



CDFI Credit Unions
*A Business Case for
Community Development Finance*

CDFI Institute

March 1, 2017



What it means to be a CDFI?



- Key Products & Services
 - Inclusive transaction services
 - Credit Builder Loans
 - Payday Alternatives
 - Financial counseling /1st Time Homebuyers
- Consumer Impact
 - Financial inclusion of un / underbanked
 - Asset protection
 - Credit building
- Community Impact
 - Asset Accumulation
 - Increased employment
 - Reduced crime
 - Increased property values

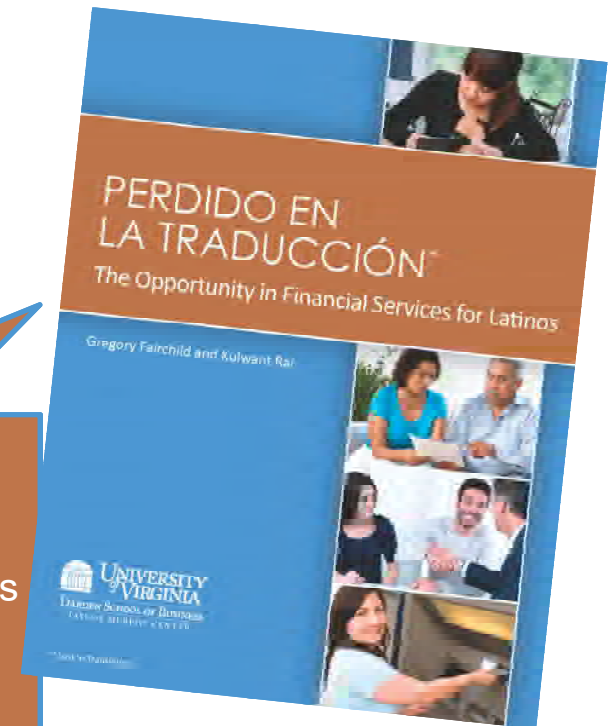
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 - **Reduced crime**
 - **Increased property values**

Impact of each CU branch

- ✓ 4% decrease in robberies
- ✓ 3% increase in property values
- ✓ \$9.8 Billion added to property values over 8 years



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- Regulatory compliance
 - Safety & Soundness
 - PCA Capital
 - Delinquencies & Charge-offs
 - ROA
- Growth & Survival
 - Membership
 - Assets
 - Loans
 - Charter Expansion
 - Mergers, Competition & Sustainability
 - Regulatory Environment

What it means to be a CDFI?



CDFI Credit Unions consistently record higher ROAs than their peers*

CDFI Credit Unions grow faster than peers in Assets, Membership, Shares & Deposits, Net Worth and Total Loans.*

Despite focus on toughest markets, "CDFIs show no greater risk of institutional failure than similar 'mainstream' peer institutions"***

