

# PROFILE OF A NONPROFIT LENDER

## Latino Economic Development Center (LEDC)

OVERVIEW	LEDC's Citizenship Loan
Amount	\$725
Interest Rate	9%
Term	6-12 months
Fees	\$35 application fee \$35 bounced payment fee \$30 late fee
Eligibility & Underwriting Criteria	<ul style="list-style-type: none"><li>Referred by partner organization, ready to apply for citizenship</li><li>No bankruptcy in past 2 years</li><li>Debt-to-income ratio &lt; 70%</li><li>No overdrawn bank accounts</li><li>Ability to repay</li></ul>
Loan Loss Reserve	0% (loan capital covered by CASA with no separate loan loss reserve fund)
Charge off Rate	0%

### Organizational Background

The [Latino Economic Development Corporation](#) (LEDC) started offering citizenship loans through a partnership with [CASA of Maryland](#). CASA offers a plethora of services targeted to low-income immigrant communities including: citizenship assistance (classes, application assistance, and citizenship fairs), financial literacy (individual counseling and workshops), and legal services. LEDC primarily provides small business loans to Latinos and other underserved communities. Adding another loan to their portfolio was relatively easy for LEDC, since CASA provided the loan capital, referrals, and wrap around support services for borrowers. LEDC administered the loans, and could cross-refer its own current clients to the product, and additionally expose new clients to their other products.

## **Loan Design**

The loan amount was determined to reflect the actual cost of citizenship fees. The directors of CASA and LEDC worked together to set the interest rate and fees in attempt to recover some of their loan costs and reflect pricing that is fair to their customers. They originally set the interest rate at 18 percent. When a new LEDC director came on board, she decided to lower the interest rate to 14 percent. LEDC has kept many expenses low for the loan through leveraging the strength of their partner, CASA. Since CASA is a well-known community organization and trusted by the people it serves, LEDC did not spend time on marketing and recruitment of applicants. CASA vets the right referrals and sends them to LEDC at the right time. However, an LEDC staff person commented that the fees and interest do not come close to covering the cost of the loan. Compared to the business loans that LEDC offers, the underwriting and application process is less costly since CASA manages much of this, but the loan servicing takes the same amount of time and resources as do large business loans.

## **Loan Implementation**

### ***Referrals, Application and Loan Closing***

CASA markets the citizenship loan to attendees of their citizenship class. At the end of the class, CASA works with anyone who is interested in applying for the loan. CASA helps them fill out the application, works with applicants to create a household budget, and collects their proof of income (paystubs and bank statements). Once the application is complete, CASA sends it over to LEDC. The LEDC loan officer completes the underwriting, which can take up to two hours, and the LEDC small business director approves the loan. Once approved, the loan officer sets up an appointment with the borrower to sign the documents. The process is designed to have a quick turn-around time to meet citizenship application deadlines. Checks are made out directly to the Department of Homeland Security.

### ***Repayment***

Borrowers have the option to choose any repayment period between six and twelve months, based on how much they have the capacity to pay on a monthly basis (most borrowers choose six months to get the loan paid off as soon as possible). LEDC set the minimum to six months to allow time for borrowers to build credit. Since 2012, LEDC has done 60 citizenship loans with just one charge-off and one delinquency. LEDC staff partially attribute the high repayment rates to a prevalent myth many borrowers have that if they don't repay their loan, their citizenship status may be at risk (LEDC staff have tried to dispel this myth!).

When possible, LEDC requires that the loan payment is automatically deducted from a borrower's bank account. LEDC sends monthly payment reminders and has experienced high repayment rates and rare bounced payments, meaning minimal staff time is spent contacting borrowers after the loan closing.

### *Impact and Sustainability*

In reflecting on the citizenship loan, LEDC emphasized the importance of a strong partnership. According to one staff member, “We recommend reaching out to an organization that has a lot of customers, a good reputation working with immigrants, and has been around for a while—many immigrants are afraid and don’t want to do anything wrong.” The built-in trust is essential, as well as pairing the loan with a partner that offers citizenship classes and support through the citizenship application process. The same staff person commented, “People want to become a citizen but are afraid of the English exam. The education part is important, and it won’t be easy to address unless an organization or its partner is offering classes. Just offering the loan won’t encourage them to take out the product and/or take the classes.”

LEDC staff recognize that the citizenship loan is not a sustainable product without their partner’s financial backing. They are satisfied with the outcomes of the loan. A staffer remarked, “As soon as [borrowers] become citizens, they feel like they’re able to do more and can come back for other services you offer now that they’re willing and able to interact more with the financial system. They feel like they belong.” Yet, they did not end up seeing a lot of repeat borrowers and the loan was not profitable. However, as a mission oriented organization, as long as their partnership with CASA remains strong, LEDC is committed to offering the loan.