

/ inclusiv /

Puerto Rico CDFI Initiative

THE CDFI TRANSFORMATION OF PUERTO RICO'S
FINANCIAL COOPERATIVES



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“In both Puerto Rico and mainland U.S., CDFIs play a vital role in expanding access to safe and affordable financial products and services for low-income communities and communities of color. True to Citi’s mission of enabling growth and economic progress, we’re honored to support Inclusiv in its work of providing financial cooperatives with the tools and capacity they need to help boost the financial stability and resilience of communities across Puerto Rico.”

MICHELLE THORNHILL
DIRECTOR, U.S. COMMUNITY RELATIONS, CITI

About Inclusiv

At Inclusiv, we believe that financial inclusion is a fundamental right. We dedicate ourselves to closing the gaps and removing barriers to financial opportunities for people living in distressed and underserved communities. Inclusiv is a certified CDFI intermediary that transforms local progress into lasting national change. We provide capital, make connections, build capacity, develop innovative products and services and advocate for our member community development credit unions (CDCUs). Inclusiv members serve over seventeen million residents of low-income urban, rural and reservation-based communities across the US and hold over \$242 billion in community-controlled assets. Founded in 1974, Inclusiv is headquartered in New York, NY, with offices in Madison, WI and Atlanta, GA. For more information about Inclusiv visit us at [Inclusiv.org](https://www.inclusiv.org) and connect with us on Facebook, LinkedIn and Twitter.

“The success of the Puerto Rico CDFI Initiative is a testament to the power of partnerships and to the resolve of financial cooperatives to obtain resources for the benefit of the communities they serve. The CDFI transformation is now a reality, and we are proud to continue to work to help cooperativas gain access to resources that were only available to CDFI’s in the mainland.”

CATHIE MAHON
PRESIDENT, INCLUSIV

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Inclusiv is also grateful for the support of the following organizations:

Asociación de Ejecutivos de Cooperativas de Puerto Rico (ASEC)	Hope Credit Union
Banco Cooperativo de Puerto Rico	Latino Community Credit Union
Border FCU	National Cooperative Bank
CDFI Fund	National Credit Union Foundation
Clinton Global Initiative	New York Credit Union Foundation
COSSEC	Nutmeg State Financial Credit Union
CUNA Mutual Group	OAS Credit Union
DC Credit Union	Prudential
Federal Reserve Bank of New York	Seguros Multiples
Federal Reserve Bank of Richmond	Suncoast Credit Union
Guadalupe Credit Union	UNH Carsey School
Guardians Credit Union	VanCity Credit Union
	Wescom Credit Union

I.

Brief history of Puerto Rico's Financial Cooperatives

Puerto Rico's financial cooperative system has a rich history that goes back over one hundred years.

The first cooperative on the island was established in 1873. This strong collaborative tradition, rooted in more than a century of growth and development, created an integrated and strong cooperative ecosystem. Financial, worker, service and housing cooperatives work together to help finance and promote one other. This vast cooperative ecosystem sustains itself and works for the benefit of the communities in which it operates.

Puerto Rico has an extensive network of community-owned financial cooperatives deeply rooted in its rural communities, where most, mainstream financial institutions do not have a presence. These institutions

represent a lifeline for many communities as they provide access to affordable, yet sustainable financial products and services as well as responsible credit. Today, there are 108 state-chartered financial cooperatives and nine federal credit unions on the island. Puerto Rico's financial cooperative system has nearly \$12 billion in community-owned assets and over 1.1 million member-owners.

Although asset wise, the financial cooperatives network represents the third largest financial institution on the island, it is in fact the largest, in terms of number of branches, and has a presence in 76 of the 78 municipalities across the island.

II.

Financial Cooperatives: Design and Structure

Similar to credit unions in the U.S., financial cooperatives in Puerto Rico were organized with the same mission: to serve people who have been excluded from the financial mainstream and offer quality community-owned financial services.

In National Credit Union Administration (NCUA) chartered credit unions, depositors are members and therefore owners of a share of the credit union with ability to run or vote for their board. Members of financial cooperatives are called socios and, just like credit unions on the mainland, they are member-owners. Members of financial cooperatives make deposits, but to own shares, they must also make monthly contributions to their "acciones" account. These accounts are considered restricted capital, or equity. If the financial cooperative is profitable, the members get a dividend on those shares. Members can also apply for lower interest loans based on their restricted share balance. They can withdraw their shares only when they decide to end their membership in the cooperative.

Members are active participants in the future and decision making of the financial cooperative. Annual Assemblies have a high participation, as members are interested in the wellbeing of the financial cooperative and elect their representatives on their respective board of directors.

Another distinctive aspect of cooperativas relates to accounting. Financial cooperatives are in the process of transitioning to GAAP accounting practices, but still use regulatory accounting practices, as required by state law.

III.

Hurricane María: The Response

In September 2017, Hurricane María made landfall in Puerto Rico with devastating category 4 winds, rains, and massive flooding. The level of devastation that ensued had a profound impact on the island's population, especially those in rural and low-income areas.

In those challenging times, financial cooperatives stepped up to meet community needs. They became financial first responders, putting the wellbeing of their communities first. In the aftermath of Hurricane María the cooperatives became a lifeline for many communities across Puerto Rico. It took an average of 48 hours for cooperatives to restart operations after the hurricane hit. In comparison, many bank branches were closed for weeks or months and some were shuttered permanently. In the days and months after the storm, the lack of power and communications meant that ATM and credit cards could not be used as a method of payment. Almost overnight, cash became the only way to pay for critical supplies such as food, water, gas, and other materials necessary to start rebuilding. Many financial cooperatives became the only financial institution in their localities. Their role transcended what was expected from a typical financial institution. They became hubs for their communities, providing power, water, communications and even food and shelter.

As community based financial institutions, the cooperatives became "central banks", safekeeping money from local merchants and making that cash available to consumers for the purchase of basic staples. They were critical to the stability of the island at a moment when banks were closed and there was an unprecedented demand for cash. Some executives traveled through

dangerous roads to process Automated Clearing House (ACH) transactions and transport cash to the branches in hard-to-reach rural areas. Accounts were overdrawn without fees or penalties and checks were honored without systems to verify funding availability.