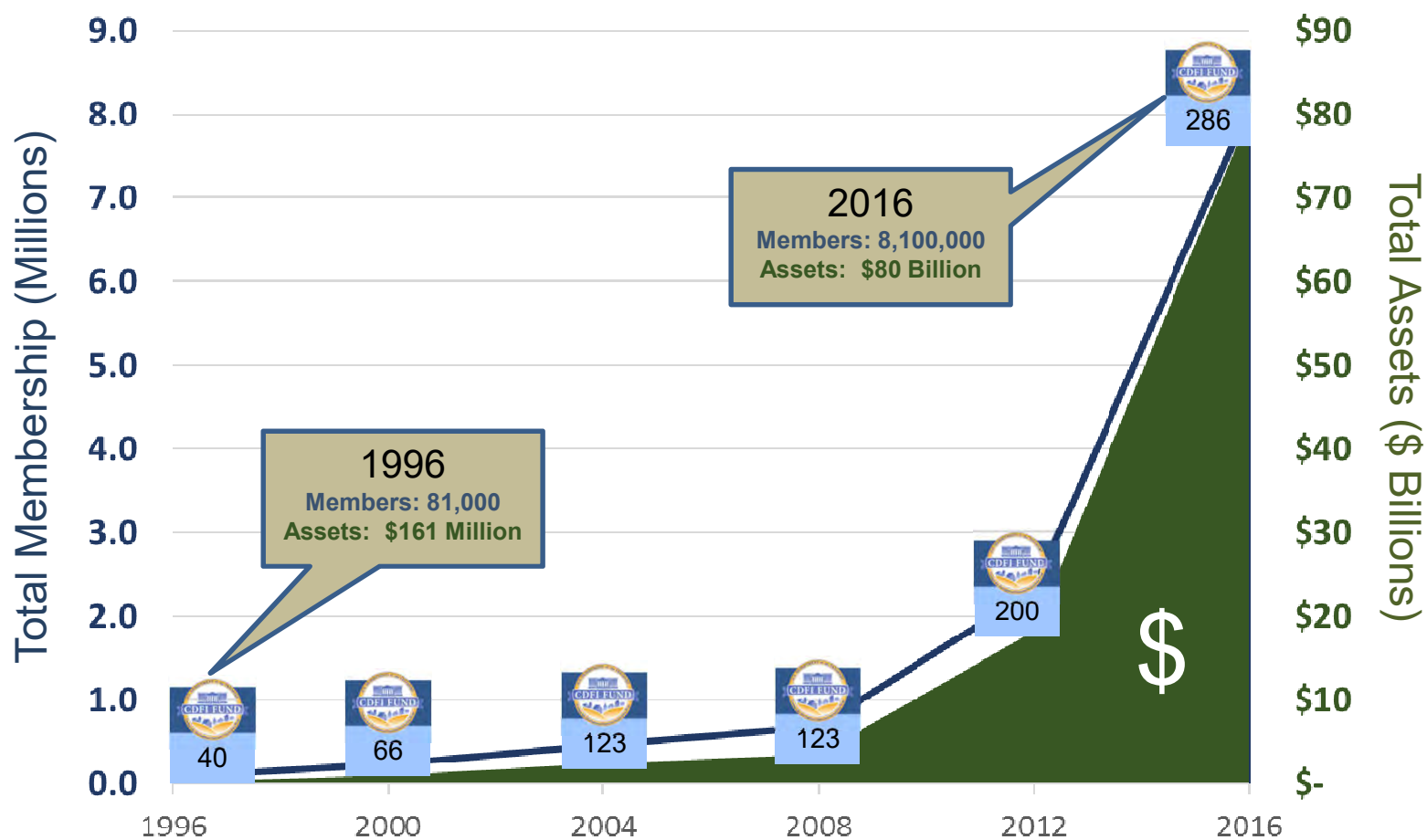
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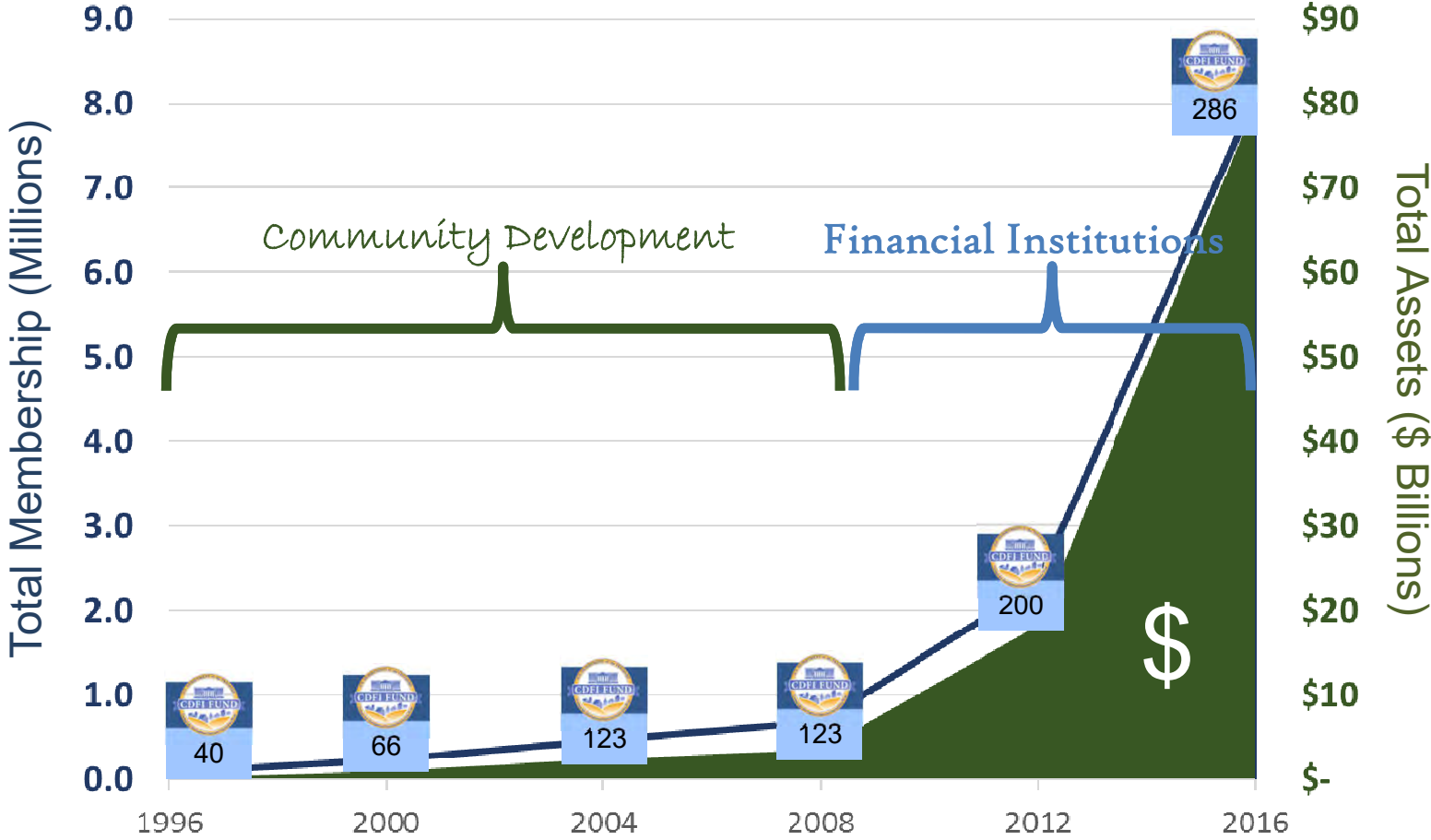
