, and at community fairs and special events. Given the significant investment of unpaid staff time by El Rescate and No Borders to the partnership (these employees worked more than full time in addition to this out-reach work); their participation became somewhat sporadic after several months. The end result was the MSR shouldering most of the out-reach responsibilities. Like her Coast Hills credit union counterpart, the WPCCU MSR was also the only person staffing the out-reach office.

As many of the school and community meetings took place in the evening and sometimes in locales of questionable safety, WPCCU management felt obligated to send another paid WPCCU staffer to accompany the MSR or to accompany her themselves, on their own time, without compensation. While these investments in uncompensated time and personnel by the three project partners attest to their strong belief in the First Accounts Program goals and desire to make the partnership work, they were of course not sustainable in the long run. They also contributed to some disgruntlement between the partners affecting the project outcomes as well.

2) *Inability to accept funds at out-reach office.* The WPCCU MSR also reported that numbers of potential members dependent on public transportation were thwarted when she was unable to accept their cash membership initiation fees and deposits. The Sunset office was the closest branch to the out-reach office but represented an additional \$3.00, hour long, bus ride requiring at least one bus transfer. Although many of these persons agreed to sign up as members, these accounts typically became inactive. The MSR and her immediate supervisor sought various remedies for this situation including requesting upper management to consider installing an ATM at the out-reach office location. This request was denied on the basis that the number of enrollments did not justify the expense.

It is noteworthy that the MSR reported that on the average, she enrolled 17 new immigrant and Latino members per month at the out-reach office, and approximately the same number per month from her office at the Sunset branch. Her two MSR colleagues at the Sunset branch process as many, again suggesting that more paid staff at the out-reach office may have resulted in similar enrollments and thus justify the installation of an ATM or opening of a full-service branch at that location or surrounding vicinity.

Recently, the MSR closed out 40 inactive accounts as required by law, accounts opened at the out-reach office during the program; any funds in these accounts were returned by cashier's check to the former member.

*3) Remittance product availability at the out-reach office.* Another critical aspect of this pilot was to provide remittance services. WPCCU was not able to provide a remittance service away from its main branches (the out-reach office couldn't accept money) so financial services provider No Borders Inc. was invited to locate an office contiguous to the WPCCU-El Rescate out-reach office.

A relatively new company, No Borders invested funds in setting up and staffing the office but also spent much of its time getting necessary technology in place and requisite authorization from the California Department of Financial Institutions (CDFI). While a payment method was designed to send remittances to a limited number of credit unions in El Salvador, the scale of the project was limited in its ability to integrate with the providing of direct remittance services in combination with the services of US Credit unions such as WPCCU. It was determined that to do so required additional technology integration and further CDFI approval, both efforts that were cut short because of the October 2005 fire.

Another remittance business besides No Borders could have been invited to provide this service at that site. However, the goal of the partnership was to offer remittance services at a price significantly under current high sending and foreign exchange rates. To bring in another remittance provider charging more than WPCCU at its branch offices was also a poor alternative. As it was, a Western Union office was available across the street from the out-reach office site.

The need for such alternative remittance products for credit union such as WPCCU is now more acute given the sale of VIGO to Western Union. This has resulted in eliminating a wire transfer remittance product for WPCCU allowing only a bank to bank transfer cost at a significant higher price (\$40 international, \$ 30 domestic).

This experience highlights the need for some continued presence in the community but one that has to be financed as a full service CU or as an exploration of partnerships with existing or new remittance providers to shoulder the costs of providing electronic access to products of the CU and to other services such as remittances.

*4) Credit union management support for the out-of-branch office pilot.* Although purportedly some upper management and WPCCU board members were skeptical of this pilot project, enough supported it at various levels of management and invested a good deal of time, personnel and funds. Even among its supporters however, some believed the credit union was expected to shoulder more than its fair share of associated costs. This includes frequent requests for donations by community agencies and immigrant associations contacted in exchange for credit union access to their members. Its partners in this out-of-branch venture – a CBO and start-up company – also found these ongoing costs difficult to share, calling into question the assumed equitability of the partnership. These perceived unmet expectations are apparently not unique to this project and partnership as evinced by similar outcomes between other financial institution

partnerships with community organizations noted by Appleseed in its report, “Expanding Immigrant Access to Mainstream Financial Services” (2006:4).<sup>1</sup>

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## **V. LESSONS LEARNED FROM THE BROADER PROJECT**

### **1. Outreach is critical**

All of the credit unions stressed that their experience led them to conclude that outreach was critical to success with immigrants. Sitting back and waiting for people to come in to a branch does not work, outreach must be aggressive.

