BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION

SR 26-4

August 13, 2026

**TO THE OFFICER IN CHARGE OF SUPERVISION
AT EACH FEDERAL RESERVE BANK**

SUBJECT: Guidance on Lending to Individuals Not Legally Authorized to Work in the United States

Applicability: This guidance is relevant for all banking organizations supervised by the Federal Reserve.

This guidance reminds Board supervised banking organizations of their existing obligations with respect to credit risk management, particularly as it relates to borrowers who are not legally authorized to work in the United States. This guidance does not amend, expand, or alter the Board's existing regulations.

Credit Risk and Underwriting Considerations

Lending to individuals who are not legally authorized to work in the United States may present elevated credit risk because a borrower's ability to generate income, maintain employment, and remain financially stable may be subject to greater uncertainty. As with all lending activities, banking organizations should identify, measure, monitor, and control these risks through safe and sound underwriting practices that assess a borrower's willingness and capacity to repay according to the terms of the credit obligation.

Safe and sound underwriting is a key risk-management tool that helps banking organizations evaluate whether a borrower can repay a credit obligation according to its terms. Such underwriting includes assessing the source of repayment, the borrower's repayment capacity, and the borrower's overall financial condition, resources, and willingness to repay as agreed.[1] When lending to borrowers who are not legally authorized to work in the United States, banking organizations may consider whether uncertainties related to employment authorization could affect the stability and sustainability of income, repayment capacity, collateral recovery, or other factors relevant to credit risk.

[1] *See* "Interagency Guidelines Establishing Standards for Safety and Soundness," 12 CFR part 208, Appendix D-1, sections II.C and D. Additionally, the Underwriting Standards in the "Interagency Guidelines for Real Estate Lending Policies" provide that prudently underwritten real estate loans should reflect the capacity of the borrower to adequately service the debt. 12 CFR part 208, Appendix C.

The following sections discuss key underwriting considerations related to:

- Source of Repayment
- Collateral
- Documentation and Verification
- Portfolio and Concentration Risk

Source of Repayment

Underwriting standards typically consider the stability and sustainability of a borrower's income and the likelihood that the income will continue throughout the term of the credit obligation.

In retail lending, wages or self-employment income are often the primary source of repayment for a credit obligation. When a borrower's income is derived from employment that is not legally authorized, the source of repayment may be less reliable and may present increased credit risk for various reasons, including:

- employment termination because of a borrower not having legal work authorization;
- employment suspension or termination after discovering that a borrower's employment authorization is expired;
- the borrower's inability to become lawfully reemployed; or
- the borrower's removal from the United States.

Banking organizations may consider whether projected repayment capacity remains adequate under various scenarios, including potential interruptions in employment or income resulting from the borrower's inability to maintain lawful employment.

Collateral

Banking organizations may face additional challenges enforcing security interests in collateralized loans, as it may be more difficult to contact borrowers who are not legally authorized to work in the United States or locate and repossess unaffixed collateral (e.g., automobiles, recreational vehicles, boats).

Documentation and Verification

Banking organizations may consider whether the borrower's employment income is current, verifiable, stable, and likely to continue. Banking organizations may consider, as relevant, requiring and reviewing paystubs, W-2s, tax returns, employer verifications, bank statements, or evidence of continuing work authorization. Banking organizations may consider whether loans to borrowers not legally authorized to work in the United States, individually or segments, exhibit signs of credit weakness regardless of delinquency status for classification purposes and treatment in the allowance for credit losses.

Portfolio and Concentration Risk

Banking organizations may face elevated concentration risk if they have significant lending exposure to borrowers concentrated in specific geographic markets, employers, or industries that may be disproportionately affected by changes in immigration enforcement, employment verification practices, labor availability, or workforce disruptions. These changes could adversely affect the repayment capacity of multiple borrowers simultaneously. As a result, banking organizations may experience correlated credit deterioration within affected segments of the portfolio rather than isolated borrower-level stress.

Reserve Banks are asked to distribute this letter to the Federal Reserve-supervised institutions in their districts, as well as to their supervisory and examination staff. In addition, questions may be sent via the Board's public website.[2]

Randall D. Guynn
Director
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[2] *See* http://www.federalreserve.gov/apps/contactus/feedback.aspx.