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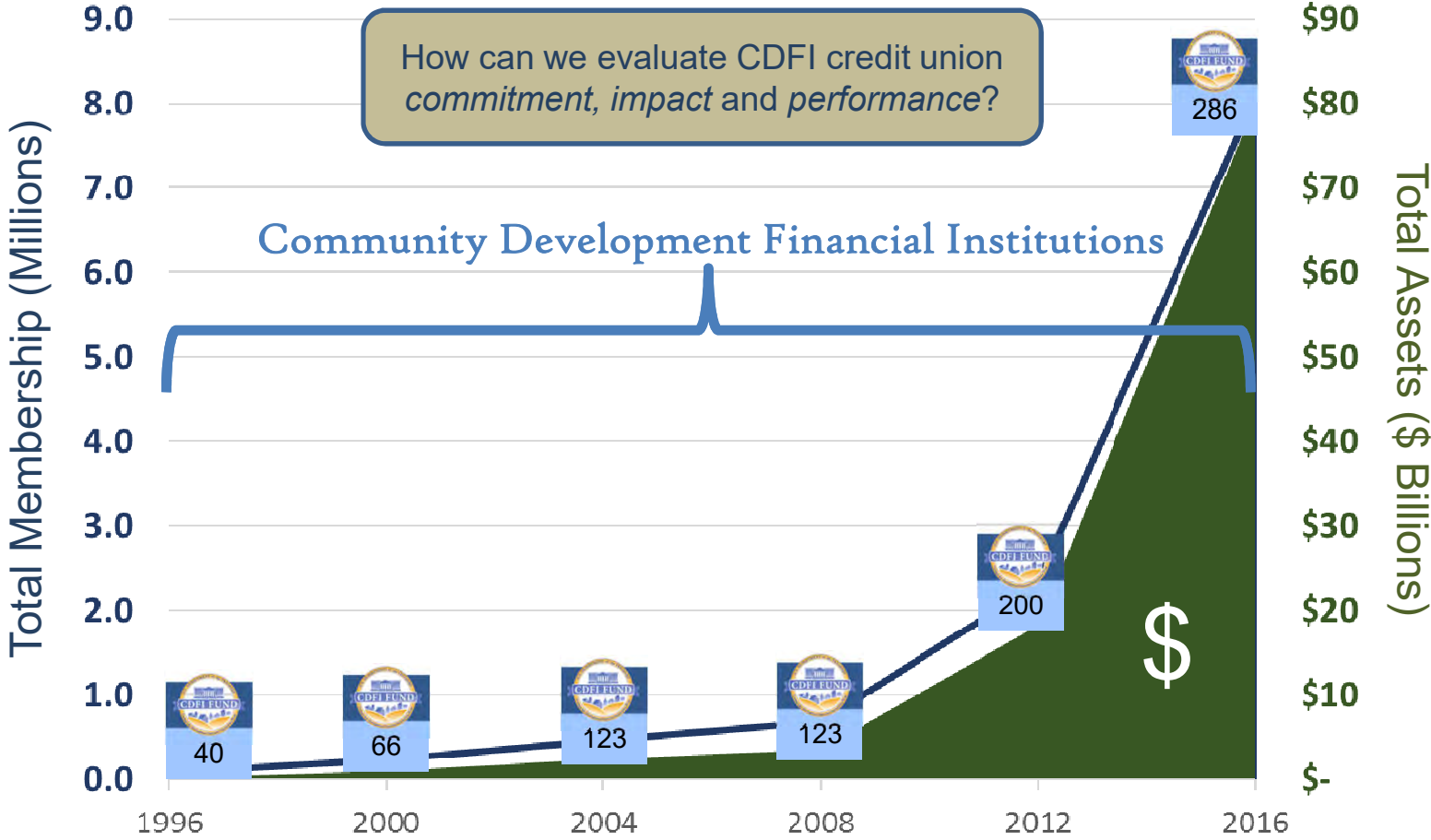
CDFI Certified Credit Unions 1996-2016