Initial ideas WPCCU had about outreach turned out to be wrong, such as using a Spanish web site or day-long financial education classes to reach immigrants who often hold down two jobs. These are good services for members, but do not serve to get members. Instead, all three CUs developed Spanish-language outreach that relied on relatively brief financial education lessons.

Arrowhead also noted that the desire to create fancy brochures for immigrants was misplaced. They used very simple fact sheets in Spanish that they photocopied. Since the culture is very oral, outreach in Spanish at businesses, churches, or other places immigrants congregated was much more important. Arrowhead only had a couple of people to do outreach, so they piggybacked on ESL classes, girl scouts, the library, the community center, and any other venue they could think of. They were building on the work of branch manager Charlie Gabriel, who had studied the local immigrant community and created the basic infrastructure at Arrowhead before the First Account Project was implemented: accepting *matrículas consulares*, doing remittance transfers, providing ways to build credit, etc. They have found that immigrants lack the information they need about inexpensive alternatives, so the outreach is vital.

SCE became actively involved with a variety of non-profit organizations, donating money to them and providing volunteers from SCE staff. As these relationships developed, SCE gained more trust in the community and more members. First Account Program funds also initially supported some staff time and contributed to convincing the credit union to fund a full time out-reach worker. In 2005, SCE formed a non-profit foundation of their own in order to expand these activities.

### **2. Outreach needs to be reinforced by creating culturally appropriate offices**

WPCCU extended its hours, opened on Saturday, translated the application form into Spanish, and hired Spanish-speaking staff for the first time. In fact, everyone in the Montebello branch spoke Spanish. They also changed the way they planned for new branches. Like Coast Hills Federal Credit Union in Santa Maria, WPCCU attempted to further penetrate the Latino and immigrant communities by partnering with CBOs serving these target populations and opening culturally appropriate out-reach offices in Latino and immigrant dense locales.

Arrowhead similarly stressed the importance of creating a welcoming and familiar environment by not only conducting outreach in Spanish but also in making sure that Spanish speakers would feel comfortable coming into a branch office: the branch's wall colors, Oaxacan-style coffee, and everyone speaking Spanish were some of the considerations.

SCE reported that all of their staff in the Boyle Heights office spoke Spanish; Boyle Heights is a predominately Latino and immigrant rich district of Los Angeles.

### **3. Other private sector partners can be used for outreach**

One way to reach immigrants is to create “joint ventures” with businesses that deal regularly with the immigrant community. In New York, the Beth Ex credit union has made arrangements with check cashing businesses serving immigrants. The effort of WPCCU to collaborate with El Rescate was as close as we came in this project to this model. However, the WPCCU Montebello office had evolved similar arrangements with Spanish-speaking used car dealers.

WPCCU Montebello branch was able to offer used car loans at 12-17 percent versus a normal 25-29 percent rate obtained through the used car dealers using finance companies. Their outreach to these car dealers was all in Spanish, as they were mostly small lots that had not had access to a credit union previously. These loans brought in new members (98 percent of branch members are Latino) and were also a very profitable business for the CU. In 2004, the Montebello branch did \$17 million of loans, 95 percent for cars. They estimate they saved immigrants about \$2,500 on the average loan. This use of agents snowballed, as used car dealers referred WPCCU to other small used car dealers. Car buyers were perplexed as to why they had to go to the credit union—unlike with the finance company—so the dealers turned into credit union promoters—agents—because it helped them to sell cars. In fact, the lower loan rates allowed buyers to buy better and more expensive cars. Last year, the Montebello office was the most profitable of all the WPCCU branches and had many fewer loan defaults. The loan process developed by the Montebello branch managers is now seen as a model for the entire credit union and is in the process of being adapted for the other branches.

