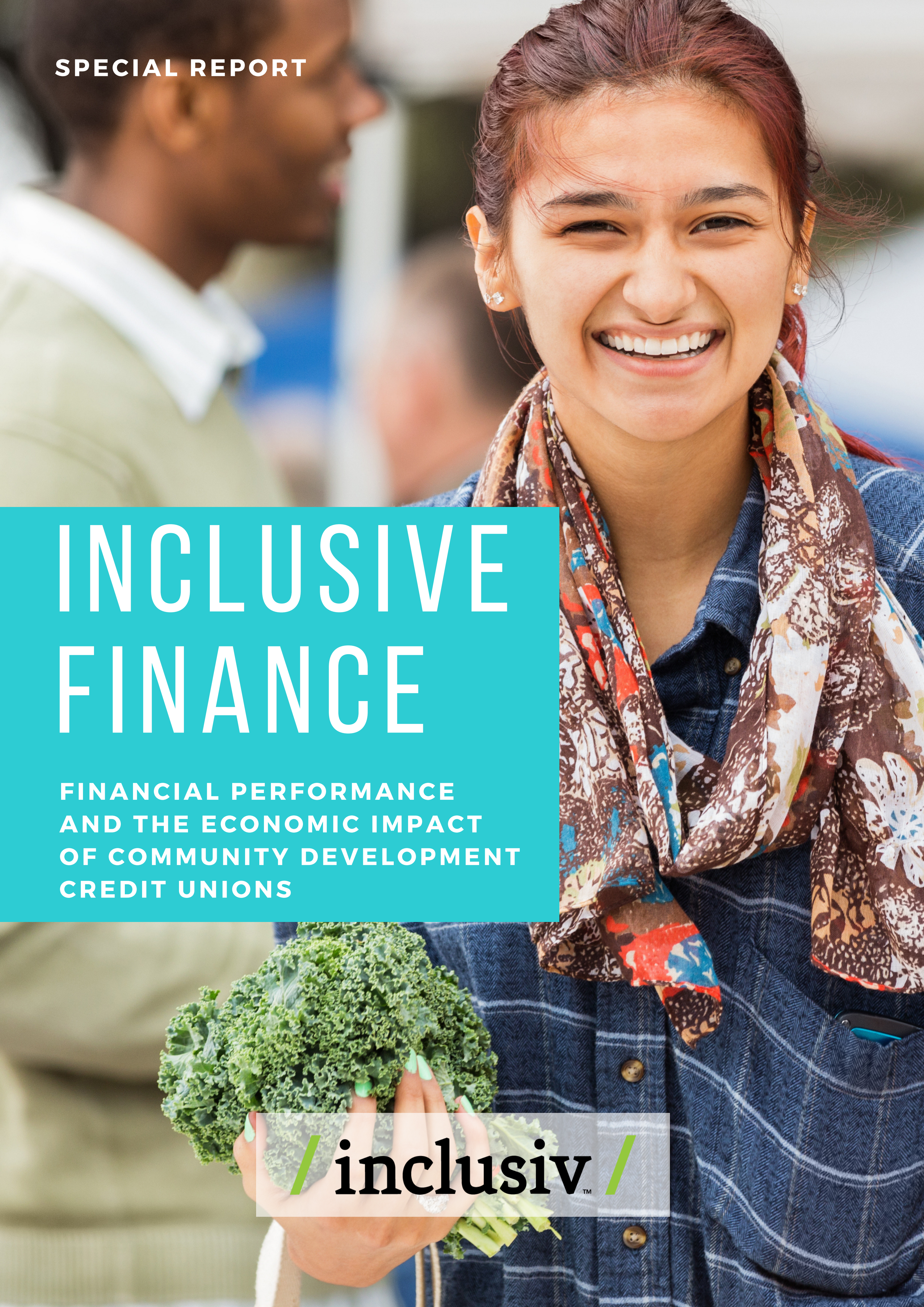
SPECIAL REPORT

INCLUSIVE FINANCE

FINANCIAL PERFORMANCE AND THE ECONOMIC IMPACT OF COMMUNITY DEVELOPMENT CREDIT UNIONS



inclusiv™

WHY FINANCIAL INCLUSION?

