/ inclusiv /
SPECIAL REPORT
Inclusive Finance
SUMMER 2020

## Financial Inclusion, Now More Than Ever

No one knows better than credit unions how fast the world can change. For credit union members, one week can mean the difference between a paycheck and a pink slip; one month can scuttle a credit score or empty a savings account; and one quarter can send an uprooted family in search of a safe and affordable place to live. And community development financial institution (CDFI) credit unions— who consistently provide affordable, accessible financial products for those traditionally forgotten by the mainstream finance industry—know better than most how thin the margin between financial security and crisis can be.

As the world has changed over the past few months, the reflections on this research too, have changed. Writing in early 2020, I was excited that we could show, yet again and for five years running, that financial inclusion is a path for sustainable growth and meaningful impact for the credit union movement. The remarkable CDFI credit union business model has driven institutions to go broad and deep: to provide greater overall financial inclusion while focusing deeply on the very people overlooked by the mainstream financial system. In the early days of 2020, the primary economic challenges were relatively clear: an expanding wealth gap, a debt-saddled populace and the widespread absence of even a minimal savings cushion. The data showed that CDFI and Community Development Credit Unions (CDCUs) were prepared to face these challenges and more.

Fast forward just a few months and the challenges have multiplied. Now, amidst a global pandemic with as yet incalculable social and economic costs, we again see the power of the CDCU business model to reach deeply into communities that have been depleted by losses of jobs, income and healthcare and are marginalized by race, ethnicity or immigration status. Whether in boom times or bust, CDCUs are our nation's financial first responders on the front lines of community-led campaigns for full financial inclusion. With past performance during periods of economic shock as our guide—most recently the financial crisis and ensuing economic recession and local disaster recovery from climate events —we expect that we will be seeing periods of upheaval and loss in our movement. But we also know that history has shown the resilience of CDCUs when they are able to galvanize capital to drive the delivery of new services and products to their members; to increase their lending and grow their institutions. By leaning into the evolving needs in their communities safely, CDCUs can move toward ever increasing relevance in their communities and sustainability of their institutions.

In short, we expect CDCUs will continue to do what they do best: manage risks, survive and thrive while expanding access to capital and financial services throughout their communities. This update to Inclusive Finance reflects the durable capacity of CDCUs to respond to crises, whatever the scale, one member, one family and one community at a time.

Cathie Mahon
President/CEO, Inclusiv

# Key Findings

In 2018 Inclusiv published a research report that showed a strong positive relationship between financial inclusion and financial performance.[1] This follow-up report examines five years of CDCU data, from 2014 through 2019, analyzing their approach to financial inclusion, their overall financial performance, and other factors contributing to the business success and community impact of the CDCU business model. The research conducted for this report supports five key findings.

## 1. CDCUs outperform their non-certified peers

Year on year since 2013, CDCUs have consistently outperformed their mainstream peers in key financial performance categories of earnings and growth; this holds true for those that have received awards as well as those that have not. This ability to grow and earn more fosters greater long-term stability for the institution and preserves the diversity of the credit union movement in all asset classes. Given recent credit union consolidation trends, this finding is particularly critical for small institutions, who have shown growth where the average non-certified credit union is shrinking.

## 2. CDCUs provide financial access that creates financial inclusion

The CDFI certification process requires that more than 60% of financing activities target designated low-income and otherwise underserved, overlooked markets. The CDCU business model cultivates these members into a viable pool of stronger borrowers. In this analysis of CDCU loan data, an average of 80% of loans and 72% of loan volume went to special targeted markets, resulting in as much as $25 billion reaching groups otherwise left out of traditional lending structures. Most striking: select CDCUs with the greatest concentration of target market lending also demonstrated some of the strongest financial performance, showing the effects of embracing mission.

## 3. CDCUs lend deeply and responsibly

Simply serving a low-income area is not sufficient to build more robust and equitable local economies: how (and whom) those lenders serve is key to ensuring that capital gaps are addressed while risks are effectively mitigated. CDCUs tend to be more deeply deployed than their mainstream counterparts and loan data reveals that CDCUs routinely direct the majority of their lending to non-prime borrowers with thin credit files or those seeking to overcome previous credit challenges, individuals who would otherwise lack access entirely or succumb to high-cost predatory financial service providers. CDCUs couple lending with financial counseling and analytical tools to help borrowers access credit today, rebuild credit for tomorrow, and achieve greater financial wellness every day.

# Key Findings continued

## 4. CDCUs are in the right place at the right time

CDCUs have long underpinned local economies, targeting their services to CDFI Investment Areas, which demonstrate high poverty and unemployment rates, and concentrating in underserved communities. CDCUs also spread themselves thinner on the ground: more than one-fifth of all branches are in census tracts that have no other regulated financial institution present (known as financial deserts) with many serving as the only option for non-predatory financial services. CDCUs tend to lean in during times of economic hardship and play a key role in recovery efforts: our analysis has shown that even following the 2008 financial crisis, as many mainstream credit unions pulled back their lending, CDCUs remained highly deployed. This focus on continued lending in times of economic contraction is critical to thriving communities and, we now see, to the credit union's own financial stability as well.

## 5. CDCUs are highly responsive

For decades, CDCUs have worked to understand, resource, and respond to the unique needs of their members, pairing tailored, high-impact products with specialized, member-focused services. The data show that CDCUs routinely "punch above their weight:" often the primary financial institution for its community, the average CDCU adopts a greater range of specialized products and services than institutions many times its size, using a high-touch approach and fulfilling a high volume of transactions per member served. They have been rewarded for this by dramatic membership growth five years running. Attracting and keeping new members through efficient, diverse service delivery helps drive the growth that is so vital for the long-term viability of the institution. Our analysis shows that CDCUs tend to be more active and more creative in obtaining the capital and technological support critical to fostering this growth while maintaining manageable expense ratios and positive earnings.

# 1. CDCUs outperform their non-CDFI certified peers

The modern credit union movement was founded to serve “people of modest means,” at a time when this phrase in itself was a euphemism for financial inclusion. In the twentieth century, thousands of credit unions were created to serve communities excluded from the mainstream for a variety of reasons: income or employment, race or religion, gender or geography. As credit unions grew in size and number and gained share insurance on deposits[1] comparable to banks, federal and state regulators increasingly focused on reducing risk, encouraging credit unions to tighten lending standards and narrow their credit windows. Regulatory pressure undoubtedly helped countless credit unions to improve the quality and consistency of their lending operations but the relentless focus on risk, which redoubled following the 2008 financial crisis, effectively restricted access to credit union loans by many communities deprived of affordable sources of capital.

