

Banks Open Doors to New Customers: Illegal Immigrants With Help From Government, Mortgage Lenders Tap Growing Hispanic Market

By MIRIAM JORDAN, Staff Reporter, The Wall Street Journal

MILWAUKEE -- Javier and Araceli Garcia, illegal immigrants from Mexico, never imagined that the U.S. government would help them realize their dream of owning a home. But last year, the couple secured a \$54,600 mortgage to buy the gray, 1,158-square-foot bungalow that they had been renting for eight months. The Wisconsin housing authority financed the loan. The Internal Revenue Service gave them an identification number that enabled them to apply for it at local Mitchell Bank, which was happy to take their business.

"We thought we would never buy a home, because of our [illegal] status," said Mrs. Garcia. Competition for new customers is driving banks to offer home loans and other financial services to illegal immigrants -- and they are getting help from government agencies, such as the Federal Deposit Insurance Corp. The FDIC encourages banks to lend and invest in underserved markets regardless of customers' immigration status.

The official helping hand comes as other corners of the government take an increasingly hard line against undocumented immigrants. In May, Arizona legislators passed a bill to bar illegal immigrants from English classes, child care and other state-subsidized services; it was vetoed by the governor. In Kansas, opponents of a measure to offer in-state tuition to college-bound students who are illegal immigrants have taken legal action to prevent its implementation. Also in May, Congress approved a measure containing a provision that would make it impossible for illegal immigrants to acquire a driver's license.

"There is a fundamental contradiction here," says James Smith, a senior economist at the Rand Corp., a Santa Monica, Calif., think tank. "We have one policy saying you can't be here illegally. In practice, another policy is saying that if you're here, we're going to cater to you."

In Wisconsin, the state housing agency's decision to help banks lend to illegal immigrants has set off a fierce debate in the state Senate over whether these newcomers should benefit from programs designed for legal residents. The initiative has also spurred banks in other states to kick off similar programs.

Like many parts of the U.S., this state of dairy farms and heavy industry has seen its Spanish-speaking community swell in recent years. Immigrants, mainly from Mexico, have journeyed here to fill jobs in construction, foundries and other low-skill industries. Latinos represent only 4% of Wisconsin's total population. But the population doubled between 1990 and 2000 to about 200,000, and continues to grow. The Hispanics are concentrated around Milwaukee and Madison, the state capital.

In Milwaukee, Mitchell Bank has seen those changes up close. It was founded in 1907 by the Schneider family, who named the bank after the main street in the bustling area known as the South Side. For most of its history, the bank served Polish and German immigrants. As European families moved to the suburbs, Mitchell Bank opened new branches there. But bank loyalty didn't transfer to young customers, who preferred big banks with ATMs on every corner.

In the 1990s, Mitchell Bank's old turf on the South Side began to see an influx of Latino immigrants. Taco shops and clothing stores playing piped Mexican folk music proliferated. James Maloney, the chairman of Mitchell Bank, saw the newcomers as a solution to the bank's declining fortunes. Its assets had dropped to \$60 million in 1999 from \$95 million in the early 1990s.

One afternoon in 1999, he walked into the bank and saw no one in the expansive hotel-like lobby but the staff. Outside, the street was filled with Latinos. "If all these people were working here and living here, I knew we had to change what we do," said Mr. Maloney, a labor attorney who took over the bank after his father-in-law died in 1991.

Mr. Maloney promoted Frank Villa, a teller and the sole Hispanic employee, to customer-service representative. He re-hired a Latina former staffer and recruited many others. The new employees translated the bank's brochures and deposit slips into Spanish, and hung banners in Spanish outside to lure passersby. Inside the bank, a painting of Mexico's patron saint, Our Lady of Guadalupe, was prominently displayed.

Mr. Maloney invited Latino community leaders and clergy to a town-hall-style meeting at the bank. Out of one meeting came the idea of opening a branch in a local high school, to ease distrust of banking among immigrants by introducing it to their children first.

The bank also offered pamphlets on how to apply for a Wisconsin state ID and driver's license, and invited the Mexican consulate in Chicago to visit with a mobile unit that issues "matricula" cards, another form of identification, issued by the Mexican government and often accepted by banks. In early May, it sent out letters to 2,400 of its undocumented customers warning that Congress was on the verge of passing a federal law, dubbed "Real I.D.", that would make it more difficult for illegal immigrants to get drivers' licenses.

Mr. Maloney decided in 2002 the bank should also start offering mortgages even to illegal immigrants, convinced that would revitalize the run-down area and generate new business. The move would be in line with a federal law, enforced by the FDIC, that requires banks to invest in the communities in which they gather deposits, according to the banker.

Because most undocumented immigrants don't have a credit history, the bank decided to consider utility, rent and overseas-remittance receipts in assessing their creditworthiness. A letter from a pastor was also welcome.

As demand for home loans gradually increased, a problem arose: Taking on the loans was creating more risk than a small bank could shoulder on its own. That's because unlike other mortgages, the loans were not sellable on the secondary market to Fannie Mae and Freddie Mac, which currently don't deal in loans for illegal immigrants as a matter of official policy. That means Mitchell Bank had to hold all the loans in its portfolio rather than spreading out the risk.

The issue was resolved last year, after Mr. Maloney made a presentation to the Wisconsin Housing and Economic Development Authority. Its mission is to help low-income families buy homes by offering mortgages at preferential interest rates that are fixed for 30 years. The housing agency regards its home-ownership program as key to combating predatory lending, which has exploded in poor inner cities, and revitalizing downtown neighborhoods. The state agency decided to start a pilot program for undocumented immigrants.