Too many Americans lack access to the necessary tools to build financial security and independence for themselves and their families. In today's economy, low unemployment is offset by rising wealth inequality that undermines and destabilizes the financial well-being of millions of hard-working Americans. According to the Federal Reserve, 40 percent of adults cannot pay an unexpected expense of $400 without selling something or borrowing money – just one paycheck or emergency away from financial crisis.

Financial inclusion is the practice of ensuring access to responsible financial products and services delivered at an affordable cost in a fair and transparent manner. Inclusion is a precondition to achieving financial security and building wealth and assets.

While efforts to promote financial health become more common in multiple sectors, these efforts are largely targeted toward the delivery of real-time information for consumers who have long been connected to the financial mainstream. A truly inclusive financial system that works for everyone requires high-quality affordable financing options for consumers who previously have been excluded, with easy onramps and tools that help to build financial security. Since the Great Recession, the vision of a more financially inclusive society has expanded beyond the mere delivery of responsible financial products and services to the tools, platforms and information needed for consumers to increase their financial security.

For credit unions, financial inclusion is who we are and why we exist. Many say it is baked into our DNA – and it is. The concept of financial inclusion can be traced back to the cooperative movements in India, Europe and the US as early as the late 19th and early 20th centuries. Community development credit unions (CDCUs) continue the legacy of those early cooperativists; they specialize in the design and delivery of better products and services, making sure that hardworking people across the United States have access to the tools they need to build a more secure financial future.

CDCUs provide capital in financial deserts, filling the gaps left by mainstream banks and credit unions. As volatile local economies continue to erode the financial security of ever more consumers, and unregulated payday lenders and high-cost finance companies continue to drain wealth from low-income communities, the number and size of CDCUs continue to grow to meet demand for responsible alternatives.

This paper examines the community development impact and financial performance of CDFI credit unions (CDCUs) and illuminates the elements of a sustainable business model for inclusive finance. While focused primarily on CDCUs, the findings in this paper speak directly to the credit union historic mission "to serve people of modest means" and challenge current orthodoxies. We invite all members of the credit union family to review its contents and join a vibrant discussion over how to bring the credit union solution to more Americans who need it.

Cathie Mahon
President/CEO
Inclusiv

This special report was made possible through the generous support of Equifax.

KEY FINDINGS

This paper draws on prior research, public resources, and loan-level data submitted by 97 credit unions certified as Community Development Financial Institutions (CDFIs) by the US Treasury Department. The research conducted for this paper supports five key findings:

1) **Credit Unions that focus on community development and financial inclusion are more profitable, grow faster and are more active lenders than their peers across the industry.**

While the higher risks of inclusive lending are generally reflected in higher rates of delinquencies and charge-offs, most CDCUs manage these risks and outpace their peers overall financial performance.

2) **CDCUs are inclusive lenders that deploy more loan dollars to borrowers in lower credit tiers.**

The loan data from 97 CDFI credit unions suggests that in 2017 alone, CDCUs issued more than 1.5 million loans in CDFI Target Markets worth more than $19 billion, including $8 billion in non-prime consumer loans.

3) **CDCUs do not shut out risks, but engage, manage and mitigate them.**

Peer financial performance ratios for CDFI credit unions illustrate the consistency of a CDCU business model that successfully manages the higher credit risks in their loan portfolios and also produces higher earnings and growth.

4) **CDCUs specialize in high-impact products and services.**

These include products such as payday alternative, micro business and credit builder loans as well as key services such as financial counseling, free tax preparation and first-time homebuyer programs.

5) **CDCUs leverage grants and investment for growth and impact, but their stronger financial performance does not require external subsidy.**

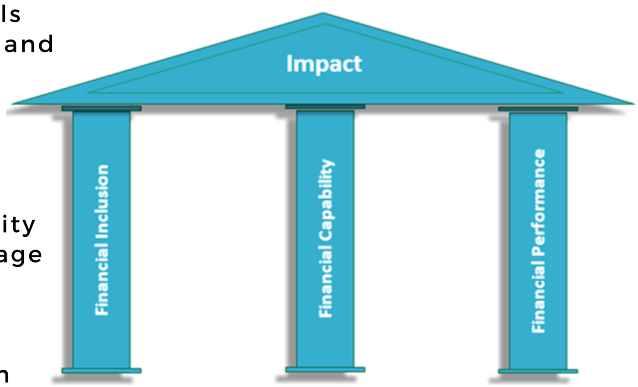
While CDFI grants have been particularly important for small CDCUs and can greatly increase the impact of larger credit unions, they have not measurably contributed to the financial results of most CDFI credit unions. Indeed, every asset class includes “Benchmark” CDCUs that lead their peers in both financial performance and financial inclusion without any CDFI grants whatsoever.

