

# **Serving the Underserved: Building Alternative Financial Services in Low-Income Communities**



**Federation**

Credit Unions United to Serve the Underserved

# Today's Presentations

- ☑ About the Federation
- ☑ Overview of Building Blocks – LID & CDFI
  - ☑ Secondary Capital
  - ☑ Market Opportunity
  - ☑ Profile of LMI Consumers
- ☑ Community Development Products
- ☑ Microfinance & Small Business Lending
- ☑ Community Partnerships that Work
  - ☑ State CDFI Coalitions

# Who We Are

- We Are:
  - A National CDFI Intermediary
  - Trade Association
  - Membership Organization
- We Serve: CUs with a shared purpose of promoting Financial Inclusion for Low- and Moderate-Income Consumers and Financially Underserved communities.
- We Offer Capacity Building Support and Training through:
  - Targeted Trainings
  - Consulting Services
  - Technical Assistance
  - Partnership Facilitation
  - Industry Innovation (knowledge sharing; best practices; etc.)

# Mission of the Federation

*NFCDCU MISSION: To help low- and moderate-income people and communities achieve financial independence through credit unions*

# What We Do

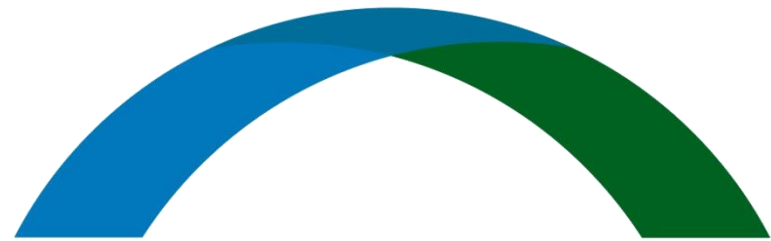
- **Capital:** Access to external resources, such as below market rate deposits; capital (CDFI Fund; Secondary Capital, PRIDEs, etc.)
- **Knowledge:** Fostering innovation in product development and implementation focused on LMI consumers; best practices; hosting national and regional Conferences; offering specialized consulting services.
- **Impact:** regulatory (NCUA's LID); external resources (CDFI Fund). Federation is the CDFI authority and advocate for the CU industry! CFPB; National Partnerships

# Leveraging Building Blocks

- Low Income Designation
  - Regulatory flexibility to serve LMI markets
  - Secondary Capital Loans
  - FOM expansion opportunities
  - TAG grants
- CDFI Certification
  - Access to external resources
  - Partnerships
  - Impact tracking and reporting
- CDCU
  - Capital: Access secondary capital, risk sharing deposits and low cost non-member deposits
  - Knowledge: Innovative LMI approaches and products; best practices; knowledge sharing; specialized consulting services (resource development).
  - Impact: regulatory (NCUA's LID); external resources (CDFI Fund; US Treasury Department; SBA); national partnerships.



# Low Income Designation



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# NCUA LID Criteria

*A CU qualifies if more than half its members live in census tracts with a median family income below 80% of the Area Median Family Income (AMFI) or individual income less than 80% of Area Median Income (AMI) for a single individual.*

NEW ORLEANS MSA  
 $80\% \times \$61,900 \geq \$49,520$

BATON ROUGE MSA  
 $80\% \times \$66,400 \geq \$53,720$



# Top 10 LID States

Rank	State	Total Number of Credit Unions	Total Number of LID Credit Unions	% of State Total That are LID CUs
1.	Pennsylvania	489	193	39%
2.	Texas	512	170	33%
3.	New York	396	133	34%
4.	Louisiana	206	123	60%
5.	Michigan	295	95	32%
6.	Ohio	344	70	20%
7.	California	390	68	17%
8.	West Virginia	94	67	71%
9.	Florida	156	64	41%
10.	Mississippi	85	61	72%



- *6,753 credit unions in USA*
- *2,077 (30%) are Low Income Designated by NCUA*

# Benefits of LID

- Exemption from the cap limiting member business loans to 12.25% of your portfolio
- The power to raise secondary capital loans
- The ability to raise insured non-member deposits from any individual or institution
- Access to the NCUA Community Development Revolving Loan Fund and grant program
  - Deposits
  - TA grants
- Access to NCUA Economic Development Specialists

# What is Secondary Capital?

- Counts as regulatory net worth
- Borrowing that must be repaid (deeply subordinated debt)
- Equity injection to accelerate credit union growth
- A benefit for LID credit unions only

# What is Secondary Capital Not?

- NOT Insured by NCUA or any other entity
- NOT a Grant
- NOT a Non-Member Deposit
  - Secondary capital is uninsured and cannot be shown as a share account
- NOT used to pay dividends

# Loan Characteristics

- Minimum maturity of 5 years
  - Most beneficial effect when SC has a very long term (10 years and longer)
- CU must pay interest regularly (quarterly or biannually)
- May not be pledged or used as security
- Will not “carry over” as secondary capital in the event of merger into a CU that is not LI- designated (will be closed out and paid back).

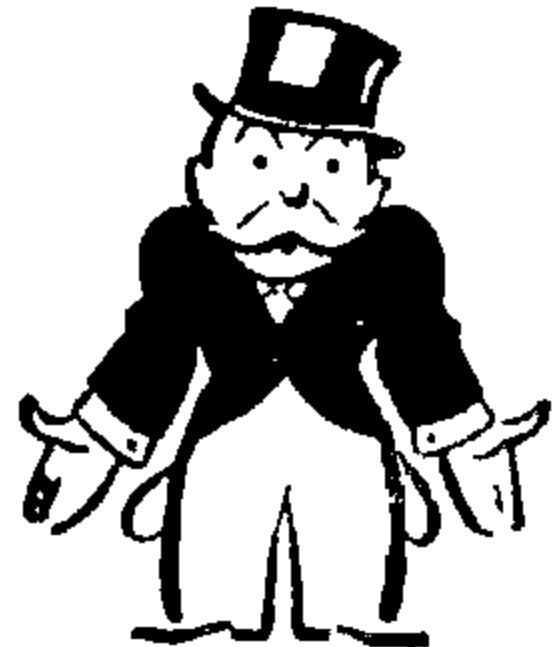
# Incrementally Moves to Liability

- Declining scale for the capital value of accounts with less than five years remaining maturity:
  - Between 4-5 yrs remaining, 80% NW, 20% liability
  - Between 3-4 yrs remaining, 60%NW, 40% liability
  - Between 2-3 yrs remaining, 40%NW, 60% liability
  - Between 1-2 yrs remaining, 20%NW, 80% liability
  - Less than 1 yr remaining, 0% NW, 100% liability

# The Secondary Capital Plan

Before accepting secondary capital, adopt and forward to the Regional Director for approval, a written “Secondary Capital Plan”

- The maximum aggregate amount of secondary capital: Section 107(9) of the FCU Act limits a CU’s borrowing to 50% of its Shares plus Undivided Earnings
- Identify the purpose and
  - how it will be used
  - how it will be repaid
- Demonstrate that the planned uses conform to the LICU’s strategic plan, business plan and budget



# Secondary Capital: New Developments

- The NCUA's 2015 Supervisory Policy Manual includes critical revisions to the pre-approval process for secondary capital. There are now clear and objective measures by which credit unions can apply and be approved for pre-payment of secondary capital.
- The new amortizing structure of the SC makes it more attractive for socially responsible investors. BofA already committed \$10 million.



# Secondary Capital: Further Reading

- The FCU Act, Section 1790d(o)
- Section 701.34(b) of NCUA Rules and Regulations discusses the requirements for secondary capital.
- Section 107(9) of the FCU Act limits borrowing.
- National Instruction #4020 dated February 5, 1996, Secondary Capital Accounts for Low-Income Credit Unions
- NCUA Accounting Bulletin 96-1, February 1996.
- Supplemental Capital White Paper 4/12/2010

# The Federation's SC Program

- To strengthen / sustain credit union equity position
- Loans up to \$500,000
- Long Term - Maturities of 5 to 7 years
- Interest rate – 5% to 6%
- Subordinate to all other credit union debt

# Federation Application Process

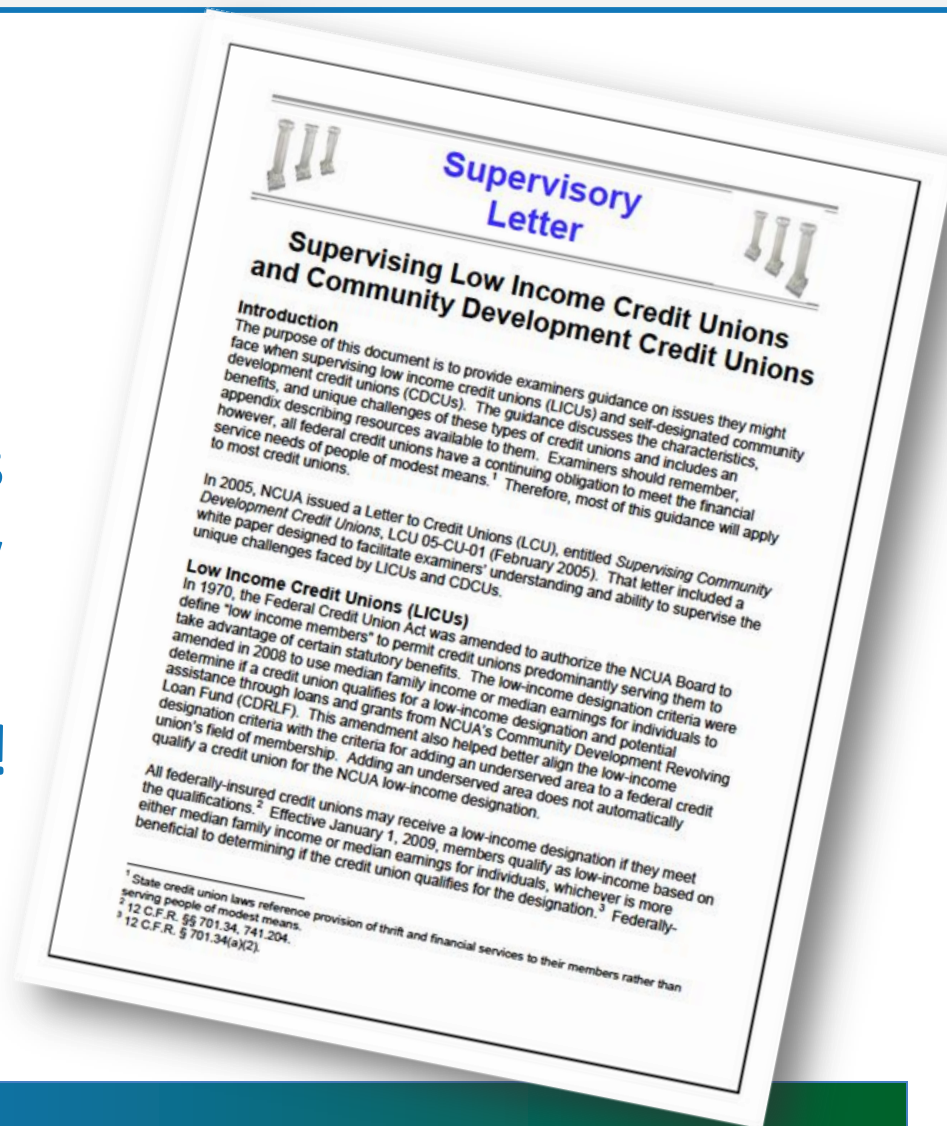
- Must be a Federation member to apply
- Application requirements:
  - Federation secondary capital loan application
  - Evidence of low-income designation
  - 3 year comprehensive business plan
  - Loan polices and procedures
  - Most recent and historical financial statements, statistical data and supervisory audits
  - Delinquency and collections polices and procedures, ALLL policy
  - Resumes / bios of key management, Board chair and key lending personnel
  - Apply Today: [http://www.cdcu.coop/wp-content/uploads/2014/03/SecCapApplication\\_\\_CheckList\\_Feb2014.pdf](http://www.cdcu.coop/wp-content/uploads/2014/03/SecCapApplication__CheckList_Feb2014.pdf)

# LID: Additional Benefits

- **Ability to provide limited transactional services to non-members**
- Ability to amend FOM to include associational groups formed for the sole purpose of making CU service available to LI persons (*option only for multiple common bond CUs*)
- Additional latitude in serving persons who are affiliated with the community. Those who participate in programs to alleviate poverty or distress, or who participate in associations headquartered in the community.

