

Undocumented Immigrants Are Worthy Candidates for Capital Investments

Will Gonzalez and Luis Mora Rechnitz 13 September 2017

Community Development Financial Institutions (CDFI) and Volunteer Income Tax Assistance (VITA) sites provide financial services and tax assistance to communities -- including low-income immigrants -- that are underserved by mainstream financial institutions. CDFIs and VITA sites not only provide assistance to individual members of these communities, they also play a vital role in promoting the overall economic development of the neighborhoods where immigrants work and live. CDFIs and VITA sites must collaborate more and strive to create asset-building opportunities for undocumented immigrant families despite the rise in deportations under the Presidency of Donald Trump. These community-based organizations can deliver crucial services to this vulnerable population by leveraging the social and working capital of undocumented immigrants, pooling resources, and utilizing volunteers.

There are 11 million undocumented immigrants in the U.S., according to the Pew Research Center. Removing all undocumented immigrants from the country would be a

costly, laborious task, which would not only tear families apart but also disrupt the economy. The American Action Forum (AAF), a center-right public policy institute, estimated in 2015 that it would cost about \$500,000 and take around 20 years to deport all undocumented immigrants from the U.S. Although there was a sharp increase in deportations in the first one hundred days of President Trump's administration (37.6 percent over last year, according to the Washington Post), the reality is that undocumented immigrants continue to be a vital part of our communities. There are approximately 180,000 undocumented immigrants in Pennsylvania, according to the Pew Research Center. Their economic power is such that if they were all removed from the state, we would lose 5.3 billion dollars in economic activity, 2.3 billion dollars in gross state product, and approximately 27,718 jobs, according to a report from the Perryman Group. Asset-building organizations must find ways to continue to serve undocumented immigrants not only because it is the right thing to do morally, but also because it is the smart thing to do to economically.

Ceiba, a VITA site, and FINANTA, a CDFI, have collaborated for more than 11 years to assist low-income Latinos connect with asset-building services in Philadelphia. The two organizations are recognized for their track record in maximizing the economic contributions of immigrants to the City's economy.

Ceiba is a coalition of four Latino community-based

organizations in Philadelphia (Concilio, FINANTA, the Norris Square Community Alliance, and Nueva Esperanza). Ceiba enhances and coordinates the delivery of their asset-building services through a holistic approach that integrates counseling, financial literacy workshops, free tax preparation services, and structured savings programs. Ceiba's approach to asset-building helps its member agencies serve low-income families by integrating various services for clients and fostering economies of scale for the service providers.

Ceiba uses its free tax preparation services as a gateway to asset-building. Tax returns provide a comprehensive vista of a client's finances and show whether a family is eligible for income supports and programs that could strengthen their household. After preparing a tax return, Ceiba connects the client to financial counseling and other services.

Undocumented immigrants have a duty to file a tax return if they earned income in this country. The IRS created the Individual Tax Identification Number (ITIN) to allow undocumented immigrants to file tax returns. The IRS is precluded from sharing tax information with other federal agencies. At least half of the undocumented immigrants in the country are subject to payroll tax withholdings because they present a "made up" Social Security number to their employer. The IRS and the PA Department of Revenue allow the undocumented immigrants to apply the payroll taxes already withheld to their tax obligations

when they present an ITIN tax return. In Pennsylvania, 34.2 million dollars was collected from undocumented immigrants in 2013 through this payroll tax withholding. Filing a tax return is the only way that a taxpayer can recoup any excess taxes withheld from their paychecks.

The advantages of filing a tax return with an ITIN are significant even for undocumented immigrants who are not subject to payroll tax withholding because they "work under the table." They include:

- Tax returns are the ultimate proof of household income and are requested when U.S.-born children apply for the Children's Health Insurance Program (CHIP), the Supplemental Nutrition Assistance Program (SNAP), college financial aid, etc. (47 percent of undocumented adults live with their children and 73 percent of the children of undocumented immigrants are U.S. citizens by birth according to the Pew Hispanic Center);
- Financial institutions, utilities, and service companies open accounts with ITINs;
- The opportunity to open a business; the City of Philadelphia accepts the ITIN as a Tax ID number for business licenses; and
- Taxpayers can corroborate that they lived in the US; which may help them apply for legal residency in the future.