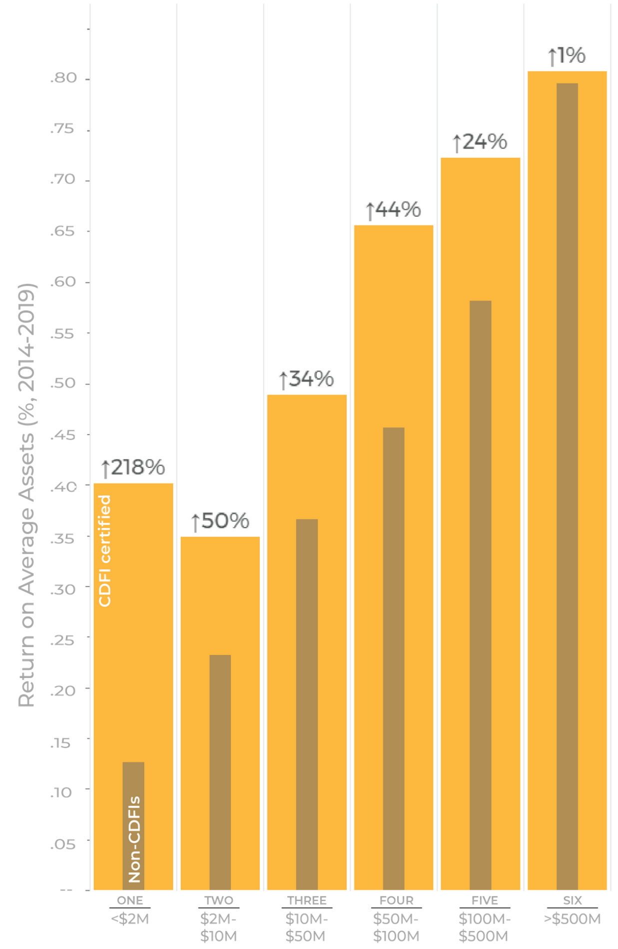
CDCUs were founded and organized by and for low-income communities and communities of color that had historically lacked access to quality financial services due to industry perceptions around their “higher risk” nature. Thus, in the face of regulatory pressure, they had no choice but to pursue the lending for which they began, despite regulator risk aversion. Those that continued deep lending and found new ways to support and serve their communities were rewarded richly.

The first published comparison of CDCUs and mainstream credit unions, based on FY 2013 data, confirmed the conventional wisdom about CDCUs, finding that:

- CDCUs were more highly concentrated in economically distressed communities.
- CDCUs offered significantly more financially inclusive products and services than their mainstream peers.[2]

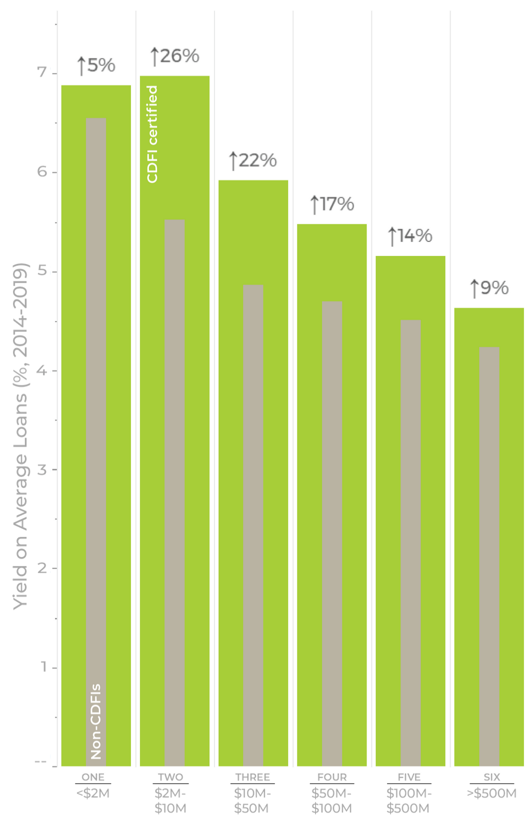
The study also yielded a more surprising result: the median CDFI credit union recorded higher earnings than its peers. Since the analysis was based on a single year, the report conservatively concluded that CDCU financial performance was at least “comparable” to non-CDFI peers.

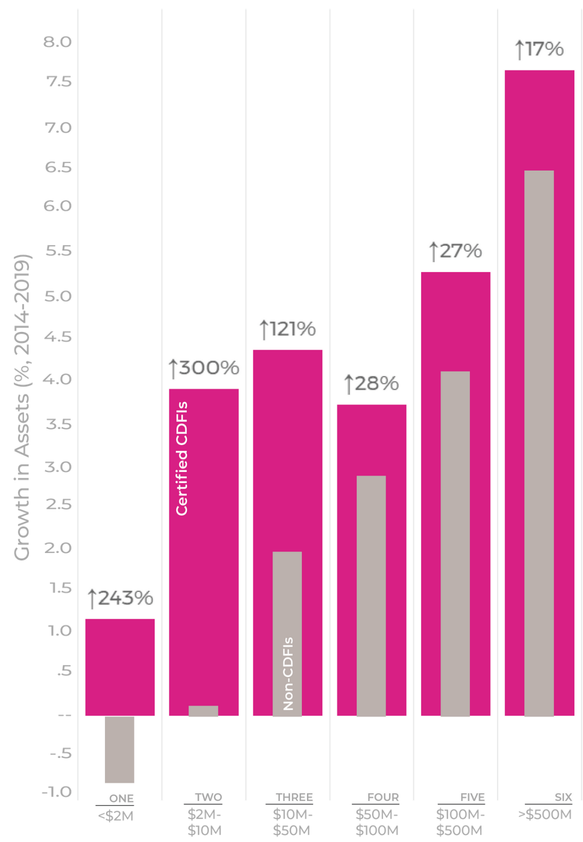
While mainstream financial institutions continue to view lending primarily through a lens of risk, CDCU performance data for the past five years show that the most financially inclusive credit unions not only conduct business in territory avoided by other financial institutions: they also consistently ***outperform*** their peers. As shown in the chart at right, CDCUs consistently record ***higher*** returns on Average Assets than their mainstream peers.[3] The smallest CDCUs, in fact, those with less than $2 million in assets, best their non-certified peers in returns by over 200%. This consistency in higher earnings is more remarkable given the rapid growth in the number of CDCUs relative to their mainstream peers.[4]



The consistency of higher earnings among CDCUs prompted a further examination of the CDCU business model. In 2016, NCUA issued a Supervisory Letter on the examination of CDCUs that highlighted characteristics that differed from mainstream credit unions, including higher than average delinquencies, charge-offs and operating expenses. While focusing examiners on the risk profile of CDCUs, NCUA failed to note that[5] CDCUs also tend to have higher than average earnings, which is at least partly due to higher than average loan deployment and strong loan yield.

The chart at right shows the average yields of median CDCUs compared with median mainstream credit unions for the years 2014 through 2019; CDCUs on average show a 5.32% yield, over half a point higher than non-certified credit unions.




Higher earnings have contributed to sustained higher growth in total assets for CDCUs. Over the past five years the median CDCU has consistently recorded higher rates of asset growth than the median mainstream credit union in its peer group. As shown in the chart at left, this positive growth is particularly striking among smaller CDCUs when compared to the negative asset growth experienced by their mainstream peers.

While grant income is minimal against the asset size of larger credit unions, it can be a significant factor in the health and growth of smaller credit unions. From 2014 to 2019, 78% of CDCUs with less than $100 million in assets received one or more grants from the CDFI Fund and other sources compared with just 19% of their mainstream peers. Robust asset growth for CDCUs can also be partly attributed to sustained increases in membership, above the levels of mainstream peers.

## 2. CDCUs Provide Financial Access that Creates Financial Inclusion

Financial access for those in economically disadvantaged communities is a first step towards more fulsome financial wellness. A lack of access to loans—especially mortgages—and a resulting inability to accumulate wealth has led to systemic, multi-generational financial distress, especially in immigrant communities and communities of color.[6] CDCUs work to alleviate this distress: they intentionally target those most in need of affordable financial products, who also tend to be those least served by more traditional institutions. These lifelines, often simple transaction accounts or small-dollar loans on fair terms, can be a crucial first step as individuals and communities attempt to achieve financial inclusion in a system stacked against them.