"Financial cooperatives demonstrated again that they are the ultimate financial first responders and their future depends on the long-term recovery and economic revitalization of the communities they serve."


RENÉ VARGAS MARTÍNEZ
DIRECTOR, INCLUSIV PUERTO RICO NETWORK

This lifesaving work was recognized by the Puerto Rican people, who saw that financial cooperatives were there when they needed them most. Since Hurricane María, financial cooperatives have seen a significant growth of deposits, members, and loans across the island. Since December 2017:

FINANCIAL COOPERATIVE GROWTH SINCE 2017

Membership has increased by **12%**
(**116,524** new members) 

 Assets have grown by **32.28%**
reaching **\$10.7 Billion**

Loans have increased by **16%**
(near **\$1 Billion** in new lending) 

IV.

Puerto Rico CDFI Initiative

Following Hurricane Maria, Inclusiv worked closely with national credit union industry partners such as the National Credit Union Foundation through its CUAID platform to raise funds to aid staff and volunteers of Puerto Rican cooperatives.

The New York Credit Union Foundation and Inclusiv joined forces to raise and distribute more than \$500,000 in disaster relief grants to help employees and volunteers of the local financial cooperatives and enable the institutions restore operations.

As this humanitarian relief effort went underway, Inclusiv realized the need for a more comprehensive capacity building strategy to strengthen the cooperatives' ability to assist with the rebuilding process and participate in the creation of more equitable and resilient local economies.

It became very clear that for the financial cooperatives to be able to maximize their potential to serve their members, grow their operations to serve new members, and increase their lending in affected areas, they would need to raise longer-term capital to support that growth and build the reserves needed to take on the increased risk of lending in a post-disaster environment.

Historically, Community Development Financial Institutions (CDFIs) have played important roles to help communities recover from both economic and natural disasters. The CDFI sector played an active role in the rebuilding of New Orleans after Katrina and supporting communities after Super Storm Sandy. Same approach could be taken in Puerto Rico, but without a strong CDFI network there, the goal became to transform the local financial cooperatives to become CDFIs.

Inclusiv reached out to the CDFI Fund and the Federal Reserve Bank of New York to develop a strategy for connecting cooperatives to sources of capital available to community development financial institutions elsewhere in the country through the **Interagency Statement on CRA Consideration for Community Development Activities in the U.S. Virgin Islands and Puerto Rico Following Hurricane Maria.**

Despite the fact that most census tracts in Puerto Rico qualify as CDFI Investment areas and that much of the island's population qualifies as low-income targeted population or that as Hispanics, Puerto Ricans are classified as Other Targeted Population by the CDFI Fund in 2001, no credit union or financial cooperative had obtained the CDFI certification. Furthermore, only one financial cooperative had ever received a grant from the CDFI Fund.

With initial financial support from Citi, the Federal Reserve Bank of New York, CUNA Mutual Group and the National Cooperative Bank, Inclusiv set out to educate the local financial cooperatives about the CDFI business model. In close collaboration with the University of New Hampshire's Carsey School of Public Policy and the CDFI Fund, Inclusiv built a coalition of public and private partners, involving the Federal Deposit Insurance Corporation (FDIC), Federal Emergency Management Agency (FEMA), Community Development Financial Institutions Fund (CDFI) certified credit unions from the mainland, Catholic Charities as well as local partners such as the Asociación de Ejecutivos de Cooperativas (ASEC), Banco Cooperativo de Puerto Rico and Seguros Múltiples.

Inclusiv developed a long-term training strategy to promote the benefits of the CDFI certification, support the local cooperatives through the process and provide guidance to access CDFI funding. The original goals of the Initiative were:

Build the CDFI sector in Puerto Rico to be effective agents for redevelopment and resiliency work on the Island.



Increase understanding and knowledge of the CDFI Fund; the eligibility criteria, certification process and key investment programs.

Establish an ongoing learning community between CDFIs and potential CDFIs in Puerto Rico and the broader CDFI credit union sector on the mainland.



More than a hundred financial cooperatives met in 2019 for Inclusiv's third CDFI Convening to learn about CDFI certification and grant rounds.



In February 2018, just five months after Hurricane María made landfall, Inclusiv celebrated the first CDFI Convening in the island with the support of the New York Credit Union Association and a coalition of local and national partners. **The Training for CDFI Accreditation: Exploring a New Role for the Financial Cooperative System** brought together cooperative leaders with representatives from federal agencies, including the CDFI Fund, credit union leagues, loan funds, socially responsible investors, and leaders in the CDFI field. This first convening provided an overview of the CDFI certification and technical assistance application processes, case studies of CDFI business models and external resources that could become available to CDFI certified financial cooperatives. Dozens of cooperative executives participated in the Convening, and started a journey that would result in the CDFI transformation of almost seventy financial cooperatives.

A second follow up **Convening, Leveraging the CDFI Certification to Access External Resources** was celebrated in June 2018 to discuss topics such as Community Reinvestment Act (CRA) investments, CDFI Financial Assistance Grants, Opportunity Zones, and federal programs. This convening focused on exploring peer-to-peer collaboration opportunities between CDFIs in the mainland and their counterparts in Puerto Rico as well as partnerships between credit unions and financial cooperatives.

Having set the stage for general participation in CDFI programs, a third convening was celebrated in February 2019. Hosted by Inclusiv together with the Federal Reserve Bank of New York and Asociación de Ejecutivos de Cooperativas de Puerto Rico, the event brought together stateside credit unions, local financial cooperatives, state leagues, funders, policy makers, and non-profits committed to redeveloping Puerto Rico in the aftermath of Hurricane Maria and building resiliency for future disasters. More than 150 cooperative leaders participated in the event which set the stage for participation in the 2019 CDFI Program technical and financial assistance grant round. Cooperative leaders received on site support to create their DUNS, SAMS, and AMIS accounts, all



Puerto Rico financial cooperative leaders gathered in November 2021 for an Inclusiv and ASEC hosted Convening to discuss CDFI compliance and accounting.