Ceiba is an IRS Certifying Acceptance Agent for ITINs. The

designation authorizes Ceiba to review an ITIN applicant's identification documents such as passports and birth certificates thereby exempting the applicant from sending their original documents to the IRS. It also enables Ceiba to communicate directly with the IRS' ITIN office regarding any follow up that an ITIN application may require. Ceiba is the only community-based nonprofit organization in Pennsylvania certified as an ITIN Acceptance Agent.

Since 2007, Ceiba has helped undocumented immigrants:

- Apply for 848 ITINs;
- File 1,727 ITIN related tax returns;
- Collect 1.9 million dollars in federal and state tax refunds;
- Save 518,100 dollars in ITIN application and tax prep fees; and
- Pay 813,346 dollars in federal and state taxes.

FINANTA serves unbanked and underbanked low-income, immigrant, and minority entrepreneurs, consumers, and first-time homebuyers in the Philadelphia region.

Since 1996, FINANTA has:

- Lent more than fifty million dollars to small businesses, first-time homebuyers, consumer borrowers, and nonprofits;
- Provided more than 1,300 loans ranging in size from \$400 to 3.3 million dollars;
- Delivered over forty thousand hours of technical

assistance to unbanked and underbanked individuals;
and

- Generated more than 1,500 jobs in the Philadelphia region

FINANTA is a leader in micro lending. Microloans are small sums of money lent at low interest to an individual or a new business. Low-income borrowers like those served by FINANTA often do not qualify for traditional financing because they have insufficient credit files or credit scores below 600 with unsettled accounts and other challenges. This lack of qualifying credit and equity undermine their ability to borrow. Since 2011, FINANTA's micro lending program has closed over one thousand loans. Over that time, more than six million dollars has been lent out through its affinity group loan program. Borrowing groups start at \$1,200 and can progress to grant group participants access to up to \$25,000 or more after five borrowing cycles. All along, the groups receive financial coaching, entrepreneurial training, first-time homebuyer and consumer counseling.

The United States Small Business Administration has recognized FINANTA as one of the top five largest micro lenders in the nation, and the top micro lender in the states of Pennsylvania, New Jersey, and Delaware. It also honored FINANTA with the "Mission Lender of the Year" award in 2016.

FINANTA created the affinity group loan program out of

the lending circle concept. The affinity group loan program is a variation of the lending circle in that members of the group gain access to the capital at the beginning of the cycle. They do not have to wait "their turn." For example, in a lending circle, a group of 10 people decide that they each want to borrow \$1,000. To accomplish that, each participant commits to making monthly payments of \$100 for 10 months so that each participant gets a turn at borrowing \$1,000 once during the 10-month cycle. FINANTA's affinity group loan program, lends \$10,000 to the collective of 10 people thereby giving each participant access to \$1,000. During the 10-month cycle, each participant pays \$100, plus interest and fees, monthly. If any participant fails to make payments, the rest of the group is collectively responsible to make up the difference until the entire \$10,000 group loan is paid off.

FINANTA strengthens and improves informal lending circles by:

- Granting the borrower access to the capital immediately;
- Being a competent administrator instead of an unknown intermediary (some "street administrators" have been known to run away with the group's money);
- Reporting each loan payment to the credit bureaus; thus, improving payers' credit scores. This benefit also applies to ITIN holders as credit bureaus are

tracking their credit and producing credit scores for them; and

- Requiring participants to undergo hands-on/one-on-one credit counseling, and attend financial literacy workshops.

FINANTA also offers secured loans for the non-bankable. These loans are secured by borrower assets. In the case of people who do not have an asset to offer, their monthly loan payments become the collateral for the loan. These personal secured loans work in the following way: if someone anticipates that in 10 months they will need to use \$1,000, they sign up for a secured loan of \$1,000 today and make 10 monthly payments of \$100. The timeliness of those monthly payments is reported to the credit bureaus as loan payments, even though no money has yet to be accessed by the "borrower." In 10 months, the "borrower" withdraws the \$1,000. Over time, this process can improve a "borrower's" credit enough to enable them to apply for conventional loans from FINANTA or from mainstream financial institutions.

