Lending to ITIN and Immigrant Markets

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Overview

- Why reach out to Latino and immigrant borrowers?
- What is an ITIN?
- What does an ITIN lending program look like?
  - Auto and consumer lending
  - Micro-business loans
  - Mortgages
- Case study: Guadalupe Credit Union
  - Unique opportunities and challenges
  - Bottom line results
- Getting everyone on board
- Where do we start?
Opportunity for Credit Unions

• Growing market segment in prime borrowing years
  – 65% of U.S. Latinos are Millennials, ages 22 to 35
  – Nearly one in 4 children (ages 0-17) in the US is Latino: a 39% increase in 10 years
  – According to former Santa Fe Mayor, David Coss: City of Santa Fe average age is 7% over national average would be 15% if they were no immigrants

• Growing purchasing power:
  – Currently estimated over $1 trillion  
    (Selig Center for Economic Growth, Athens, GA)
  – Expected to account for more than 50% of US retail banking growth over the next decade. (Economy.com)
Opportunity for Credit Unions

- High un- and under-banked rates:
  - 43% nationwide don’t have or don’t use a traditional FI account (JoinBankOn.org)

- Loyalty and social currency
  - American Hispanics are loyal to brands and companies that cater to their needs. (Pew Research Center)
  - Word of mouth referrals highly effective
Opportunity for Immigrant Families

• Un/underbanked rates mean many immigrant families are relying on predatory alternatives
  – “Buy-here-pay-here deals”
  – Unfair treatment at Mobile Home parks
  – Owner-to-owner deals

• For undocumented members, establishing an ITIN is the only option to achieve homeownership through most mainstream financial institutions
What is an ITIN?

- Individual Taxpayer Identification Number
- *Understanding your IRS ITIN – Publication 1915*
- For federal tax purposes only
- Does not authorize work in the U.S. or provide eligibility for SSN benefits or EITC
- Does not establish immigration status
- By law an undocumented individual cannot have both an ITIN and an SSN (may eventually replace ITIN with SSN)
What is an ITIN?

• Why accept an ITIN?
  – Individual is not eligible for a SSN

• When is an ITIN needed?
  – When you are providing an interest-bearing account
  – When you are issuing credit

• What is the process for the member?
  – Complete tax forms
  – Complete and submit IRS Form W-7 or W-7(SP)
  – Wait 90 – 120 days
Consumer ITIN Lending

• Credit building and payday alternative loans
• Auto lending
  – States that allow access to a driver’s license/card, regardless of immigration status:
    CA, CO, CT, IL, MD, NM, NV, UT, VT, WA (also DC and PR)
  – DACA grantees eligible for license in all states except NE
• DACA and Immigration loans
  – Application fees
  – Legal expenses
• Mobile home loans
Growing Business Loan Market

• Javier Gonzales, City of Santa Fe Mayor: “You only have to look at the Business License requests to see that Latino Immigrants are the ones applying for these licenses”

• Hispanic immigrant entrepreneurs quadrupled 1990–2012

• Growth in new Hispanic-owned businesses continued through the recession

• Hispanic immigrants are now more likely to start a new business than the US population overall

Partnership for a New American Economy, 2014
Micro-business loans

- Small-dollar loan (typically around $500-$1000)
- Could be unsecured or secured by revolving fund
- Simple underwriting, minimal processing
- Seed money to start or expand very small business
  - Sewing/alterations
  - Ice cream cart
  - Jewelry making
- Requirements might include meeting with counselor/loan officer, basic business plan
- Community partnerships can support underwriting, referrals for expansion (Accion)
ITIN Mortgage Loans

- No access to federal home loan programs, down payment assistance, grant funds (ie: CDBG)
- Home purchase
- Home improvement
- Rental property
- No secondary market
- Excellent performance
Building Trust

• Community strategy:
  – Local partnerships are essential
  – Credit education presentations
  – Dealer referrals
  – Volunteer Income Tax Assistance

• Branch strategy:
  – Bilingual/bicultural staff and materials
  – Location in areas of high immigrant resident/worker concentration
  – Accommodations for families (ex: children’s play areas, take-a-number system)

• Word gets around
Case study:
Guadalupe Credit Union

- Community charter in Santa Fe, New Mexico
- Board decided to make Hispanic outreach and ITIN lending a strategic priority beginning in 2000

In 2000:
- 2 offices in Santa Fe
- $30 million in assets
- 4,800 members
- No employees that were fluent in Spanish. Four spoke Northern NM Spanglish
Case study: Guadalupe Credit Union

Today:

- $135 million in assets
- Nearly 15,000 members
- 4 offices in Northern NM (3 in Santa Fe, 1 in Taos)
  - In 2008, storefront branch with fully bicultural staff opened in Spanish-speaking area (NCUF grant)
  - In September 2012, moved to new freestanding branch
  - At this branch alone:
    - 1,678 members and over 100 added every month
    - Deposit balances $3 million
    - Loan balances $8.5 million
  - Several strong community partnerships, including advocacy organizations, public schools, other CDFIs
Case study: Guadalupe Credit Union

Today:

• Membership growth well above national average.
• Member average credit union age below national average (41.7 vs 48.5 (credit union magazine and GCU internal numbers))
• Undocumented member accounts:
  – Average share balance: $1,500
  – Average loan balance: $13,350
• Staffing changes:
  – More than half of staff Spanish-speaking; more than two-thirds of front-line
  – Full-time bicultural mortgage loan officer
  – Full-time bicultural financial counselor
GCU: Observations in ITIN Lending

• Down-payment requirements typically not a barrier
• Many family members live in one home or share one car and help each other pay it off quickly
• Often will pay one off, then everyone pitches in to purchase another
• Higher percentage of used autos and mobile homes—better value and can pay off quickly
• Less demand for speed and efficiency, especially at first
GCU: Underwriting challenges

• Proof of income
  – Sometimes check stubs and account information do not match—best if disclosed at account opening
  – Many work two or more jobs and may be paid in cash

• Credit bureau reporting may be unreliable with ITIN
  – Each handles ITINs differently
  – Similar names/DOB makes credit reports get scrambled
  – Disputes for ITIN borrowers are harder
  – May be confused with Identity Theft
Bottom Line Results

• Guadalupe Credit Union
  – $16 million in ITIN loans (almost 20% of portfolio)
  – Risk-based pricing increased net interest margin
  – Delinquency ratio on ITIN loans 1.24% (vs 1.88% overall)

• Latino Community Credit Union
  – 54,600 members
  – Total loan portfolio: 7,900 loans, $34 million, 1.28% overall delq
  – 1,515 “Dreamer” loans—0.82% delinquency
  – 86% of total mortgage portfolio are ITIN—1.16% delinquency
  – 60 micro-business loans—0% delinquency
Getting Board and Staff Buy-In

• Board:
  – Make the business case
  – Social and economic importance of reaching out to underserved markets
  – Additional benefits with Low Income or Community Development Credit Union designation

• Staff:
  – Make the heart case
  – Walk them through what many immigrants go through to come to the US and why (poverty, political persecution, wars, etc.)
  – Sueños de Angélica video
  – Clearly address legal boundaries and responsibilities

• Training:
  – Clear policies, consistent communication, ongoing reinforcement
Where to go from here

- Get Board and staff buy-in
- Adapt policies and procedures
- Reach out to potential partners
- Start small: one or two consumer loan products, build on as program grows
- Federation consultants can help (who to contact?)