We analyzed 2018 loan data from 114 CDCUs, over one-third of all CDFI-certified credit unions, for evidence of this deep reach into pockets of previously-underserved consumers.[7] To be certified, all CDFIs must demonstrate that at least 60% of their lending goes to borrowers in targeted, economically distressed markets. The data showed that CDCUs typically surpass this benchmark: 80% of loans and 72% of loan dollars were deployed in distressed target markets. The results from this sample suggest that CDCUs provided more than $25 billion in affordable loans to low-income and other targeted consumers in 2018 alone. A separate analysis of 2019 borrower credit scores from 84 CDCUs shows that nearly half of borrowers have credit scores below 670, a typical cut-off level for traditional financial institutions, or no reported credit score at all.

Our analysis also suggests a CDCU propensity to reach disenfranchised borrowers through a number of creative avenues:

- cultural—CDCUs are more than twice as likely to provide bilingual services (49% versus 22%) and 18% more likely to allow for remittances (44% versus 26%) than mainstream credit unions
- technological—87% of CDCUs report mobile banking access versus only 63% of mainstream credit unions
- geographic—CDCUs have a presence where banks do not
- financial recovery—68% of CDCUs, versus fewer than half of mainstream credit unions offer checking account-linked lines of credit, 63% offer credit builder products (versus 26% of mainstream credit unions), and 42% offer first time home buyer support, versus only 16% of non-certified credit unions.

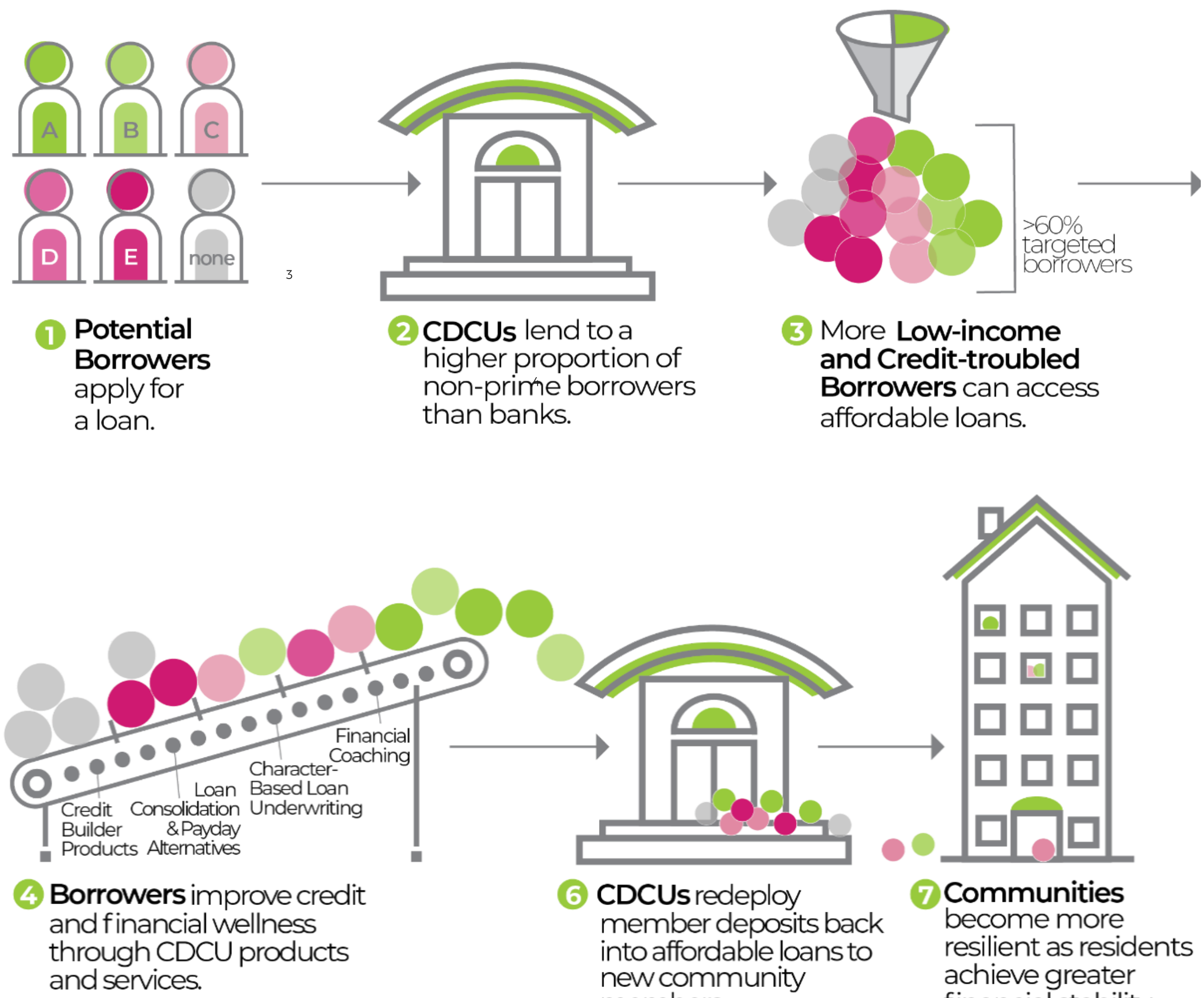
### *The greater the commitment to financial inclusion; the better the results.*

While median CDCUs consistently outperform their mainstream peers, insights into the credit union business model may be found among CDCUs that outperform even their CDCU peers in performance[8] and impact. We identified two to five “Benchmark” CDCUs in each peer group that exceeded CDCU peer averages in key indicators of both financial inclusion and financial performance. These leading CDCUs show what is possible; that target market and non-prime lending can simultaneously help members and credit unions, contributing to strong returns and asset growth, permitting high deployment, and furthering a mutually reinforcing cycle of financial inclusion.

Average Values for Benchmark CDFI Credit Unions by Asset Class

| | Financial Inclusion | | Financial Performance | | |
|---|---|---|---|---|---|
| Peer Group for Benchmark CDCUs | CDFI Target Market Loans($) | Non-Prime Loans ($) | Return on Average Assets | Asset Growth | Loans to Shar |
| less than $2 million | 94% | 90% | 11.35 | 30.09 | 54.42 |
| from $2 million to $10 million | 87% | 52% | 2.31 | 17.98 | 111.86 |
| from $10 million to $50 million | 83% | 51% | 1.63 | 3.14 | 76.99 |
| from $50 million to $100 million | 80% | 48% | 1.67 | 10.31 | 83.16 |
| from $100 million to $500 million | 71% | 36% | 1.26 | 6.49 | 91.66 |
| more than $500 million | 75% | 34% | 1.60 | 10.31 | 105.50 |

## How the CDCU business model strengthens communities through financial inclusion



# Where Business Model Meets Mission: Cleveland, OH Faith Community United Credit Union

**Location: Cleveland, OH**
**Founded: 1952**
**CDFI Certified: 2013**
**Total Members: 5,381**
**Total Assets: $14 million**
**Total Loans: $10.4 million**

Helping members to rise is what CDCUs are all about. Ask Jacqueline Moore, 29-year employee of Faith Community United in Cleveland, Ohio what that means and she'll tell you about the college graduation she was planning to attend this spring for Riana, the firstborn daughter of a longtime member, who almost dropped out of college before her credit union found a way to help her stay in.

Rie started her college career living away at a private university. When her financial aid package fell through ahead of her sophomore year, she had no choice but to quit and move home, already saddled with debt and unemployed. Knowing she couldn't afford to go back to her old school and couldn't afford a full course-load tuition anywhere, she was planning to drop out. Before she did, she turned to Faith Community.

