

Weekly Post ITIN Loans

An Individual Tax Identification Number (ITIN) is issued by the IRS to non-citizen, legal residents of the US. These legal residents are not qualified for a Social Security number, with some exceptions. The main purpose of an ITIN is for paying taxes, but it also can be used as a form of government ID for the purpose of obtaining a loan. These loans are referred to as ITIN loans.

This potential loan market can be significant. There were 12.9 million Lawful Permanent Residents in the US as of January 2022, or 3.79% of the population as of August 2023. ITIN loans may be available for single-family residences, condos, townhomes, and multiple units in residential buildings. Below are general guidelines; however, each lending institution's requirements for ITIN loans may differ, as well as the total amount they are willing to lend.

The loan rate depends on these requirements:

- *Identification:* Alongside the ITIN card, lenders may ask for additional documentation to verify identity, such as a driver's license or other identification.
- *Credit score:* ITIN loans may have more flexible credit score requirements compared to other types of mortgage loans, but some lending institutions may give it greater focus in the application process. If borrowers have a lower credit score, lending institutions may still work with them to obtain the mortgage loan, but may require additional information on existing debt and current payments.
- *Proof of employment:* ITIN home loan applications will need to show a minimum of 2 years of consistent employment history; this can also include self-employment.
- *Tax returns:* The ITIN home loan application will also require two years of tax returns.
- *Other financial documentation:* Lenders will want to see any additional financial information that can support the application and prove that borrowers will be able to make their monthly payments, including bank statements and any other relevant assets. Savings in a U.S. bank account may also be included in the application as further proof of finances.
- *Down payment:* The amount needed for the down payment with ITIN mortgage loans will differ based on what lenders want to see, but it's usually higher than other types of mortgage loans. A minimum 20% down payment should be the expectation when applying for ITIN home loans.

ITIN Loans tend to have higher credit quality. Most have higher rates and require higher down payments.

ITIN Loan

Pricing

The numerical example below is a live ITIN loan poolD in Loan Central, with indicative rates and representative reference data. The results account for all the drivers of value. The yield is the sum of (or is attributed to) the option spread, credit spread, credit risk charge, profit margin and the time value (the Treasury funding cost). Since rate volatility is currently minimal, the option spread is negligible. The loan priced @ \$100.75 to yield 7.15% gross. The margin is ~2.17% versus ~1% for a 30yr TBA.

Figure 1. ITIN Loan Yield Attribution

| | | Base Information | | | | | | Yield Attribution (%) | | | | | | | |
|----------------|------------|------------------|-------------------|------------|-----|------------------|---------|-----------------------|--------------------|-----------------|-------------------|---------------|-------------------|-------------------------|-------------------|
| Retained Price | Loan Value | Face Value | Interest Rate (%) | Index Rate | WAM | Credit Score/DSR | LTV (%) | Funding (1) | Funding Margin (2) | Loan Margin (3) | Option Spread (4) | Servicing (5) | Credit Spread (6) | loss reserve Spread (7) | YTM (1+2+3+4+6+7) |
| 100.75 | 10,075 | 10,000 | 7.15 | Fixed | 35 | 740 | 80 | 2.63 | 1.94 | 2.17 | -0.14 | 0.00 | 0.18 | 0.14 | 6.91 |

Risk Analysis

Based on the model estimate for CECL, the assumed credit spread is 40bps with an additional 30bps for the credit risk charge. Buyers can adjust the spreads based on their internal analysis. ITIN loans tend to have higher credit quality

Figure 2. ITIN Loan Interest Rate and Credit Risk Analysis

| | | Base Information | | | | Interest Rate Risk | | | Credit Risk | | | |
|----------------|------------|------------------|-----|------------------|---------|--------------------|---------|---------|-------------|--------|----------|-----------------------|
| Retained Price | Loan Value | Face Value | WAM | Credit Score/DSR | LTV (%) | WAL | Eff.Dur | Eff.Con | PD(%) | LGD(%) | CECL (%) | Credit Risk Charge(%) |
| 100.75 | 10,075 | 10,000 | 35 | 740 | 80 | 2.47 | 2.19 | 0.07 | 0.60 | 30.00 | 0.40 | 0.30 |

Cash Flow Projections

The cash flow table below provides transparency to the calculation of CECL, showing the projected monthly expected loss over the loan life. The cash flow enables lenders to adjust

the prepayment speed and credit loss to determine the loan yield for a bid price based on the lender's assumptions.

