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Big Banks' Loan Push: Illegal Immigrants

Mortgages Get Pitched To Underserved Market; Critics Find Some Risks

By ROBIN SIDEL
 May 3, 2007; Page C1

The nation's big banks, scrambling for customers, are pitching mortgages to illegal immigrants.

Two years ago, making home loans to people who are in the U.S. illegally was largely limited to community banks that wanted to revitalize neighborhoods by offering low-cost mortgages to local workers. There are signs that these loans, which comply with regulatory requirements and which represent a sliver of the nation's \$10 trillion mortgage market, are starting to take off in the broader banking industry.

J.P. Morgan Chase & Co. is developing a pilot program to pitch mortgages to illegal immigrants in Maricopa County, Ariz. If the bank proceeds, the plan could launch as soon as this summer. The New York bank joins Citigroup Inc., Wells Fargo & Co. and Fifth Third Bancorp, which also are experimenting with the loans.

Genworth Financial Inc., meanwhile, is testing insurance products tied to the loans. Deutsche Bank AG has teamed up with the Hispanic National Mortgage Association to develop a secondary market where big banks can sell and trade the loans, potentially reducing risk with keeping the mortgages on their balance sheets.

"Whoever hits the street first with these loans will be the winner," says Timothy Sandos, president of the National Association of Hispanic Real Estate Professionals. The group says at least \$85 billion of mortgages could be originated from 375,000 households occupied by undocumented renters, up from an estimated \$44 billion from 216,000 households a few years ago.

Because illegal immigrants don't have Social Security numbers, the banks are accepting government-issued tax-identification numbers for loan applications. The Internal Revenue Service started issuing the nine-digit Income Tax Identification Number, known as an ITIN, in the late 1990s as a way to encourage foreigners without Social Security numbers to file tax returns. To meet "know-your-customer" requirements, banks often require ITIN borrowers to open a bank account before they approve the loan.

"Beyond these [identification] requirements, banks are free to make their own business decisions and pursue their own business strategies," said David Barr, a spokesman for the Federal Deposit Insurance Corp.

The loans carry a variety of terms and conditions. Interest rates are sometimes higher than traditional mortgages and usually have a 30-year fixed rate or adjustable rate. Instead of relying on credit history, which may not exist for people who often use cash for their purchases, banks typically pay close attention to employment history.

Providing financial services to illegal immigrants is drawing criticism. Supporters say illegal immigrants contribute to the economy, often pay taxes and can help bring rundown communities back to life. Opponents contend that such lending can be risky because they know little about these borrowers' ability to repay the loans.

J.P. Morgan's pilot program, called "Building a Dream," is generating dissension among some of the bank's underwriters who are reluctant to handle the loans for fear that they violate federal law by encouraging illegal immigrants to stay in the country, said a person familiar with the

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situation.

A J.P. Morgan spokesman said the bank hasn't made a final decision about the plan. "We have been looking at a pilot program to offer mortgages to customers with ITINs because we want to find ways to serve all portions of the customer base," the spokesman said. He confirmed that the pilot was to begin this week, but that it has been delayed as the bank continues to assess the program. He declined to elaborate.

In Maricopa County, which includes the city of Phoenix, the sheriff, whose office has arrested hundreds of illegal immigrants, said banks providing these loans are taking on a risky proposition.

"If I catch these people, they are going back to Mexico and the banks will have a tough time collecting on their loans," said Sheriff Joseph Arpaio.

Banks remain cautious as they continue to monitor the results of their programs. Wells Fargo is assessing its pilot, called "Celebrate Home," which started in 2005 in California's Los Angeles and Orange counties.

Banks are dabbling in these loans at the same time they are trying to limit their exposure to the \$1.3 trillion subprime market, which is roiling the industry. Proponents of the ITIN loans say undocumented immigrants are often more likely to pay their mortgages than other borrowers. "Once they get a piece of the American dream, they will do any and everything to make sure that bill is taken care of because it is the only asset they've got," Mr. Sandos said.

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