"We could not pay her full tuition," Jackie recalls, "she simply did not qualify, it was too big a risk." Her comments provide insight into the constant CDCU tension between mission and margin. She knew Riana and trusted her commitment but also had to balance her credit union's exposure in lending to a young borrower with no credit. Knowing that if Riana fully left school it would become harder and harder to go back, Jackie told her: "Take one class. We can keep you going."

With a loan, co-signed by her mom, just big enough to cover a single course at a nearby state university, Riana stayed in school. She took a job at a local retail store and began paying back both of her student loans on Jackie's advice, all while continuing to take classes one-at-a-time. Rie was so responsible financially that her credit score and savings account both increased, allowing a used auto loan and, later, a vacation:

She came to me, she'd paid down all those first loans," Jackie remembers. "She had this old beater of a car, it was always breaking down, too expensive to fix." Jackie used Rie's successful loan repayment history to set her up with another loan, a few thousand dollars for a reliable used car.

**Faith Community United CU gave Riana a small student loan for a single college class; she graduated in June 2020**

"Then, "Jackie," Rie announced one day, "I'm taking a solo trip to Thailand." Supported by her holiday savings account, Rie had transformed herself not only into a world traveler but also into a financially savvy pillar of the credit union.

"Jackie plans to be applauding Riana's fearless drive, adventurous nature, and academic success this May when she graduates from college with long-earned degrees in criminal justice and business. Asked about her career dreams, Riana smiles when she says, "fashion, marketing, social services, traveling…the sky is the limit!"

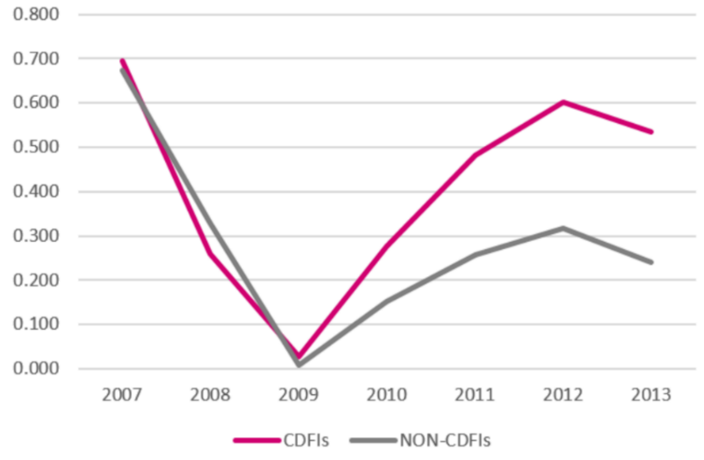
"This is what we do. I have 2,000 stories like that one," Jackie tells Inclusiv of her roughly 5,200-member credit union. When Riana walks across that stage, she'll be one more college-educated Faith community member living their "people helping people" motto. She will also be one of millions benefitting from the CDCU business model of cultivating financial wellness through access and inclusion.

# 3. CDCUs lend deeply and responsibly

Lending to marginalized communities is central to the CDCU business model and mission. A comparison of financial performance ratios for CDCUs and mainstream credit unions illustrates a mode that can successfully manage the higher credit risks of lending in lower-income communities while producing higher earnings and growth. As shown in Annex 1, the higher risks of CDCU lending, which are reflected in higher delinquencies and charge-offs, are more than offset by ratios that demonstrate successful mitigation of those risks, including higher loan deployment, loan yields, and earnings and growth.

CDCUs loan out a greater percentage of their shares and assets to their community,
maximizing deployment in order to facilitate greater financial growth. The chart at right shows that CDCUs on average are deployed roughly 12% more than their non-certified peers, with an average of 85% of their share value loaned out at any given moment.

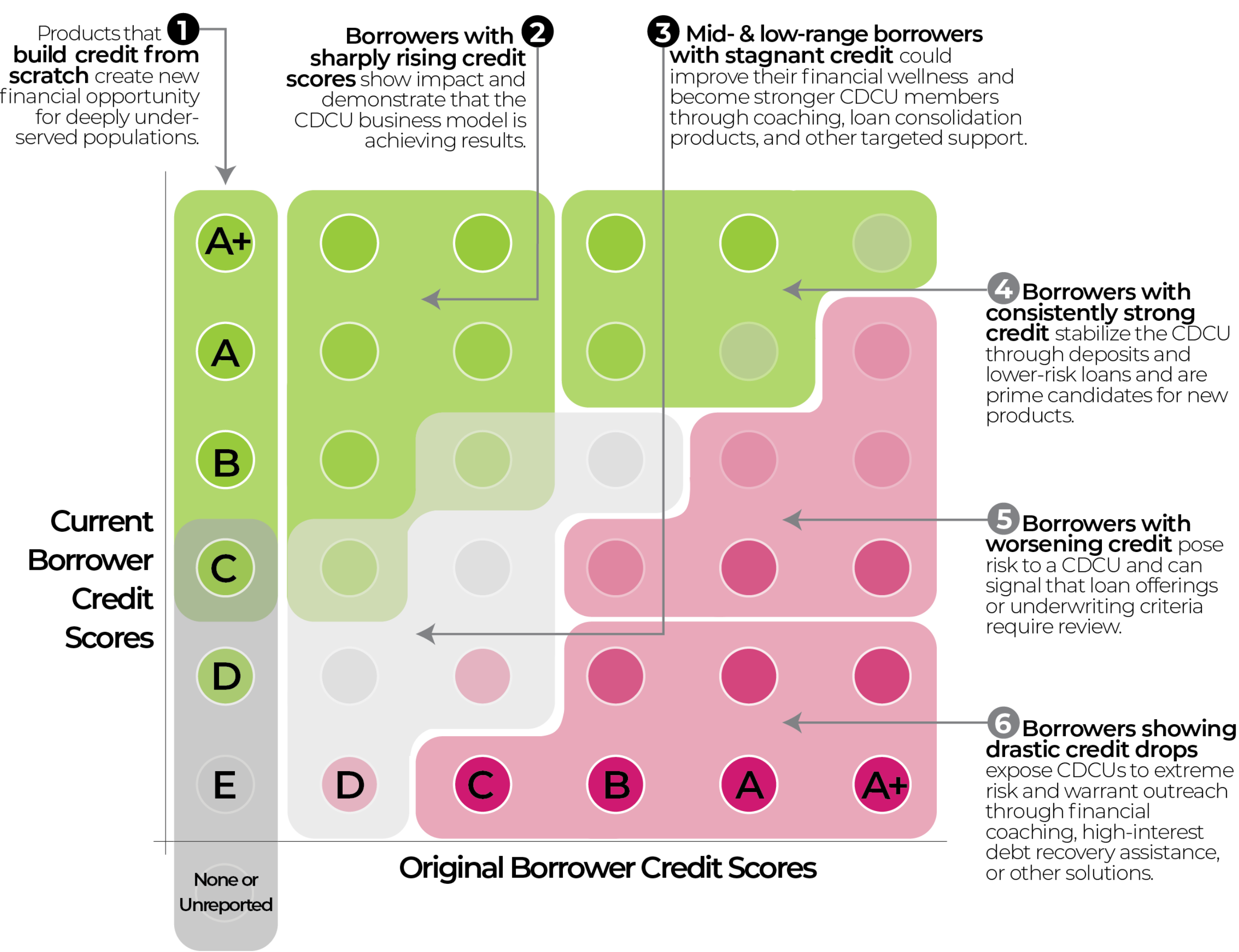
Loans to Shares Ratio (2014-2019)
100
90
80
70
60
50
40
30
20
10
--
↑8%
↑22%
↑15%
↑9%
↑4%
Certified CDFIs
Non-CDFIs
ONE <$2M
TWO $2M-$10M
THREE $10M-$50M
FOUR $50M-$100M
FIVE $100M-$500M
SIX >$500M




An analysis of credit union return on average assets (ROA) data through the 2008 great recession demonstrates the effectiveness of CDCUs' risk mitigation. CDCUs and non-certified credit unions show the same ROA curve through 2009, when the financial crisis pulled returns to just above zero. Their recovery curves following 2009, however, demonstrate the resilience of CDFI-certified credit unions: their ROA bounced back more quickly and as much as three-tenths better than non-certified credit unions.