# Regulatory Flexibility

- 2010 Supervisory Letter Issued in response to Federation's advocacy
- Incorporated into Chapter 23 of the NCUA Examiners Manual – it deals with low income credit unions.
- Share with your examiner!



# CDFI Certification



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# CDFI Fund Basics

- Established by Congress 1994 – broad bipartisan support
  - Federation and CDCUs instrumental in founding
- CDFIs include both regulated and unregulated institutions that meet criteria
- Certified CDFIs eligible to apply for CDFI Fund Financial and Technical assistance grants
- \$1.5 billion in CDFI Funds awards to date
  - Awards for things like: Equity, Loan Loss Reserve, Capital Reserves, Technology, New Products and Services
  - Most significant grant source for our industry

# Eligibility Estimates

- Of 21,966 total credit union branches in US, 48% located in CDFI Investment Areas
- 3,207 credit unions have at least 60% of their branches located in CDFI Investment Areas
- 2,536 credit unions without CDFI certification have 100% of their branch locations in CDFI Investment Areas, including 953 with Low Income Designation
- At least 300 credit unions could be immediately eligible for certification based on community development profiles
- Many hundreds more could become eligible by focusing efforts and activities on CDFI target markets in their areas



# Credit Unions & CDFI Fund

- Credit unions slow to embrace CDFI certification
- Grants not a core strategy for credit unions
- Opportunity cost of low credit union participation
  - Credit unions leverage more impact than any other type of CDFI
    - Median Loan Fund leverage: \$1.10
    - Median CDFI Credit Union leverage: \$9.91
      - Since 2009, credit union leverage averages above \$23
  - Expected impact of \$100 million in CDFI grants over time:
    - \$210 million if deployed in Loan Funds
    - \$1.1 billion if deployed in credit unions

# The Federation's Role

- Represents the interest of the credit union industry with the CDFI Fund (most CDFI certified CUs are members of our network)
- Credit union industry recognized authority for CDFI training, research, services and programs
- Operates CU Breakthrough, the largest network of CDFI grant writers and practitioners in the industry
- Bring resources and expertise through partnerships and relationships (socially responsible investors, national organizations, etc)

# The Federation's Role

- Educating the Fund about the importance of depository institutions
  - ✓ Leveling the playing field for CUs applying for Financial and Technical Assistance dollars
- Expanding the CDFI Pie:
  - ✓ Working with our allies in the community development field to ensure allocation of resources to the CDFI Fund
- Helping CUs get their fair share of the pie:
  - ✓ Working with our allies in the community development field to ensure allocation of resources to the CDFI Fund

# U.S. Treasury CDFI Fund

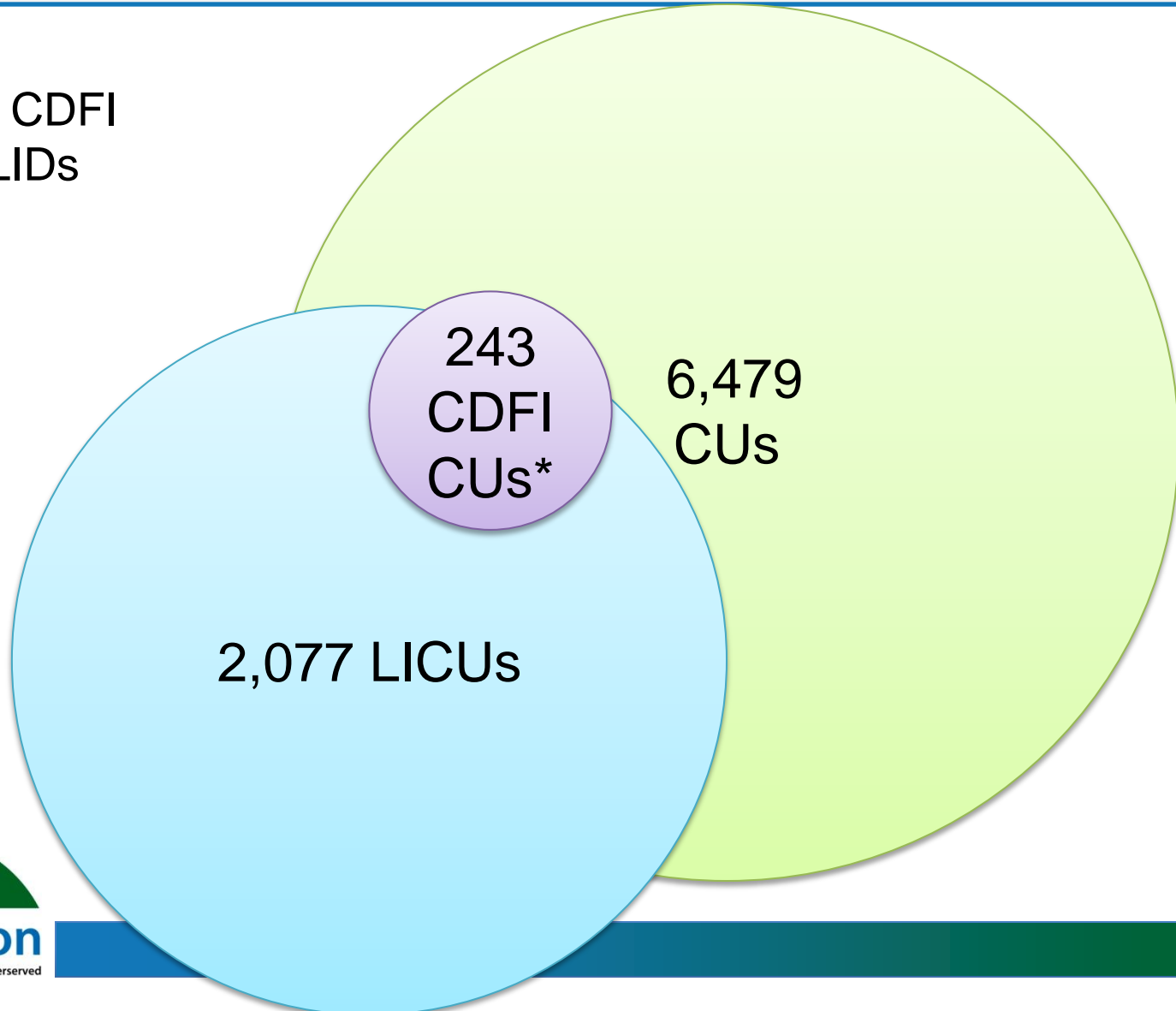
## Recent Funding at Record Levels:

- Fiscal Year 2010: \$246.75 million
- Fiscal Year 2011: \$227 million
- Fiscal Year 2012: \$221 million
- Fiscal Year 2013: \$222.3 million
- Fiscal Year 2014: \$224.9 million
- Fiscal Year 2015: \$230 million
- Fiscal Year 2016 CR: \$233.5 million

Click [here](#) for more info about CDFI Fund appropriations

# LICUs and CDFIs in the Industry

\* A handful of CDFI  
CUs are not LIDs



# 2014 Federation Certification Campaign

- Offset loss of CUs that were not interested in the mandatory 2013 recertification process (ended 2013 with 173 CUs)
- Increase CU market share in CDFI field
- NCUA TAG rounds instrumental
  - 1<sup>st</sup> Round: 40 CUs awarded; 2<sup>nd</sup> Round: 21 CUs awarded
- 84 CUs received certification in 2014 (67 assisted directed by Federation)
- 17 additional applications submitted
- In one year more than 100 CUs received or applied for their certification. **A historic record!**

# CDFI CUs: Growing Segment

Type of CDFI	Number	% Total
Unregulated CDFIs	525	56%
Loan Funds	511	55%
Venture Capital Funds	14	1%
Regulated CDFIs	411	44%
<b>Credit Unions</b>	<b>243</b>	<b>26%</b>
Banks and Thrifts	108	12%
Depository Holding Companies	60	6%
<b>Total</b>	<b>936</b>	<b>100%</b>

# The CDFI Field Pre Re-Certification

Type of CDFI	Number	% Total
Unregulated CDFIs	638	64%
Loan Funds	613	61%
Venture Capital Funds	25	3%
Regulated CDFIs	351	36%
<b>Credit Unions</b>	<b>225</b>	<b>23%</b>
Banks and Thrifts	82	8%
Depository Holding Companies	54	5%
<b>Total</b>	<b>999</b>	<b>100%</b>



# CDFI Certified CUs

- CUs most rapidly growing CDFI segment.
- Although CUs are  $\frac{1}{4}$  of the market, they are a much larger part of the CDFI industry
  - \$45 billion in assets
  - \$39 billion in O/S loans
  - Serving 5.5 million predominantly low income consumers
- Evolving industry, engaging increasingly higher capacity CUs (half of the field is now comprised by mid-size or large CUs)

# CDFI CUs: Gaining Traction

Credit Union	Location	Members	Assets
Suncoast CU	Tampa, FL	611,784	\$ 5,990,779,562
Virginia CU	Richmon, VA	237,086	\$ 2,681,181,830
GECU	El Paso, TX	324,318	\$ 2,115,069,970
GTE Financial	Tampa, FL	225,093	\$ 1,664,460,846
Local Governments FCU	Raleigh, NC	253,028	\$ 1,458,058,853
HawaiiUSA	Honolulu, HI	124,678	\$ 1,383,945,194
MECU	Baltimore, MD	111,633	\$ 1,214,980,049
SELCO CU	Eugene, OR	113,235	\$ 1,198,745,642
CoVantage CU	Antigo, WI	82,195	\$ 1,121,314,353
Greylock FCU	Pittsfield, MA	70,961	\$ 1,074,826,925
<b>Total</b>		<b>2,154,011</b>	<b>\$ 19,903,363,224</b>

# Top 10 CDFI States

Rank	State	# CDFIs	# CDFI CUs	Loan Funds	Banks	DIHC	VCF	CU %	# LICUs
1	California	82	13	49	12	3	1	21%	68
2	New York	68	15	12	52	2	1	18%	133
3	Mississippi	55	7	3	28	17	0	13%	61
4	Louisiana	48	21	8	12	7	1	42%	123
5	Minnesota	32	3	26	1	1	1	9%	51
6	Missouri	32	27	3	1	1	0	84%	24
7	Texas	32	14	18	0	0	0	44%	170
8	Illinois	31	6	8	10	6	1	19%	55
9	Pennsylvania	30	3	23	2	0	2	10%	193
10	Florida	29	10	19	0	0	0	34%	64