Many banks offer secured loans. FINANTA's secured loans, however, are:

- Readily available to people with poor or no credit;
- Cheaper in terms of interest rates and fees;
- More likely to build the financial literacy and credit strength of a client, as participants are required to undergo credit counseling and attend financial

literacy workshops; and

- Friendlier as FINANTA staff are more attuned to the needs of immigrants and limited English proficient (LEP) populations.

FINANTA and Ceiba not only do vital work in their own rights, they also collaborate with one another to better serve their communities. Due diligence requires FINANTA to review the most recent tax returns of an applicant before considering them for any loan. Undocumented immigrants without ITINs interested in applying for a loan from FINANTA are referred to Ceiba. In turn, Ceiba refers its ITIN clients to FINANTA if they are interested in securing a loan or in buying a home. FINANTA is the only financial institution based in Pennsylvania that offers mortgages to people with ITINs.

The experience of one client, "Mr. JVS," exemplifies the successful collaboration between Ceiba and FINANTA. He and his family came to Ceiba for the first time in 2010 seeking help with their taxes and ITIN applications. In 2013, he participated in a Ceiba homeownership workshop for immigrants where he learned about the unique mortgage opportunities for undocumented immigrants at FINANTA. Mr. JVS joined the United Way Ceiba homeownership structured savings program and received housing counseling at the Norris Square Community Alliance for two years. In August 2015, he bought his home with a FINANTA ITIN mortgage.

In another example of such collaboration, last year a group of five undocumented immigrants approached FINANTA seeking assistance in securing an affinity group loan. FINANTA referred them to Ceiba to apply for their ITINs. Once they had ITINs, they returned to FINANTA to apply for their affinity group loan.

Collaboration between a VITA site and a CDFI to connect clients to asset building opportunities is not a novel idea. Ceiba and FINANTA, however, are innovative in their commitment to providing these services to undocumented immigrants. This collaboration is sustainable and successful due to its ability to leverage undocumented immigrants' social and working capital, pool resources, vary funding sources, and utilize volunteers.

FINANTA's ability to offer loan products to undocumented immigrants is sustained by the fact that the clients guarantee each other's loans. In the case of affinity group loans, all are aware of their group members' financial position. All participants assume the risk if a member does not fulfill their obligation, no matter the reason. With the secured personal loans, the "borrower" only gains access to the aggregate of their "loan" payments at an agreed date in the future. The most at risk loan products that FINANTA offers to undocumented immigrants, however, are small business loans and mortgages. The underwriting of such products, nonetheless, is rarely free of collateral. In the case of a business loan, the collateral may be

inventory, accounts receivable, or property. In the case of a mortgage, the collateral is the home. FINANTA's ITIN mortgage also requires a co-signer who has at least legal residency status in the U.S. The requirement of a co-signer minimizes the risk of leaving the property without someone who can fulfill legal transactions in case the homeowner is deported.

FINANTA's fostering of team building among its borrowers creates a sense of camaraderie and loyalty among its clients. This maximizes the strength of the borrower's working capital through the nurturing of their social capital. "That is the whole point," says Carolin Jimenez Reyes, Assistant Vice President of micro lending at FINANTA." As human beings, we are more faithful and loyal to a face than to an institution. If someone owes money to a bank it is not the same as if they owe money to a person." FINANTA's loan loss is only 1.2 percent; lower than traditional banking averages.

To ensure that it serves a variety of clients, FINANTA pools the funding and capital that it receives from mainstream financial institutions. Banks are incentivized to support CDFIs; the loans and grants that they provide to CDFIs improve their Community Reinvestment Act (CRA) rating. The CRA also encourages banks to support VITA sites like Ceiba. Banks that support free tax preparation efforts receive favorable consideration in the investment test and/or service test under CRA regulations. A drastic change in CRA regulations or a lack of enforcement can

affect what CDFIs and VITA sites receive from banks, but it will not completely dry the well. Banks recognize the important role that CDFIs and community-based organizations play for them in minority communities. This is good business for the banks as many FINANTA borrowers build-up their assets and borrowing capacity and move on to mainstream banking seeking additional financial services.