Figure 3. Cash Flow Project (Decrement Table)

| Loans | | | | | | | | |
|--------|-----------|------------|-------------|---------------|-----------|----------|----------|-------|
| Date | Cash Flow | Amort Prin | Prepay Prin | Prin Recovery | Prin Loss | Interest | Perf.Bal | CECL |
| | | | | | | | 10,000 | 40.47 |
| Sep-23 | 158.38 | 7.95 | 87.35 | 3.510 | 1.504 | 59.574 | 9,900 | 39.23 |
| Oct-23 | 156.85 | 7.93 | 86.47 | 3.474 | 1.489 | 58.977 | 9,800 | 37.99 |
| Nov-23 | 155.33 | 7.90 | 85.60 | 3.440 | 1.474 | 58.385 | 9,702 | 36.76 |
| Dec-23 | 153.82 | 7.87 | 84.74 | 3.405 | 1.459 | 57.799 | 9,604 | 35.53 |
| Jan-24 | 152.33 | 7.85 | 83.89 | 3.371 | 1.445 | 57.218 | 9,508 | 34.31 |
| Feb-24 | 150.85 | 7.82 | 83.05 | 3.337 | 1.430 | 56.643 | 9,412 | 33.09 |
| Mar-24 | 149.38 | 7.80 | 82.21 | 3.303 | 1.416 | 56.073 | 9,318 | 31.86 |
| Apr-24 | 147.93 | 7.77 | 81.38 | 3.270 | 1.401 | 55.509 | 9,224 | 30.64 |
| May-24 | 146.49 | 7.74 | 80.56 | 3.237 | 1.387 | 54.950 | 9,131 | 29.43 |
| Jun-24 | 145.07 | 7.72 | 79.75 | 3.205 | 1.373 | 54.396 | 9,039 | 28.23 |
| Jul-24 | 143.66 | 7.69 | 78.95 | 3.172 | 1.360 | 53.848 | 8,948 | 27.02 |
| Aug-24 | 142.26 | 7.67 | 78.15 | 3.140 | 1.346 | 53.304 | 8,857 | 25.85 |
| Sep-24 | 140.88 | 7.64 | 77.36 | 3.109 | 1.332 | 52.767 | 8,768 | 24.66 |
| Oct-24 | 139.50 | 7.61 | 76.58 | 3.077 | 1.319 | 52.234 | 8,679 | 23.48 |
| Nov-24 | 138.15 | 7.59 | 75.80 | 3.046 | 1.305 | 51.706 | 8,591 | 22.30 |
| Dec-24 | 136.80 | 7.56 | 75.04 | 3.015 | 1.292 | 51.183 | 8,505 | 21.14 |
| Jan-25 | 135.47 | 7.54 | 74.28 | 2.985 | 1.279 | 50.665 | 8,418 | 19.97 |
| Feb-25 | 134.15 | 7.51 | 73.53 | 2.955 | 1.266 | 50.153 | 8,333 | 18.82 |
| Mar-25 | 132.84 | 7.49 | 72.78 | 2.925 | 1.253 | 49.645 | 8,249 | 17.65 |
| Apr-25 | 131.54 | 7.46 | 72.04 | 2.895 | 1.241 | 49.142 | 8,165 | 16.51 |
| May-25 | 130.26 | 7.44 | 71.31 | 2.866 | 1.228 | 48.643 | 8,082 | 15.37 |
| Jun-25 | 128.99 | 7.41 | 70.59 | 2.837 | 1.216 | 48.150 | 8,000 | 14.24 |
| Jul-25 | 127.73 | 7.39 | 69.87 | 2.808 | 1.203 | 47.661 | 7,919 | 13.10 |
| Aug-25 | 126.48 | 7.36 | 69.16 | 2.779 | 1.191 | 47.177 | 7,838 | 11.98 |

From Tear Sheet to Letter of Intent: Operational Efficiency

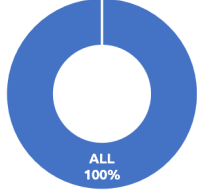
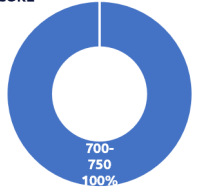
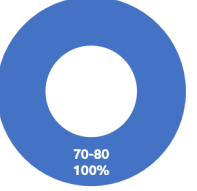
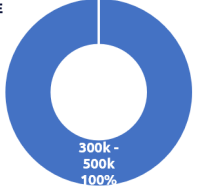
Participants using our Loan Central Platform benefit from robust analytics, including Optimization and Simulation, as well as integrated transaction management. We provide full transparency for a buyer to evaluate a loan offering, determine an optimal funding strategy, simulate the impact on their balance sheet, negotiate with the seller, and seamlessly execute.