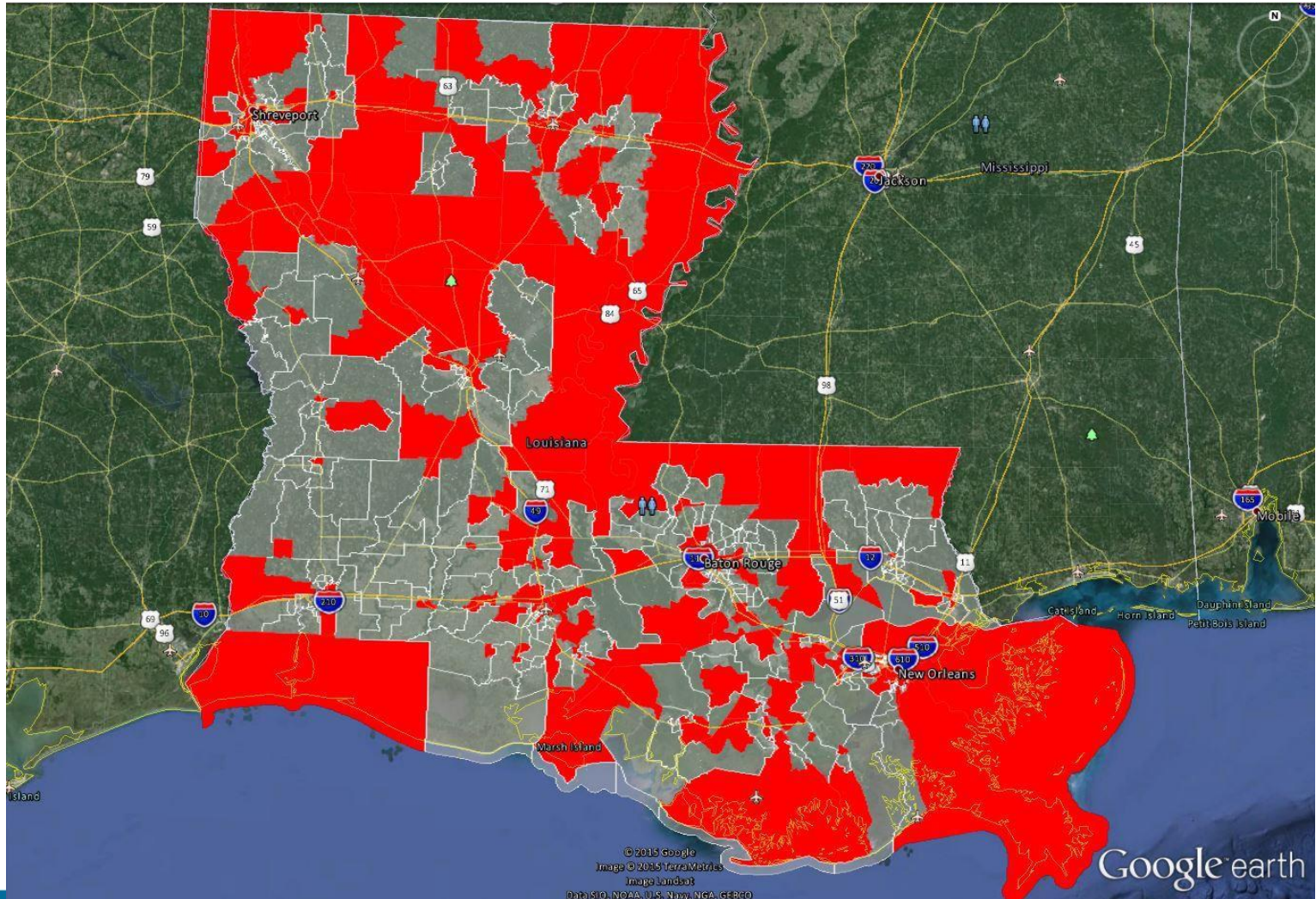
# Top 5 States CDFI CUs

Rank	State	# CDFIs	# CDFI CUs	# LICUs
1	Missouri	32	<b>27</b>	24
2	Louisiana	48	<b>21</b>	123
3	New York	68	<b>15</b>	133
4	Texas	32	<b>14</b>	170
5	California	82	<b>13</b>	68

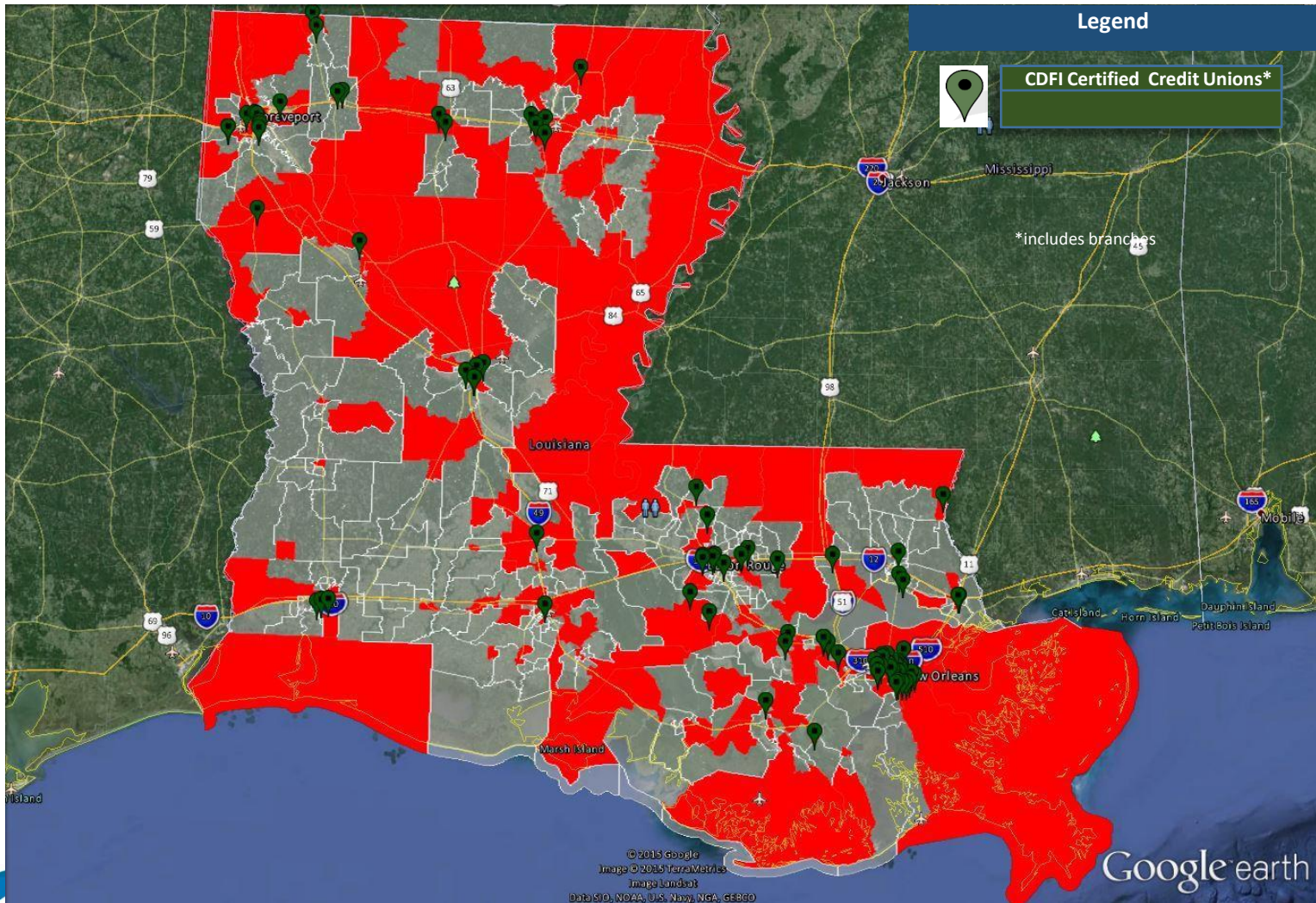
# Louisiana in CDFI Terms

- 62% of census tracts in state classified as “Investment Areas” by CDFI Fund
  - Indicators of economic distress include low median family income, high rates of poverty, unemployment
- 52% of Parishes classified as “Persistent Poverty Counties”
  - Poverty rates above 20% since 1990
  - Historic patterns of disparate financial access for minorities
- 2.4 million state residents live in CDFI Investment Areas
- 21 Louisiana credit unions are CDFI certified
- 43 credit unions show strong potential for certification

# CDFI Investment Areas in Louisiana (as of February 2014)



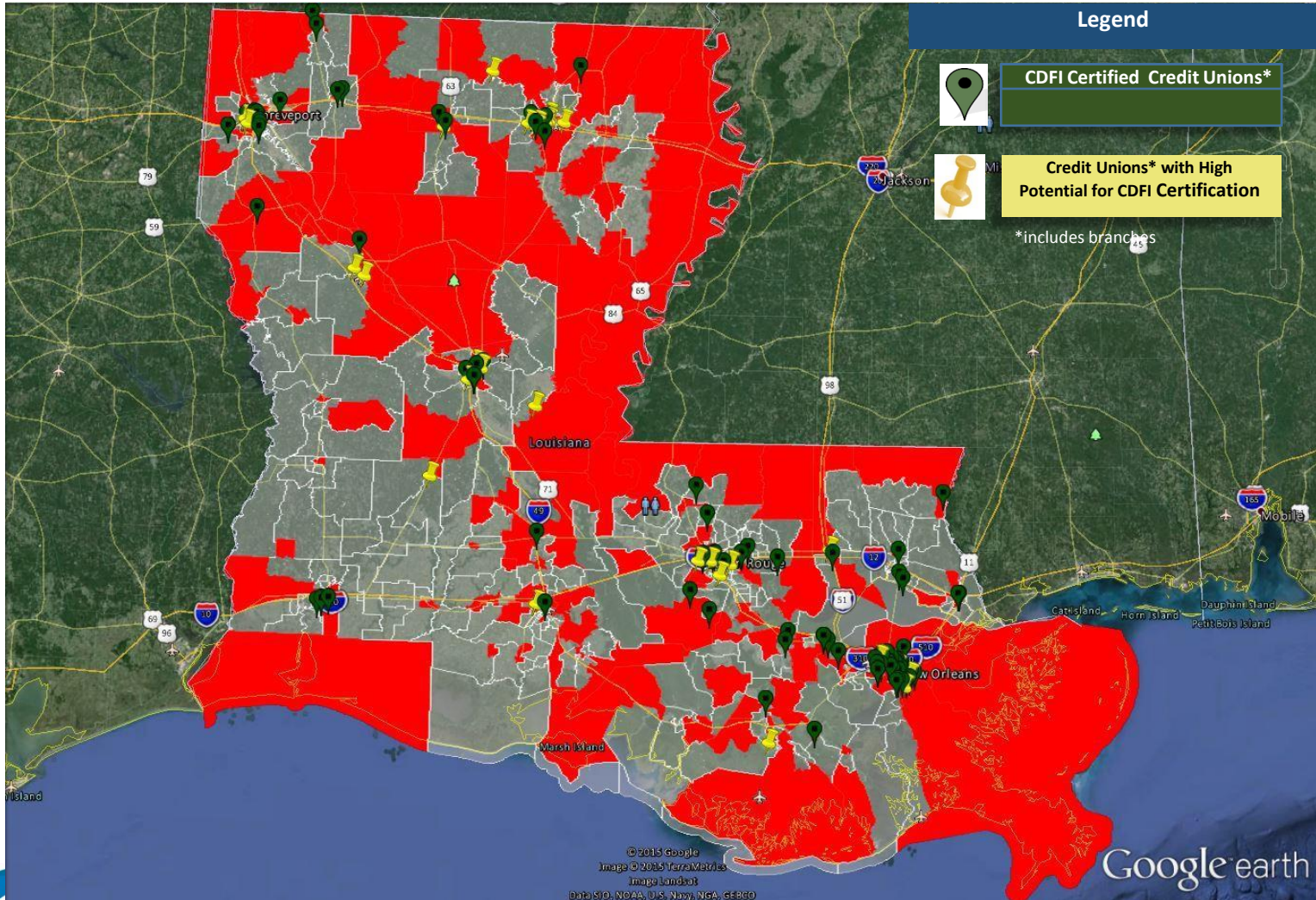
# CDFI Investment Areas in Louisiana With CDFI Certified Credit Unions & Branches(as of February 2014)