“This initiative is contributing greatly to the rebuilding and economic revitalization of Puerto Rico’s rural and low-income communities. Inclusiv’s work to strengthen the network of CDFIs in Puerto Rico is having a tangible positive impact both in the number of funds operating and in the total dollars invested across the Commonwealth.”

JACK GUTT
HEAD OF COMMUNICATIONS & OUTREACH
FEDERAL RESERVE BANK OF NY

necessary to apply for funding.

Inclusiv organized a series of in person convenings in 2018 and 2019 with high level speakers from public and private agencies, practitioners, and experts, followed by multiple trainings, roundtables and webinars delivered over the course of two years.

Online Capacity Building Sessions

With the COVID -19 pandemic in full swing, in person events were suspended. As a result, Inclusiv organized a series of digital convenings with nonprofit partners such as ASEC, Oxfam America, the University of Puerto Rico (UPR) Resiliency Law Center that focused on creating effective community partnerships between financial cooperative CDFI’s and nonprofit organizations in the island.

Monthly town halls and capacity building sessions were also organized with the participation of CDFI practitioners, federal and local officials, regulators, and other resources, all directed at promoting CDFI

certification, participation in grant rounds, and creating connections between financial cooperatives and mainland CDFI credit unions.

With the expansion of the CDFI field in the island, the focus of the CDFI convenings changed in 2021, to ensure that financial cooperatives were well versed in CDFI compliance and reporting. In November of that year, Inclusiv and the Asociación de Ejecutivos de Cooperativas organized a CDFI Convening with a focus on compliance and accounting. More than seventy cooperative leaders participated, demonstrating their interest and commitment to the CDFI business model.

All of the convenings and digital events were made possible thanks to the active support and participation of the CDFI Fund, as well as a coalition of organizations which included the Asociación de Ejecutivos de Cooperativas de Puerto Rico, the Federal Reserve Bank of New York, the National Cooperative Bank, Cooperativa de Seguros Múltiples, Banco Cooperativo de Puerto Rico, CUNA Mutual Group and the New York Credit Union Association.

Puerto Rico CDFI Certification Program

In 2020, with the support of Citi and Prudential, Inclusiv launched the **Puerto Rico CDFI Certification Program**. The objective of the program was to provide hands on support for financial cooperatives to prepare and submit applications for CDFI Certification, empowering financial cooperatives to collectively access millions of dollars in capacity building and financing support from the CDFI Fund and other public and private sources of funding in the future.

The initial phase of the program was an outreach campaign that included individual calls, network wide sessions, and digital communications to educate financial cooperatives about participation in the program and the importance of CDFI certification. General interest in the program was high. Thirty-six financial cooperatives signed up and committed to working with Inclusiv towards their CDFI certification. Hands on support for participating institutions was accompanied by more than a dozen capacity building sessions on CDFI related topics for all financial cooperatives in the island.

In late 2020 and 2021, participating financial cooperatives received news of their CDFI certification. 15 of the 36 financial cooperatives received their certifications in time to participate in the **CDFI Rapid Response Program** and were awarded millions of dollars to respond to the economic impact of COVID – 19 pandemic in their communities.

“The success of the Puerto Rico CDFI Certification program inspired other financial cooperatives to apply for CDFI certification and helped channel millions of dollars in CDFI grants to the island. The program also became a model for Inclusiv’s national CDFI certification program in partnership with CUNA Mutual Group.”

PABLO DEFILIPPI
EVP, INCLUSIV NETWORK

Participation in CDFI Grant Rounds

With every convening, virtual session, call, individual outreach, and grant, the needle moved forward, and more financial cooperatives joined the CDFI Initiative. The initial results came as early as September 2018. A group of four financial cooperatives, Jesús Obrero, JayuCoop, Bonicoop and GuraCoop received technical assistance grants from the CDFI Fund. This initial success turned theory, into practice, motivating other financial cooperatives to participate in CDFI grant rounds and consider CDFI certification. Cooperativa La Sagrada Familia applied for CDFI certification that year as well and became the first CDFI credit union in Puerto Rico.

2019 was another auspicious year for financial cooperatives, as twenty financial cooperatives submitted and received technical assistance grants for a total of **\$2.5 million** in capacity building funds. That same year, Cooperativa Zeno Gandía was the first financial cooperative to successfully compete for and receive \$674,000 in financial assistance funds. This was a watershed moment for the Puerto Rico CDFI Initiative.










“When we applied for financial assistance funding, cooperatives had only been awarded technical assistance grants , which is much less competitive. By receiving the first financial assistance award in the island, we demonstrated that financial cooperatives in Puerto Rico could compete with CDFI credit unions in the mainland for complex and more substantial grants.”

ISMAEL VELÁZQUEZ
CEO, COOPERATIVA ZENO GANDÍA

This sent a signal to the financial cooperative system that they could expand their participation in the Initiative and apply for more complex types of funding.

Since the start of the Puerto Rico CDFI Initiative, **\$69 million dollars** in CDFI grants have been channeled to the communities’ financial cooperatives serve. The

CONSTANT GROWTH IN CDFI GRANTS CHART

	2019		2020		2021	
						
 Technical Assistance Grants	20	\$2.5M	29	\$3.6M	44	\$5.5M
 Financial Assistance Grants	1	\$674K	3	\$2.2M	10	\$6.4M
 CDFI Rapid Response Grants	—	—	—	—	27	\$47M

CDFI RRP served to accelerate the adoption of the CDFI business model. In summer 2021, 27 financial cooperatives were CDFI certified. That number has tripled to **77** in early 2022, with **84** financial cooperatives and credit unions participating as members of the Inclusiv network. Puerto Rico has become a CDFI powerhouse, with the largest concentration of CDFI credit unions in the country.

Annual Certification Reports (ACR)

All certified CDFIs are required to complete an Annual Certification Report (ACR) to maintain their CDFI certification. For five years, Inclusiv has offered ACR preparation services for credit unions in the mainland. With the expansion of the CDFI Initiative in the island, Inclusiv worked to adapt its ACR preparation services to the legal and financial specificities of cooperatives. After the Memorandum of Understanding with the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC) was in place, a process was developed to share vital financial information from cooperatives. An internal crosswalk was created as well to include the accounting differences between COSSEC and NCUA regulated credit unions.