CDFI Certified Credit Unions



CDFI Certified Credit Unions

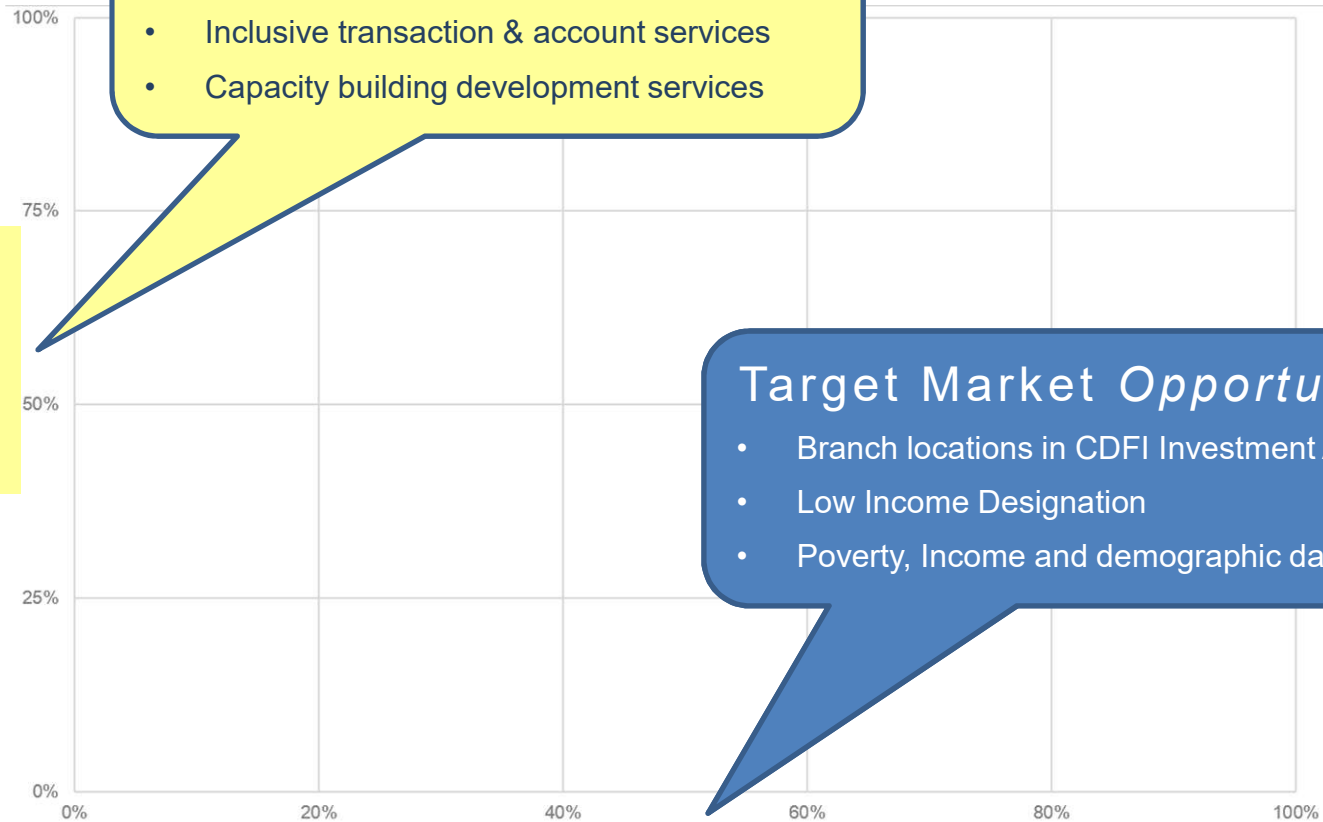


Estimates of CDFI Eligibility

Target Market *Response*

- High impact loan products
- Inclusive transaction & account services
- Capacity building development services