Arrowhead conducted a similar program at its Mt. Vernon office, with some five used car lots. Arrowhead estimated that 90 percent of their car loans were to Latinos (\$12 million), the same percentage as its lines-of-credit loans.

Selective Employer Groups (SEGs) with high percentages of Latino and immigrant workers are also being targeted by WPCCU. One example is a Los Angeles trucking firm with over one hundred employees that recently contacted the Sunset branch management.

### **4. Role of Home Town Associations overestimated**

One of the original premises of the project was that migrant Home Town Associations

(HTAs) would be a good vehicle through which to approach migrants and convince them to join the credit unions. This has so far not proven to be the case, and there are two principal reasons.

First, HTAs are organizations of migrants from a particular place, and their purpose has to do with that place of origin and mostly not with the migrants' affairs in the United States. HTAs raise money for projects in the village, they involve themselves in the affairs of the village, and they pressure Mexican governments to do things in their village. Because of this orientation, HTA members do not look to the organization for advice or direction for their financial affairs in the United States. It is not out of the question that this could occur; only that it is not the norm.

Second, the members of a given HTA are often spread out over a wide area. Many HTAs have a critical mass of members in a particular area, with many more widely dispersed. Even within an area such as Los Angeles, members may be many miles from one another. Credit unions, on the other hand, have very focused areas of service. They are looking for groups of people—such as in places of work, churches, social service providers, or shopping centers—that share a geographical proximity with the credit union office and are essentially captive audiences. Given the effort required for outreach, the credit unions found these latter groups to be more useful than the HTAs. WPCCU's arrangement with El Rescate was motivated by this perception, as they deemed HTAs to be “too loose,” whereas El Rescate had paid staff. Arrowhead tried to bring HTA members to financial education workshops, but few showed up. Arrowhead's financial education for this project was limited to a 5-mile radius around the branch, because most immigrants have no cars.

At one point we thought that the HTAs themselves as organizations could use credit union services, and that this might encourage their members to join. The NAID Center attempted this approach with Southern California Edison CU and the Jalisco Federation of HTAs in Los Angeles. There was great interest from certain HTAs, but they were not in the service area of SCE. This suggests that a broader approach to HTAs from a consortium of credit unions might be successful. Also, the Jalisco Federation wanted *quid pro quo* support for their events from the credit union, and this did not make sense for the credit union as the federation's HTA members were spread all over southern California.

## **5. Draw of remittance service overestimated**

Another hypothesis that the NAID Center put forward in designing the project was that low-cost remittance services would draw migrants into the credit unions. However, simply offering a low-cost remittance service was not the draw that we thought it would be. It turns out that migrants are more interested in the reliability and convenience of the service, particularly on the Mexican side, than they are in the exact cost. In particular, the credit unions have been tied to the VIGO service due to an agreement between the World Council of Credit Unions (WOCCU) and VIGO that gave VIGO exclusive rights to transfers from member credit unions in exchange for payments by VIGO to WOCCU. Therefore, only if VIGO can service the particular endpoint in Mexico that interests the

migrant would a remittance service through a credit union be desirable. Even then, there may be other remittance services that deliver the money to the relative's home, or are run by *paisanos* who are seen as trustworthy, that might have greater appeal to a migrant.

Remittance services are thus potentially useful services to offer to migrant members, but will likely not draw migrants into the credit union. None of the credit unions involved in the project did large numbers of remittance transfers. Arrowhead remarked, "It's cheaper at Wal Mart." To the extent the credit unions could be more flexible and offer access to more types of remittance services, they would be more able to service the home towns of migrants.

## 6. Need to account for internal conflicts within credit unions

Credit Unions are social institutions. They have members, they elect a board from the members, and their policies therefore must be acceptable to the majority of the members. Most credit unions were started to serve workers in large companies or people who had some fraternal affiliation. Only very recently have some credit unions obtained community charters that allow them to serve everyone in a community. In the group with whom the NAID worked, this is very clear:

	<u>Community Charter</u>
Water and Power	December 2001
Southern California Edison	1999
Arrowhead	1997

When the project was started, Kim Bannan of CCUL thought that WESTCORP would be an ideal credit union for the project, because it was well located to assist immigrants on the west side of Los Angeles and had the funding and administration to carry out the project. However, the board refused to participate. Some credit unions that are more dedicated to serving immigrants, such as Food Processors CU in Modesto, CA, or the Latino CU in Durham, NC, are able to use ITINs and *matrículas consulares* but many credit unions are prevented from using either by their boards. SEC, Arrowhead and WPCCU all accepted *matrículas* and ITINs as identification for opening an account. Until recently, WPCCU also enrolled members at its out-reach office who had neither a *matricula* nor ITIN with the expressed expectation that the member would apply for the ITIN.