"We can stick our heads in the sand and pretend these people don't exist, or we can help them be in the U.S. with assets," says executive director Antonio Riley, the head of the Wisconsin housing authority. He has received applications from many banks interested in offering loans to undocumented immigrants.

The housing authority finances the mortgages, which Mitchell Bank and other institutions sell to their customers. Thus, Mitchell Bank no longer retains the risk for the loans.

To be considered for a loan, illegal immigrants must fulfill the same criteria as applicants who hold Social Security numbers -- proof of regular income and state residency. If they qualify, the undocumented borrowers get the same terms as other state residents.

Like Mitchell Bank, the housing authority uses the IRS-issued tax-registration number, the Individual Taxpayer Identification Number, or ITIN, instead of a Social Security number, which illegal immigrants generally cannot obtain. The banks need such numbers because they have to report their income to the government. In 1997, the IRS started issuing ITINs to foreigners who aren't eligible for a Social Security number to encourage them to file an income-tax return, regardless of immigration status. As of December 2004, the IRS had issued eight million such numbers.

An IRS spokesman declined to comment on the use of the ITIN by illegal immigrants applying for a mortgage. In prepared testimony to two congressional subcommittees last year, IRS Commissioner Mark Everson said "we are concerned that the ITIN has become an acceptable form of identification similar to the Social Security number."

The Garcias arrived at Mitchell Bank last August without a credit history or a single credit card to their name. A few days later, Mr. Garcia brought his ITIN and proof that he had filed taxes every year since getting the tax ID. He also brought pay stubs to show he earns about \$450 a week making concrete molding to secure caskets in the earth, a job he has held for four years. Mrs. Garcia, who says she carefully stores bills in a safe place, amassed the receipts for every utility and rent payment the couple had ever made.

Mr. Villa, now a loan officer, read all the loan documents to the couple in Spanish. A home inspector visited the Garcia's house in September. The Garcias then obtained a \$54,600 mortgage from Mitchell Bank. The Wisconsin housing authority financed it at a fixed rate of 5.3% over 30 years. The couple was required to make a modest down payment. On Oct. 19, two months after starting the application process, the couple closed on the house. All told, the couple now makes a monthly mortgage payment of \$443 instead of \$600 a month in rent on the same house.

In four years, Mitchell Bank has issued about 100 similar home loans, mainly to illegal immigrants, and says it has never experienced a default; it has recorded two late payments. The average household income of borrowers is \$30,000 annually, for mortgages ranging from \$30,000 to \$100,000. Thanks to its outreach to Latino immigrants, including many illegal ones, Mitchell Bank is recording 4.5 times more transactions and at least that much more traffic at its three branches than a few years ago. It is looking for a site to open a new branch in nearby Waukesha, which has a fast-growing Hispanic population. "Our portfolio is evidence that the undocumented are model customers," says Jeff Bowman, president of Mitchell Bank.

More banks are following in Mitchell's path, helped by the FDIC, which has reached out to banks in the Midwest to encourage them to lend immigrants, regardless of their legal status in this country. Some of the banks have become aggressive players in the undocumented market.

The initiative, based in Chicago, is partly an outgrowth of FDIC efforts to contain predatory lending, whose main victims are blacks and Latino immigrants. Without access to traditional banking, undocumented immigrants are especially easy prey for unscrupulous lenders who charge exorbitant interest and closing fees for mortgages. "Our job is to encourage banks to lend and invest in underserved markets," says Michael Frias, an FDIC official in Chicago. "We don't make distinctions of immigration status."

Dozens of small banks in such states like Ohio, Illinois, Iowa and Texas have recently started offering undocumented immigrants the opportunity to apply for home loans with an ITIN. Big banks, like Wells Fargo & Co. and Bank of America Corp., say they plan to launch their own programs within months. Don Cohen, a vice president at North Shore Bank in Milwaukee, which offers ITIN mortgages, says he has fielded inquiries from banks in Alabama, Minnesota, Mississippi, South Carolina and Washington, among others interested in serving undocumented immigrants.

For its part, the Wisconsin housing authority is stepping up efforts to promote its program to help immigrants get mortgages. Since last April, it has disbursed 112 ITIN-mortgage loans valued at about \$12.2 million in total. The housing authority has been flooded with inquiries from housing agencies and lending institutions in other states. The Illinois Housing Development Authority, for one, is expected to unveil its ITIN mortgage program this summer.

But a year since its introduction, the agency's pioneering initiative is also drawing fire. Mark Belling, an outspoken conservative radio talk-show host, has lambasted the mortgage program on the air. "We should not be encouraging illegal immigration by offering home loans and the American dream to people who didn't enter the country legally," says state Rep. Steve Kestell, a Republican. "I am concerned that we are sending the message that we as a state welcome illegal immigration."

Republican state Sen. Glenn Grothman, who says the state agency shouldn't be in the business of rewarding lawbreakers, has introduced a bill to the program.

Mr. Grothman first heard about the ITIN mortgage on Mr. Belling's radio show. In an interview, Mr. Grothman said it's untenable that "government sets up a program specifically designed to benefit people who have chosen to ignore...immigration laws."

The bill is now before a state Senate committee. To become law, it will have to pass both houses of the legislature, which are controlled by Republicans, and get Democratic Gov. Jim Doyle's signature.

Meanwhile, the Garcias used their ITIN to get a second, home-improvement loan for \$13,700 with Mitchell Bank. The house already has a new cream-colored front door, newly built carport and renovated basement. Their summer plans include putting new siding on the house and laying grass in the backyard.