Tear Sheet

The Tear Sheet in Loan Central is the first step in studying the characteristics, credit risk and pricing analysis of a loan or pool. In the example below, we show that the pool has a gross yield of 6.914% @ \$100.75. The Yield Attribution section breaks out the components of the Yield so you can make sure that you're being compensated for the component risks and that they're consistent with your expectations. In the Tear Sheet below, you can see that this loan has relatively low credit risk. Once you have fully evaluated the loans on the View Analytics page (Tear Sheet), you can select "Send to Trade Simulation" at the top to quickly attach this potential transaction to your Balance Sheet and evaluate the impact prior to executing. Buyers can use these analytics resources to fully understand the pricing and adjust their bid price as necessary. If you make changes to the assumptions, the analytics and pricing will update immediately to reflect your changes.

Figure 4. ITIN Loan Tear Sheet

Once you have completed your analysis, you can click the "Submit Bid" button at the top to start the negotiation. Your bid will be routed to the seller or seller's agent and you can use our secure Transaction Management to negotiate directly with the seller or seller's agent. You can click "Open Trades" from the main Loan Central page to monitor your outstanding transactions.

| Tear Sheet for Loan # 6339 | | | | | | | | |
|--|---|--|---|-----------------------------|--------------|-------------------|-------------------|----------------|
| 8/25/23 8:22 AM | | | | | | | | |
| Price | Gross Yield | Servicing | Loan Type | Seller Type | Bid Deadline | LOAN PURPOSE | | |
| 100.750 | 6.914 | Released | FRM10 BLLN | NA | NA | Others | | |
| Description: \$10mm Prime 1-4 Family ITIN and 2nd Home ARM Pool - Nationwide - 740 WA FICO | | | | | | | | |
| GEO | CREDIT SCORE | LTV | CURRENT BALANCE | | | | | |
|  |  |  |  | | | | | |
| PORTFOLIO SUMMARY | | CREDIT RISK | | INTEREST RATE RISK | | | | |
| Original Balance (\$) | 0 | Credit Score / DSR | 740 | Effective Duration | 2.185 | | | |
| Current Balance (\$) | 10,000,000 | LTV (%) | 80 | Effective Convexity | 0.067 | | | |
| Number of Loans (count) | 1 | DTI (%) | 0.000 | Short Term CPR (%) | 10.000 | | | |
| Average Loan Amount | 10,000,000 | CECL (%) | 0.405 | Life Time CPR (%) | 10.000 | | | |
| Servicing Retained | No | PD (%) | 0.600 | PRICE RISK | | | | |
| Servicing Fee (bps) | 0 | LGD (%) | 30.000 | WAL (year) | 2.471 | | | |
| Gross WAC (%) | 7.150 | Credit Score/DSR Duration | 0.000 | OAS Duration | 2.185 | | | |
| NET WAC (%) | 7.150 | LTV Duration | 0.000 | | | | | |
| WAM (mos) | 35 | Credit Convexity | 0.000 | | | | | |
| Seasoning (mos) | 0 | | | | | | | |
| PRICING ANALYSIS | | | | BENCHMARK YIELDS (%) | | | | |
| Price Attribution | (\$) | Yield Attribution | % | Loan Type | Yield (%) | Option Spread (%) | Profit Margin (%) | Time Value (%) |
| Servicing Cost (MSR) | N/A | Servicing Fees | N/A | FHLMC - TBA30 | 6.93 | 0.15 | 2.17 | 4.62 |
| Price | 100.750 | Gross Yield | 6.914 | FNMA - TBA15 | 5.64 | 0.16 | 0.89 | 4.59 |
| Option Cost | -0.311 | Option Spread | -0.142 | FNMA - TBA30 | 5.85 | 0.22 | 1.08 | 4.55 |
| Credit Reserve (CECL) | 0.405 | Credit Spread (CECL) | 0.185 | GNMA - TBA15 | 5.98 | -0.03 | 1.38 | 4.63 |
| Credit Risk Charge | 0.298 | Credit Risk Charge(%) | 0.136 | GNMA - TBA30 | 5.62 | 0.14 | 0.94 | 4.55 |
| Loan Profit Contribution | 4.943 | Profit Margin | 2.165 | | | | | |
| Cash Flow Value | 106.085 | Time Value | 4.570 | | | | | |
| As of Date:08/14/2023 | | | | | | | | |

In Trade Simulation you can also view our proprietary Net Interest Income (NII) Attribution for the proposed transaction. This analysis breaks out NII into the Risk Based Margin, which measures the profitability of the loans based on the Option Adjusted Spread (OAS) and the Risk Component, which is a combination of the mismatch between assets and liabilities and the reinvestment rate. The Income Attribution table below presents the ITIN's projected NII. The Risk-Based Margin is relatively stable, averaging 1.98%, close to the 2.17% OAS reported above. The average Risk Component is 4.72%. this represents the interest rate risk exposure of acquiring the ITINs by using cheaper short-term funding. The Net Interest Margin (NIM) is ~6.6%, which is the sum of the Risk-Based Margin and Risk Components. ALCO can evaluate the bid price efficiently using NIM.

