

BEST PRACTICES IN IMMIGRANT LENDING

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Introduction

Some 1 million new Americans arrive on our shores every year to join the 33 million other immigrants who are making America their home. These men, women and children, families, entrepreneurs, skilled workers, laborers and professionals require banking services to help them make a home here, and banks and financial institutions are gaining proficiency in meeting their financial needs.

What do these new bank customers need most from a financial institution? What special tools and programs should banks put in place to serve them? How best can banks market their lending services to America's immigrants? And how can banks overcome such barriers to immigrant lending as less-than-complete identification records, poor or no credit history and even religious prohibitions against the paying of interest?

In December 2003, the American Bankers Association contracted ShoreBank Advisory Services (SAS), the consulting and research arm of ShoreBank of Chicago, Illinois, to collect and catalogue best practices in immigrant lending across the country. The goal was to share the information among more banks, especially those hoping to increase their immigrant lending, and increase credit opportunities for immigrants. SAS interviewed 12 banks varying in asset size, geographic coverage and strategic focus. Community banks were the primary focus, with some representation from large national banks.

What follows is a summary of the key approaches, strategies and programs that have proven successful in reaching the immigrant community with useful, cost-effective and flexible lending services.

Summary Findings

Strategic Importance

The interviews revealed that banks that have been successful in capturing one or more immigrant markets have quite similar qualities. One notable characteristic is the placement of a strong bank-wide strategic focus on a particular immigrant market. In the case of Hanmi Bank in California, the bank is Korean-American owned and serves a primarily Korean-American market, which is quite large in Southern California. In Milwaukee, Wisconsin, Mitchell Bank is not Latino-owned, but its goal is to become *the* Hispanic bank in the Milwaukee area. Of the banks interviewed, nine focused primarily on the Latino market, one focused on (Indo-Pakistani) Muslims, one on Koreans. One bank focused on a number of immigrant groups, which included Asians, Africans, Europeans and Latinos.

A bank-wide, immigrant-focused strategy can evolve in several ways. In most cases, and not surprisingly, a senior management-driven course has led to the greatest innovation and the most comprehensive immigrant-focused strategies. Some banks' strategies were built organically, while others made a determined shift to serve a new community.

Among the interviewed group, only one bank's immigrant strategy was driven by a retail-banking officer at a branch with a large CRA-qualifying customer base. For five banks, growth into immigrant markets was largely organic. For four of these banks, the demographics of their neighborhood changed from predominantly U.S. natives to predominantly immigrant. In order to survive and stay, each of these banks decided to serve their respective markets and change their approach to match the needs of the community.

Three banks stood out for their approach to a shifting strategy.

- The CEO at Gainesville Bank and Trust (Gainesville, Georgia) developed an idea for targeting the Latino market in Gainesville and visited other banks in Texas and Florida for ideas on how to reach the growing immigrant population with banking services.
- Citizens Bank, which covers several states in the Northeast, commissioned a study on the immigrant market, of which it has several, in order to help them understand the banking needs and perceptions of these communities.
- Mitchell Bank's (Milwaukee, Wisconsin) strategy began with a meeting with community leaders, who gave the bank insight into the retail and credit needs of the Latino community.

Outreach Strategies

Each bank in the group employs a variety of strategies for reaching out to their respective communities. Generally, common strategies included bilingual advertising, financial education seminars and effective partnerships.

Community partnerships in particular were a strong outreach strategy for most banks. The partner was usually a place of worship, a cultural center or a social service center to which many immigrants come for various services and assistance. Many banks worked together with community partners to offer financial education or credit counseling courses, which often led to students' opening new checking and savings accounts. As an initial strategy, North Shore Bank (Milwaukee, Wisconsin) invited the Mexican consulate to a session to issue *matricula consular* (consular identification) cards.¹ The response from the community exceeded all expectations and the event gave the bank credibility in serving that community.

Two banks use mini-branches to reach the community and reduce the intimidation factor for many immigrants who have little trust in banks. Home Federal Bank (Nampa, Idaho) has a small in-store branch at the Idaho Hispanic Cultural Center; it also has five in-store branches in WalMart Super centers. Mitchell Bank (Milwaukee, Wisconsin) has an in-school branch at a local high school, which is predominantly Latino. Students use and operate the branch, and often bring unbanked family members to the bank to open accounts and apply for loans.

