

Undocumented untapped market for US mortgage lenders  
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By Patrick Rucker

When he was smuggled into the United States from Mexico in his cousin's car ten years ago, Efrain Martinez never dreamed he would one day own a home in his adopted country.

In late June, however, the 26 year-old landscaper signed the mortgage on a two-bedroom house in Las Vegas.

"Many people think that they cannot do this without immigration papers," Martinez said. "This shows them what is possible."

Many U.S. lenders are looking at home buyers like Martinez as a future source of growth with the housing market falling dramatically over the past year and experts forecasting still more weakness ahead. But lawmakers are pushing plans that could make life more difficult for such residents to live and work in the country, or to buy homes.

For now there is no legal barrier to buyers like Martinez purchasing a U.S. home. The National Association of Hispanic Real Estate Professionals, in a report three years ago, estimated that undocumented Latino immigrants could represent potential for \$44 billion in new mortgage loans. Association head Frances Martinez Myers said that can only have grown since.

While this may seem small relative to the \$2.48 trillion in single-family mortgages expected in 2006, it is enough to attract lenders fighting for purchase in a competitive U.S. mortgage arena.

The overall Hispanic home ownership rate has room to grow. The Institute for Latino Studies at the University of Notre

Dame says 49 percent of Hispanics are home owners, below the national average of 72 percent.

But big banks are hesitant to target the estimated 12 million who are undocumented illegal immigrants while Congress is considering new curbs. Tighter border security, aggressive deportation and tough rules against undocumented workers are all being contemplated by lawmakers in Washington.

"The worst-case scenario would be if they enforced the employment rules because the borrowers might very well lose their jobs," said Mark Doyle, president of Second Federal Savings Bank of Chicago, one-third of whose mortgages are to the undocumented.

#### ONE EYE ON CAPITOL HILL

Loans to undocumented residents do not carry an undue risk of default, said Myers, director of the Hispanic real estate group.

At Banco Popular, which pioneered this type of lending a decade ago and serves communities in Chicago, Central and South Florida, Los Angeles and New Jersey, executives have a close eye on Capitol Hill.

"Certainly, if there was significant deportation, that would be a concern," said Chan Peterson, head of community banking at the lender. "We have to keep watching."

Indeed, the risk of lending to illegal immigrants has prevented big mortgage investors from buying up the bank loans. This keeps a lid on the growth of the market, since loan originators usually unload mortgages as packaged securities.

The nation's top mortgage finance companies, Fannie Mae and Freddie Mac, which buy and repackage mortgages to stimulate homebuying, do not purchase loans to the undocumented.

## AN IDEAL BORROWER

As a full-time employee who has filed federal tax returns for three years, Martinez was an ideal borrower, said Jason Madiedo, vice-president of Star Funding that prepared the loan.

Martinez was able to buy a relatively modest \$135,000 home with the use of an individual taxpayer identification number (ITIN) with which he has paid taxes for the past three years.

"The loan itself is a whole lot like a cookie-cutter loan," Madiedo said, though undocumented homeowners typically pay a 1.5 to 2 percent premium.

Despite the undercertainty surrounding the status of immigrants, lenders in Chicago's Little Village are eager to make such loans.

"In our market, mortgages are being sold on every street corner," Second Federal's Doyle said. "There is huge competition." Chan Peterson of Banco Popular said he expects the market to grow.

The growth potential has led at least one major banking company, Citigroup's Citibank to start a test program for loans that use only federal tax numbers for documentation. But most are wary.

"The immigration rules are complex and evolving," Fannie Mae spokeswoman Cristina Miranda said in explaining why the mortgage finance company does not now handle mortgages to the undocumented residents.

Still, everyone agrees it's a huge, untapped market where demand is strong. Mari Gallagher, a mortgage researcher, estimates there is a \$4.5 billion untapped market in the Chicago region alone.

"If that volume of borrowers came through the door, it would probably be more than we could handle," said Second Federal's Doyle.

Source: Reuters