Figure 5. NII and NIM Attribution Report

This proprietary report is unique to the Thomas Ho Platform and enables ALCO to evaluate the ITIN loan spread (the OAS) and risk embedded in the Net Interest Margin. This analysis is consistent with Financial Reporting as well.

| Income Analysis | Year 1 | Year 2 | Year 3 | Avg | Year 1 | Year 2 | Year 3 | Avg |
|-------------------|-----------|-----------|-----------|-----------|--------|--------|--------|-------|
| NII | \$630,795 | \$558,286 | \$455,427 | \$548,169 | 6.62% | 6.63% | 6.84% | 6.70% |
| Risk-Based Margin | \$185,856 | \$165,267 | \$134,189 | \$161,771 | 1.95% | 1.96% | 2.01% | 1.97% |
| Risk Component | \$444,940 | \$393,019 | \$321,239 | \$386,399 | 4.67% | 4.67% | 4.82% | 4.72% |

Open Trades

Transactions are negotiated and monitored via our integrated Transaction Management Application. This can be accessed by clicking Open Trades as the top of the Loan Central main page. A snapshot of this Application is provided below. Sellers can upload supporting documents to be shared confidentially with buyers from this application as well.

Figure 6. Negotiation Process

Open Trades

| Buy Side | | | | | | | | | |
|------------------------------|--|---------|-------------|----------------|----------------|----------------|----------------|-------------------|--|
| Reset Filter | | | | | | | | | |
| Loan ID ▾ | Action | Buyer ▾ | Seller ▾ | Bid Price ▾ | Bid Time ▾ | Ask Price ▾ | Ask Time ▾ | Bid Size(\$) ▾ | |
| ⊖ 5638 | \$4,169M 105 loans. Bid deadline is 12/31/2199. \$4.2mm New & Used Auto Pool | | | | | | | | |
| Thread# 18 | | DEV | THC Advisor | <u>100.100</u> | 01/25/23 15:58 | <u>100.100</u> | 01/25/23 15:55 | 1,766,695 | |
| ⊖ 5416 | \$72,195M 152 loans. Bid deadline is 12/31/2199. \$72.5mm CDFI Loan Tape | | | | | | | | |
| Thread# 17 | | DEV | THC Advisor | <u>95.500</u> | 01/20/23 12:03 | <u>95.500</u> | 01/20/23 12:01 | 3,458,968 | |

Sell Side

| \$) | Participation(%) | Count | Best Bid ▽ | LOI Executed ▽ | Due Dilligence Completed ▽ | Master Purchase Agreement Executed ▽ | Closing Date ▾ | Funding Date ▾ |
|-----|------------------|-------|-------------------------------------|--------------------------|-------------------------------------|--|----------------------|----------------------|
| 95 | | 50 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="text"/> | <input type="text"/> |
| 68 | | 5 | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="text"/> | <input type="text"/> |

Summary

ITIN Loans present Financial Institutions an opportunity to diversify their loan portfolios and increase NII. These high-quality loans may also provide CRA benefits in low-to-moderate income or other underserved markets.

- The analytics embedded in our Loan Central Marketplace allows ITIN sellers to provide full information to potential buyers. Buyers have all of the resources needed to fully evaluate a potential transaction in the context of their balance sheet. We believe this transparency will expand the universe of potential participants, increasing liquidity and addressing all regulatory due diligence requirements.
- The Lending Committee should define product profitability by the projected NII, which is central to financial performance reporting. Lending Profitability and Financial Reporting must be consistent.
- ALCO can evaluate the Income Attribution report to determine the optimal risk and return tradeoff.

Next Steps:

Do not hesitate to reach out to learn more about ITIN Loans and how you can use Loan Central to access Trade Simulation, Yield Attribution and Price Attribution to price ITIN loans. Our loan profitability solutions are designed to help you better understand and manage your risk and profitability.

To learn more or arrange a demo, please contact Megan Trillet, Relationship Manager, at (330) 687-0608 megan.trillet@thomasho.com or Larry Meding, Head of Sales, at (901) 552-6727 larry.meding@thomasho.com. For further information, please visit THC's Hivemind Content Library at <https://www.thcdecisions.com>. You will be asked to register if this is your first time visiting.



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