NCUA profile data indicate that CDCUs mitigate higher credit risks through a combination of product design and capacity-building services that help members to better manage their financial lives. For example, 80% of CDCUs offer financial counseling and education compared to fewer than 40% of mainstream credit unions. These “high-touch” approaches to risk mitigation, which are reflected in the higher operating expense ratios of CDFI credit unions, are increasingly complemented with high-tech approaches that enable credit unions to help members and measure their impact.

Another example is credit migration analysis that tracks changes in credit scores of borrowers over time and is commonly used to calculate loan loss reserves. Some larger CDFIs are now testing ways that this data can be used to strengthen the financial capability of their members. For borrowers from high-risk, credit-troubled brackets, this tool can help CU leadership design targeted products and services that help members to improve their financial health and well-being.




1 2 3 represent key components of the CDFI business model and demonstrate community development impact.

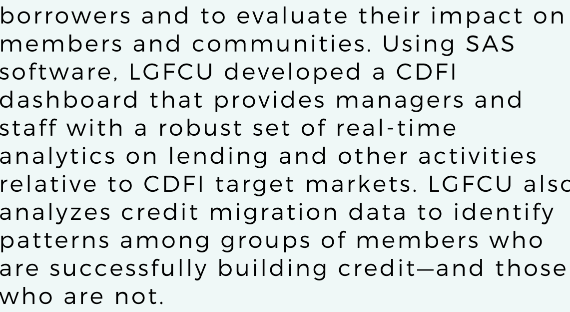
4 5 6 are signals primarily used for risk assessment and mitigation.

# Using Data to Improve Members' Lives: Raleigh, NC Local Government Federal Credit Union

**Location: Raleigh, NC**
**Founded: 1983**
**Total Members: 356,277**
**Total Assets: $2.2 billion**
**Total Loans: $1.9 billion**

Local Government Federal Credit Union (LGFCU) serves more than 350,000 predominantly low-income members across the state of North Carolina. Inclusiv's analysis of 2017 and 2018 loan and financial data from a large sample of CDFI credit unions ranked LGFCU among the top CDCUs in its peer group in both financial performance and loan deployment to low-income and credit-challenged borrowers. In 2018 alone, LGFCU deployed more than 65% of loan dollars in CDFI target markets and more than half to borrowers in non-prime credit tiers—all while posting a Return on Average Assets higher than 62% of its CDFI peers.

How do they do it? LGFCU has pursued a number of data-driven solutions, both to mitigate the risks inherent with large-scale deployment of affordable loans to low-income and credit-challenged borrowers and to evaluate their impact on members and communities. Using SAS software, LGFCU developed a CDFI dashboard that provides managers and staff with a robust set of real-time analytics on lending and other activities relative to CDFI target markets. LGFCU also analyzes credit migration data to identify patterns among groups of members who are successfully building credit—and those who are not.



**Maurice Smith,**
**Chief Executive Officer,**
**Local Government Federal Credit Union**

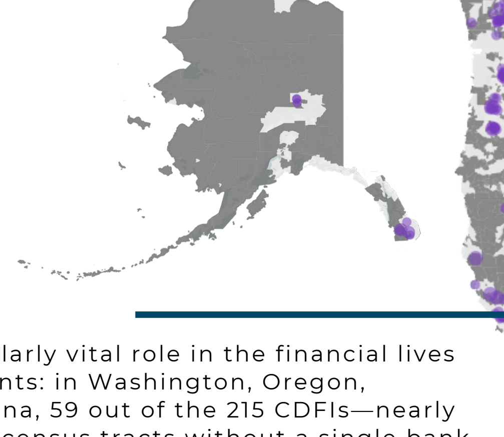
LGFCU's mission is to improve the lives of our members, and that's a commitment we take to heart," said Chief Executive Officer Maurice Smith. "We are proud to be recognized as a CDFI for our demonstrated support of low-wealth communities and consider this a 'merit badge' that showcases our commitment to making a difference. We believe all members deserve the dignity of equal access to financial services."

# 4. CDCUs are in the right place...

The CDCU business model is grounded in geography: branch locations are instrumental to CDCU opportunities to predominantly serve people in CDFI target markets. CDCUs must prove that over 60% of those they serve are low- or moderate-income, fall into another targeted population, or live in specific areas of economic distress called CDFI Investment Areas. These areas, updated most recently in 2018, are identified by key indicators of economic distress (See inset for the full list of criteria).

Our analysis of the 2,161 CDCU branches throughout the US and Puerto Rico shows that **6 of every 10 CDCU branches are located in CDFI Investment Areas** and **2 in 10 are in bank-less census tracts**, called financial deserts. The map below illustrates this clustering of CDCU locations in and near areas of greater distress. [9]

CDCUs traditionally deploy a greater percentage of their total assets into their communities where they can revitalize business landscapes and prop up struggling households. Nowhere is that business model more evident than following the 2008 financial crisis. While non-certified credit unions decreased loan deployment by 15% without rebounding, CDCUs never dropped below lending out an average of 70% of their assets as they supported local recovery efforts.



CDFIs play a particularly vital role in the financial lives of west coast residents: in Washington, Oregon, California, and Arizona, 59 out of the 215 CDFIs—nearly 30%—are located in census tracts without a single bank.

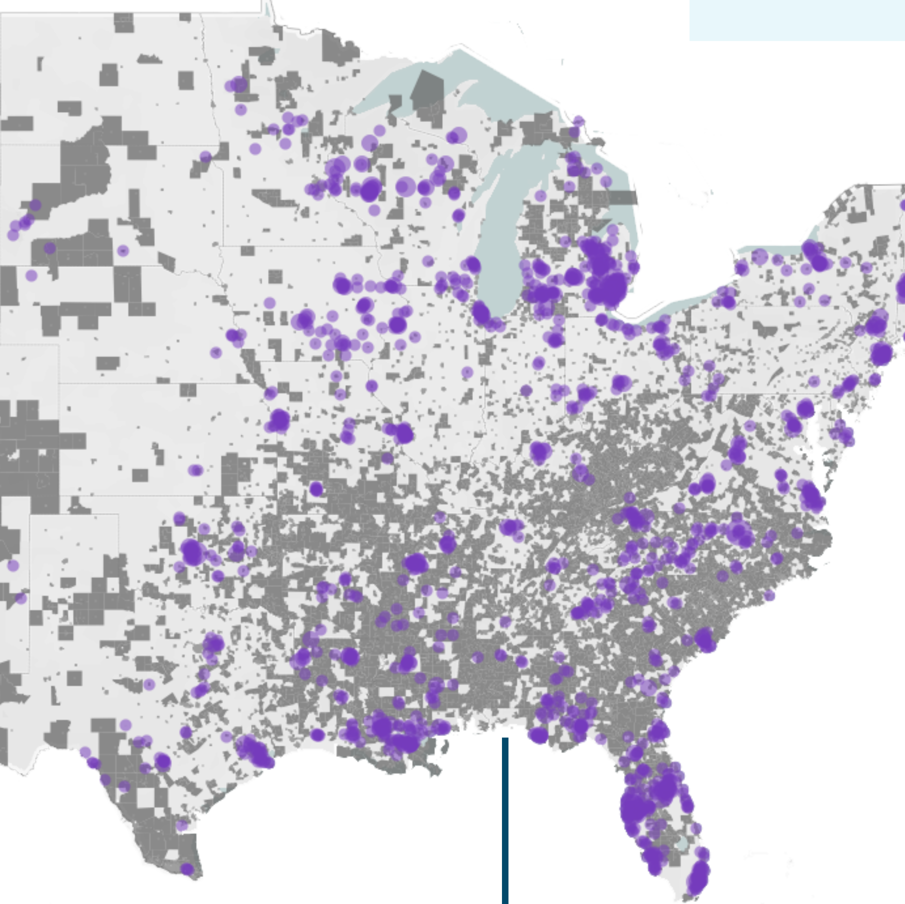
Despite or perhaps because of the economic boom born of headquartering a tech industry, the number of Investment Areas in California has been on the rise—up 7% in 2018—highlighting a growing wealth inequality dynamic in this state.