PART 1: IMPACT FRAMEWORK FOR CDCUS

Credit unions have complex webs of relationships with their members and the communities they serve. As a result, it can be difficult to isolate and measure a credit union's contribution to the financial health and well-being of their members, much less the economic development of their communities. At the broadest level, the Credit Union National Association (CUNA) uses IMPLAN to estimate the direct, indirect and induced impacts of all credit unions. CUNA has calculated that the activities of CDFI credit unions alone contribute to the creation and retention of more than 80,000 jobs and more than $18 billion in economic output.[1] A rigorous econometric study of a single CDFI credit union found that each new branch significantly decreased neighborhood crime and increased property values.[2]

For individual credit unions, an impact framework can be said to rest on three pillars:

1) **FINANCIAL INCLUSION**
The extent to which credit union products and services reach individuals and communities that are overlooked and underserved by mainstream financial institutions



2) **FINANCIAL CAPABILITY**
The extent to which credit union products and services build the capacity of their members to successfully manage their financial lives

3) **FINANCIAL PERFORMANCE**
The extent to which a credit union can successfully mobilize and deploy capital, manage risk, and continuously increase its scale of activities and impact.

There are well-established tools, data sources and methods to evaluate financial performance, but little consensus on efficient metrics for financial inclusion and capability. Measures of changes in income, expenditure, debt and savings can be powerful indicators of impact, but the data can be difficult to collect and track on a large scale. The impact framework described above focuses on a small number of proxy indicators for financial inclusion and capability that can be efficiently tracked by credit unions of all sizes.

METRICS FOR FINANCIAL INCLUSION

- Percent of members in CDFI-eligible Target Markets
- Percent of loans deployed in CDFI-eligible Target Markets (by number and dollar)
- Percent of loan dollars deployed as non-prime loans

METRICS FOR FINANCIAL CAPABILITY

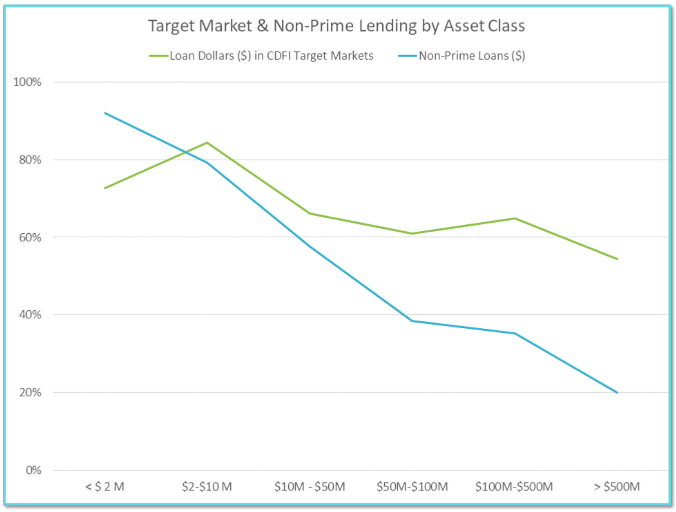
- Provision of financial counseling (directly or through a partner)
- Net change in credit scores among borrowers

