

Secured Credit Cards Offer a Path to Establishing Credit for New Immigrants

When immigrants leave their countries to come to the United States, one thing they usually cannot bring is their credit history. Losing credit history negates any creditworthiness already established by many immigrants, and as a result, recent immigrants more resemble younger Americans, who also have thin to no credit files.¹ Limited credit history is one reason why immigrants report having lower credit scores than native born Americans.² No or low credit scores also limit immigrants' ability to secure assets, such as access to mortgages to own homes, loans to start businesses, or auto loans to purchase vehicles for their families.

The Opportunity to Serve New Immigrants



Immigrants in the U.S



Percent of immigrants are financially healthy



The amount of total wealth immigrant families have as compared to US-born households

Low or nonexistent credit scores reduce financial health and the ability to access high-quality financial services. **Only 32% of immigrants are financially healthy compared to 45% of native-born Americans³, and they have only a quarter of the total wealth of households headed by US-born individuals.⁴** This is true despite the fact that immigrants have high rates of savings and value the importance of saving.⁵ Immigrants are more likely to use informal savings accounts, like lending circles,

rotating savings groups used by cultures around the world, also known as tandas, susus, lun-hui, and paluwagan.⁶ Therefore, the question is not how to incentivize better financial habits but how do immigrants gain access to the benefits of the U.S. financial system.

Barriers Include Mistrust and Documentation

Many barriers obstruct immigrants from complete integration into the U.S. financial system. When applicable, the most hindering are the identification, tax and proof of income documentation that is required by traditional financial institutions. Many institutions do not have the customer identification programs that accept alternative forms of identification that most immigrants use, such as the Matricula Consular, an identification card issued by the government of Mexico through its consulates,⁷ and Individual Tax Identification Numbers (ITIN), an identification number that allows individuals without a social security number to report and pay taxes.⁸ Furthermore, it is common for immigrants to have fluctuating income streams due to their employment in sectors with variable wages and seasonal employment- making it difficult to document consistent income. Meanwhile, immigrants are shut out of mainstream credit products because credit scoring models used by many lending institutions are not structured to account for limited formal credit history.

On the consumer end, there is an unease and general mistrust about U.S. financial institutions. Although they trust U.S. financial institutions more than those in their countries of origin, immigrants have lower trust than native-born consumers in U.S. banks and insurance companies,⁹ and a greater percentage of immigrants than native-born consumers believe that credit cards can get them into trouble.¹⁰ This mistrust is compounded by the lack of good financial materials available in immigrants' native languages.¹¹ Twenty-two percent of immigrants claim that they don't have a checking account because bank employees don't speak their native language.¹²

How Secured Credit Cards Can Help

Secured cards are designed to help people transact, establish credit histories or rebuild damaged credit, and save money. Immigrants with thin credit histories can use secured credit cards to build their credit and raise their credit scores, leveraging their savings to open the door to credit. Creating a continued and long-term relationship with a credit card provider also helps to reduce financial mistrust. If immigrants' credit scores and financial trust both increase, they can expand their use of high-quality financial products.

What Secured Card Issuers Can Do

In addition to addressing the challenges in validating identity and income by accepting ITINs and the Matrícula Consular, as well as verifying income in a variety of ways, the following marketing and product design improvements may help attract those ready to build credit. First, offer interest on the deposit so that it can more mirror the benefits of a savings account, and include messaging around the deposit should emphasize the advantages of these dual credit and savings aspects. Second, transparent messaging in multiple languages can be used to build trust through clear communication. Most importantly, marketing campaigns should be built around the card to show the needs and benefits of having a credit score, including how it can contribute to concrete short and long term goals, such as homeownership.



Provider Spotlights

Mission Asset Fund, a non-profit in San Francisco, CA, formalizes the practice of lending circles used by immigrants by reporting the repayment data to U.S. credit bureaus, thus building credit history for participants.¹³



Provider Spotlight

Mission Economic Development Agency (MEDA) works with their clients to begin to build credit with a secured card, often using their tax refund to fund the security deposit.



We find that secured cards are the first step in the journey to building robust and healthy credit.”

— Jaqueline Marcelos, Financial Capability Manager, Mission Economic Development Agency



Provider Spotlight

Neighborhood Trust Federal Credit Union assists members in applying for their ITIN and Neighborhood Trust members can then use the ITIN to open a credit card. The secured credit card is a natural fit for those just establishing an ITIN and formal credit history.

Some for-profit providers already exist to help recent immigrants access credit by using alternative underwriting data. **SelfScore** and **ModernLend** are two companies that underwrite credit cards to student and working immigrants by using factors like education and future employability, even for applicants without Social Security numbers.^{14,15} To bring foreign credit histories to the U.S. market, **Nova Credit** provides lenders with access to credit data from international credit bureaus, providing a full credit history across borders.¹⁶

Acknowledgements

Visa's generous financial and strategic support makes our secured credit card research possible.



Sources and Notes

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