## Poverty in the US

**CDFI Investment Areas, which are redefined approximately once every five years, provide unique insight into the economic status of the nation as a whole. In the most recent update in 2018, the total number of investment area census tracts stayed roughly the same, at 46% of the total, but the number of tracts qualifying because of high poverty rates climbed by 19%.**

**Only three states in the union saw decreasing poverty rates: Colorado, North Dakota, and Vermont. The remainder show an average 23% increase in tracts below the poverty line, with the top ten states increasing by nearly 50%.**

CDFI Investment Area shifts from 2016 to 2018 give a sense of shifting poverty fault lines in the US. The East and Midwest saw a net decrease of 6% of Investment Areas, a sign of economic improvement; southern and western Investment Areas increased proportionally, signaling greater economic hardship in these regions.



New York City is host to 10 CDCUs, as well as an additional 12 minority-designated Inclusiv credit unions. Together, these 22 institutions serve over 362,000 of the city's most diverse residents in neighborhoods where one in every four residents is underbanked and one in every eight is completely unbanked.* [11] [12] [13]

In 2019, Inclusiv launched the Southern Equity Fund (SEF) to promote economic mobility among low-wealth and underserved communities throughout the American South. The goal of the Fund is to preserve and build diversity in community owned and controlled financial services, and to increase the impact of scalable institutions. Of CDCUs, 132 out of a total of 308—or 43%—are located in the 17 states on which the Fund focuses.

In the aftermath of Hurricane María, financial cooperatives—analogous to mainland credit unions—were instrumental in Puerto Rico's recovery, offering disaster-hit communities access to cash and loans just 48 hours after the storm, and serving as the sole standing financial institutions for 17 of the 78 municipalities on the island. [10]

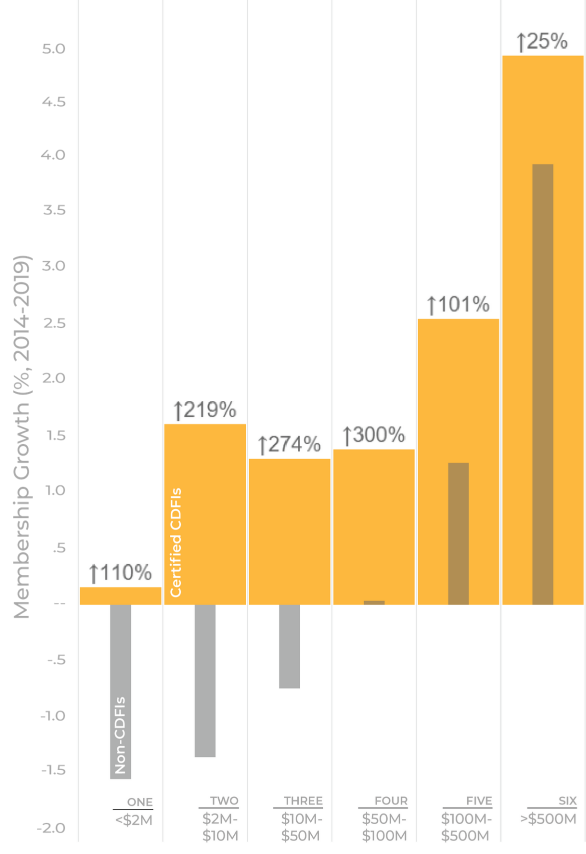
The need for access to financial services and affordable capital is overwhelming in Puerto Rico: 862 of the island's 945 census tracts are CDFI Investment Areas. In 833—88%—1 in 5 residents lives below the poverty line.

**...at the right time**

# 5. CDCUs are highly responsive

CDCU members often have no alternative sources for affordable financial products and services, whether because of their financial profile, credit history, age, citizenship status, or location. Unique products, flexible terms, comprehensive underwriting procedures, and supportive structures help CDCUs successfully lend to new, underbanked populations who might otherwise find themselves resorting to high-interest predatory loans. As noted above, nearly all CDCUs (93%) offer forms of financial counseling or education in comparison with half of mainstream credit unions. Moreover, 40% of CDCUs are equipped to support small-dollar, flexible loan needs, versus only 16% of non-certified credit unions.[14]

This responsiveness to demand is evident first and foremost in CDCU membership growth, as shown in the chart at right. While small, mainstream credit unions with less than $100 million in assets have seen net losses in membership since 2014, small CDCUs have reversed that trend and achieved positive growth. Across all peer groups, CDCUs have bested their mainstream peers by as much as a full percentage point in growth.




An analysis of credit union grant funding received by credit unions from 2014 through 2019 reveals that CDCUs—again, especially ones—successfully obtain more grant funding than their non-certified peers by a factor of as much as four to one. Their grant funding sources also show greater diversity than for non-certified credit unions, with a larger percentage of funds coming from non-governmental and localized sources. This suggests a greater focus by smaller CDCUs on partnering with communities and organizations to respond to local needs and achieve key shared goals. Grant funds are reinvested into meeting new and deeper community demand, enabling CDCUs to support financial counseling and coaching services, reach and engage new populations, build reserves to test new products, engage with community partners to build more comprehensive support systems and track and measure impact.

CDCUs on partnering with communities and organizations to respond to local needs and achieve key shared goals. Grant funds are reinvested into meeting new and deeper community demand, enabling CDCUs to support financial counseling and coaching services, reach and engage new populations, build reserves to test new products, engage with community partners to build more comprehensive support systems and track and measure impact.

The smallest CDCUs raise significantly more grant funding than their non-certified peers, at a ratio of nearly 3:1.

Government $682,146
Banks $430,000
Local Coalitions & Community Groups $48,000
Leagues, Trade Associations & Credit Unions $186,979
Foundations, Companies & Other Private Sources $1,422,925

Foundations, Companies & Other Private Sources $130,901
Leagues, Trade Associations & Credit Unions $194,208
Government $684,758

Small CDCUs excel at partnering with private, trade, and other local funding sources: 75% of their grant funding is non-governmental vs. only 32% of their non-certified peers.

## Serving through Grant Funding: Natchitoches, LA Engage Federal Credit Union

**Location: Natchitoches, LA**
**Founded: 1975**
**CDFI Certified: 2014**
**Total Members: 1,867**
**Total Assets: $12.7 million**
**Total Loans: $9.8**

"We never budget for them," says Kathy Deloney of Engage on her credit union's approach to grant funding, an area she knows something about; since 2012 her credit union has been awarded nearly $2 million in grants from a variety of sources. She quickly clarifies that grant funds don't become just another droplet in their bottom line; Engage considers them a separate fund that enables them to do something—or serve someone—new.