PART 2: PERFORMANCE & IMPACT OF CDFI CREDIT UNIONS

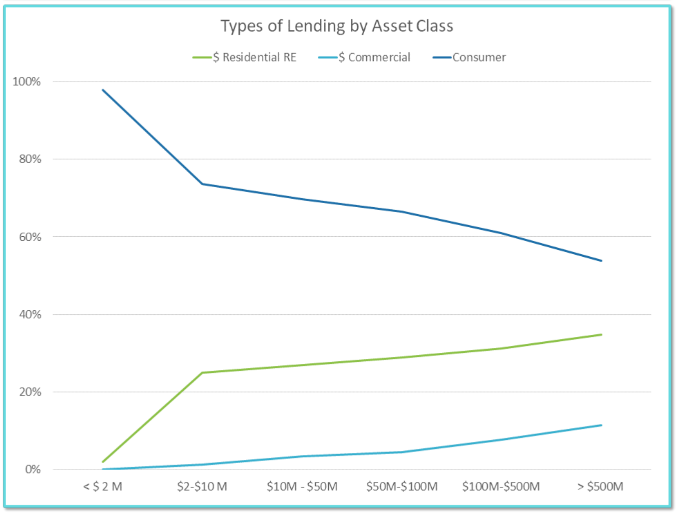
A. FINANCIAL INCLUSION

One powerful indicator of institutional commitment to financial inclusion is the proportion of loans, measured in dollars, that are issued to borrowers with non-prime credit scores.[3] A 2017 analysis of credit migration data indicated that CDFI credit unions deployed significantly more loan dollars to borrowers in non-prime credit tiers than their mainstream peers.[4]

In 2018 Inclusiv conducted a deeper analysis of CDCU lending based on loan data submitted by 97 CDFI credit unions – roughly one-third of the total number certified - for their Annual Certification Reports.[5] As shown in the chart at the right, the data indicates that CDCUs deploy high levels of loan capital in CDFI Target Markets and among borrowers in non-prime credit tiers.



While the proportion of dollars deployed in non-prime loans declines with asset size, this is primarily due to the decreasing share of consumer loans for larger credit unions. As shown in the chart at the right, smaller credit unions are almost exclusively engaged in consumer lending, while mortgage and business loans account for nearly half of loan dollars for the largest CDFI credit unions. For consumer loans alone, the data indicates that the largest CDCUs average 37% deployment in non-prime credit tiers.



It is important to note that the 97 credit unions in this study were not randomly selected and, as a result, are not statistically representative of *all* CDFI credit unions. Nevertheless, the data can be used to estimate orders of magnitude for CDCU activities in economically distressed communities across the country.[6] In 2017 alone, the data suggests that CDFI credit unions issued:

- 1.5 million individual loans for more than $19 billion
- 700,000 small, unsecured payday alternative loans
- 124,000 affordable mortgage loans
- $8 billion in consumer loans to borrowers in non-prime credit tiers

KEY PERFORMANCE BENCHMARKS

The credit union business model outlined in this paper is based on superior performance in both financial inclusion and financial performance. As with any group of financial institutions, the analysis reveals different strengths and weaknesses among the 97 credit unions in the study group. Of greater interest, the analysis also identifies two to four "Benchmark" CDCUs within each peer group that exceed their peers in metrics for both financial inclusion and performance.

Key characteristics of the selected Benchmark CDCUs include:

- High percentages of loan dollars deployed in CDFI Target Markets and non-prime credit tiers
- Strong earnings and growth
- High loan deployment
- Minimal reliance on fee income (i.e., below CDCU peer averages)

The table below includes the average values for key characteristics for the Benchmark CDCUs in each peer group:

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 Shares	Fees/ Gross Income
less than $2 million	89%	56%	1.06	2.86	56.86	6.06
from $2 million to $10 million	76%	51%	1.25	3.13	82.24	17.47
from $10 million to $50 million	67%	62%	1.13	7.47	86.77	18.11
from $50 million to $100 million	92%	25%	0.64	4.85	71.06	16.69
from $100 million to $500 million	90%	60%	1.20	6.73	89.01	13.18
more than $500 million	64%	33%	0.62	12.82	94.54	10.24

B. FINANCIAL CAPABILITY

Financial capability is typically defined in behavioral terms, as the capacity to "act in one's best financial interest," "exercise money management decisions" or "manage financial resources effectively."[7] Financial educators use test scores to measure gains in knowledge, while financial counselors and coaches use a wide range of indicators to track changes in behaviors, but most of these detailed metrics are incompatible with assessments of large numbers of credit union members. So how can a credit union assess changes in the financial capability of their members over time?

Changes in credit scores – or more specifically, changes in credit tiers - may be the best available proxy indicator of significant changes in financial capability across large numbers of members.