**Provision of
Community
Development
Products &
Services**

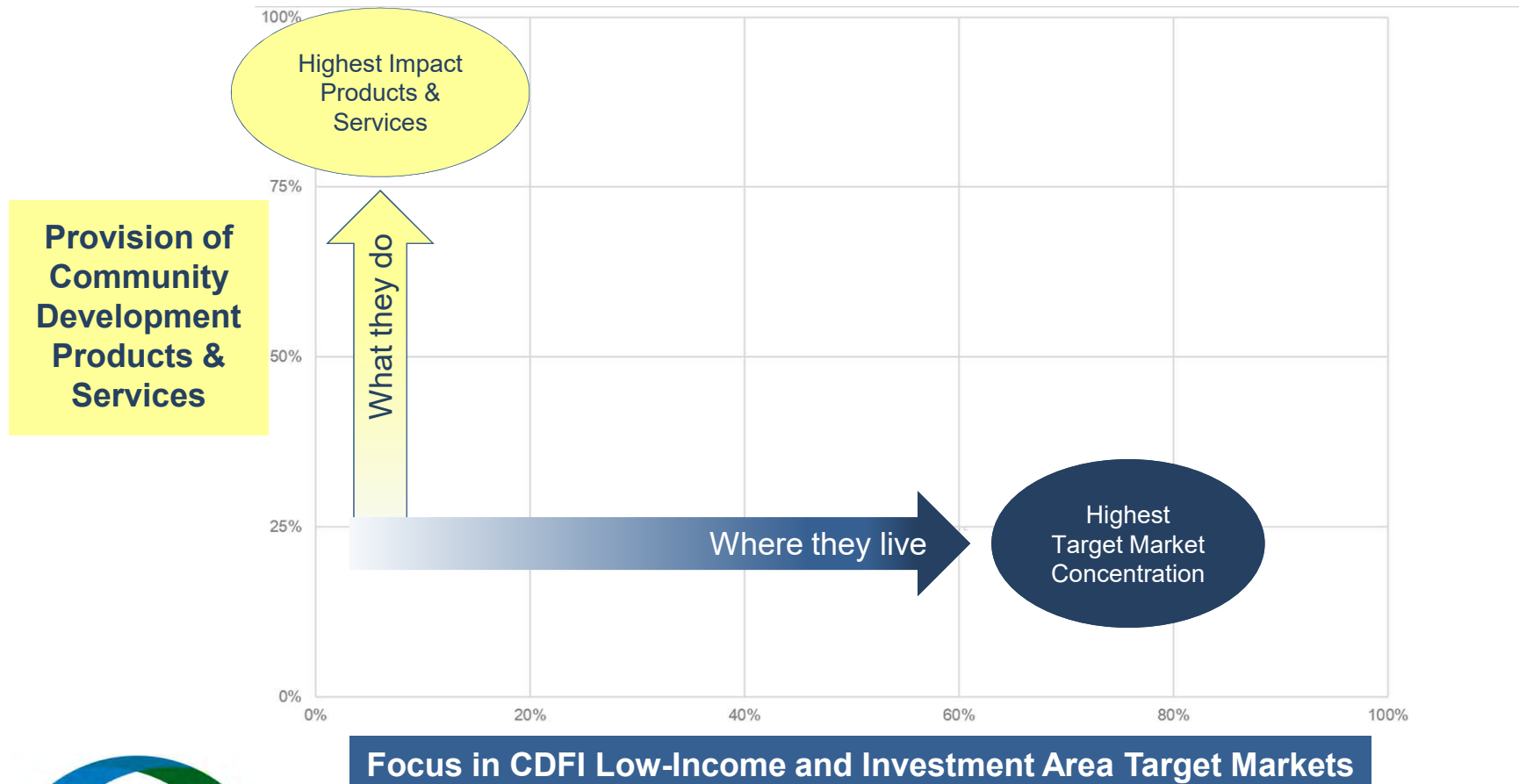


Target Market *Opportunity*

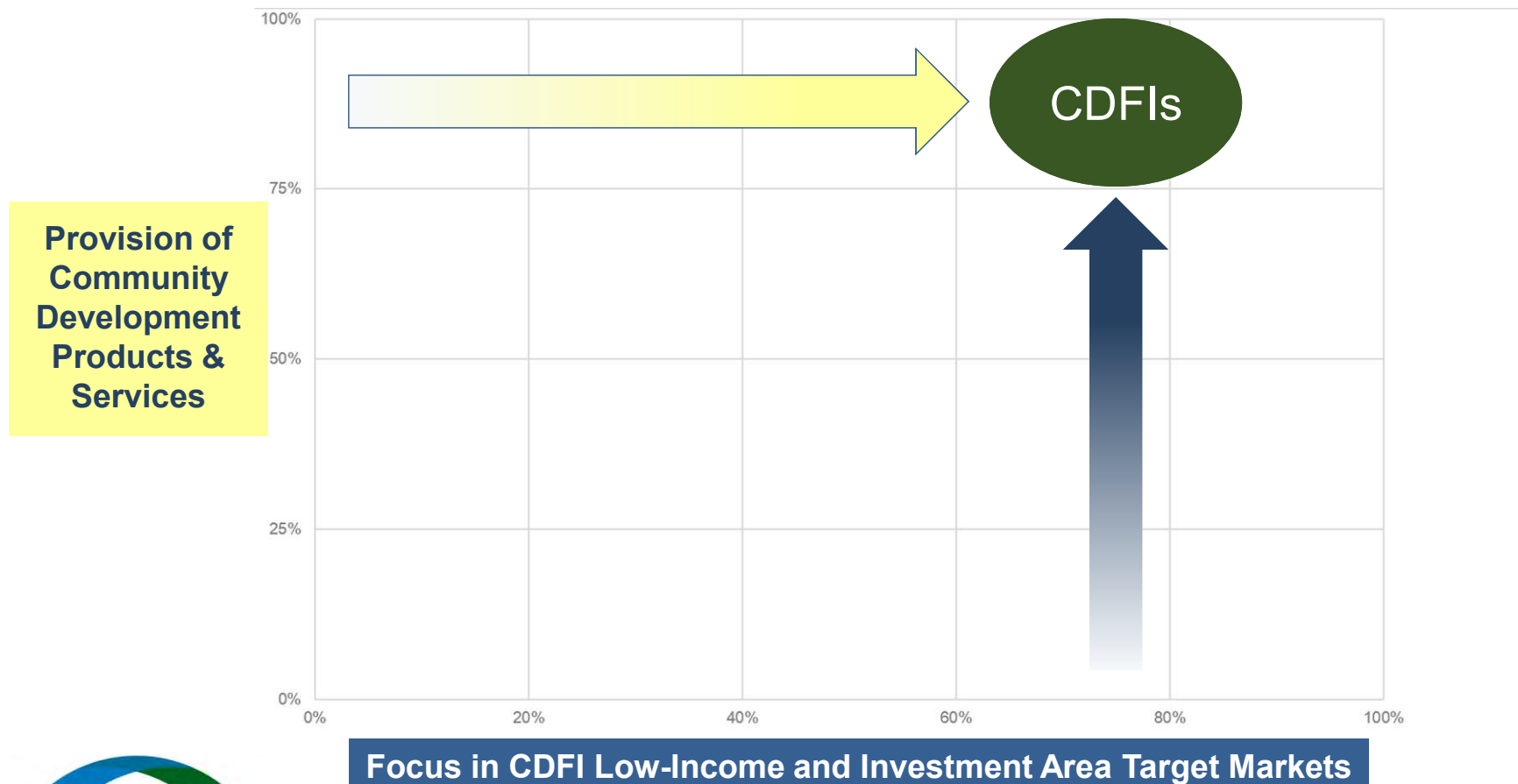
- Branch locations in CDFI Investment Areas
- Low Income Designation
- Poverty, Income and demographic data