After setting up the framework, Inclusiv reached out to all CDFI certified financial cooperatives, to educate them about the process and what would be required from

cooperativas to be able to submit their ACR's and keep them in compliance. In 2021, Inclusiv submitted 13 ACR's. In the first quarter of 2022, 20 financial cooperatives submitted their ACR's through Inclusiv, 100% of financial cooperatives required to submit them.

“We are proud to support Inclusiv in making financial wellness a reality for millions of Puerto Ricans. Prudential’s investment was catalytic to allow Inclusiv to reach hundreds of credit unions and strengthen their capacity to build an inclusive economy in our island. The return on investment continues to produce immediate impactful results and for future generations.”

RENÉ DEIDA
VP CORPORATE GIVING, PRUDENTIAL

V.

Success Factors for the CDFI Initiative

A. On the ground collaborations

Early on Inclusiv recognized that a foundational piece of the strategy was the establishment of relationships with local entities that were deeply embedded in the local cooperative sector. In addition to the immediate support provided by the Puerto Rico-based CUNA Mutual Group team, Seguros Múltiples and BanCoop, Inclusiv also formalized collaborations with locally based networks that fully understood the challenges, opportunities, and operating conditions locally.

1. Asociación de Ejecutivos de Cooperativas de Puerto Rico (ASEC)



Early on, Inclusiv connected with ASEC-- the leading organization for the promotion of education and professional improvement of cooperative executive. In May 2018, Inclusiv and ASEC, signed a Memorandum of Understanding. This agreement served as the initial framework upon which Inclusiv's initiatives in the island have been built on.

With this strategic alliance in place, Inclusiv and ASEC organized joint events, outreach, and education for cooperative executives to promote CDFI certification and



Representatives from Inclusiv and Asociación de Ejecutivos de Cooperativas (ASEC), Puerto Rico's principal financial cooperative membership organization, signed a Memorandum of Understanding help streamline the CDFI certification process.



From left to right: José Julián Ramírez, Former Executive Director, ASEC, Aurelio Arroyo, CEO of Cooperativa Jesús Obrero, Angel Rodríguez, CEO Cooperativa Oriental, Eddie W. Alicea, CEO of SagradaCoop, Heriberto Ortíz, CEO of Coopharma, Ivelisse Torres, Former Commissioner of the Cooperative Development Commission of Puerto Rico, Hon. José A. Banchs Aleman, Former President of the Comisión de Cooperativismo of the Puerto Rico House of Representatives, Pedro Roldán, Former Interim Executive President at COSSEC and Erixson Gómez, Former CEO Cooperativa Zeno Gandía.

participation in CDFI grant rounds. This close relationship served as the engine for rapid expansion of the CDFI model in the island,

2. Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC)

Financial cooperatives in Puerto Rico are regulated and insured by the Public Corporation for the Supervision and Insurance of Cooperatives, or COSSEC. COSSEC was created by law in 2001 as part of a general revamp of the state legislation and regulations pertaining to Puerto Rico's financial cooperatives.

COSSEC is financed by financial cooperatives, which pay annual premiums based on their asset size. The Corporation's Board of Directors has a sui generis structure, that includes representation from the public interest, financial cooperatives, and the League of



Cooperatives of Puerto Rico. COSSEC supervises all cooperatives in the island, promoting their solvency, and competitiveness.

Since the start of the Puerto Rico CDFI Initiative, collaboration with COSSEC became critical to advance CDFI efforts in PR. The establishment of a formal relationship between the local regulator insurer and the CDFI Fund was also essential for the successful creation and expansion of the CDFI field. To meet that objective, in March 2019, Inclusiv facilitated the signature of a Memorandum of Understanding between the CDFI Fund and COSSEC. The agreement established a legal framework that allowed for the exchange of financial information between the agencies, streamlining the due diligence process for the disbursement of CDFI grant funding.

After an MOU with the CDFI Fund was in place, focus shifted to the establishment of a similar agreement with Inclusiv. To be able to expand Inclusiv's services to financial cooperatives in the island, collaboration with the regulator, and access to systemwide financial information was key. An agreement was reached, and in March 2020, a Memorandum of Understanding was signed between Inclusiv and COSSEC that created a legal framework to facilitate secondary capital investments and the creation of a mechanism for Inclusiv to receive financial information for CDFI compliance. This agreement has facilitated two secondary capital investments, and the submission of 33 Annual Certification and Compliance Reports (ACR's) for financial cooperatives in the island.

B. Support from key agencies and organizations

Strategic Alliance with the SBA in Puerto Rico and the Virgin Islands

Small businesses are an integral part of our communities. They are principal job creators and are the engine that keeps our communities growing and thriving. In Puerto

“We are proud to have played a principal role as a regulator and insurer to promote and facilitate the participation of COSSEC regulated financial cooperatives in CDFI grant rounds. Financial cooperatives are by their nature and structure community development financial institutions. We look forward to our continued collaboration with Inclusiv and other local and federal agencies to provide additional resources for financial cooperatives and the communities they serve”.

MABEL JÍMENEZ MIRANDA
EXECUTIVE PRESIDENT, COSSEC

Rico, access to capital for small businesses and entrepreneurs is essential to the island's economic recovery, and to the future of the population.

Financial cooperatives are uniquely positioned to serve the micro and small business community on the island. Their presence in most municipalities, and their strong community engagement makes them ideal partners for the business community.

Financial cooperatives have the capacity to provide their own business financing alternatives, and many of them do. Yet, they operate in a regulated framework and risk is



From left to right: Lcdo. René A. Vargas Martínez, Director of Puerto Rico Network, Pablo DeFilippi, EVP, Inclusiv Network, Keyshla Molina Zayas, Former Executive Director, ASEC, Josué Rivera, District Director for Puerto Rico and USVI, Small Business Administration.

a consideration when engaging in these kinds of lending activities. The Small Business Administration provides programs designed to manage that risk and promote access to capital for businesses.

Inclusiv and the SBA have collaborated in Puerto Rico. The Payroll Protection Program is just an example. SBA officials also presented as panelists in CDFI convenings, promoting their products. Formalizing this collaboration was a natural step.