Many credit unions already track "credit migration" to mitigate balance sheet risks of losses among borrowers with deteriorating credit, but very few actively track and encourage the potential growth of members with improving credit. A 2017 study of credit migration data from a small sample of credit unions found that CDFI credit unions saw positive net changes in credit scores that were nearly twice as large as those of mainstream credit unions.[8] Much of the difference may be explained by the higher loan deployment of CDFIs among borrowers with lower credit scores. But for people with damaged credit, climbing scores are not automatic. Just as a planted seed requires the right soil, water and sunlight to sprout and grow, a credit-challenged borrower benefits from favorable conditions and a nurturing environment. Changes in credit tiers can indicate whether members at all levels of financial capacity are thriving and gaining financial capability.

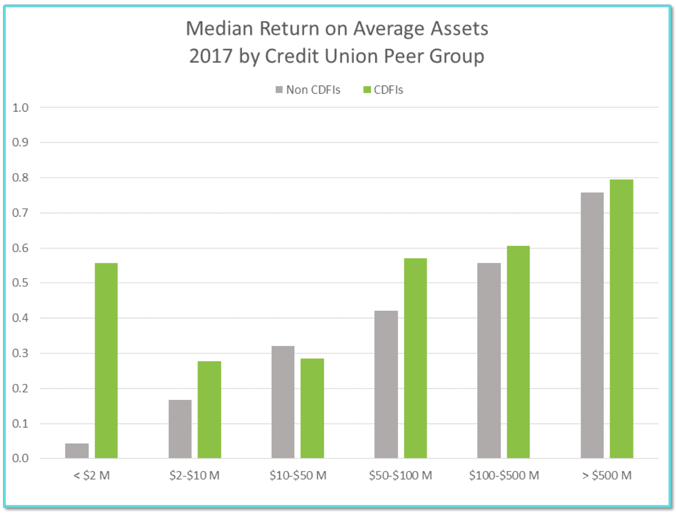
C. FINANCIAL PERFORMANCE

In recent years, a growing number of researchers and analysts have noted the consistently superior financial results and institutional resilience of CDFI credit unions.[9] Despite a predominant focus on higher risk, lower income communities, CDFI Credit Unions have consistently outpaced their peers in earnings, loan deployment and growth.

EARNINGS

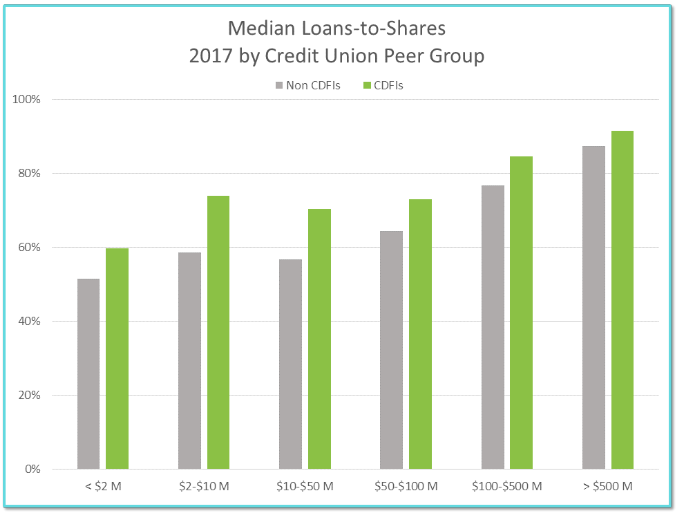
Every year since the first comparative studies were conducted based on FY 2013 data, the median CDFI credit union has recorded a higher Return on Average Assets (ROA) than the median non-CDFI.

When analyzed by asset class, the results remain consistent across peer groups, with only rare exceptions.[10]