Focus in CDFI Low-Income and Investment Area Target Markets

Estimates of CDFI Eligibility

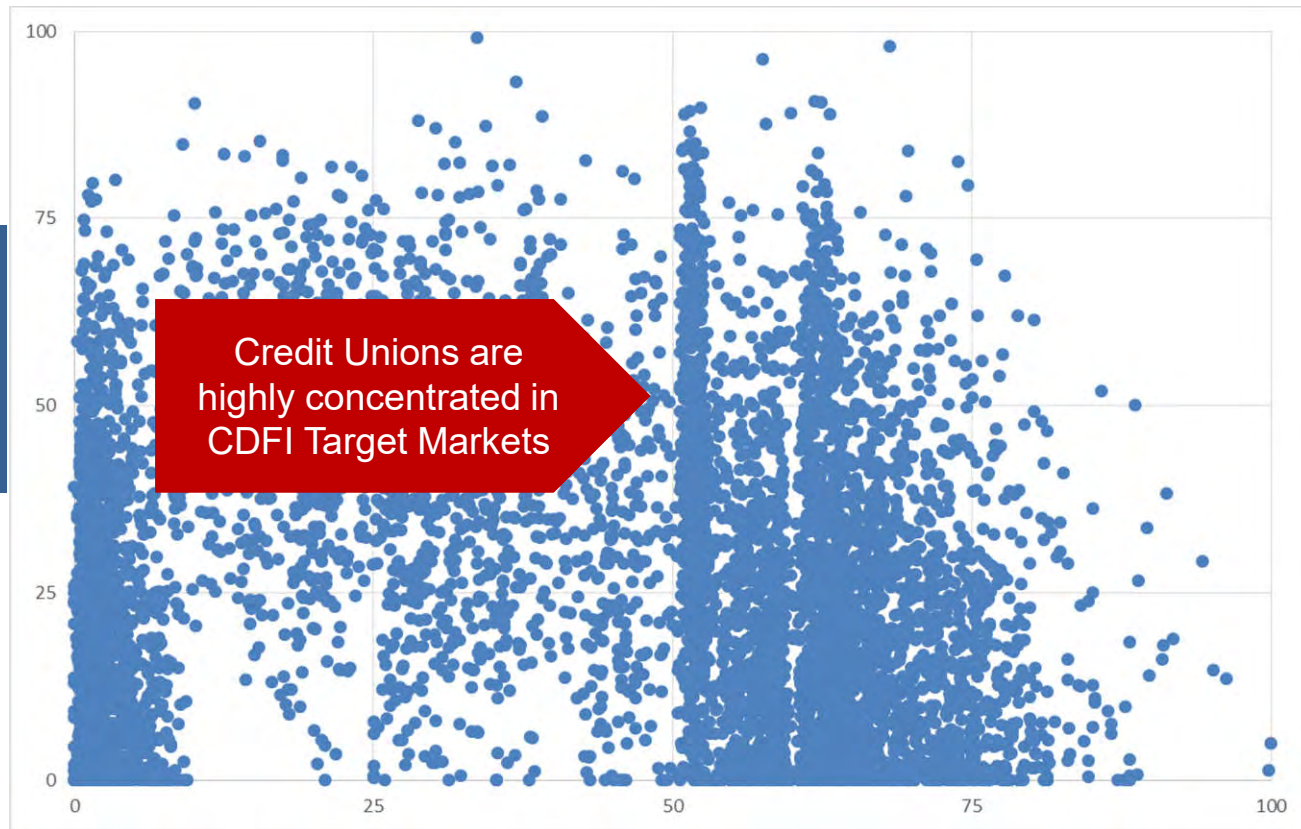


Estimates of CDFI Eligibility



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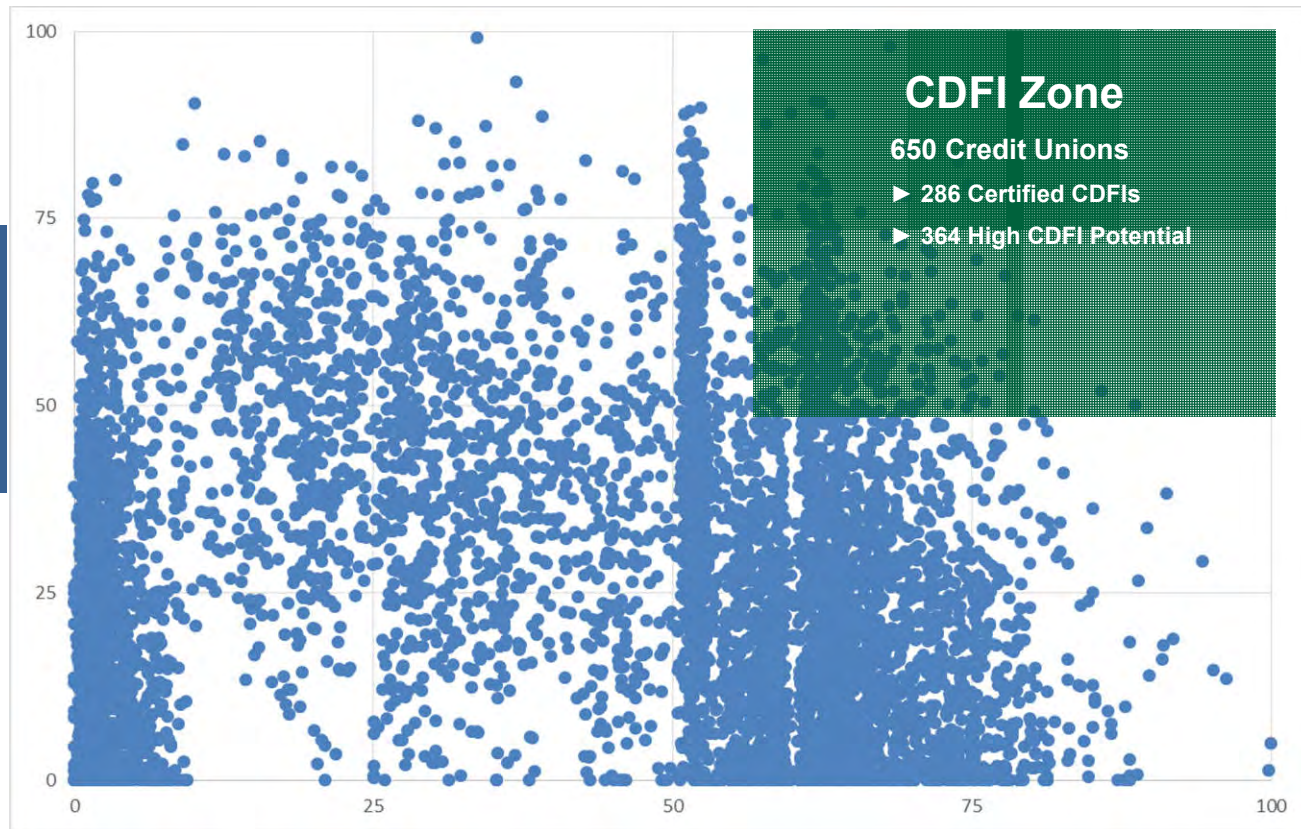
Provision of
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Focus in CDFI Low-Income and Investment Area Target Markets

Estimates of CDFI Eligibility

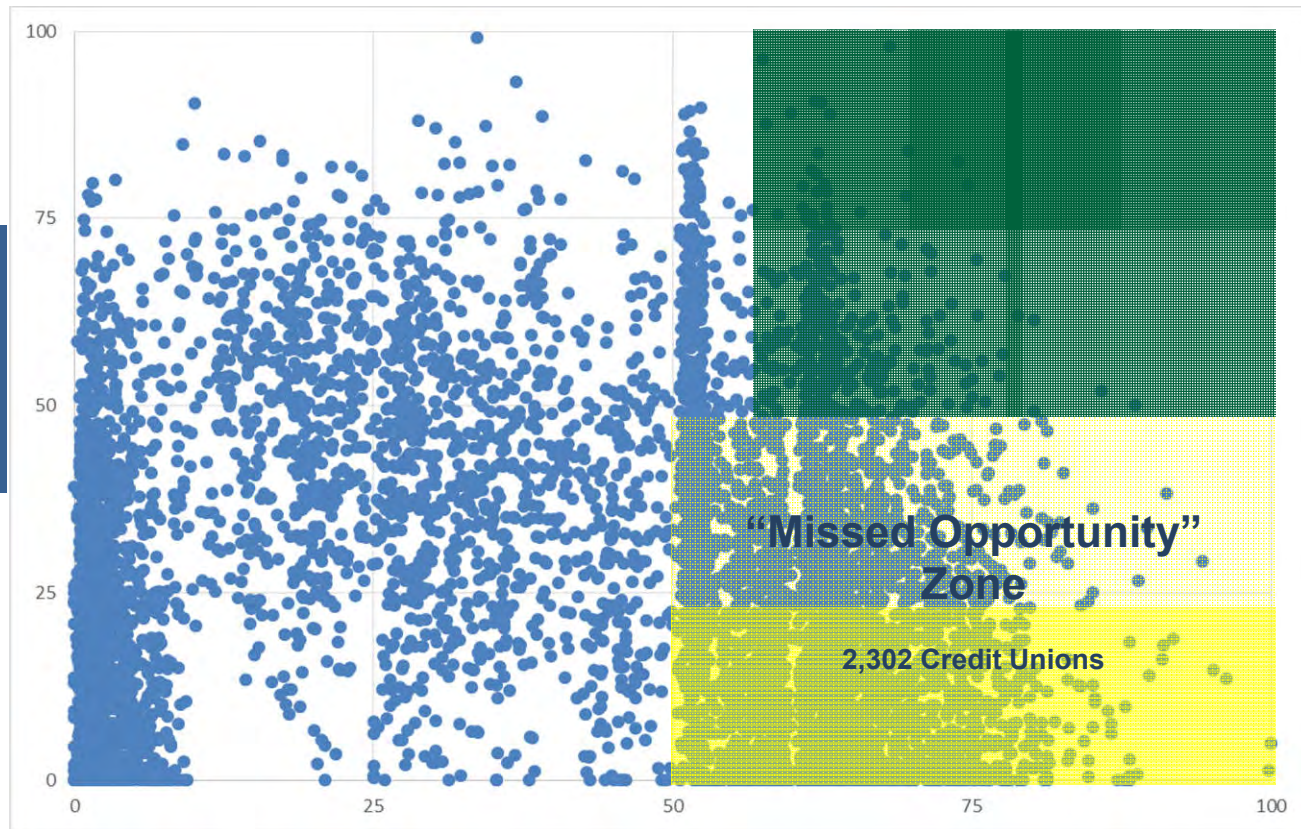
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Focus in CDFI Low-Income and Investment Area Target Markets

Estimates of CDFI Eligibility

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Focus in CDFI Low-Income and Investment Area Target Markets

Can we look deeper?

- Credit migration measures changes in credit scores & risk of individual loans

- Aggregate data provides valid risk measure for total portfolio & net impact on member credit scores



Key Questions

- What is the *institutional impact* of deeper CDFI lending on financial performance & growth?

