

Oregon Legislature Joint Task Force on Addressing Racial Disparities in Home Ownership

Remarks by Paul Dionne, Research Director

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Prompt: Why are financial institutions (credit unions) not developing ITIN mortgage lending products? What are the possible barriers, fears, or concerns?

About Filene: Filene Research Institute works to support the credit union system through cutting-edge research, product incubation to test and scale solutions, advisory services to help organizations implement innovation, and communities and events to connect credit union leaders with the objective to improve financial well-being for consumers in the US. We are in our 32nd year as a 501(c)(3), independent non-profit educational foundation, and as such we do not engage in advocacy or policy work. I am here today as a subject matter expert and welcome the opportunity to share some of [Filene's research findings on ITIN lending](#). Over the past 7 years, Filene has partnered with credit unions and system partners to develop, test, and research ITIN lending programs, and our engagement with these programs is ongoing.

About Credit Unions: As member-owned, non-profit, and democratic financial cooperatives, credit unions operate in a highly regulated financial services market and serve as prudent stewards of their members' assets. Since their inception (many were founded during the great depression) credit unions have demonstrated longstanding commitments to providing affordable and inclusive financial services to consumers of modest means.

About ITIN Lending: With the caveat of Point West Credit Union who began offering ITIN loans in 2004 (they are an outlier), ITIN lending represents a relatively new product offering.

Although ITIN lending may appear identical to a traditional loan product, it is in fact a qualitatively different product from a traditional loan. To successfully offer ITIN loans and remain in compliance, credit unions must build and/or adapt a number of internal and external processes.

The short answer to understanding the barriers to ITIN lending is that the process of building and implementing ITIN lending at a credit union takes time. And, it takes even more time to scale ITIN lending to the level of mortgage loans. **In a Filene survey of credit union leaders who provided ITIN lending, only 15% strongly agreed that the program was easy to implement and 8% strongly agreed that employees accepted the program easily.**¹

¹ Hofheimer, George, Ryan Foss, Adam Lee, and Corlinda Wooden. 2018. "Reaching Minority Households Incubator." Filene Research Institute Report No. 452. filene.org/452, p. 30.

Internal Changes: Here are some of the internal processes that credit unions must address and adapt to implement ITIN lending. First, the credit union's board and leadership team must decide to add ITIN lending to their portfolio. Secondly, a credit union needs to build compliance assurances and review changes with their examiners. Operationally, staff must be made aware of the new product offerings and trained on how to deliver them in a compliant and culturally relevant manner. These include elements such as: acceptable ID, account opening procedures, lending disclosures, repayment options, and procedures to remain in compliance with the Equal Credit Opportunity Act. Risk analyses must be made for the new loan products, and these must fit within the credit union's overall asset liability management, compliance, and operational risk tolerance measures. Finally, new underwriting practices need to be developed and put into place.

Underwriting: Even after credit unions fulfill compliance, regulatory, and operational updates, they also face challenges in their ability to effectively underwrite loans and assess risk. The challenging news is that many ITIN holders are likely to have thin or no credit file and with the absence of credit reporting solutions, credit unions can struggle in developing reliable underwriting standards for mortgages in particular. In order to remain in compliance with fair lending practices, credit unions must provide consistent lending criteria for all members; this can be a challenge. The good news is that credit unions we have studied found success and, on the whole, loans were not harmful to the credit unions' balance sheets.²

External Changes: Once the internal house is in order, so to speak, credit unions need to make a number of market-facing changes to successfully deliver ITIN loans. Our study found that 67% of loans were made to people who were new to the credit union, and that requires outreach.³ People eligible for ITIN loans tend to be un- or under-banked, and they may lack trust in financial services providers. That distrust needs to be overcome before ITIN-eligible lenders are ready to set foot in a credit union and consider a loan. Credit unions successful with ITIN lending must also be able to deliver advertising, documentation, and services in the language of the ITIN holder. Community outreach is important, and successful ITIN lenders are those who partner with trusted community-based organizations to build relationships and trust. Again, these are not easy or quickly achievable tasks. **A credit union looking to deliver successfully on ITIN lending requires a significant degree of operational and cultural change.**

Scale & Reach: For most credit unions providing ITIN loans, overall ITIN lending volume tends to be quite small, averaging around 1% of total assets (the average loan-to-asset ratio for credit unions typically ranges above 60%). At the same time, credit union lenders consistently stated that their programs created positive impacts in the communities they served.⁴

² Ibid., p. 34.

³ Ibid., p. 38.

⁴ Ibid., p. 38.

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Achieving greater scale and reach will take time. Those credit unions who do provide ITIN lending tend to roll out their products in stages, often beginning with auto loans because these fulfill an important consumer need (reliable transportation to get to work) and/or personal loans that often support small business development and build credit worthiness. Initial offerings begin to lay the groundwork for building understanding and fluency about ITIN lending by both credit unions and consumers alike.

In closing, despite the challenges faced by credit unions with implementing and scaling ITIN mortgage lending, Filene continues to recognize ITIN lending as a promising opportunity to help address racial disparities in home ownership. **Credit unions have a history of serving the underserved, and ITIN mortgage programs can play an important role in their efforts to address racial disparities in home ownership.**

Filene resources on ITIN Lending: <https://filene.org/itin-lending>