In November 2021, Inclusiv and the Small Business Administration signed a Strategic Alliance Memorandum to promote the adoption of SBA products and services, provide technical assistance to financial cooperatives, and remove barriers to small business lending. The scope of the partnership includes providing education on SBA's programs to the credit unions and promotion of their growing participation in SBA programs, with the goal of increasing access to capital and training resources for underserved communities in Puerto Rico and the small business community in general.

Federal Reserve Bank of New York

The Federal Reserve Bank of New York has played a pivotal role in the development and success of the Puerto Rico CDFI Initiative, serving as a convener and connector between financial cooperatives and the impact investing community. Their Community Development leadership

team actively participated in the CDFI Convenings, and connected Inclusiv to organizations with a public commitment to helping the island recover.

One of the main initiatives launched by the Federal Reserve Bank of New York in Puerto Rico was Investment Connection. Investment Connection matches financial institutions and other capital providers ("funders") with nonprofit and community development organizations ("applicants") whose needs may qualify for credit under the Community Reinvestment Act (CRA).

Inclusiv, and four financial cooperatives participated in the program that brought together financial cooperatives, nonprofit organizations, and funders. An in-person pitch event was organized in January 2020 and financial cooperatives had an opportunity to present their projects tackling issues such as access to renewable energy financing, financial education, and community resiliency.

Another initiative in which Inclusiv and the Federal Reserve joined forces on was the CDFI Survey. The Federal Reserve System conducted the CDFI Surveys to gather information on the role of Community Development Financial Institutions (CDFIs) in stabilizing communities across the country. Inclusiv and the Fed collaborated on CDFI Surveys in 2019, 2020, and 2021. The most recent survey effort gathered information from 345 CDFIs about their financial well-being throughout the COVID-19

pandemic, operational gaps and challenges, and effects on clients and communities they serve. As part of the collaboration, Inclusiv reached out to financial cooperatives in the island and helped them participate in the survey, gathering important information about their community impact and making their work more visible outside of Puerto Rico.



Inclusiv and financial cooperative leaders participated in the Federal Reserve Bank of New York's Investment Connection Program.

VI.

Community Development Financial Institutions Fund (CDFI Fund)



Inclusiv has a long history of collaboration and partnership with the CDFI Fund. The expansion of the CDFI business model in Puerto Rico has been one of the most successful chapters of this decade's long partnership.

Since 2018, the CDFI Fund actively supported education and engagement with financial cooperatives. Former CDFI Program Director Amber Bell participated in Inclusiv organized convenings in the islands, town halls and webinars, answering questions in Spanish and actively promoting CDFI grants and programs to cooperative leaders. This hands-on approach by the Fund, which included the development of a financial crosswalk and the acceptance of financial statements in Spanish, created an atmosphere of trust, and gave financial cooperative executives the confidence needed to join the initiative and engage in grant opportunities.

This collaboration has now expanded to programs that transcend traditional CDFI grant rounds. The recent partnership between the CDFI Fund, LISC, Americorps and Inclusiv to promote participation of financial cooperatives in the Economic Mobility Corps program is yet another example of how effective partnerships can help transform communities.

“In my former role as Program Manager at the CDFI Fund, I worked closely with Inclusiv and think that the work in Puerto Rico provides an excellent blueprint to activate mission-driven financial institutions in the community development space. The transformation of the local cooperatives into CDFIs opens an extensive new platform to channel community revitalization investments into building more inclusive, resilient, and sustainable communities on the island.”

AMBER KUCHAR-BELL
CHIEF STRATEGY AND OPERATIONS OFFICER
OPPORTUNITY FINANCE NETWORK

VII.

Clinton Global Initiative - Commitment to Action

In 2019, Inclusiv and the Asociación de Ejecutivos de Cooperativas de Puerto Rico (ASEC) announced a public “Commitment to Action” at the Clinton Global Initiative Action Network on Post-Disaster Recovery in San Juan, Puerto Rico. Inclusiv launched this Commitment to Action to expand its Puerto Rico CDFI Initiative and work with the CGI to garner philanthropic support for the initiative.

Collaboration with the CGI was pivotal to gain visibility for the Puerto Rico CDFI Initiative and support from funders like Citi and Prudential. It also prompted the first ever visit from a U.S. President to a financial cooperative in Puerto Rico.



President William Jefferson Clinton met with Eddie Alicea, CEO of Cooperativa Sagrada Familia at their main branch in the town of Corozal, Puerto Rico.

“I wish everyone could see the impact of CDFIs. We need to channel more investments to support this work of economic revitalization and financial inclusion. People of moderate and low economic resources need the kind of financial tools that this commitment provides.”

PRESIDENT WILLIAM JEFFERSON CLINTON



Aurelio Arroyo, CEO of Cooperativa Jesús Obrero and President William Jefferson Clinton at the CGI Action Network on Post-Disaster Recovery Meeting in San Juan, Puerto Rico. January 2019.

“In an increasingly interconnected world, solutions need to address not just one problem but the intersections of our most pressing challenges. Through their work and their CGI Commitment to Action, Inclusiv is taking critical steps to build inclusive economic growth in communities across Puerto Rico, while building resilience and preparing for natural disasters and the effects of climate change.”

GREG MILNE
CEO, CLINTON GLOBAL INITIATIVE

The 20 CDFI financial cooperatives that submitted ACR reports in 2021 provided the following Development Services:

<u>Development Service</u>	<u>People Served</u>
Real Estate Technical Assistance	819
Home Ownership & Counseling Technical Assistance	5,672
Financial Education	37,078
Credit Counseling	56,944
Business Technical Assistance	1,656
Other types of development services (community events, online, etc)	28,158

VIII.

Response to the Covid 19 Pandemic

The COVID-19 pandemic had a profound economic effect on low-income communities and communities of color throughout the United States.

Puerto Rico was not the exception.

During this crisis, just like they did in the aftermath of Hurricane María, financial cooperatives served as financial first responders. They helped their members by activating community partnerships, offering fee waivers, emergency loans, loan forgiveness, forbearance, Paycheck Protection Program (PPP) lending, and technical assistance for small businesses. They stayed open throughout the pandemic, making sure their members' financial needs were met, putting their health on the line for their community.

