Lending to ITIN and Immigrant Markets

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CU Breakthrough

Federation
Credit Unions United to Serve the Underserved
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
DACA/ DAPA/ Citizenship
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 four 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
Opportunity for Credit Unions

• 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)

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

• Lower delinquency and charge-offs than traditional loans
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
• 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
DACA, DAPA, Residents

- 8.5M Permanent Residents eligible for Citizenship (DHS 2011)
- 3.7M Eligible for DAPA
- Up to 1.5M DACA applicants eligible for Permanent Status
- Waiting line...

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In the Lone Star State

- 1.7M unauthorized immigrants – 56% qualify for relief:
  - 685,000 eligible for DAPA
  - 262,000 eligible for DACA
  - Approx 95,000 become LPRs each year
  - Approx 52,000 become Citizens each year

- 1.5M speak Spanish at home
- 1.1M ages 21-44 – Borrower age
- 27% underbanked rate
Making the case

• 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
• The Federation can help, questions?
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