# CDFI Investment Areas in Louisiana

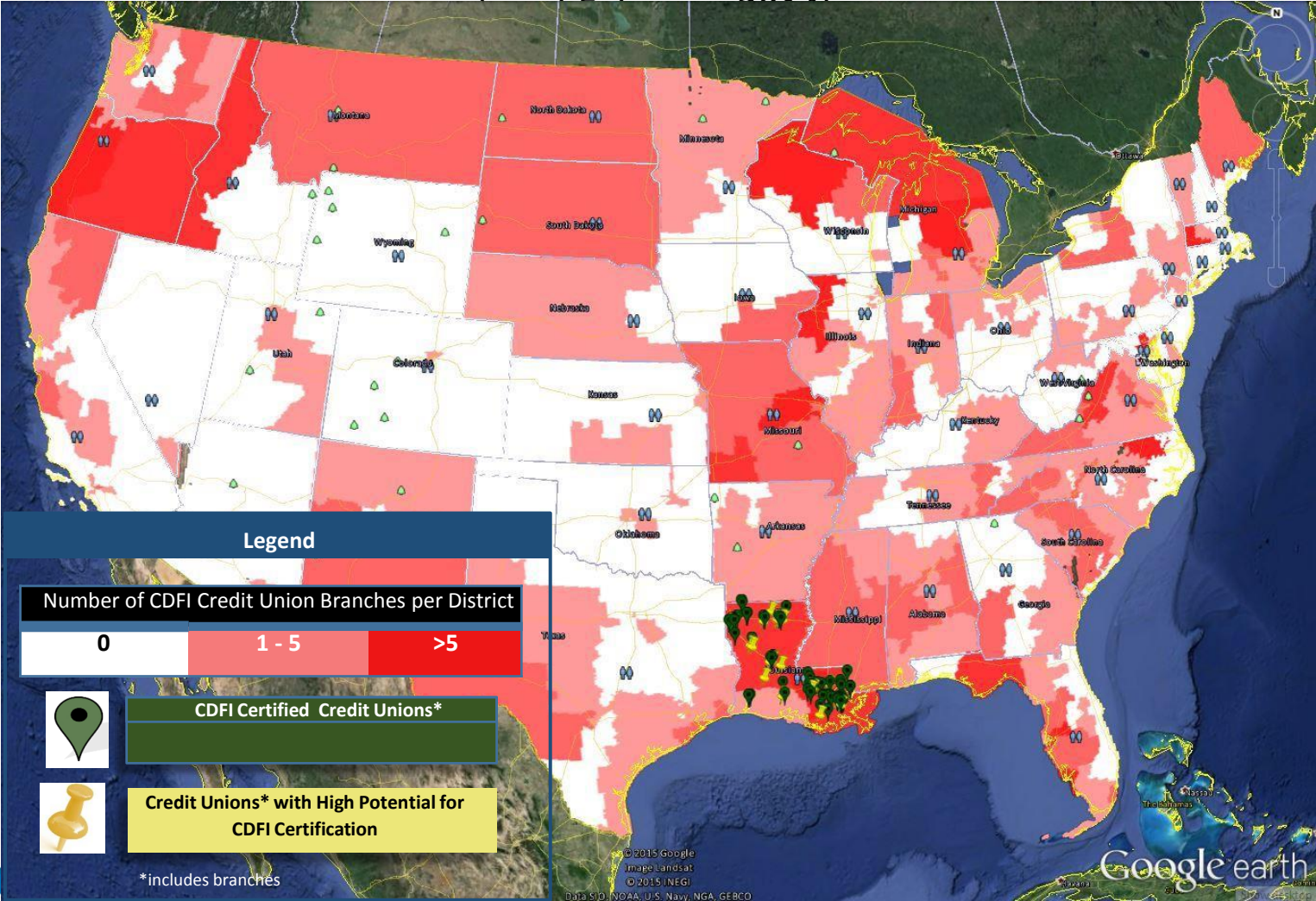
## With CDFI Certified and Potential CDFI Credit Unions & Branches

(as of February 2014)



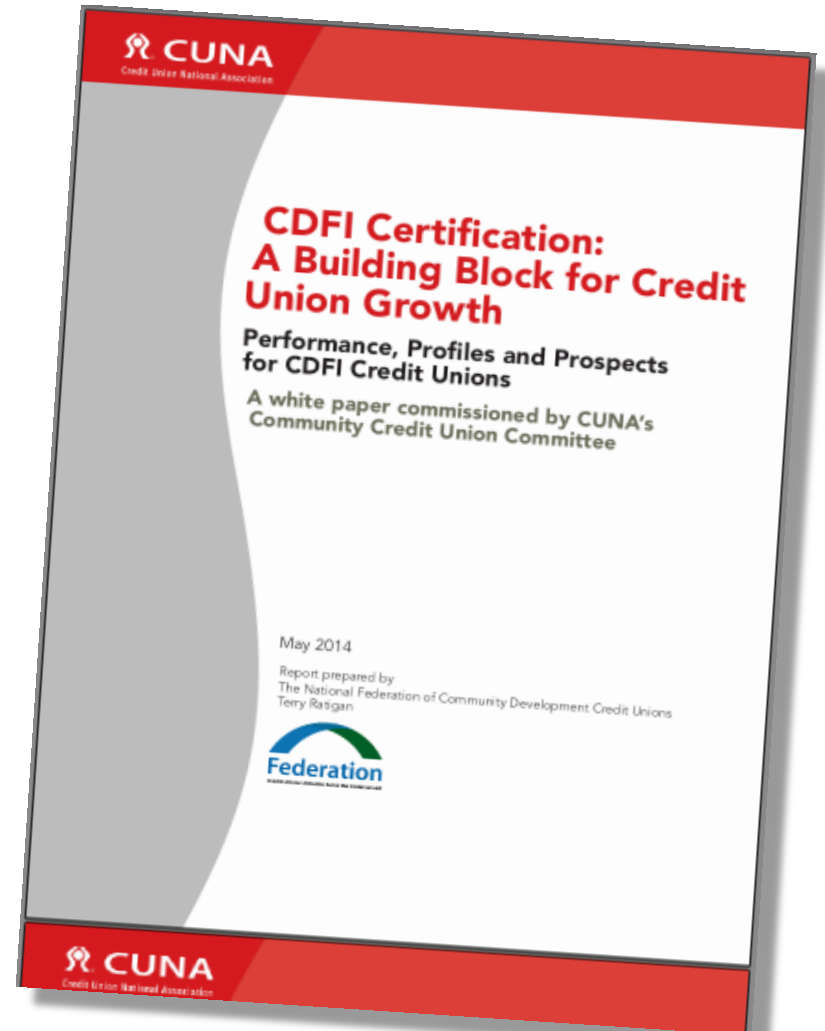


# CDFI Certified and Potential CDFI Credit Unions in Louisiana By Congressional District

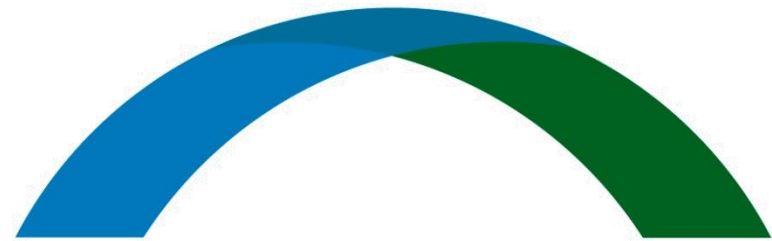


# CDFI Certified CUs

- Commissioned by CUNA's Community CU Committee
- In depth description of CDFI certification advantages
- Overview of Certification process
- 6 case studies



# The Market Opportunity



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# LMI MARKET OPPORTUNITY



Today, we're talking about  
**Opportunity....**

- National Market Opportunity
- Louisiana's Rankings
- Louisiana's Market Opportunity
- Why LMI Markets Are A Good Fit

- What THREE items can be found on the Louisiana Quarter?
- The Louisiana Purchase totaled \$11.25MM and took 10 years for the U.S. to pay back using a loan from European banks. How much did the U.S. pay back in total, including interest?



# LMI Markets: The Opportunity

Nationally, 34 million households (28% of all households) are financially underserved:

- ✓ 1 in 13 households is unbanked (9.6MM households)
- ✓ 1 in 5 households is under banked (24.8MM households)
- ✓ 31.2% of all households do not have a savings account
- ✓ 11.6% of all households do not have a checking account



*FDIC Survey, 2013*

*[www.economicinclusion.gov](http://www.economicinclusion.gov)*

# Market Opportunity

- ❑ Collectively, the under banked represent over \$1 trillion in annual income.
- ❑ AFS providers generated \$78 billion in fee and interest revenue in 2011 from a volume of approximately \$682 billion in principal loaned, funds transacted, deposits held and services rendered.
- ❑ In 2011 subprime auto loans represented the largest revenue segment at \$27 billion, accounting for more than 1 in 3 revenue dollars in the under banked market overall, and grew by 9.9% from 2010.



## LOUISIANA

Approximately 2/3rds of PDLs churned at total cost of \$2.6B each year

[www.responsiblelending.org](http://www.responsiblelending.org)

# LMI CONSUMER PROFILE

## Financial Health Study - November, 2014

- 43% of Americans say they are struggling to pay bills and credit card payments;
- 30% of Americans say they could not make ends meet for < 3 months in emergency-job loss, illness;
- More than a quarter of Americans (27%) report having less than \$1,000 saved for retirement; of those, nearly half are ages 35 -65;
- Nearly two-thirds of Americans (63%) say that once they find a product or service they like, they tend to be very loyal and do not like to switch.

Center Financial Services Innovation, November, 2014

# CONSUMER PROFILE

## WHO ARE THE UNDERSERVED?

Senior population: 37% financially underserved

Hispanics: (16.7% of the total US population)

- 20.1% are unbanked
- 28.6% are under banked
- 41.5% of low income Hispanics are unbanked

Young: 45% of households under age 24 are underserved

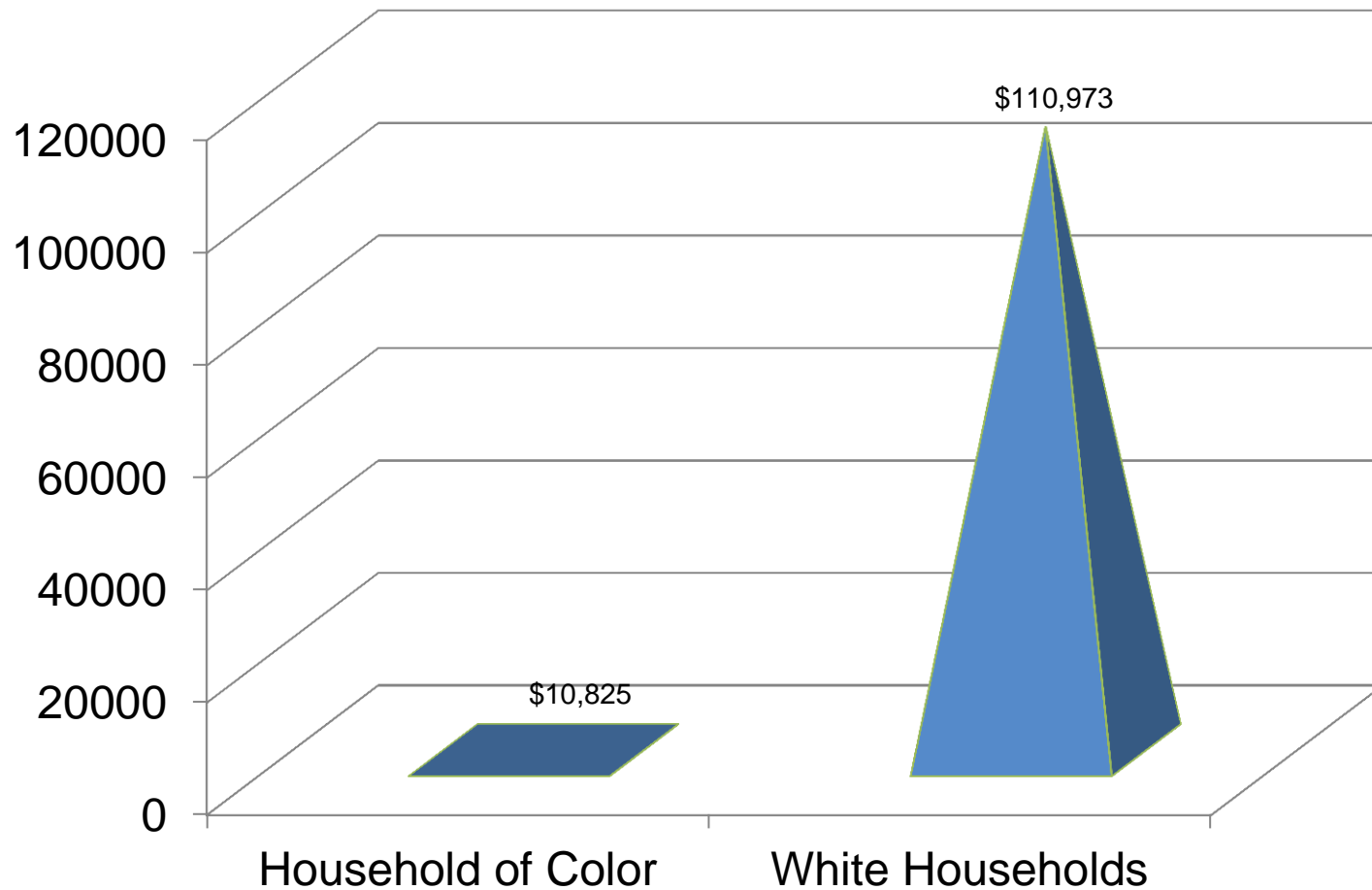
People with disabilities: (18% of the entire US population\*)