¹ To date, *matricula consular* cards are only offered by Mexican and Guatemalan consulates in the United States.

Two banks offer free tax preparation services as a way to reach out to immigrant markets. This strategy, which links tax refunds to new bank accounts, has been increasingly popular among banks across the country. Gainesville Bank and Trust (Gainesville, Georgia) also offers notary services and translation services in addition to the tax preparation services.

Products and Features

As mentioned above, this study focused primarily on lending products for immigrants. Different immigrant groups face different barriers to getting bank credit, but one barrier that is common to all groups is a lack of credit history. Immigrants, by nature of their status, come to the United States without any credit history. For those that stay outside of the formal banking system, needed credit is obtained from either the informal financial sector or an individual's network of family and friends.

In order to overcome this initial barrier, four of the banks interviewed offer a **secured consumer loan** or **secured credit card** (with no hidden upfront charges other than the required deposit). These loans are typically secured for the amount of the credit by a cash deposit, which earns a market rate of interest. Credit amounts start at \$250 and go up to \$2,500. Once these loans are adequately repaid, the consumer can graduate to an unsecured loan or credit card.

Within this group, Central Bank of Kansas City (Kansas City, Missouri) offers a unique product -- a **credit development loan** aimed at Latino immigrants with no credit history. The loan is CD secured, but no cash is actually disbursed. The customer makes regular payments against the loan, which is priced at 2 to 3 percent above the CD rate. The repayment of the loan creates a credit history for the customer, who is then able to borrow more easily for other consumer and credit needs.

Three banks offer mortgages to immigrants who do not have a Social Security number. In lieu of Social Security numbers, the banks accept individual taxpayer identification numbers (ITINs), which are issued by the IRS for tax reporting purposes. The banks currently offer **ITIN mortgages** as three- or five-year ARMs, with balloon payments at the end of that three- or five-year period. Loan amounts are capped at 95 percent loan to value, and the pricing of the loans is about 100 to 150 basis points above market rates. Without Social Security numbers, consumers are unable to obtain Private Mortgage Insurance (PMI) and banks are unable to sell the mortgages to the secondary market, although the banks have been working with several insurance companies and secondary market brokers to accept the risk of these loans.

Muslim immigrants face a unique set of barriers when it comes to obtaining credit. Islamic law prohibits the payment of interest on any loans, which makes it just about impossible for conservative Muslims to obtain bank credit. However, Devon Bank (Chicago, Illinois) has created two unique loan products that are in compliance with Islamic law -- **murabaha** and **ijara**. Instead of charging interest, Devon Bank has built

in a “profit,” which is allowed under Islam. More information on the product can be found in the case studies below.

The **E2 business loan** offered by Hanmi Bank (Los Angeles, California) actually facilitates immigration. Potential business owners from other countries may obtain an E2 visa upon the investment of at least \$300,000 in a U.S. business. Hanmi Bank provides business loans for up to 50 percent of the purchase price, or \$150,000. A loan commitment is then submitted with the individual’s visa application, which is evaluated on a number of levels, including the sources of financing.

Regardless of the product offered, all institutions interviewed in this study have remarked that the loans targeted toward immigrants have performed extremely well. Some noted that the loans performed as well as any other loan products. Others have reported zero losses or better than average repayment rates. It should also be noted that several banks have just introduced their products. As a result, they have not yet made a significant-enough number of loans to generate long-standing numbers on portfolio performance.

Individual Institution Profiles

Devon Bank

Devon Bank in Chicago, Illinois, is a small community bank in the largely immigrant neighborhood of Rogers Park. The bank has 10 branches and at the end of 2003 had \$256 million in assets. The bank is owned by the Loundy family, a reflection of the historically Jewish make-up of the neighborhood. In recent years, the neighborhood has become increasingly made up of immigrants, primarily from India and Pakistan. A drive down Devon Street reveals a plethora of Indo-Pakistani restaurants and shops. Devon Bank has continued to serve the changing local population and has worked with the community to provide relevant products.