- Do CDFI credit unions have a measurable impact on *financial capability of members*?

- Do CDFI credit unions lend *deeper* into CDFI Target Markets than their mainstream peers?

Can we look deeper?

- Credit migration measures changes in credit scores & risk of individual loans
- Aggregate data provides valid risk measure for total portfolio & net impact on member credit scores



Thanks!

Randy Thompson, PhD
CEO, TCT Risk Solutions



Credit Migration Matrix

Current FICO Scores

Original FICO Scores

Sample Credit Union
Risk Change By Credit Score
For Period Ending 11/30/2012

Dollar		Original FICO Grades							Grand Total
Current FICO		A+	A	B	C	D	E	Not Reported	
A+	740+	\$ 33,886,855	\$ 4,911,282	\$ 1,696,945	\$ 425,522	\$ 105,543	\$ 63,014	\$ 3,184,419	\$ 44,273,580
A	690-739	\$ 7,886,015	\$ 11,359,190	\$ 5,212,544	\$ 857,840	\$ 146,917	\$ 147,464	\$ 1,828,060	\$ 27,438,030
B	660-689	\$ 1,857,191	\$ 4,601,064	\$ 10,527,101	\$ 2,055,535	\$ 1,333,417	\$ 158,714	\$ 537,630	\$ 21,070,652
C	630-659	\$ 910,286	\$ 910,852	\$ 2,541,847	\$ 2,547,064	\$ 886,367	\$ 848,199	\$ 268,658	\$ 8,913,273
D	600-629	\$ 17,970	\$ 123,766	\$ 1,503,642	\$ 2,480,152	\$ 715,706	\$ 525,812	\$ 526,391	\$ 5,893,438
E	<600	\$ 91,237	\$ 610,842	\$ 1,026,951	\$ 2,088,359	\$ 717,708	\$ 643,272	\$ 563,043	\$ 5,741,413
Not Reported		\$ 75,089	\$ 29,047	\$ 481,778	\$ 189,437	\$ -	\$ 300	\$ 472,982	\$ 1,248,632
Grand Total		\$ 44,724,643	\$ 22,546,043	\$ 22,990,809	\$ 10,643,908	\$ 3,905,658	\$ 2,386,776	\$ 7,381,182	\$ 114,579,017
Loans Not Risk Rated and Adjustments									\$ 29,805,954
Total in Portfolio									\$ 144,384,972

Percent		Original FICO Grades							Grand Total
Current FICO		A+	A	B	C	D	E	Not Reported	
A+	740+	75.77%	21.78%	7.38%	4.00%	2.70%	2.64%	43.14%	38.64%
A	690-739	17.63%	50.38%	22.67%	8.06%	3.76%	6.18%	24.77%	23.95%
B	660-689	4.15%	20.41%	45.79%	19.31%	34.14%	6.65%	7.28%	18.39%
C	630-659	2.04%	4.04%	11.06%	23.93%	22.69%	35.54%	3.64%	7.78%
D	600-629	0.04%	0.55%	6.54%	23.30%	18.32%	22.03%	7.13%	5.14%
E	<600	0.20%	2.71%	4.47%	19.62%	18.38%	26.95%	7.63%	5.01%
Not Reported		0.17%	0.13%	2.10%	1.78%	0.00%	0.01%	6.41%	1.09%
Grand Total		100%	100%	100%	100%	100%	100%	100%	100%

Opportunities & Risk Mitigation

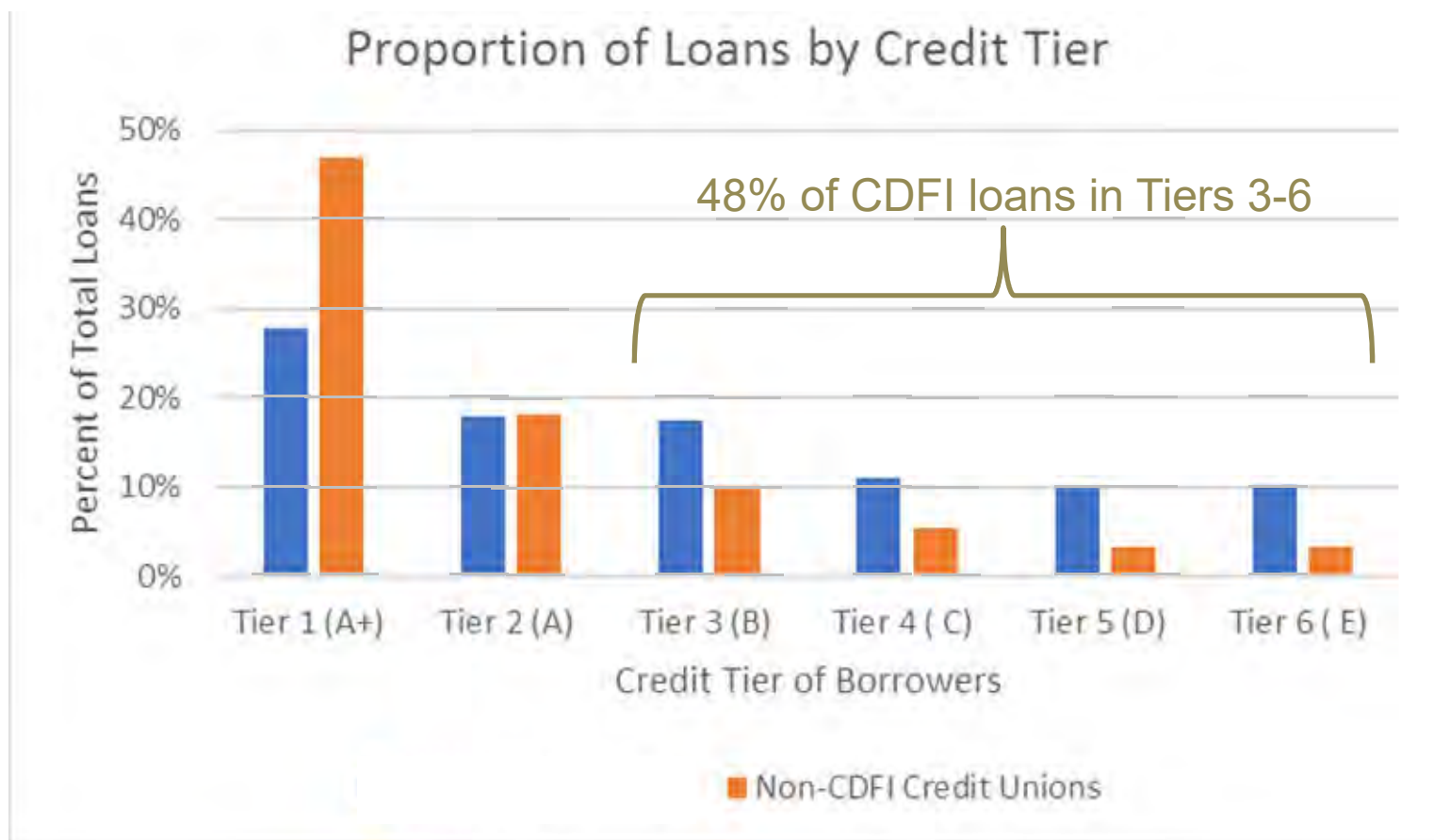
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Improving credit scores show opportunities for targeted marketing and cross-selling