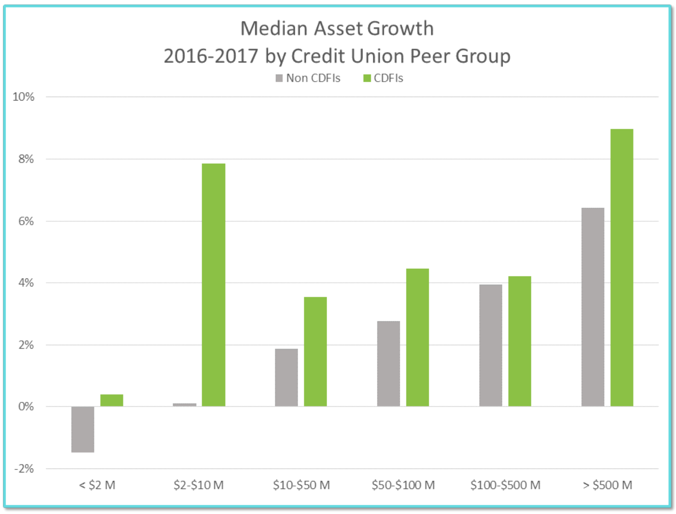
LENDING

While many factors can influence ROA from year to year, lending is the main revenue driver for the credit union business model. As shown in the chart at right, CDFIs in every asset class are more active lenders than their non-CDFI peers. High loan deployment in high-risk markets may appear to be a losing strategy, but higher earnings suggest that the strategy of successful CDFIs is to manage credit risk, not avoid it.



GROWTH

The robust growth in assets and membership of CDFI credit unions indicates successful navigation of challenging operating environments. This is particularly true for the smallest CDCUs; while most small mainstream credit unions record no or negative growth and disappear at an average rate of nearly one every business day, smaller CDFIs are showing signs of resilience by adding members and increasing assets.

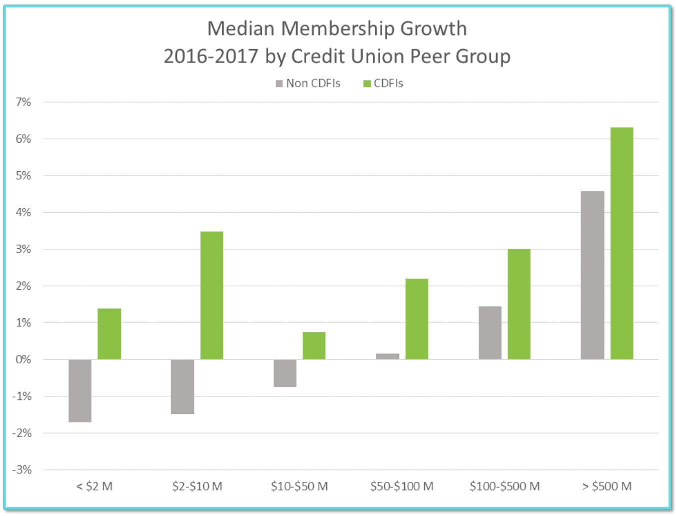


ROLE OF GRANTS

Superior financial performance among CDCUs is frequently attributed to financial assistance grants awarded by the CDFI Fund to a certain number of credit unions every year. Grant income does appear to be significantly important for smaller credit unions, but the impact on earnings and growth is marginal for mid- and large-asset CDCUs.

In 2017, just one-third of CDFIs received grant income from any source; two-thirds received no grants whatsoever. Credit unions below $10 million in assets received total grants worth 2.49% of average assets, while the comparable ratio for credit unions above $10 million was just 0.04%.

Grants appear to be critically important to smaller CDFI credit unions, but only a small proportion of those grants come from the CDFI Fund itself. Since 1998, for CDFI credit unions with less than $10 million in assets, only 26% of total grants came from the CDFI Fund; by comparison, CDFI grants make up 80% of total grant income for all other CDCUs.[11]



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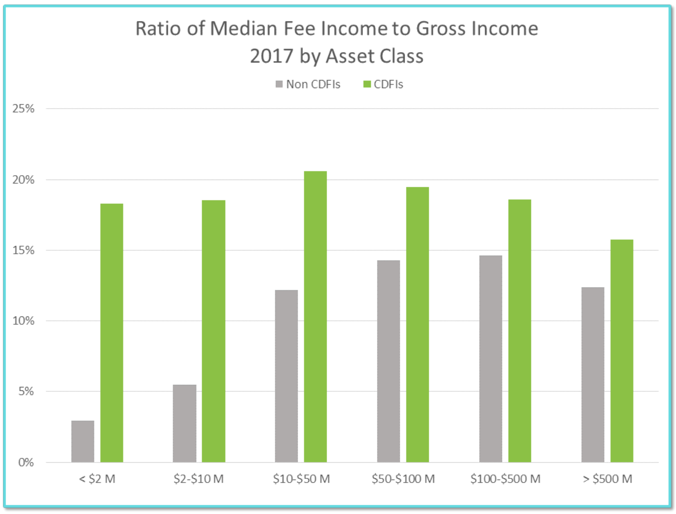
ROLE OF FEE INCOME