CDFI Rapid Response Program

In December 2020, the U.S. approved the Coronavirus Response and Relief Supplemental Appropriations Act

of 2021 which allocated \$3 Billion to the CDFI Fund in additional funding. This historic appropriation was divided into two programs with different purposes and deployment dates:

- **\$1.25 billion CDFI Rapid Response Program (RRP) – For CDFI institutions to be able to provide rapid response to COVID in their communities.**
- **\$1.75 billion in additional CDFI Funds - which will remain available until expended- including \$500 million destined to expand traditional CDFI funding rounds, and \$1.25 billion to provide grants to financial institutions that serve minority communities.**



Eddie W. Alicea Saéz, Executive President of Cooperativa Sagrada Familia distributing supplies to community members during the height of the COVID-19 pandemic.

The non-competitive \$1.25 Billion CDFI Rapid Response Program (RRP) was designed to help communities served by CDFI's to respond to the economic hardships created by the COVID-19 pandemic. Once the approval of the legislation was announced, Inclusiv rapidly organized a call during the holidays with eligible financial cooperatives to educate them about the opportunity. We also worked to make sure that all CDFI certified cooperatives and credit unions in the island had the necessary federal credentials to be able to participate in the CDFI RRP grant round.

The federal credentials process was a significant roadblock that required Inclusiv to activate its advocacy arm. Federal agencies in charge of approving the necessary credentials were not familiar with the particularities of institutions operating in Puerto Rico. As the deadline approached for financial cooperatives to submit their applications, more than a dozen institutions

were still awaiting their CAGE numbers.

The CAGE Code is a five-character ID number used by the Federal Government to identify vendors. CAGE stands for “Commercial And Government Entity. A CAGE number is required to receive federal awards. With millions of dollars on the table, Inclusiv reached out to New York congresswoman Nydia Velazquez, who served as an advocate for financial cooperatives and worked with federal agencies to make sure that the credential requests were attended in a timely manner. Once credentials were granted, 27 financial cooperatives, 100% of those eligible to apply in the island, presented applications for the CDFI RRP program.

In summer 2021, the CDFI Fund announced that 863 CDFI's would receive CDFI RRP funding, including 27 financial cooperatives in Puerto Rico. This investment represented 47 million dollars in COVID response funding for the financial cooperative system in the island, the largest external investment they had received in their history. The significance of this investment cannot be overstated.

Financial cooperatives are still deploying the funding for uses such as expansion of business lending, new small dollar loan products, technology upgrades, flexibilization of underwriting guidelines, and increase in lending across the board.

“27 CDFI financial cooperatives in Puerto Rico received \$47 million in CDFI RRP grants, the largest one time external investment we have received in our history. This investment has been transformational to the communities we serve, expanding access to affordable financial services where and when they are needed the most.”

MIGUEL ORTÍZ
CEO, CREDICENTRO COOP

The infographic features a green background with a bar chart showing three bars of increasing height. The top bar is orange and labeled '27 cooperativas'. The middle bar is purple and labeled '\$47 millones'. The bottom bar is blue and labeled 'para impactar nuestras comunidades'. The logo for 'COOP' is in the top left, and 'SUPLEMENTO ESPECIAL' is in the top right. A quote from Bill Clinton is in a white box, and the logo for 'ASOCIACIÓN DE SUBSISTEMAS DE COOPERATIVAS DE PUERTO RICO' and 'inclusiv' are in the bottom right. A blue banner at the bottom contains text about the supplement's publication.

COOP SUPLEMENTO ESPECIAL

27 cooperativas

\$47 millones

para impactar nuestras comunidades

“Ojalá todo el mundo pudiera ver el impacto de las CDFI. Necesitamos canalizar más inversiones para apoyar este trabajo de revitalización económica e inclusión financiera. Las personas de recursos económicos moderados y bajos necesitan el tipo de herramientas financieras que brindan estas asignaciones”

- Bill Clinton
Expresidente de los Estados Unidos de América

ASOCIACIÓN DE SUBSISTEMAS DE COOPERATIVAS DE PUERTO RICO / inclusiv /

Supplement published in El Nuevo Día, Puerto Rico's main newspaper about the historic \$47 million in CDFI RRP grants received by 27 financial cooperatives in Puerto Rico.

SBA Paycheck Protection Program

The COVID-19 pandemic had far reaching effects that affected almost all aspects of the U.S. economy. Small businesses were particularly affected, as public health authorities mandated lockdowns through the United States. During the initial phases of the pandemic, the government of Puerto Rico approved some of the strictest measures in the country to protect the population against the virus.

In 2020, the U.S. government approved the ‘Coronavirus Aid, Relief, and Economic Security Act (CARES). This package included funding for a new program designed to help small businesses keep their doors open.

Seven financial cooperatives and one federal credit union in the island were certified to process PPP loans when the SBA officially launched the program. Financial cooperatives in the island prepared to build a pipeline, engaging in outreach and education to their members and small businesses in their communities. After several

weeks of preparation, they were ready for the expected influx of applications. Unfortunately, when the launch day arrived, financial cooperatives could not initially participate in the first round of PPP lending, preventing access to much needed capital for the small businesses in communities they serve. Access to SBA systems was restricted.

In response, Inclusiv quickly organized a virtual town hall meeting with the former SBA Deputy District Director of Puerto Rico and the Virgin Islands, María de los Ángeles de Jesús and Pedro Roldán, Interim Executive President of COSSEC. The leadership of more than 50 financial cooperatives participated in the call.

The status update was that help was coming, but with all operations centralized at the Office of Capital Access in Washington, DC, there was an understanding that the SBA was completely overwhelmed and access to the system could not be guaranteed.

Inclusiv immediately reached out to New York Representative Nydia Velazquez, Chairwoman of the House Small Business Committee – a relationship developed from previous advocacy efforts. Within two days, all financial cooperativa inquiries were answered and access to the E-Trans system was approved. Unfortunately, almost as quickly – the money ran out.

“Financial cooperatives worked long hours with thousands of small business owners and entrepreneurs to help them prepare their PPP applications, offering loan payment extensions, and emergency loans, providing much needed support through rough times. This is part of our mission and who we are as financial cooperatives.”