- 37% are unbanked
- 47% are under banked

*(\*) Overlaps with seniors, 72% of whom have a disability*



# Net Worth Comparison



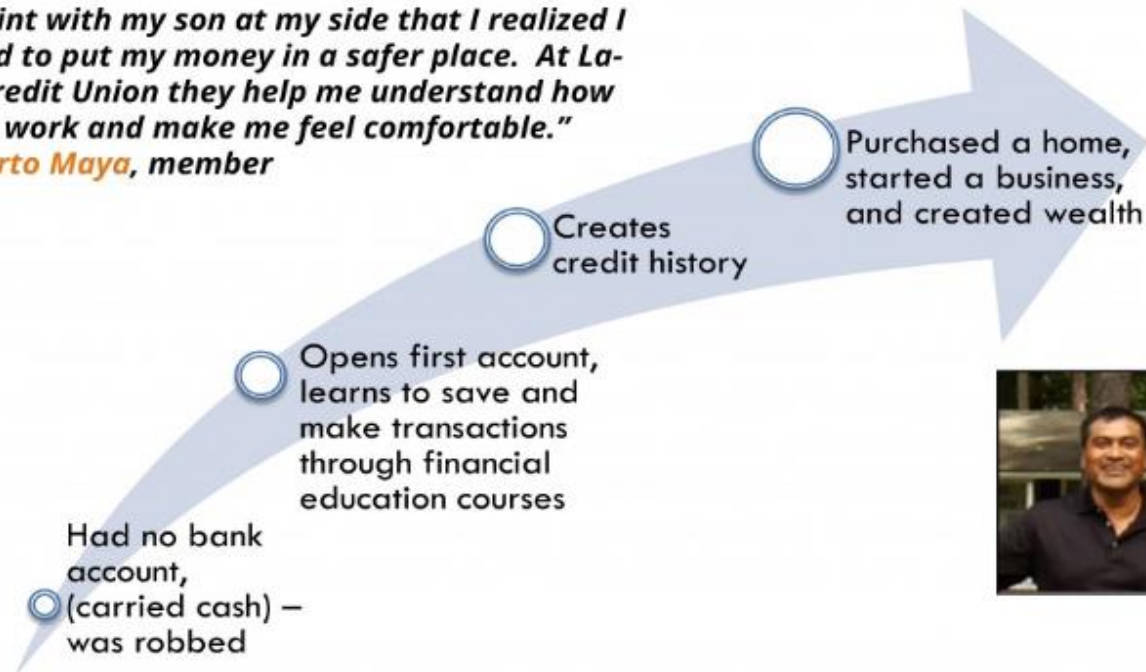
CFED—Assets & Opportunity Scorecard—January, 2013

# Case Study: Latino Credit Union

## Creating Accessible Paths to Financial Opportunity

Roberto's path through the financial continuum is an example of how Latino Credit Union helps shape lives. Many (70% percent) of our members are previously unbanked and unaware of the many financial services that the credit union provides or how those services can help them improve their quality life.

***"I used to carry my money and hide it in small packets at home. It wasn't until I was robbed at gunpoint with my son at my side that I realized I needed to put my money in a safer place. At Latino Credit Union they help me understand how things work and make me feel comfortable."***  
- **Roberto Maya**, member



# Case Study: Freedom First



## Responsible Rides Partnership

<b>Total Loans Issued*</b>	193
Total Amount Loaned	\$2,032,584
Average Vehicle Cost	\$10,531
Average Borrower Income	\$18,415
Average Borrower Credit Score	556

*\*Numbers are since program began in 2010.*



Total Action for Progress  
New River Community Action

# UNDERBANKED CONSUMER PROFILE

- 99% of payday loans are made to repeat borrowers.
- 91% of loans are made to borrowers who have had > 5 loans per year.
- The average payday loan borrower flips the loan between 8 and 13x.
- More than half of borrowers report that they have > 2 payday loans.
- The average borrower of a payday loan earns an annual income of between \$25,000-\$50,000, is under the age of 45, and has steady employment.
- 42% of borrowers are homeowners.
- 62% of payday loan customers are women.
- African American households are 2.5x more likely to use payday loans than white households.
- Military personnel are 3x more likely to use payday loans than civilians.

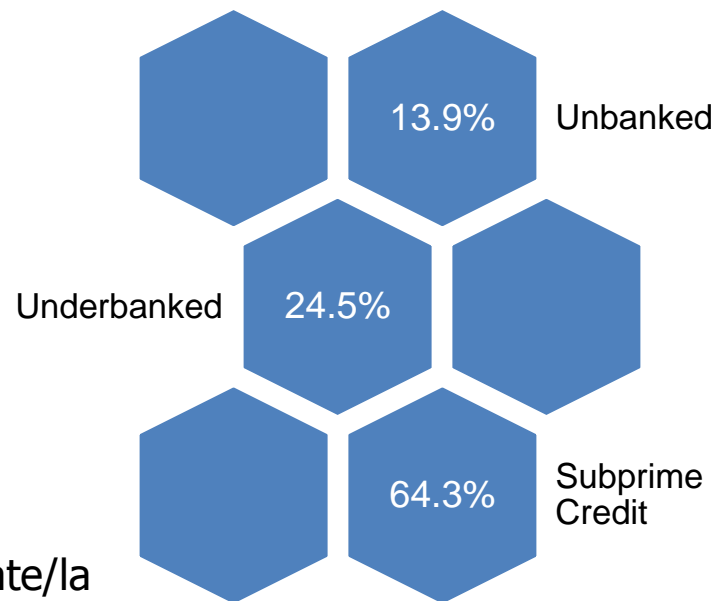
# WHO'S SERVING THEM?

- Alternative Financial Service (AFS) providers (check cashers, payday lenders, title lenders, pawn shops, rent-to-own stores, etc.)
- Approximately 13,000 check-cashing outlets in U.S. (2,059 in LA)
- The nation's major banks including Bank of America, JPMorgan Chase, and Wells Fargo finance approximately 42% of the entire payday loan industry nationwide.\*
- AFS providers cash more than \$80 billion worth of checks annually
- Some 80 to 90% of these are payroll checks with an average size of \$500 to \$600.
- The remainder are largely government benefits, income-tax-refund, and personal checks.

\*[http://npa-us.org/files/profitting\\_from\\_poverty\\_npa\\_payday\\_loan\\_report\\_jan\\_2012\\_0.pdf](http://npa-us.org/files/profitting_from_poverty_npa_payday_loan_report_jan_2012_0.pdf)

# LOUISIANA'S RANKINGS

Unbanked HHs in LA: 13.9%  
Unbanked HHs in U.S.: 7.7%  
Under banked HHs in LA: 24.5%  
Under banked HHs in U.S.: 20%  
HHs with Savings in U.S.: 58.1%  
HHs with Savings in U.S.: 68.8%  
HHs with Subprime Credit in LA: 64.3%  
HHs with Subprime Credit in U.S.: 55.6%



<http://scorecard.assetsandopportunity.org/latest/state/la>

# Payday Loans in LA

- **Louisiana State Information**

- Legal Status: **Legal**

- Citation: **La. Rev. Stat. Ann. §§ 9:3578.1 et seq.**

- Loan Terms:

**Maximum Loan Amount:** \$350

**Loan Term:** 60 days or less

**Maximum Finance Rate and Fees:** 16.75% of face-value of check, not to exceed \$45; + \$10 documentation fee (After default: months 1-12: 36% per year; months 13 and beyond: 18% per year)

**Finance Charge for 14-day \$100 loan:** \$30

**APR for 14-day \$100 loan: 780%**

- Debt Limits:

**Maximum Number of Outstanding Loans at One Time:** No Limit

*<http://www.paydayloaninfo.org/state-information>*

# Auto Title Loans

**Q:** What's the difference between Payday Loans and Car-Title Loans?

	PAYDAY LOANS	CAR-TITLE LOANS
Typical APR	416%	300%
Typical Loan Size	\$346	\$1042
Typical Loan Term	14 days	30 days
Typical Number of Renewals	7	8
Underwriting for Affordability	No	No
Collateral	Post-dated check or bank account access	Title to vehicle

**A:** Not much.

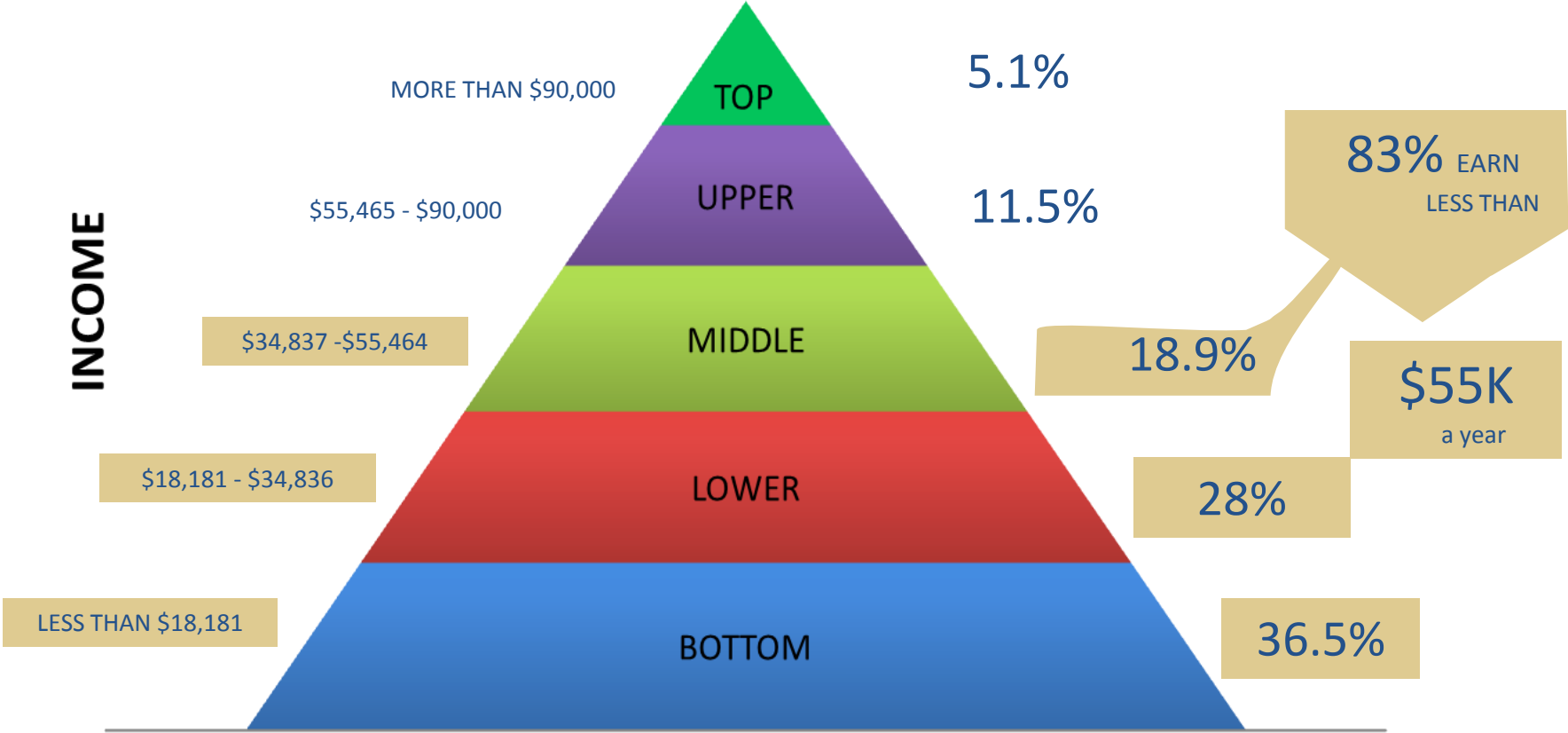
Source: CRL State of Lending Series

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www.responsiblelending.org

[www.responsiblelending.org](http://www.responsiblelending.org)