Ceiba ensures the viability of its VITA site by diversifying its funding sources. The IRS is supportive of VITA efforts. It provides funding, lends computers and tax software, and helps train the volunteers. There is no fee to become an ITIN Certified Acceptance Agent. Proposed cuts in the federal budget may eliminate funding for VITA sites, but those cuts will not be catastrophic for VITA sites like Ceiba who diversify their funding sources. Municipalities and foundations recognize the importance of free tax preparation towards helping low-income families secure the Earned Income Tax Credit (EITC). Although ITIN taxpayers do not qualify for the EITC, municipalities and foundations who support VITA sites are generally receptive to their funding being used to support the preparation of ITIN applications and ITIN tax returns.

Volunteers are also vital in the delivery of free tax preparation to undocumented immigrants. On average, Ceiba relies on at least twenty-five volunteers a year for this work. The ITIN application is relatively easy to fill out, the hardest part in the application process is preparing

the tax return. Undocumented immigrants are unfamiliar with the tax preparation process and it takes time to explain it to them and gather the necessary documents. The use of volunteers also pays social dividends in the form of promoting close interactions between undocumented immigrants and U.S. citizens. There is nothing more financially intimate than one's taxes. Tax volunteers delve deep into a family's finances and develop a clearer understanding of the realities of undocumented immigrants in this country.

A chain is only as strong as its weakest link. Today more than ever, asset-building organizations serving low-income families and immigrants must develop the capacity to ensure that their services are available to all, especially those who are most vulnerable. Low-income neighborhoods do not have the luxury to shrink from nurturing all parts of the economic catalyst that is the immigrant community. Close collaboration between VITA sites and CDFIs with micro lending programs ensures that undocumented immigrants gain access to credit and enhance their financial capacity to contribute economically to our country. The night is the darkest before dawn. In these challenging times, we must continue helping undocumented immigrants secure their financial footing with the hope that someday, somehow, they get the status to stay in the U.S. and contribute even more to our nation's economy.

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Author Bios



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Will Gonzalez is the Executive Director of Ceiba, a coalition of Latino community based organizations in Philadelphia. His work focuses on the housing, economic development, and civil rights of low-to-moderate income communities including undocumented immigrants and limited English proficient populations.

He has 31 years of experience working in the Latino

community. The Philadelphia Foundation's Williams Award for Organizational Excellence & The Community Change Award from the Bread & Roses Community Fund recognized his leadership of non-profits.

Mr. Gonzalez has received various community awards, among them a Lifetime Achievement Award from The Legal Intelligencer, PA's premier legal publication. He is licensed to practice law in NJ and PA. He is the Past President of the Hispanic Bar Association of PA and a member of the board of the PA Chapter of the ACLU. He has a Bachelor of Arts in Economics, from Lehigh University and a Juris Doctor, from Rutgers University School of Law where he was awarded the Ralph Bunch Fellowship and the Law Students Civil Rights Research Council Fellowship.



Luis Mora Rechnitz

Luis has been a pioneer in economic and housing development for more than 30 years. In 1996, Luis founded FINANTA, a \$20+ million nonprofit mission-driven lender, facilitating access to capital for entrepreneurs, first-time homebuyers, and consumers in

the Philadelphia region. FINANTA has a substantial track record in business, homeownership, and consumer counseling, as well as, a \$51+ million history in micro/small business, mortgage, consumer, and nonprofit lending. Prior to founding FINANTA, Luis created and directed the CoreStates Community Development and Financing groups, a \$66 million economic, housing, social, and cultural investment program of CoreStates Bank, NA. This program was unique and among the nation's first non-profit community development arms of a commercial banking institution. A native of Costa Rica, Luis holds a bachelor's degree in Architecture from the Federal University of Rio de Janeiro, Brazil, and a master's degree in Urban and Regional Planning from the University of New Orleans, Louisiana.