WILLIAM MÉNDEZ
CEO, COOPACA

To prepare for round two of the PPP, Inclusiv held a training for financial cooperatives led by loan officer, Claudia Fernandez of Brooklyn COOP, and Rosa Franco, Director of Lending, Rosa Franco of Neighborhood Trust Federal Credit Union – both Spanish speakers whose credit unions have significant Spanish-speaking membership in New York. Just when they were ready for round two and applications were submitted – the SBA system collapsed.

Large banks, with the technology to submit thousands of applications in bulk, bogged down the system which wasn't built to handle that capacity. Once the issue was resolved two days later, cooperativas began processing loans, particularly from entrepreneurs and self-employed members. After working weekends and long nights, 2,187 loans were disbursed, deploying over \$30 million in PPP loans to community businesses.

“Financial cooperatives funded more than \$30 million dollars in PPP loans to 2,187 small businesses in rural low and moderate income communities. PPP loans served as a lifeline for the grassroots businesses that support our economy.”

AURELIO ARROYO
CEO, COOPERATIVA JESUS OBRERO



2019 site visit to Bonicoop, a CDFI and rural financial cooperative that serves more than 18,000 members in the town of Aibonito, Puerto Rico.

IX.

Expanding Efforts to Meet Financial Cooperative Needs

Racial Equity Grant Fund

The Inclusiv Racial Equity Grant Fund was previously launched as the Resilience Grant Fund in June 2020 to help credit unions led by and serving people of color provide financial relief to consumers and small businesses affected by COVID-19. 26 financial cooperatives submitted applications to participate in both Racial Equity Grant Fund rounds. A total of \$322,500 was awarded to financial cooperatives in the island, a substantial capacity building investment that came when it was most needed by financial cooperatives and the communities they serve.

Racial Equity Grant funds were used by financial cooperatives to help small businesses, prepare their offices to operate during the COVID-19 pandemic, technology upgrades, CDFI certification, grant preparation, and the creation of online services. One of the grantees, Lajas Coop, for example, created a Fund to help small businesses during COVID-19. Jesús Obrero Coop launched an online mortgage center, and SPT Coop was able to buy its first ever ATM card machine.

Creation of the Inclusiv Puerto Rico and the Caribbean Region

In 2021, in recognition of the growth of Puerto Rico cooperativas in the organization, Inclusiv's Board of Directors created the Puerto Rico and Caribbean Region. This region has the same number of board members as other regions at Inclusiv.

“The creation of the region provides an opportunity for financial cooperatives and credit unions in Puerto Rico and the Virgin Islands to actively participate in the strategic direction of Inclusiv, making sure they are represented in the highest levels of our organization.”

MICHELLE FRANQUI
CEO, CAMUY COOPERATIVA

Inclusiv's 84 members in Puerto Rico are proudly represented by Eddie Alicea, CEO at Cooperativa Sagrada Familia, Michele Franqui, CEO at Camuy Coop, and Aurelio Arroyo, CEO at Cooperativa Jesús Obrero, who holds an at large position.



Small business owners from the west of Puerto Rico received small dollar loan grants as part of Lajas Coop's participation in Inclusiv's Racial Equity Grant Fund.

Inclusiv Puerto Rico Network

In 2021, amid unprecedented membership and financial growth, Inclusiv embarked on a year-long journey of organizational development, leadership growth and intensive exploration of a diverse, equitable and inclusive principles. We engaged outside expertise to support the shaping of the organization for scale, while preserving and enhancing our unique mission driven culture.

In an intensive 6-month engagement, the Inclusiv leadership and staff worked on an organizational restructuring process that simplified and streamlined business lines, organized reporting lines and workflows, envisioned talent needs for growth, formalized performance goals and staff performance expectations and identified key cross-cutting processes in need of targeted process improvements.

One of the results of the restructuring process was the creation of a dedicated administrative unit for the Puerto Rico and Caribbean Region. The Inclusiv Puerto Rico Network will report directly to Inclusiv Network EVP, Pablo DeFilippi, and is tasked with helping financial cooperatives gain access to the same resources and opportunities than those available to mainland credit unions.

Inclusiv's work to spread the word about the power of CDFIs has been crucial in providing equitable access to life-changing resources for both our members and our cooperatives. Through this initiative, Inclusiv has not only strengthened its network of cooperative leaders and organizations, it has embraced diversity and made us feel that the island is closer than ever.

LUIS PASTOR
CEO, LATINO COMMUNITY CREDIT UNION

Secondary Capital Market Building Initiative

Since the start of the Puerto Rico CDFI Initiative, Inclusiv identified the lack of access to capital sources as one of the main challenges faced by cooperativas to expand their community impact. In late 2019, Inclusiv partnered with Deutsche Bank to develop a scalable underwriting and investment vehicle that considers the regulatory and capital-ratio evaluation particularities of cooperativas. Deutsche Bank also pledged to make the initial secondary capital investments.

To this end, in October 2020, Inclusiv signed a Memorandum of Understanding (MOU) with Puerto Rico's local regulator of cooperativas, the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC). The MOU facilitated the creation of a legal framework for the exchange of financial information necessary to offer secondary capital infusions to cooperativas. The MOU signing was followed by the celebration of a COSSEC sponsored webinar in December 2020 for cooperativas that focused exclusively on regulations associated with the issuance of Capital Obligations, their requirements, authorized uses, and their accounting and compliance effects.

Inclusiv has identified 2 financial cooperativas that qualify for secondary capital investments and has worked with them extensively to present all the documentation to complete \$1M placements in 2022. With this investment, we expect to create a new market for financial cooperativas to have access to low-cost capital to create, expand, and deepen their financial inclusion initiatives.

X.

Looking Forward

CDFI Equitable Recovery Program (ERP)

In December 2020, The US approved an historic stimulus package that included a \$3 billion dollar appropriation for the CDFI Fund. This appropriation was divided into two different programs \$1.25 billion for the CDFI Rapid Response Program, which was deployed in Summer 2021, and \$1.75 billion for what the CDFI Fund announced would be the Equitable Recovery Program (ERP).