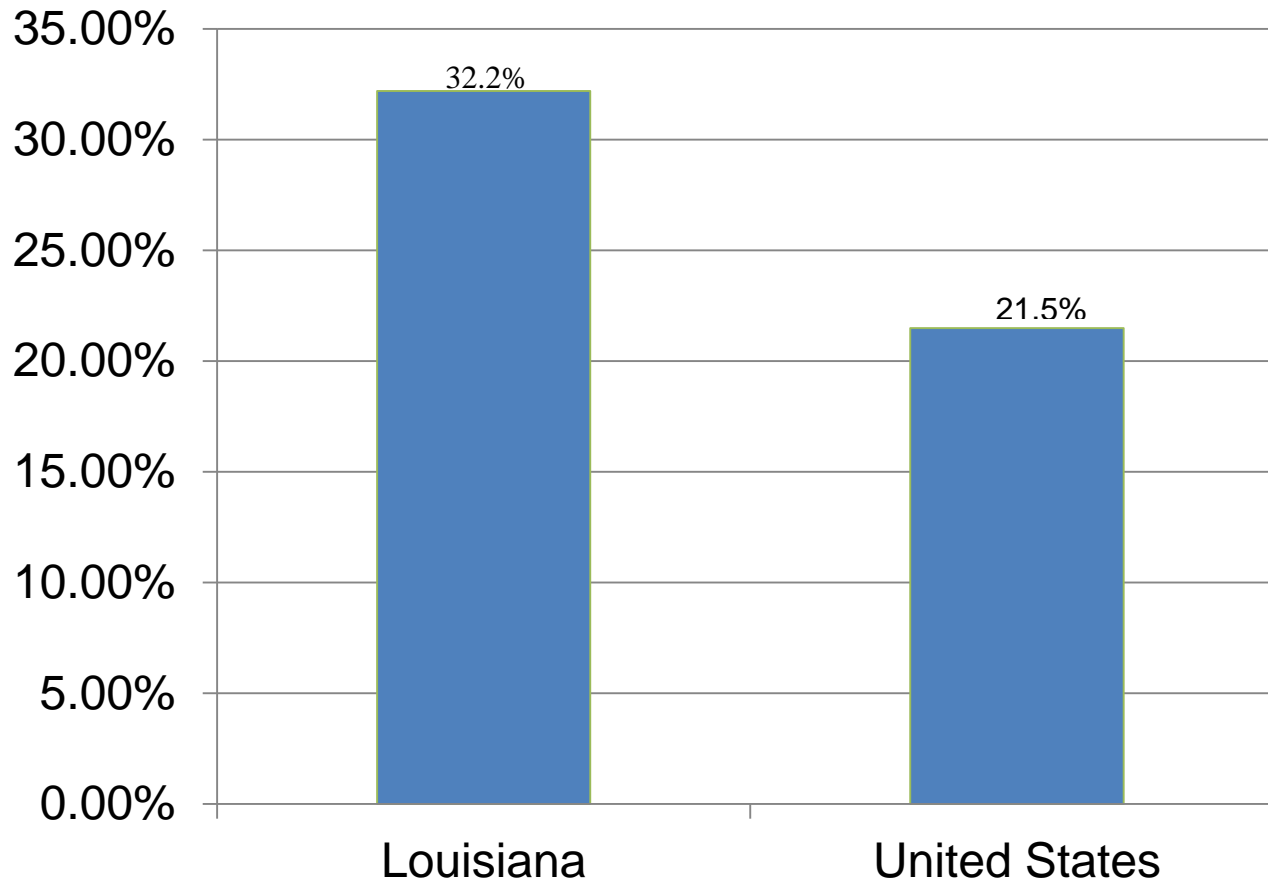


# United States



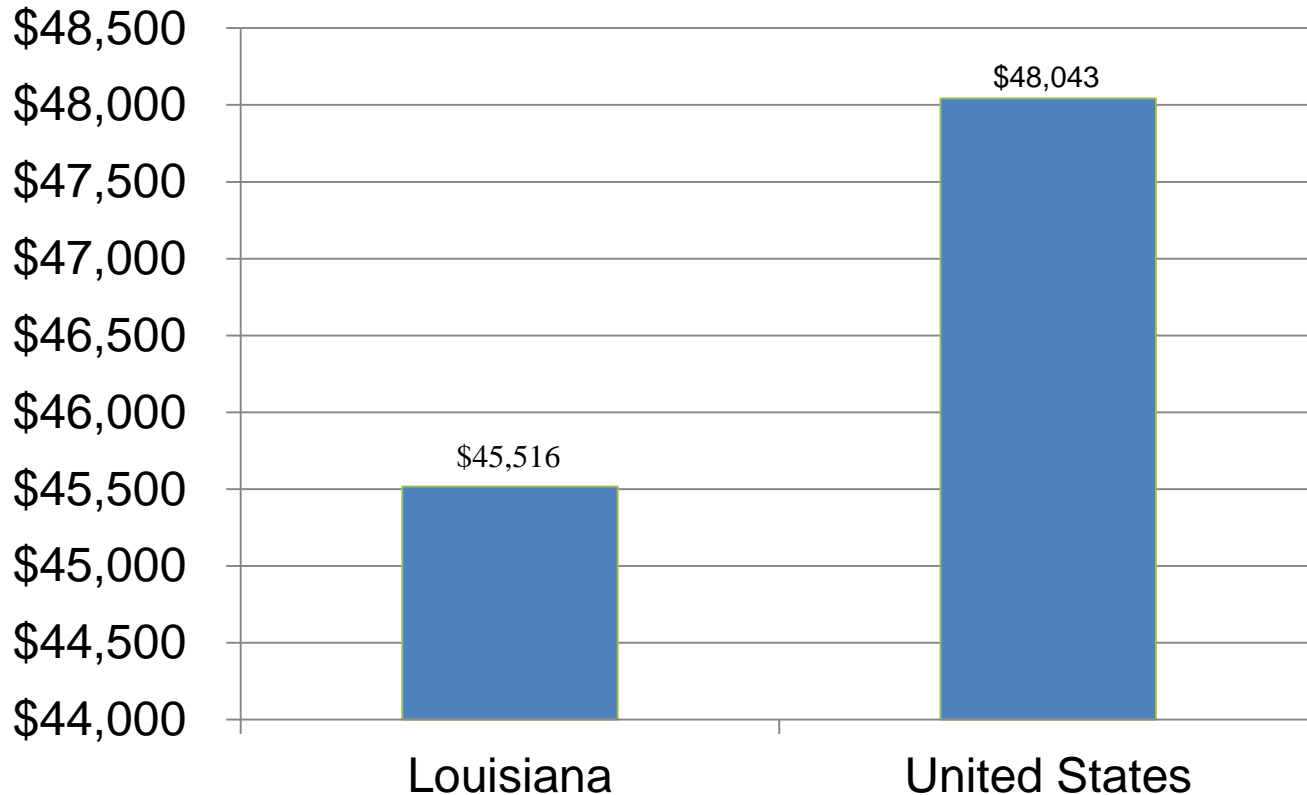
CFED—Assets & Opportunity Scorecard—January, 2013

# Low Wage Jobs



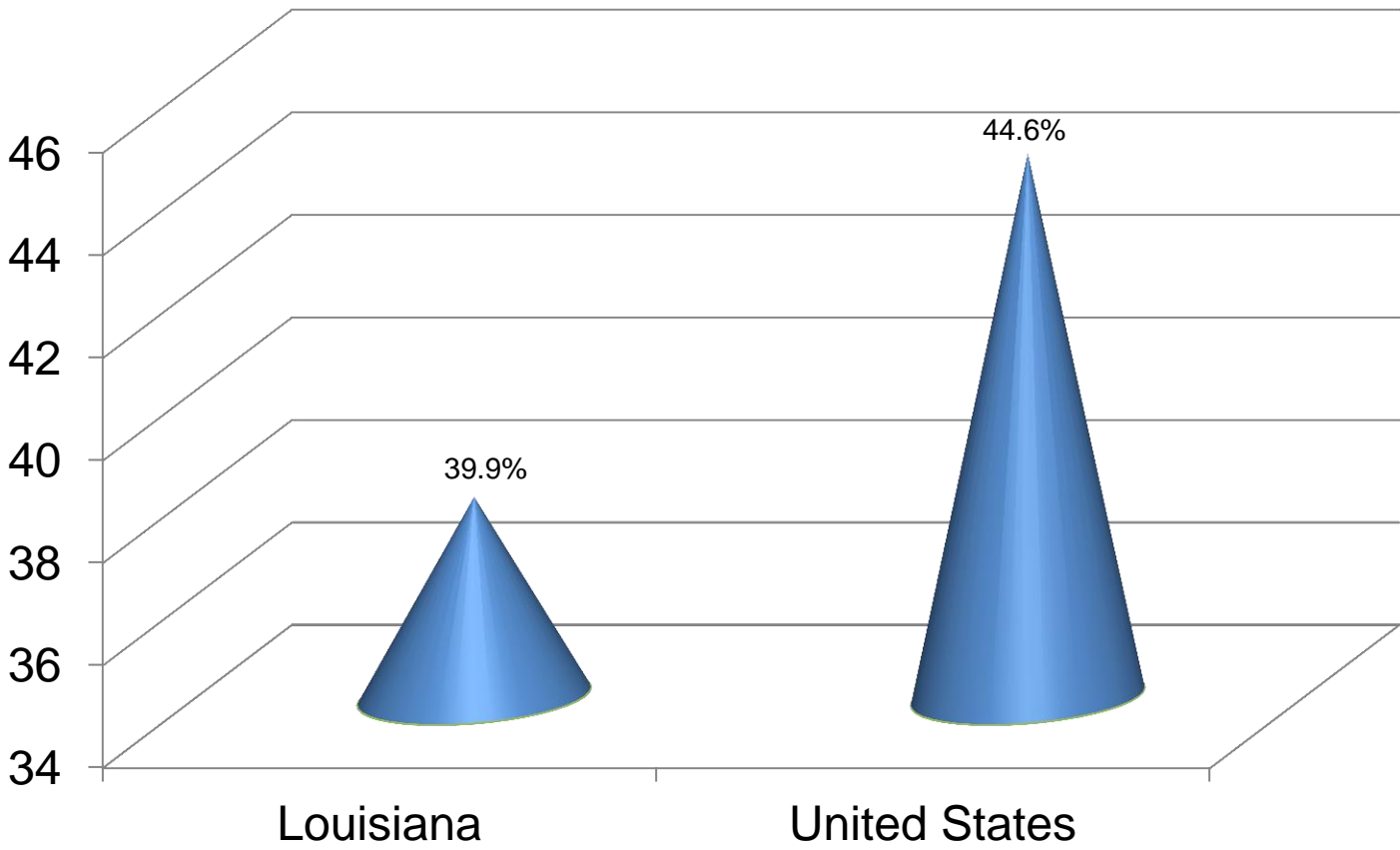
CFED—Assets & Opportunity Scorecard—January, 2013