A local cultural return to fundamental Islam, which prohibits the earning or payment of interest, caused Devon Bank to receive increasing requests for loan products that complied with Islamic law. In response to these requests, the bank’s legal counsel, together with local religious leaders, began to work intensively on religiously sensitive loan products that also complied with federal banking regulations. By mid-summer 2003, the bank had created two loan products that complied with both federal banking laws and Islamic law. Extra fees are associated with these specialized loans to compensate for specialized loan documents, which contain religious language.

Devon Bank’s two loan products are named **murabaha** and **ijara**. The murabaha loan is primarily used for real estate mortgage transactions, such as the purchase of a home or business property. In this transaction, the bank purchases the property, then sells it to the customer at a “profit.” This profit is carefully calculated to be equivalent to what the bank might earn in interest on a traditional mortgage. The customer then pays the bank in regular installments like any term loan.

Ijara is used for shorter-term needs, such as equipment purchase, and is used primarily by local business owners. The loan acts much like a rent-to-own transaction -- the bank purchases the property and then leases it to the customer. The “rent” is adjustable, but again, no interest is charged. Instead a profit is built into the lease payments.

Devon Bank chose to take a measured approach to marketing its products. Initially, it made a few members of the community aware of the products, and word of mouth has spread. Only now is it planning some marketing activities around the loan products. The bank has also had a handful of requests for something similar from the Orthodox Jewish community. As a result, it is looking into creating comparable loans, with the appropriate religious language.

Staffing is extremely important to the bank’s strategy for serving its immigrant community. It currently has 110 employees who speak an estimated 37 languages. Loan officers from all religious backgrounds have been trained in the loans’ features. At times they educate Muslim customers on what the religion requires in taking a loan.

Mitchell Bank

Mitchell Bank is a small community bank in Milwaukee, Wisconsin, that serves a primarily Latino population. The bank began in 1907, initially serving a largely German immigrant population. As with many urban areas, the demographics of the neighborhood changed and the bank found itself in the midst of a growing Latino population. The bank is still small at \$72 million in assets, but it has had an enormous impact on its community in a number of ways. As mentioned previously, one of the major goals of the bank is to become *the* Latino bank in the Milwaukee area.

In November 1999, Mitchell Bank met with 35 community leaders, who had specific concerns about the Latino population in Milwaukee. At this meeting, the need for owner-occupied housing was the topic of discussion. But the group identified one of the major barriers to homeownership for some Latino immigrants as the lack of proper identification, most notably a Social Security number. As a result of this meeting, Mitchell Bank created a community mortgage program that addressed the needs of the community and broke down barriers to homeownership for many Latino immigrants.

The community mortgage program is what is increasingly becoming known as an **ITIN mortgage**. The major feature of the program is that individuals who do not have Social Security numbers can apply for an ITIN and a mortgage. The mortgage itself is a three-year ARM amortized over 30 years with a three-year balloon. After that three-year period, the bank hopes to move customers to more conventional financing. Current rates under this program are approximately 100 to 150 basis points higher than traditional rates. Because PMI is not currently available for such loans, it is not required. In underwriting the loans, Mitchell Bank will accept alternative credit information, such as rent and utility payments. The bank also checks personal references.

Applicants under the community mortgage program are required to have a depository relationship with the bank, and are also required to complete a home-buyer education program. One strategy the bank uses to get customers on the path to responsible repayment is to require that the first three or four payments be made in person with the loan officer who originated the loan. So far, the portfolio under this program has not suffered any delinquencies or write-offs. One customer has declared bankruptcy, but is continuing to make on-time payments on the mortgage with the help of family members.

Mitchell Bank has a multi-prong approach to its outreach in the Latino community. First, all of the bank's employees are Hispanic and bi-lingual. The bank relies little on traditional advertising, which is mostly channeled through Spanish-language television. Most outreach and marketing is done through community partnerships. The bank works with churches and Hispanic social services groups, such as United Migrant Opportunity Services, to help open checking and savings accounts and apply for ITINs; the bank also provides tax return assistance. In addition, the physical appearance of the bank was changed to be more "Hispanic friendly."