Many credit unions are afraid of the perceived risk associated with defaults by low-income Latino immigrants. The experiences of credit unions engaged in this practice need to be more widely disseminated in order to lessen these fears. It is controversial to serve undocumented immigrants, and this has no doubt slowed the participation of credit unions in this market. Banks would actually be better placed, since they are corporations with purely profit-making motives. However, banks also operate under rules that do not allow them to deal with people who have bad credit or no credit history, and banks do not have the same community orientation as credit unions.

## **7. Greater familiarity with immigrants leads credit unions to plan further efforts with migrants**

Arrowhead noted that they had started with too simple a view of Latino immigrants. In the financial classes the immigrants do not just ask about savings and checking accounts, but about such things as:

- Home equity lines of credit
- 401-k plans at work
- insuring their homes
- medical insurance
- identity theft
- trusts

The credit unions realized that they would have to develop more financial products going forward.

### *Home loans*

Home buyers have not thought of credit unions as a source of home loans, and the credit unions recognize that they need to publicize this service more. In the case of Arrowhead, San Bernardino County is proposing a Section 8 Rent-to-own program and is seeking to provide financial education, which is perfect for the credit union.

### *Individual Development Accounts (IDAs)*

All three of the credit unions expressed the desire to do IDAs, where poor people's savings are matched by the savings institution, and in exchange they make regular savings deposits and attend financial education classes. The IDAs started in the late 1990s and have taken off among credit unions. However, none of the credit unions we worked with had been able to identify a source of matching funds they could use to start such a program, whether their own credit unions funds, federal grants, foundation grants, or United Way grants. They noted that while banks might be willing to fund small credit unions to innovate in this way as part of their CRA obligations, banks saw large credit unions as competition.

### *“Credit Path”*

The credit unions are well aware of efforts around the country to create imaginative ways to serve immigrants. WPCCU cited the Ithaca, NY, credit union Alternatives and its “Credit Path” program as worth emulating. The Credit Path consists of:

1. Transaction Stage—check cashing and remittances
2. Saver Stage—savings account
3. Borrower Stage—build credit through regular rent and utility payments, providing basis for a CU loan
4. Owner Stage—full member of the CU

The NAID Center posited that this would in fact be the path to follow, working with HTAs to provide free check cashing and low-cost remittances through CUs. However, as discussed above, the HTAs are amorphous organizations, and in a place such as Los Angeles, where remittance services abound, this strategy would require joint ventures with remittance agents.

Instead, the credit unions involved in this project in many cases found it simplest to move directly to the Borrower Stage and make a loan for a car. They did try to observe the alternative credit history approach, as with the Appleseed Foundation, but the car loans are based on obvious collateral, the ability to repossess the car.

### **8. New accounts undercounted, project solidified commitment to Latino community**

All of the credit unions agreed that it was very difficult to track the new accounts attributable to this project and that therefore the numbers reported are a significant undercount of the true impact.

The NAID Center was struck by how the project led to significant changes in the way that the CUs dealt with Latino immigrants, creating a much greater commitment for involvement in their community as well as permanent Spanish-speaking outreach workers and branch staff. The three CUs were at different stages of program development for this type of outreach when the project began: Arrowhead was probably the most advanced, due to the previous work of Charlie Gabriel; SCE was next most advanced, a result of its experience at the Boyle Heights office; and WPCCU was still trying to figure out what to do. By the end of the project, all three CUs had learned important lessons about outreach to the Latino community and all reported that they were committed to new branches and more involvement in the future.

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<sup>1</sup> Appleseed. Expanding Immigrant Access to Mainstream Financial Services: Positive Practices and Emerging Opportunities From the Latin American Immigrant Experience. Washington, DC: January 2006.