# Average Annual Salaries



CFED—Assets & Opportunity Scorecard—January, 2013

# Retirement Plan Participation

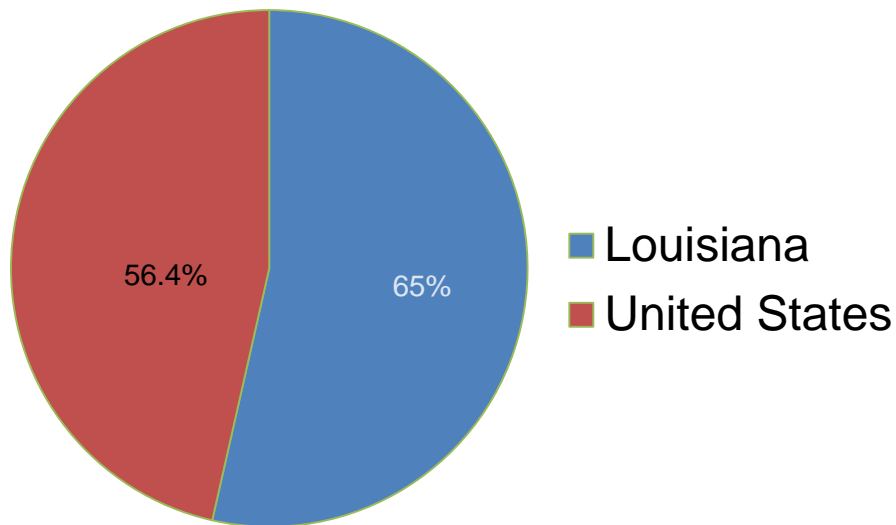


CFED—Assets & Opportunity Scorecard—January, 2013



# Asset Poverty

## Consumers with Subprime Credit



CFED—Assets & Opportunity Scorecard—January, 2013

71% of all residents have subprime credit in New Orleans MSA

1 in 3 adults in the U.S. have collections accounts reflected on the credit report - 2014  
<http://money.cnn.com/2014/07/29/pf/debt-collections/>

# LMI Market is a Good Fit for CUs

- CU traditional membership - reaching saturation point
- CU membership growth obstacles: slow membership growth/"greying" membership
- Serving people of small means = core CU value
- Business opportunity: emerging markets = need for affordable financial services
- LMI market segment is also less price sensitive than established markets
- Engaging unbanked consumers in the greater economy promotes upward economic mobility, asset accumulation, and a healthier overall economy
- NCUA, CUNA and CDFI support and resources for expanding to serve into new underserved markets

# Financial Comparison

## Financial Size and Performance for FY 2013

Type of Credit Union	Total Members	Total Assets	Loans/ Assets Ratio	Net Worth Ratio	Return On Assets
173 CDFI CUs					
Median	5,255	\$28,319,954	62%	10.4%	0.27%
Total	2,638,903	20,244,065,758	67%	10.0%	0.65%
1,992 LID CUs					
Median	2,580	\$15,611,723	53%	11.2%	0.16%
Total	20,086,041	\$177,976,632,690	63%	10.8%	0.75%
4,672 Mainstream CUs					
Median	3,211	\$25,764,526	50%	11.5%	0.18%
Total	76,938,585	\$893,388,928,840	60%	10.8%	0.77%

# Community Development Focus

Products and Services Provided by CDFI Credit Unions – CDFIs growing Capacity  
At Significantly Higher Rates in 2013 vs. 2009

Product or Service	2009 CDFIs	2013 CDFIS	Increase Since 2009
<b>Community Development Financial Services</b>			
Business Share Accounts	49%	68%	19%
No Cost Share Drafts	51%	83%	32%
Share Certs with Low Min Balance	53%	82%	29%
Low-cost wire transfers	61%	80%	19%
No Surcharge ATMs	35%	57%	22%
<b>Community Development Loan Products</b>			
Credit Builder	44%	59%	15%
Share Secured Credit Cards	28%	46%	18%
Micro Business Loans	23%	38%	15%
<b>Capacity-Building Services</b>			
Financial Counseling	62%	77%	15%
Bilingual Services	29%	42%	13%
No Cost Bill Payer	28%	60%	32%



# Community Development Lending

## Community Development Loan Products Delivered at Significantly Higher Rates than Peers

Specialized Savings & Account Products	CDFI	LIDs	Mainstream
Credit Builder	59%	24%	18%
Share Secured Credit Cards	46%	31%	35%
Micro Business Loans	38%	12%	10%
Micro Consumer Loans	38%	18%	14%
Short-Term, Small Amount Loans (FCU Only)	25%	18%	8%
Pay Day Lending	23%	11%	8%
Refund Anticipation Loans	9%	3%	1%

# Capacity Building Services

Community Development Capacity Building Services  
Delivered at Significantly Higher Rates than Peers

Specialized Savings & Account Products	CDFI	LIDs	Mainstream
Financial Counseling	77%	34%	30%
Financial Education	72%	33%	31%
Financial Literacy Workshops	53%	20%	17%
Bilingual Services	42%	20%	19%
First Time Homebuyer Program	28%	10%	11%
No Cost Tax Prep. Services	23%	6%	2%

# Ready to Get Started?

## ANALYZE

- Members' needs
- Market gaps in your own backyard
- Your core competencies

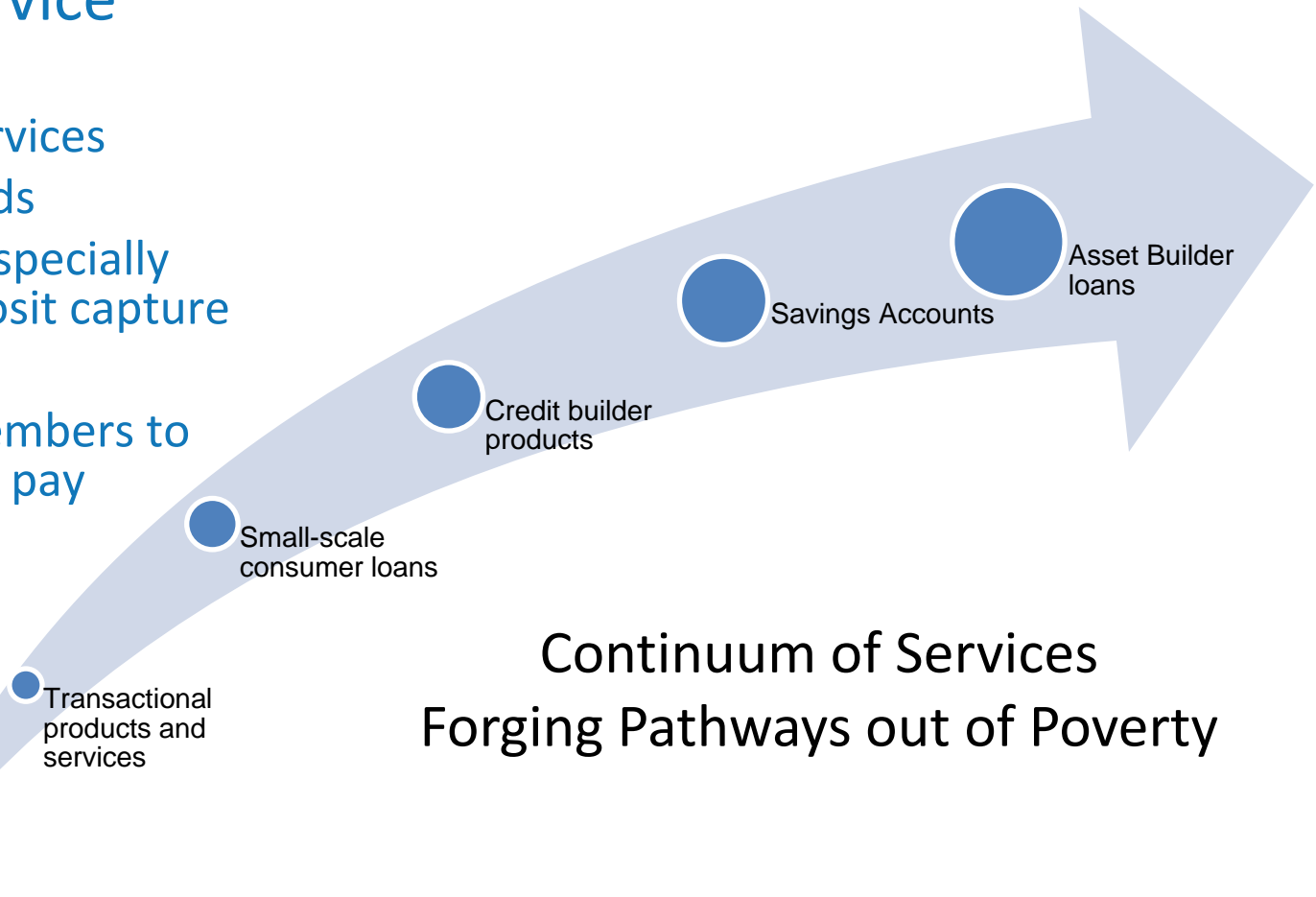
## BUILD YOUR PROGRAM

- Design product concept
- Align underwriting guidelines
- Identify staff training needs
- Build in Development Services as needed
- CU Breakthrough is here to help!

# Pathways to Sustainability

## Product and service opportunities

- Check-cashing services
- Prepaid debit cards
- Mobile banking especially with remote deposit capture
- Bill Pay Services
- Graduate non-members to members by auto pay functions



Continuum of Services  
Forging Pathways out of Poverty

# Payday Loan Alternatives

- Small dollar loans (emergency)
  - Non-credit based
  - Try to remove “intimidation factor”
  - Mirror PDL process – but not their APR!!!
  - Base lending decisions on DTI/Repayment Ability
  - Flexible underwriting
  - Keep transaction costs low
  - Price to cover risk
  - Raise loan loss reserves in pilot stage
  - CYCLE UP TO THE NEXT LEVEL IN THE CONTINUUM

# Other Credit Builder Loans

- Partially or Fully-Secured loans
  - Frozen Savings Component a Plus
  - Direct deposit and/or auto-pay feature of loan
  - Reporting to credit bureau
  - Depending upon savings level, underwriting minimal or non-existent
  - Typically not credit-based

# Other Asset Building Products

- Affordable Home Mortgage Loans
  - Partner with homeownership counseling
  - Down payment assistance available (often)
  - Other municipal or county support
- Micro business
  - Typically up to \$25,000
  - Often for supplementing other sources of income
  - Business training programs and partners available
  - Leverage loan loss reserves and/or other subsidies
  - No collateral or nontraditional collateral

Questions?



**Federation**

Credit Unions United to Serve the Underserved



# ABC's of Community Partnerships



**Federation**

Credit Unions United to Serve the Underserved

# Benefits of Partnerships

- Raises visibility of the credit union; build CU's recognition and reputation as a resource in the community
- Funnel for new members/New member recruitment; grow your credit union by reaching new segments of your community
  - Unbanked and underbanked
  - Low-income market
  - Immigrant communities
  - Young people
- Source of capital/loan loss reserve

# Benefits of Partnerships

- Staffing support (remote account opening, indirect lending)
- Seat at the table for economic revitalization, housing strategies
- CDFI partnership/community collaboration requirement
  - MOUs very important
  - Tracking and documenting delivery of services
- Leverage partnership to bring additional resources to your members such as financial education and development services like VITA programs
- Further your CU mission

# Components of Successful Partnerships

A successful (and sustainable) partnership must:

- Meet the mission and strategic goals of each organization
- Provide a necessary missing “piece” for each partner
- Develop clear and measureable expectations understood and embraced by all
- Formally document partner responsibilities within the context of an MOU or MOA



# Format of MOU's...

- Attachments to CDFI grants
- State the name of both parties
- Purpose and Scope - contains specific outcomes and parameters of the relationship (“to provide FE opportunities for individuals trapped in cycle of debt” in order to reduce poverty...)
- Outline responsibilities of each party
- Term of the agreement – start and completion dates
- Amendments to the MOU will be in writing and signed by both parties
- Marketing benefits both parties
- Funding – in-kind trade for services; fees
- Dated and signed by both parties

# Steps to Building Successful Partnerships

1. Align overall mission and strategic priorities
2. Define measureable quantifiable goals and objectives
3. Match products and services to program or client goals
4. Define the right touch-points

# 1. Aligning Mission and Priorities

## How Does the Proposed Partnership Align with our Mission and Strategic Priorities?

- Increase access to high quality credit union products for low-income consumers and clients of community-based organizations, local government, etc.
- Reaching\Serving a New Target Population.
- Linkages with New Business Opportunities.
- Develop replicable model to attract other partnerships.
- Raise awareness of CU in our community.