Mitchell Bank's most notable outreach effort is a partnership with Cardinal High School in Milwaukee. The bank has opened a branch, now called Cardinal Bank, in the majority-Hispanic high school; the branch is run by students at the school. Many have opened their own accounts and have also brought their unbanked parents into a depository relationship with Mitchell Bank as a result of that branch. English as a Second Language (ESL) classes and other evening events are sponsored by Cardinal Bank, expressly targeted to students' parents. The ESL classes include home-mortgage seminars, which have been an effective strategy for developing clients under the community mortgage program.

Union Bank of California

With \$42 billion in assets, Union Bank of California is one of the 35 largest banks in the United States and the fourth-largest commercial bank in California. Founded 130 years ago, the bank has 284 branches throughout California, Washington and Oregon. Union Bank offers a wide range of services to business and consumer clients, and has placed strategic emphasis on expanding outreach to immigrants and low-income customers as a means of growing the bank's customer base.

Union Bank has made building access to financial services among the unbanked a strategic priority, as it will ultimately grow the bank's market. To achieve this, Union Bank has created a number of innovative financial products to generate a new customer base among those currently excluded from the financial system. While these products are designed for low-income customers in general, they have become quite popular with immigrant populations. As a constant source of new customers, the immigrant communities have taken on significant strategic importance for the bank, with a heavy focus on Latino customers, who currently represent 51 percent of the total customer base. Union Bank also serves Korean and Vietnamese customers, and other immigrant groups to a smaller degree.

Union Bank offers a low-cost check-cashing product to draw new customers, which is often the only product new low-income and immigrant clients use (approximately 60 percent of low-income customers utilize check-cashing only). The bank seeks to transition these customers from only cashing checks to utilizing a wider range of the bank's financial services.

Union Bank's new product development for low-income/immigrant communities initially focused on savings products, since they were easily linked to the check-cashing activity. For example, Union Bank has developed an innovative savings product called the **combo account**, which is meant to encourage those drawn to the bank's low-cost check-cashing program to begin to save. Under this program, a person who deposits \$10 in a savings account and makes additional deposits of \$10 monthly not only gets a savings account paying the regular passbook rate, but also receives six free money orders each month. The customer can also cash checks for 1 percent -- a much lower fee than that charged by independent check-cashing outlets. There is also a **nest egg savings account**, which is a low-balance account (\$10 minimum) in which customers are encouraged to deposit \$10 a month. (If they do not deposit, they are charged a monthly fee of \$1.)

On the lending side, Union Bank has developed a full array of credit products for low-income and immigrant borrowers, including those with no credit history and little in the way of proof of identity and income. The bank focuses on helping clients build credit histories and assets as a means of graduating into mainstream financial products. One of the more popular lending products is a **secured credit card**, which requires a minimum of \$300 in savings to apply for the credit card, with an initial lending limit of \$1,000. It offers customers an opportunity to build a credit history over time, which in turn allows them to qualify at a later point for a wider range of credit products.

On the retail side, Union Bank also offers a mortgage product, as well as new and used car loans. For customers with no formal credit history, the bank accepts proof of rental payments, utility bills, jewelry and furniture store layaway payments -- anything that demonstrates payment history and income levels. The bank accepts these payments in combination with *matricula consular* cards as a form of identification. The bank also offers mortgage loans for first-time buyers through its community development department with no down-payment requirements. Union Bank will in some cases fund the closing costs of up to \$5,000 in order to build the customer relationship.

Union Bank is currently examining its small business customer base among its branches and developing new products for these businesses, as well as merchant banking services in industrialized areas. In an analysis of participating branches, Union Bank discovered that many businesses were going outside their neighborhoods to receive cash and coinage services. In reviewing its customer base, Union Bank has found its convenient locations - - some inside supermarkets - are of benefit to a wide array of small businesses, many of which are immigrant-owned.

