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Legal and Illegal, Welcome

Small Banks for Latinos Move Into the Void, Serve a Hungry Market

By MIRIAM JORDAN
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While big financial institutions are flinching at serving illegal immigrants, a wave of new small banks have emerged to serve Hispanics, regardless of their immigration status.

The political debate over illegal immigration has forced some institutions to tread carefully as they tackle the Hispanic market. **Bank of America** Corp., for one, lost longtime customers and attracted protesters when it launched a credit-card for undocumented immigrants early this year.

LATINO BANKS

- **The Situation:** New small banks have emerged to serve Hispanics, regardless of their immigration status.
- **Background:** The debate over illegal immigration has big financial institutions flinching.
- **What's Next:** More banks in California and the Southeast.


But, out of the spotlight, demographic reality is prompting private investors to embrace the Latino opportunity. Banks are opening to serve Spanish-speaking customers both in states that have long had a high concentration of Hispanics, such as California, and newer settlement areas, such as the Southeast.

About 25 such banks -- often headed by former executives of the big players and backed by private-equity investors -- are slated to open or have started operations in the past two years.

"We raised over \$22 million in the middle of the summer doldrums and the heated immigration debate," says James P. Foster, a former portfolio manager for Merrill Lynch and Smith Barney who started Solera National Bank in the Denver area. The bank, which opened Sept. 10, is owned by about 750 investors, mainly locals. Recently, the bank extended the offering.

About a third of the 40 million Hispanics in the U.S. don't have an account at a federally insured financial institution, according to the Federal Deposit Insurance Corp. About 12 million of them are illegal immigrants who deal almost exclusively in cash. In some cases, Hispanics use one of the few pre-existing Latino banks, such as Puerto Rico's Banco Popular, which has operated in the U.S. since the 1960s.

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The new banks say that they can cater to immigrants' specific needs for nontraditional services in a way that large financial institutions normally wouldn't.

"We will provide financial literacy, mentoring and hand holding to take them from the cash economy to utilization of bank products and services," says Mark Martinez, senior lending officer at Solera. The federally chartered bank hopes to expand in Colorado, home to about 30,000 Hispanic-owned businesses, and then cross state lines.

Last year, James Montgomery, former chief executive of Great Western Bank, a savings and loan sold to Washington Mutual Inc. in 1997, began drafting a plan for a Hispanic bank in Oxnard, Calif., home to many new working-class immigrants, as well as third- and fourth-generation Latino businesspeople.

The veteran banker says that big-name banks see the potential in the immigrant market but have to "take slings and arrows." His bank "won't have any non-Hispanic customers to offend," he says. "There's an unfulfilled need in the marketplace, and we're meeting it."

Mainstream banks exited from downtown Oxnard, an agricultural town of about 200,000, in the 1990s. Banco Buena Ventura intentionally chose a downtown site just a few blocks from the train station and bus depot, where laborers leave for the fields and commuters depart to nearby Santa Barbara.

The bank will advertise on the local Spanish-language radio station and offer free telephone calls to Latin America to draw customers. Bilingual attendants will help immigrants fill out tax forms and pay bills, in addition to offering services such as check cashing. Mr. Montgomery hired Rick Rodriguez, a former senior vice president of Security Pacific Bank, which was acquired by Bank of America in the early-1990s, as president of Banco Buena Ventura.

Under the Mattress

C. Mark Arnold, a former investment banker at Bank of America, started thinking about starting a Hispanic bank after a conversation last year with an officer of the Federal Reserve Bank in Atlanta. She told him that Latin American immigrants send 20% of their U.S. earnings to their home countries. "The rest is under mattresses or outside the banking system," he says.

Mr. Arnold tapped David Flores, a former senior retail-bank executive at **J.P. Morgan Chase & Co.**, to develop and run the Hispanic bank. They raised \$13.8 million from institutional investors and individuals to start Nuestro Banco. The first branch opened Sept. 17 in Raleigh, N.C., and they plan to unveil a new branch every six months to serve the burgeoning Hispanic population in North Carolina, which has jumped to one million from 76,000 in 1990.

As he researched the situation, Mr. Arnold says he also learned that "nothing in U.S. banking regulations or U.S. law says you can't provide services to those who want it," whether or not they are here legally.

The FDIC has made it a priority to encourage banks to lend and invest in underserved markets. Robert Mooney, senior adviser at the FDIC, says the quasigovernmental regulatory agency applauds the "pattern of new banks" opening in immigrant communities. "Minority banks are particularly adept at reaching their own group, especially in the Hispanic market."

The Hispanic banks provide an array of services at lower costs than shops where immigrants typically go. Bilingual tellers help undocumented customers apply to the Internal Revenue Service for individual taxpayer-identification numbers so they can open a deposit account. The idea is to carry customers up the banking ladder, to the point when they start to build credit and apply for credit cards, car loans and home mortgages.

Mayan Decor

"You need to meet consumers at their level of sophistication," says Luz Urrutia, president of Banuestra, based in Rosewell, Ga., and a 20-year veteran of Wachovia Corp. "While you are educating them, you're making money from nonstandard banking services."

The banks are designed to make customers feel comfortable and welcome, the bankers say. The interior of Solera Bank in Colorado features arches and curved walls, as well as a Mayan stair-step pattern that represents prosperity. The Hispanic banks' lobbies are usually large, to accommodate families, and many also boast playgrounds.

The banks stress that they aren't specifically courting undocumented immigrants. Banco Buena Ventura's Mr. Montgomery says, "Our bank's success doesn't depend on the outcome of the debate" over illegal immigration.

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