Deteriorating credit serves as early warnings for targeted and timely contacts and counseling services

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Lending *Deeper* in CDFI Target Markets



Lending More *Effectively*

- Credit unions with credit migration tool tend to show positive net improvement of scores across all borrowers
- The median CDFI credit union showed greater gains in net credit scores
 - 7% net gain for CDFIs
 - 4% for non-CDFIs

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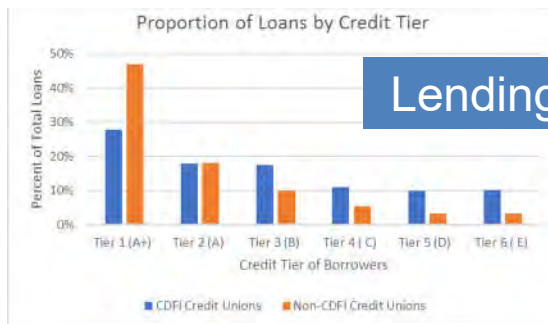
Lending More *Profitably*

- CDFIs deployed a much higher proportion loans to borrowers in lower credit tiers, yet recorded a significantly higher ROA than non-CDFIs with more conservative loan deployments
- This is consistent with results recorded in fiscal years 2013, 2014 and 2015
 - Data through September 30, 2016 shows a continuation of this trend

Type of Credit Union in the Sample	Return on Average Assets FY 2015
CDFIs	0.70%
Non-CDFIs	0.41%

Median Return on Average Assets FY 2015		
Peer Group (Asset Size)	CDFIs	Non-CDFIs
Less than \$2 million	0.06%	0.04%
\$2 million to \$10 million	0.30%	0.13%
\$10 million to \$50 million	0.34%	0.26%
\$50 million to \$100 million	0.65%	0.37%
\$100 million to \$500 million	0.68%	0.51%
More than \$500 million	0.87%	0.76%

What it means to be a CDFI?



Lending *deeply*

Median Return on Average Assets
FY 2015

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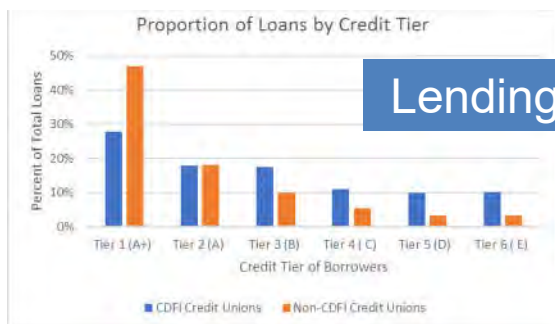
Lending *profitably*

Lending *effectively*

Current FICO	Original FICO Grades						
	A+	A	B	C	D	E	Not Reported
A+	\$ 35,806,895	\$ 4,215,252	\$ 1,626,945	\$ 425,532	\$ 105,543	\$ 63,214	\$ 3,174,419
A	\$ 7,886,015	\$ 11,359,190	\$ 5,222,546	\$ 852,840	\$ 141,912	\$ 142,454	\$ 1,828,064
B	\$ 1,821,191	\$ 4,601,064	\$ 10,522,101	\$ 2,485,531	\$ 4,133,412	\$ 158,714	\$ 521,630
C	\$ 910,186	\$ 910,852	\$ 2,543,442	\$ 2,542,064	\$ 886,920	\$ 845,190	\$ 268,658
D	\$ 17,920	\$ 121,766	\$ 1,593,642	\$ 1,440,151	\$ 715,746	\$ 525,811	\$ 534,191
E	\$ 91,137	\$ 810,842	\$ 1,426,951	\$ 2,088,359	\$ 712,708	\$ 643,272	\$ 953,043
Not Reported	\$ 75,059	\$ 73,017	\$ 181,778	\$ 350,432	\$ -	\$ 800	\$ 472,051
Grand Total	\$ 46,726,643	\$ 22,546,013	\$ 22,990,809	\$ 10,643,988	\$ 3,995,658	\$ 2,385,726	\$ 7,381,182

- It means...
1. Fulfilling historic credit union mission of serving people of modest means
 2. Focusing on markets that offer the highest potential for credit union growth and financial returns
 3. Using the best tools at our disposal to look after the financial health and capability of our members

What it means to be a CDFI?



Lending *deeply*

Median Return on Average Assets
FY 2015

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B	\$ 1,827,191	\$ 4,601,064	\$ 10,527,101	\$ 2,489,533	\$ 1,133,417	\$ 358,714	\$ 537,630
C	\$ 910,106	\$ 910,052	\$ 2,543,427	\$ 2,542,064	\$ 886,920	\$ 818,199	\$ 268,658
D	\$ 690,429	\$ 17,920	\$ 123,766	\$ 1,593,642	\$ 1,440,151	\$ 715,746	\$ 525,811
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Notes

- Preliminary observations from limited number of institutions are illustrative, not yet conclusive
- Deeper dive and case study analysis will yield more information on better and promising practices
- Value of credit migration analysis for risk mitigation, regulatory compliance and impact on financial capability of members.

For More Information



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