# 2. Defining Measurable Goals

## What are we trying to achieve in this partnership?

- Share individual goals for the project and then begin identifying common or joint goals.
- Place some measurable targets that are ambitious *and* realistic for those goals.
- Develop systems for tracking \ monitoring progress on those goals and metrics.





# 3. Match Products and Services to Program or Client Goals

## Federation **Emerging Market Review**: What is it?

- Analytical tool to identify market opportunities for sustained growth of credit unions
- Guided audit of credit union products, services, management, governance and operations
  - What helps or hinders productive expansion in target markets?
  - What gaps exist in products, services?
  - What opportunities exist to introduce proven innovations?
  - What innovations should be added to EMR catalog?

# 4. Defining the Right Touch Points

## From Partnership to Integration

- Moving from the strategic to the tactical
  - Review client and member flows
  - Identify appropriate touch-points with sufficient volume
  - Find intersections with client needs
- Convene partners to analyze client and member flows and map the process.

# 4. Defining the Right Touch Points Operationally

- Where to connect with your partner
- Train program staff on the ground not only on what the CU has to offer but why it's going to help their clients (and them do their job better!)
- Give the partnership time and space to work out the kinks
  - Do some dry-runs
  - Evaluate, assess and tweak

# Partner Constraints

## Examples of Credit Union Constraints

- Field of Membership (FOM)
- Know your Customer (KYC)
- Loans require membership (non-profits may not realize this!)
- Resources and capacity

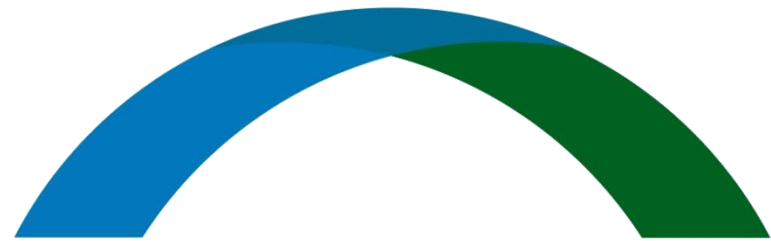
# Partner Constraints

## Examples of Non-profit constraints:

- Volume\Scale
- Consistency in client traffic and touch-points
- Static
- Resources



# Working with the Network of Catholic Charities



**Federation**

Credit Unions United to Serve the Underserved

# Our Missions Aligned

*The mission of Catholic Charities agencies is to provide service to people in need, to advocate for justice in social structures, and to call the entire church and other people of good will to do the same.*

*The National Federation of Community Development Credit Unions' mission is to help low- and moderate-income people and communities achieve financial independence through credit unions.*

# Profile of CC clients

- Low Income
- Minority
- Immigrant
- Limited education
- Likely unbanked or underbanked





# Products & Services Match

## CCUSA - Campaign to Reduce Poverty

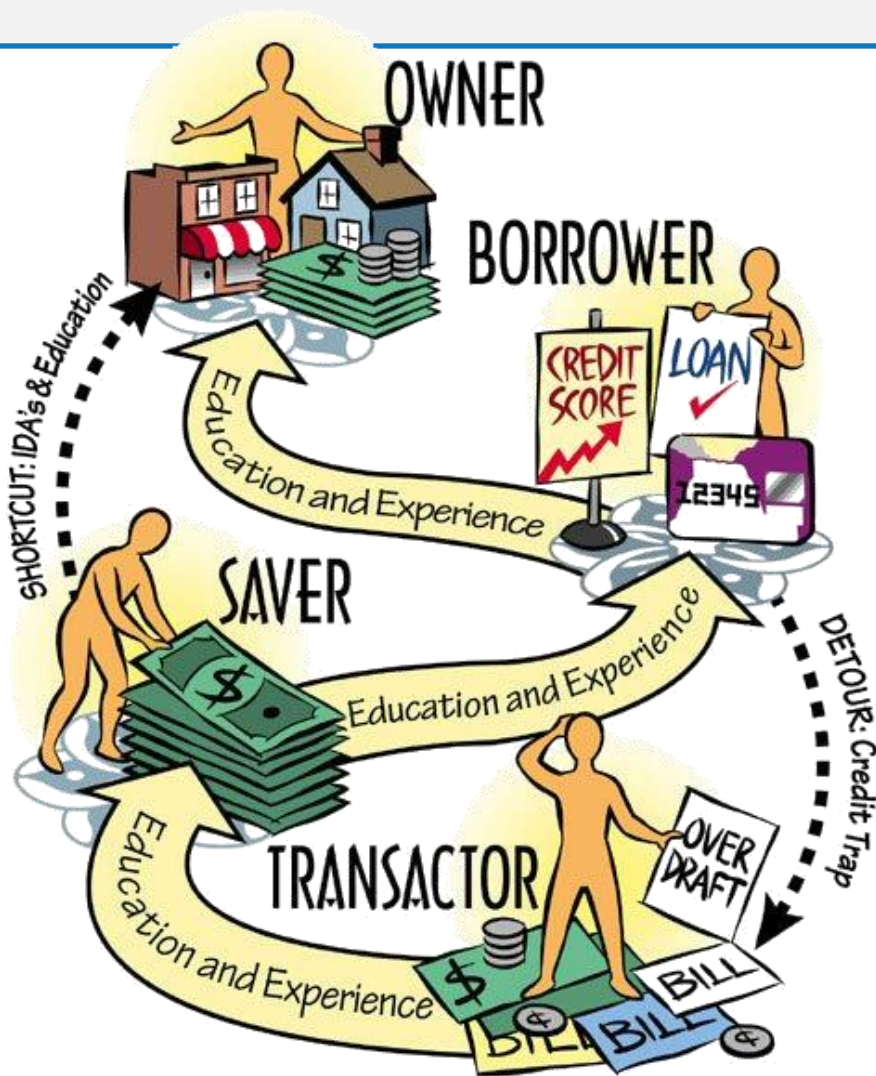
- Eating Healthy Initiatives
- Housing Programs/Counselling
- Financial Health/Counselling

## CDCU'S & CDFI'S –

- Alternative Payday Lending Programs
- Healthy Food Financing Initiatives
- Housing Programs/Counseling
- Financial Health Counseling – IDA's

# The Road to Financial Independence

Support Services  
+ Financial Education  
+ Financial Products  
= Financial Capability



# Partnership Opportunities: San Antonio

## Catholic Charities, Archdiocese of San Antonio:

- Emergency Financial Assistance Program
- Senior Services - Money Management Program

## CDCU Member - Select FCU:

- Select Cash Now - new alternative payday loan program includes savings and financial counseling components
- Freedom First Model
- Bi-lingual staff

# Partnership Opportunities: Kansas City

## Catholic Charities of Kansas City:

- Disability & Deaf Services
- Senior Housing Initiative

## CDCU Member: Holy Rosary FCU, Kansas City:

- Better Directions Program – loans, savings and financial counselling
- Partners with Neighborhood Housing Services of Kansas City – mortgage loans with down payment assistance

# Getting Started - Sample Partner Organizations

- Asset building organizations/coalitions
- Community Development Financial institutions
- Cooperative Extension
- Credit unions and credit union associations
- Faith-based organizations
- Financial education organizations
- Community action agencies
- Consumer Credit Counseling Services
- Housing authorities
- Individual development account programs
- Earned Income Tax Credit /Free tax assistance campaigns
- VITA sites
- Local universities
- State and federal financial institution regulators
- National, regional and community banks
- Financial service businesses
- Local government Offices of Human Services, Local Treasurers
- Housing counseling organizations
- Job training/workforce development organizations
- Community advocacy organizations

# Building a CDFI Coalition in Louisiana



# Benefits of State CDFI Coalitions

- Creating and accessing new resources
  - Leverage different experiences from each CDFI to create or access new resources
  - Increases awareness and public profile of CDFIs
- Relationship building
  - Potential for cross-sector collaborations
  - Facilitates networking
- Policy and advocacy
  - Provides a joint voice and message to state legislators, agencies, regional organizations, other stakeholders and partners.

# 2013 CDFI State Legislation

In the 2013 legislative session, there were 25 CDFI-specific bills introduced in 16 states

- Seven bills in seven separate states passed and became law
  - NMTC, grant funding, change of applications
- 18 bills stalled in state legislatures, but demonstrates the opportunities for CDFIs to have open dialogue with states about how best to support CDFIs



# Challenges of State CDFI Coalitions

- Diversity of CDFIs
  - Size and structure of CDFIs
  - Different needs for CDFIs
  - Challenge when attempting to define long-term strategic plan
- Funding
  - How to provide financial support for necessary administrative and logistical support

# NY Coalition Members

- All CDFI Certified Organizations
- All CDCUs

## Coalition Partners/Funders

- Statewide Microfinance Alliance-Microbiz NY
- Empire State Development Corporation
- State Banking Department
- State Credit Union League
- Banks and Foundations

# Legislative Success

- In 2007, through the coalition's advocacy, legislation creating a New York State CDFI Fund was introduced in State Senate and Assembly. Those bills passed both chambers of the legislature with strong bi-partisan support and on July 3, 2007, Governor Eliot Spitzer signed the bills as Chapter 186 of the laws of 2007.
- 2012 the Coalition hires a lobby firm to advance our request with promising results

# Legislative Success

- 2010 The New York State Senate passed a Budget Resolution recommending a \$15 million appropriation for the New York State CDFI Fund and a \$25 million appropriation for a New York State Small Business Revolving Loan Fund
- The Revolving Loan Fund survived the budget process and in November ESDC announced that 20 CDFIs-4 CDCUs and 16 Loan Funds will receive loans of up to \$2MM at 1%

# Advocacy

## Alerts

Check Cashing Bill in NY State

## Reports

Job creation and CDFIs

## Issues

Opening the doors of New York FHLB to CDFIs

## Impact Data

Annual Survey of New York State CDFIs

# Other State CDFI Initiatives

<b>State</b>	<b>Support as of FY06</b>	<b>CDFI legislation in FY 07 or 08</b>	
<b>California</b>	<b>Yes</b>		<b>Tax Credits</b>
<b>Indiana</b>	<b>Yes</b>		
<b>Iowa</b>	<b>Yes</b>		
<b>Louisiana</b>	<b>Yes</b>		<b>Katrina-Related</b>
<b>Maryland</b>	<b>Yes</b>		
<b>Michigan</b>		<b>Yes</b>	
<b>Nebraska</b>	<b>Yes</b>		
<b>New York</b>	<b>Yes</b>	<b>Yes</b>	<b>Loans/Grants Small Bus.</b>
<b>Pennsylvania</b>	<b>Yes</b>		<b>Microloan Fund</b>
<b>South Dakota</b>		<b>Yes</b>	
<b>Virginia</b>		<b>Yes</b>	
<b>Wisconsin</b>		<b>Pending</b>	<b>Tax Incentives</b>

# Training & Information

- Quarterly Newsletter
- Workshops
- Webinars

## Annual Conference

- 1 ½ Day Event in Albany
- Speakers, training, networking including representatives from the CDFI Fund

## *New York Coalition Highlights CDFIs' Growing Clout in Economic Recovery*

6/16/2010 By [Michelle Samaad](#)

*The White House and Congress are starting to recognize the impact community development financial institutions are having in providing affordable housing expansion, small business support and financial services to urban and rural areas.*

*That was the message at the recent New York Coalition of CDFIs Statewide Conference organized by the National Federation of Community Development Credit Unions. More than 100 industry leaders turned out to hear about the financial landscape for affordable housing development and small business lending and the impact of the economic downturn on low- and moderate-income families and communities.*



# Funding

- Membership Dues
- Grants
- Conference Sponsorships & Registrations
- New York State

# For more information

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