One of the small business products Union Bank has developed is the **fast step loan**, which is a loan averaging \$50,000 for small business customers. Union Bank also partners with a local non-profit CDFI called the Community Financial Resource Center (CFRC), which it helped to establish, to provide smaller loans in the range of \$50,000 - \$500,000. The CFRC provides the staff, underwriting and advisory services to the borrowers, while Union Bank provides the loan capital and oversight. The CFRC offers three types of loans: seed loans for start-up businesses, expansion loans for growing businesses and standard loans for working capital and other uses. While these loans are not currently offered through the bank directly, Union Bank views this as a means of incubating new businesses to the level that they will qualify for financing from the bank. These business loans offer opportunities to low-income and immigrant businesses.

As far as measuring volumes, Union Bank does not track immigrant lending separately from other lending activities, although bank staff believe immigrants represent some 70 to 80 percent of clients in some product areas. Performance has been strong and pricing is market rate.

In terms of staffing, Union Bank relies heavily on multi-lingual staff from its target communities to serve clients. The bank requires that staff have strong interpersonal and consumer education skills to interface with low-income and immigrant clients who may be using a bank for the first time.

Union Bank has engaged in outreach activities targeting immigrant and low-income customers through local mortgage brokers serving those communities. They also partner with non-profits, SBA business centers, consumer credit counseling services and community organizations.

Wells Fargo

With \$388 billion in assets, Wells Fargo is the fifth-largest bank in the country and by far the largest interviewed for this study. It employs 144,000 people and has 5,900 “stores,” including 3,021 bank branches across 23 states and 1,900 home-mortgage outlets in all 50 states.

Wells Fargo places high strategic importance on immigrant markets, particularly Latino ones, given the heavy Latino presence in the bank’s strongest markets: California, Arizona, Texas, Washington, Oregon, New Mexico and Nevada. A newly launched Spanish-language Web site, which mirrors the English Web site in content, and a Spanish language toll-free number reflect the resources and importance of this market to the bank.

For this study, SAS interviewed representatives of the Latino banking division, which is the largest immigrant group represented. The bank also targets other immigrant communities, particularly Asian ethnic groups.

Wells recognized the importance of finding acceptable documentation for immigrant clients and became one of the first major banks to accept the *matricula consular* card for Mexican immigrants. It has also begun to accept the *matricula consular* from the Guatemalan embassy and expects there will be similar cards going forward from other consulates. As of November 2003, Wells had opened 250,000 accounts for *matricula consular* card holders in California, Texas, Arizona, New Mexico and elsewhere. Wells views these accounts as a means of building a relationship to begin offering multiple products to immigrants.

Wells acknowledges that developing credit products for new immigrant populations is another level of challenge. The bank has approached the problem by piloting new products through collaboration with non-profit entities (which meets CRA goals as well).

For example, Wells has been working in Central California with a non-profit organization to lend to undocumented and documented farm workers of Latino, Thai and Hmong origin. The total amount of funding for these pilots is in the \$1 million range. The migrant workers lack Social Security numbers and credit histories and would not meet current Wells Fargo underwriting requirements. The non-profit works with these individuals to build repayment history information, such as utility bills, jewelry and furniture store payments or rental payments. The non-profit disburses and services the individual loans. Wells Fargo finds these pilots useful as a means to test the waters and grow these individuals into customers utilizing a wider range of bank services, such as mortgages and car loans.

On the business lending side, Wells Fargo launched **Latino business services** in 1997, targeting the Hispanic population in general. As of 3rd quarter 2003, the bank had disbursed \$2.3 billion to Latino small businesses with an average loan size of \$26,000. Most of these loans are credit scored. The requirements for these loans are stringent – three years of existence, profitable performance and a strong credit history for the business as well as the owner. The application is one page and decisions can be made within 48 hours.

On the new Latino business side, Wells is partnering with the local Hispanic Chamber of Commerce to lend to start-ups with less than one year's experience. An eligibility requirement is that the business has to have been turned down for a bank loan in the last year. Wells Fargo has contributed \$500,000 in loan capital for this pilot project. As with the farmer-lending program, the bank is interested in the results of the pilot as a means of expanding its knowledge of the customer base and growing them into future clients of the bank. The lending is currently done at a below-market rate, with no payments of principal or interest for the first six months.

Wells Fargo staffs its branches with ethnically diverse employees with native fluency in the language of the community. Efforts are made to integrate appropriate language (e.g., Chinese in Chinatown) into the ATMs, signage and brochures. More recently, Wells launched family-friendly Latino-themed branches, with play areas for children, Hispanic staff and ethnically themed artwork.