Engage's experience illustrates how grant funds can facilitate growth, especially for smaller CDCUs. It started with a few thousand dollars from the National Credit Union Administration, which helped the credit union provide their members with their first-ever ATM. Additional grant funding from the CDFI Fund helped the credit union launch several programs to reach new markets, including Wheels-to-Work for disabled veterans and others trying to re-enter the workforce, the CDCU's first debit card, and a modest small business lending portfolio. In 2019, Engage won an $11,000 competitive technology grant from Inclusiv to help the credit union to continue to modernize. Engage has encouraged its members to register and use a new mobile banking platform and began providing an online bill-pay feature. Both capabilities can have a disproportionate impact on hourly-wage and gig-economy employees as well as those working multiple jobs, for whom visiting a physical branch in person could mean lost income.

Asked about the impact of these grants on her credit union, Kathy mentions a single loan: "We'd just begun our small business lending and financed a nurse practitioner struggling to open up a clinic out in a really rural part of the county." The member succeeded—and then some, ultimately opening a second clinic in an adjacent area—and so did Engage. "We try to look for lending opportunities that mirror our own mission," says Kathy, and from the sounds of it, Engage generally finds them.

# Fiscal Year 2019 Comparable Median Performance Ratios for Mainstream and Community Development Credit Unions

| | Peer Group 1 | | Peer Group 2 | | Peer Group 3 | | Peer Group 4 | | Peer Group 5 | | Peer Group 6 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *less than $2 million* | | *$2 to $10 million* | | *$10 to $50 million* | | *$50 to $100 million* | | *$100 to $500 million* | | *more than $500 million* | |
| **Capital Adequacy** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Net Worth Ratio | 17.70 | 10.76 | 15.41 | 11.02 | 12.50 | 11.33 | 11.52 | 10.54 | 10.99 | 10.82 | 10.88 | 10.50 |
| Total Delinquent Loans / Net Worth | 3.40 | 8.54 | 3.09 | 8.90 | 2.64 | 7.23 | 2.95 | 6.61 | 3.34 | 5.21 | 3.24 | 4.48 |
| Solvency Evaluation (Estimated) | 121.64 | 112.06 | 118.26 | 112.68 | 114.33 | 112.95 | 113.16 | 111.71 | 112.41 | 112.58 | 112.67 | 112.24 |
| Classified Assets (Estimated) / Net Worth | 5.54 | 9.94 | 3.20 | 7.69 | 2.67 | 5.57 | 3.06 | 6.39 | 3.66 | 5.84 | 4.28 | 6.36 |
| **Asset Quality** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Delinquent Loans/Total Loans | 1.49 | 1.91 | 1.04 | 2.36 | 0.69 | 1.29 | 0.62 | 0.94 | 0.59 | 0.82 | 0.49 | 0.64 |
| Net Charge Offs / Average Loans | 0.00 | 0.00 | 0.27 | 1.09 | 0.29 | 0.78 | 0.32 | 0.76 | 0.34 | 0.60 | 0.38 | 0.52 |
| Delinquent Loans / Total Assets | 0.60 | 0.92 | 0.48 | 1.17 | 0.33 | 0.85 | 0.35 | 0.74 | 0.38 | 0.59 | 0.36 | 0.52 |
| **Earnings** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Return on Average Assets (ROAA) | 0.14 | 0.20 | 0.36 | 0.30 | 0.54 | 0.74 | 0.60 | 0.80 | 0.71 | 0.84 | 0.87 | 0.83 |
| Gross Income /Average Assets | 4.05 | 4.66 | 4.50 | 6.44 | 4.63 | 6.63 | 4.97 | 6.61 | 5.25 | 6.48 | 5.35 | 5.89 |
| Yield on Average Loans | 7.48 | 8.24 | 5.99 | 7.36 | 5.38 | 6.27 | 5.14 | 5.77 | 4.89 | 5.34 | 4.62 | 5.05 |
| Yield on Average Investments | 2.45 | 2.55 | 2.63 | 2.92 | 2.65 | 3.10 | 2.78 | 3.12 | 3.03 | 3.50 | 3.47 | 3.60 |
| Fee & Other Op Income/Average Assets | 0.14 | 1.06 | 0.31 | 1.34 | 0.80 | 1.84 | 1.14 | 1.82 | 1.30 | 1.99 | 1.34 | 1.58 |
| Cost of Funds/Average Assets | 0.22 | 0.31 | 0.32 | 0.38 | 0.34 | 0.34 | 0.43 | 0.48 | 0.56 | 0.54 | 0.81 | 0.84 |
| Net Margin/Average Assets | 3.64 | 4.23 | 4.12 | 6.11 | 4.25 | 6.15 | 4.52 | 6.12 | 4.67 | 5.89 | 4.55 | 5.08 |
| Operating Exp/Average Assets | 3.44 | 9.20 | 3.53 | 5.69 | 3.54 | 5.20 | 3.70 | 5.09 | 3.74 | 4.66 | 3.36 | 3.81 |
| Provision for Loan & Lease Losses/Average Assets | 0.00 | 0.04 | 0.12 | 0.88 | 0.13 | 0.44 | 0.17 | 0.62 | 0.21 | 0.41 | 0.29 | 0.42 |
| Net Interest Margin/Average Assets | 3.38 | 3.44 | 3.65 | 4.29 | 3.39 | 4.40 | 3.32 | 4.07 | 3.32 | 3.81 | 3.13 | 3.47 |
| Operating Exp/Gross Income | 82.22 | 103.35 | 78.16 | 94.06 | 75.86 | 77.45 | 74.20 | 74.60 | 71.07 | 71.43 | 62.94 | 64.91 |
| Fixed, Foreclosed & Repossessed Assets / Assets | 0.00 | 0.21 | 0.10 | 0.27 | 1.18 | 2.54 | 2.07 | 3.30 | 2.61 | 3.73 | 2.22 | 2.91 |
| Net Operating Expenses / Average Assets | 3.29 | 6.46 | 3.16 | 4.63 | 2.91 | 4.11 | 2.98 | 3.47 | 2.97 | 3.52 | 2.72 | 2.95 |
| **Asset / Liability Management** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Net Long-Term Assets/Total Assets | 0.91 | 1.03 | 2.28 | 2.49 | 14.92 | 18.35 | 22.76 | 22.88 | 29.41 | 26.78 | 35.20 | 33.72 |
| Regular Shares / Total Shares & Borrowings | 100.00 | 90.65 | 81.59 | 57.75 | 59.72 | 50.26 | 47.39 | 47.33 | 38.73 | 39.16 | 29.74 | 30.24 |
| Total Loans/Total Shares | 56.53 | 49.92 | 63.72 | 73.37 | 60.92 | 78.42 | 67.49 | 82.83 | 78.72 | 86.42 | 88.47 | 90.67 |
| Total Loans/Total Assets | 43.89 | 45.57 | 53.27 | 62.95 | 52.50 | 65.09 | 58.90 | 71.51 | 68.63 | 74.60 | 74.94 | 78.65 |
| Cash+Short Term Investments / Assets | 42.03 | 48.90 | 29.18 | 24.56 | 23.41 | 17.87 | 18.88 | 15.22 | 14.49 | 12.24 | 10.80 | 9.91 |
| Tot Shares, Deposits, Borrowings/Earning Assets | 81.86 | 92.91 | 85.67 | 91.01 | 90.73 | 93.89 | 92.78 | 95.67 | 94.16 | 95.18 | 93.26 | 94.83 |
| Reg Shares + Share Drafts / Shares & Borrowings | 100.00 | 90.65 | 90.05 | 68.35 | 76.19 | 70.13 | 66.10 | 65.80 | 57.89 | 60.95 | 48.25 | 49.16 |
| **Productivity** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Members / Potential Members | 48.83 | 28.80 | 46.69 | 28.47 | 30.27 | 6.50 | 10.31 | 6.22 | 7.46 | 6.14 | 7.60 | 4.76 |
| Borrowers / Members | 27.59 | 20.11 | 39.85 | 34.72 | 46.11 | 48.00 | 50.28 | 54.07 | 54.58 | 55.93 | 58.12 | 53.90 |
| Members / Full Time Employees | 216.50 | 206.00 | 390.33 | 479.67 | 405.93 | 364.38 | 362.64 | 325.22 | 336.27 | 312.83 | 365.31 | 332.53 |
| Average Shares/Member | $2,398 | $1,469 | $5,010 | $2,511 | $7,488 | $5,380 | $8,820 | $7,117 | $9,855 | $7,909 | $11,347 | $10,150 |
| Average Loan Balance | $4,603 | $4,459 | $8,036 | $5,803 | $9,569 | $10,223 | $11,254 | $8,569 | $13,374 | $12,166 | $16,907 | $15,167 |
| Salary & Benefits / Full Time Employees | $11,885 | $29,262 | $44,605 | $43,396 | $58,750 | $56,080 | $63,174 | $62,144 | $68,652 | $65,426 | $81,724 | $76,286 |
| **Other Ratios** | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI | NonCDFI | CDFI |
| Net Worth Growth | 0.67 | 1.16 | 2.01 | 1.62 | 4.29 | 7.29 | 5.52 | 7.40 | 6.72 | 7.95 | 8.27 | 8.43 |
| Market Share Growth | (1.82) | (0.86) | (1.18) | 4.81 | 1.49 | 4.06 | 2.75 | 3.91 | 4.48 | 4.98 | 7.74 | 8.55 |
| Loan Growth | (2.68) | (2.36) | 0.51 | 7.16 | 2.29 | 4.67 | 2.44 | 2.49 | 4.32 | 4.98 | 6.00 | 7.87 |
| Asset Growth | (1.67) | (1.20) | (0.70) | 5.21 | 1.92 | 4.76 | 3.00 | 4.06 | 4.75 | 5.26 | 7.37 | 7.80 |
| Membership Growth | (4.19) | (1.01) | (2.65) | 1.32 | (1.28) | 0.86 | 0.11 | 0.25 | 2.22 | 3.62 | 3.68 | 3.81 |

