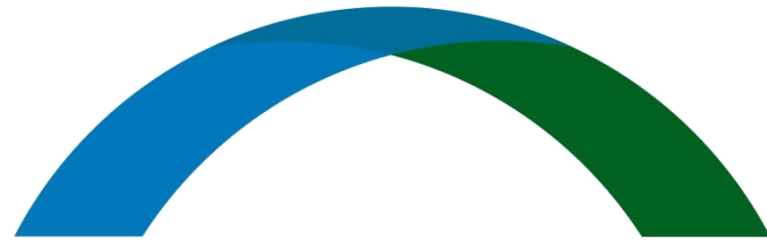


Lending to ITIN and Immigrant Markets

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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
- 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
- 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
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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 (ie: CDBG)
- Home purchase
- Home improvement
- Rental property
- No secondary market
- Excellent performance

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: 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

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