Conclusions and Recommendations

On the whole, a bank's success in lending to immigrant communities depends on a few key practices. Close ties to the community through a number of channels, together with a bank's ability to be flexible, were important factors. Interviewees highlighted the following common factors as being strong contributors to the success of their respective loan products.

Staffing

Because many immigrant groups are distrustful of the banking system, and because of language barriers, banks find that having the right staff has been instrumental. Several banks interviewed mentioned that initially their loan products did not take off because the loan officers were not representative of the immigrant group they were trying to reach. Once new bi-lingual loan officers from the appropriate ethnic group were hired, loan production immediately increased.

Many immigrants do not fully understand the way the US banking system works. Ethnic staff knows and can address some of the major concerns that immigrants have and may not necessarily voice. Not only do bilingual staff members increase an immigrant's feeling of comfort and understanding, but they also act as embedded marketing tools within the immigrant community. Because many immigrants rely on word of mouth to know where to go for their services, having a staff member or loan officer within the community generates natural occasions to let people know that the bank has specialized opportunities for them.

Community Connectedness

Partnerships with community partners are a common and crucial approach for banks reaching out to immigrant markets. Many community groups, especially social service groups, already have the trust of immigrant groups and can broker relationships between individuals and financial institutions. In most cases, the partnerships are formed to provide credit counseling or other types of financial education, bringing individuals into a depository relationship first. Mortgages and consumer loans will often result from both the account openings and appropriate financial education.

Banks' partnership strategies range from providing financial education trainers to community groups, to having the community group hold regular office hours at the bank itself. Having the appropriate community group on board is also essential. Social service groups are a natural partner because of their ability to act as a one-stop center for the needs of specific immigrant groups and because they provide a natural platform from which to provide credit counseling and financial education. For Hanmi Bank's E2 product, the Korean-American Bar Association also makes a logical partner that can refer potential customers to the bank.

Underwriting Standards

Because many immigrant groups do not have the kind of credit history or identification documentation that mainstream Americans have, interviewed banks use non-traditional criteria for making their loans. Common ways of creating credit histories include verifying rent and utility payments, analyzing checking and savings account histories, verifying repayments of informal loans (e.g., loans from friends, relatives), calling employers and checking personal references. For Hanmi Bank's business loan product, the underwriting is somewhat softer. Much of the analysis is based on the entrepreneur's employment history and management capabilities.

For Latino immigrants without Social Security numbers, banks are accepting *matricula consular* cards and/or ITIN numbers. A few banks in this study also facilitated issuance of these alternative forms of identification through their operations. Two banks are certified ITIN acceptance agents, which means that they are able to submit ITIN applications without having to submit all the supporting documentation. Instead, the bank simply keeps the supporting documents on file. Some other banks that were not certified acceptance agents provided assistance in completing the application and submitting it.

Other Advice from Fellow Bankers

Bankers shared some other interesting advice that did not necessarily fit well in any of these categories. Below are some of the comments that were made in response to the question of what best practices could be shared with other bankers.

- “Good service, honesty, integrity.”
- “The underwriting for this group is similar to the type that is used for low-income U.S. citizens.”
- “Our message is that we care and we are reaching out to the community.”
- “Develop a good reputation in the community. Recognize the differences. Don't be afraid to be high touch.”
- “Know your customer -- don't be naïve.”

ANNEX I – LIST OF INTERVIEWED BANKS

Central Bank of Kansas City

Kansas City, Missouri

Citizens Bank

Providence, Rhode Island

Devon Bank

Chicago, Illinois

Gainesville Bank and Trust

Gainesville, Georgia

Hanmi Bank

Los Angeles, California

Home Federal Savings Bank

Nampa, Idaho

Mitchell Bank

Milwaukee, Wisconsin

National Bank of Omaha

Omaha, Nebraska

North Shore Bank

Milwaukee, Wisconsin

Second Federal Savings Bank

Chicago, Illinois

Union Bank

San Francisco, California

Wachovia

Charlotte, North Carolina