The program is still in development, but the CDFI Fund announced the initiative would be launched in Spring 2022. This unprecedented investment in low and moderate income communities will have a substantial impact in the mainland USA, but particularly in Puerto Rico, where we expect more than eighty financial cooperatives to be CDFI certified by the program's launch.

Since the announcement of the stimulus funding, Inclusiv has actively worked with cooperative leaders to educate them about the benefits of participating in these programs, and how their communities can benefit from these new opportunities. Once the program is launched, inclusiv will launch a campaign to assist financial cooperatives with the application process and promote participation of all eligible CDFI's in the island.

Economic Mobility Corps (EMC) Partnership with LISC and the CDFI Fund

One of the objectives of the Puerto Rico CDFI Initiative is to connect financial cooperatives in Puerto Rico with opportunities that have been historically available.

The Economic Mobility Corps (EMC) is the result of a new, innovative partnership between the CDFI Fund and AmeriCorps. The initiative places AmeriCorps members at certified CDFIs to serve program clients while simultaneously expanding CDFI capacity to provide financial counseling, broadening the scale and impact of CDFI programs.

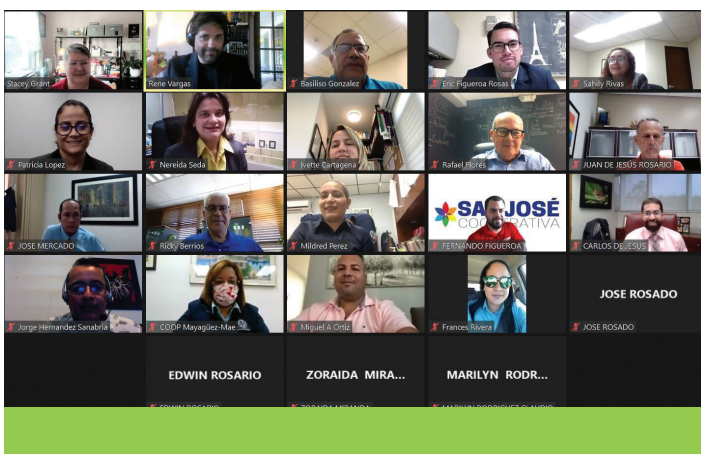
Even in these challenging times, financial cooperatives answered the call. Executives from more than 25 institutions participated in the meeting. 16 financial cooperatives were accepted into the EMC program and are now in the process of hiring their respective AmeriCorps members.

This is the first time that financial cooperatives have ever gained access to a program like the EMC.

“The existence of the EMC program in the island represents an opportunity for cooperativas to go deeper in their communities, offering access to responsible financial products and services, and helping low and moderate income people make sound financial decisions in moments of grave economic instability.”

NEREIDA SEDA
CEO, LAJASCOOP

It also represents new employment opportunities for people in their communities and will form professionals in the CDFI field, serving as a talent pool for these institutions, strengthening their expertise in CDFI related matters.



Member Spotlight



SAGRADA FAMILIA
COOPERATIVA

Oasis Sagrada Familia

In October 2021, Inclusiv member and CDFI, Cooperativa La Sagrada Familia announced the formal inauguration of the Oasis Resiliency Center in the rural town of Naranjito, Puerto Rico.

The OASIS is a one-of-a-kind project designed to provide support to 128,000 residents across five municipalities in the mountains of the island in the case of an emergency or disaster. During the ceremony, Eddie W. Alicea Saez, CEO of Sagrada Familia and Inclusiv Board member signed an MOU with the Puerto Rico State Agency for Emergency and Disaster Management, designating the OASIS a "macro community hub". With this designation, the financial cooperative is authorized to store and distribute supplies in the case of an emergency to residents of the rural municipalities of Corozal, Naranjito, Barranquitas, Orocovis and Comerio.

The Oasis is a state-of-the-art facility that includes a community meeting room, volunteer training center, deep water well, cistern, gasoline and diesel reserves, generator, and a space for helicopters to land and drop supplies. Cooperativa Sagrada Familia was the first CDFI financial cooperative in the island, offering affordable and relevant financial services to 30,000 member-owners through five branches in rural and urban areas of the island. Eddie W. Alicea Saez, Sagrada Familia's CEO was the first ever executive from a financial cooperative to be elected to Inclusiv's Board of Directors.

Designation ceremony of OASIS Sagrada Familia as a macro community hub.



Eddie W. Alicea Sáez, CEO at Cooperativa Sagrada Familia, Nino Correa, Interim Commissioner of the Emergency Management and Disaster Administration Bureau (NMEAD) and Alexis Torres, Secretary of Public Safety, and the Sagrada OASIS inauguration ceremony.

Member Spotlight



Cooperativa Jesús Obrero

Advocates for affordable renewable energy

Cooperativa de Ahorro y Crédito Jesús Obrero is CDFI and a financial cooperative that serves the rural communities of the cities of San Juan and Guaynabo.

With over 9,000 member owners and \$110 million in assets, Jesus Obrero is a pioneer, being one of the first four Puerto Rico financial cooperatives to receive technical assistance grant funding from the CDFI Fund in 2018. They are also the first Juntos Avanzamos and Pathways credit union in Puerto Rico. A member of the In-clusiv Center for Resiliency and Affordable Renewable Energy, Jesús Obrero was the first financial cooperative to offer solar lending to individuals and businesses in the island.

Aurelio Arroyo, the financial cooperative's CEO is one of the main advocates for renewable energy financing in the island. His advocacy and support have been essential for the expansion of alternative energy financing opportunities in the cooperative field. Jesús Obrero holds a solar loan portfolio of 3.1 million but has disbursed more than 6.3 million.

Jesús Obrero was also very active during the COVID – 19 pandemic, disbursing over 100 PPP loans to small businesses in Puerto Rico, approving 79 emergency loans, forgiving 894 fees and offering 4,735 loan payment extensions. Jesús Obrero also expanded its online services, developing a 100% online account opening system, which has supported their growth.

In May, Deutsche Bank and Inclusiv announced a \$250,000 secondary capital investment for Jesús Obrero. This investment is the first ever received by a financial cooperative from a bank outside of Puerto Rico. With this capital infusion, Jesús Obrero will be able to expand their financial inclusion and renewable energy initiatives for the benefit of the communities it serves.





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