# Methodology & Endnotes

This report summarizes findings from a deep analysis of public and proprietary data for CDFI Credit Unions—CDCUs—from 2014 through 2019. Public sources include financial performance and profile information from credit union call reports demographic data from the American Community Survey, and geographic target market and CDFI certification data from the CDFI Fund. Proprietary data includes loan origination data submitted by more than 100 CDFI credit unions from 2016 to 2019. From this combined data, we generated longitudinal comparisons of financial performance, target market lending, grant funding, technological and financial service provision and key characteristics of CDCU borrowers, including income and credit profiles.


1. Inclusive Finance: Financial Performance and the Economic Impact of Community Development Credit Unions. Inclusiv 2018

2. Ratigan, T, "CDFI Certification: A Building Block for Credit Union Growth. Performance, Profiles and Prospects for CDFI Credit Unions" Credit Union National Association and National Federation of Community Development Credit Unions, 2014.

3. Comparison is based on median ROAA values for 308 CDFI-certified credit unions and 5,041 non-certified credit unions for fiscal years 2014 through 2019 as reported by NCUA.

4. Fiscal Year 2013 analysis compared 173 CDCUs against 6,664 non-certified credit unions. The current study compares 308 credit unions that are CDFI certified as of January 2020 with 5,349 non-certified credit unions.

5. NCUA Supervisory letter No. 16-01 9/19/2016 https://www.nascus.org/wp-content/uploads/2019/06/LTCU2016-01-1.pdf

6. This phenomenon has been well-documented by a number of noteworthy projects. For example, see: Rothstein, Richard. The Color of Law: A Forgotten History of How Our Government Segregated America. Liveright Publishing. May 2017. The 1619 Project. The New York Times. Accessed at: https://www.nytimes.com/interactive/2019/08/14/magazine/1619-america-slavery.html

7. This analysis used geocoded loan data for all 2018 originations by 114 CDFI credit unions, representing nearly half of all CDCUs in the country.

8. Proprietary dataset of 2018 loan origination data from 115 CDFI credit unions

9. This census tract depository concentration analysis uses publicly available data from the Federal Deposit Insurance Corporation, https://www7.fdic.gov/idasp/warp_download_all.asp, to identify bank locations active as of December 2019 and publically available call report data from the National Credit Union Administration, https://www.ncua.gov/analysis/credit-union-corporate-call-report-data/quarterly-data, to identify credit unions active as of December 2019. By affixing FIPS geocodes to each location, census tracts could be assessed for resident-to-depository-ratios using population data taken from the CDFI Fund's Investment Areas ACS 2011-2015 dataset, https://content.govdelivery.com/accounts/USTREASCDFI/bulletins/2109b78, most recently updated in October 2018.

10. DeFilippi, Pablo and Vargas Martinez, René. Lifeline. "Puerto Rico's Financial Cooperatives Led the Economic Recovery after Hurricane María." Accessed May 28, 2020 at https://ncbaclusa.coop/journal/2019/summer/lifeline/

11. Ratcliffe, Caroline, Signe-Mary McKernan, Emma Kalish, and Steven Martin. 2015. "Where are the Unbanked and Underbanked in New York City?" Washington, DC: Urban Institute, accessed March 2020 at https://www.urban.org/sites/default/files/publication/71511/2000430-Where-Are-the-Unbanked-and-Underbanked-in-New-York-City.pdf

12. CDFI Fund Investment Areas ACS 2011-2015 datasets updated in 2015 and 2018, https://content.govdelivery.com/accounts/USTREASCDFI/bulletins/2109b78.

13. List of Certified CDFI Institutions, accessed March 2020, https://www.cdfifund.gov/Documents/CDFI%20Cert%20List%2005-14-2020%20Final.xlsx

14. Calculated for certified CDFI credit unions as of May 14, 2020 using 12/31/2019 NCUA Call report data for PAL accounts, Micro Consumer Loans, PDL, and/or RAL.

15. NCUA Credit Union Grants Data as of 12/31/2019

# About the Authors

Terry Ratigan (tratigan@inclusiv.org) is a consultant and researcher with more than thirty years of experience in community development finance, non-profit management and partnership development, both in the United States and overseas. His work for Inclusiv has included studies of performance and impact of community development credit unions.

Mia Deschamps became the first Inclusiv Research Director in June of 2019. She made evidence-based decision-making and accessible data visualization a daily reality for Inclusiv and its members. From her varied international past as strategist, researcher, and methodologist for several institutions, Mia continues to carry a firm commitment to wield data for social good.

# About Inclusiv

At Inclusiv, we believe that true financial inclusion and empowerment 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 eight million residents of low-income urban, rural and reservation-based communities across the US and hold over $80 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 and connect with us on Facebook, LinkedIn and Twitter.

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39 BROADWAY, SUITE 2140, NEW YORK, NY, 10006 | 212.809.1850 | INFO@INCLUSIV.ORG | WWW.INCLUSIV.ORG