Basic transaction services are critical to financial inclusion for low- and very low-income individuals and CDCUs offer more inclusive financial services than their mainstream peers. As a result, CDFI credit unions generally receive a higher proportion of income in the form of fees.[12]

Fees can help to sustain essential credit union services, but the size and structure of these charges matters. For example, without adequate safeguards, overdraft protection and courtesy pay programs have been shown to have a detrimental impact on many low-income consumers.[13] While credit union fees certainly represent a considerable savings to consumers when compared with predatory alternatives, that low standard of comparison understates the potential benefits that credit unions can deliver.[14] As discussed in the next section, successful CDFI credit unions in all asset classes manage to deliver affordable products and services deeply into lower-income, credit challenged markets with minimal reliance on fees. Future research on this topic should focus exclusively on credit unions to evaluate costs and benefits and identify best practices and performance benchmarks.



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FINANCIAL PERFORMANCE RATIOS FOR CDCUS

In September 2016 NCUA issued a Supervisory Letter that acknowledged distinct characteristics of the CDCU business model.[15] These characteristics included:

- Higher operating expenses
- Reliance on fee income
- Low dollar transactions
- Frequent transactions
- Higher delinquency
- Use of less traditional funding sources to support various products and services

The Supervisory Letter was a welcome recognition of the CDCU business model that grew out of more than a decade's worth of research and advocacy. For most CDCUs, however, the Letter has not altered the approach of their NCUA examiners, who continue to use industry-wide peer averages in their evaluations of CDCU financial performance. This is both regrettable and understandable; NCUA only calculates peer averages based on all federally-insured credit unions and does not provide examiners with a comparable set of ratios for CDFI certified credit unions. The Annex contains an example of how NCUA could provide a table of comparable FPR values that would be useful to credit unions, examiners and researchers alike.

It is important to note that a distinct set of peer ratios for CDFI credit unions does not represent an easing of performance standards. To the contrary; as noted above, CDCUs as a group have consistently produced superior financial results, albeit with a business model that assumes and manages higher levels of risk than is considered customary by mainstream credit unions. Going forward, parallel financial performance ratios for mainstream and CDFI credit unions can help all credit unions evaluate and optimize their business model and results against the highest possible standards.

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PART 3: AN INCLUSIVE BUSINESS MODEL FOR CREDIT UNIONS

When the CDFI Fund was founded in the 1990s, critics focused on the tension between a primary mission of community development and the obligation to be a successful financial institution, a tension inherent in the very name of the CDFI Fund itself.[16] Implicit in this critique is a key assumption: that the community benefits of financial inclusion can only come at the institutional cost of financial performance – a cost that is unsustainable without external subsidy.

Today, as more than 300 CDFI credit unions serve over 10 million members with more than $100 billion in combined assets, this assumption stands refuted by nearly a quarter century's worth of data and experience. Indeed, the data in this paper demonstrates the potential for responsible and inclusive credit unions to reach deeply into their communities and outperform their peers.

CDCUs are concentrated in economically distressed areas.

- CDCU branch locations are predominantly located in census tracts designated as "CDFI Investment Areas", with average poverty rates above 20% and low median family incomes.

CDCUs offer a significantly higher number of high-impact products and services.

- CDCUs continue to offer products such as payday alternatives, micro business and credit builder loans as well as key services such as financial counseling, free tax preparation and first-time homebuyer programs at much higher rates than their mainstream peers.

CDCUs deploy more loan dollars to borrowers in lower credit tiers.

- Loan level data from CDFI credit unions suggests that in 2017 alone, CDCUs issued more than 1.5 million loans in CDFI Target Markets worth more than $19 billion, including $8 billion in non-prime consumer loans.

CDCUs successfully manage risk and outperform mainstream peers in earnings, lending and growth.

- While the higher risks of inclusive lending is generally reflected in higher rates of delinquencies and charge-offs, peer financial performance ratios for CDFI credit unions show that CDCUs consistently manage these higher lending risks and produce higher earnings and growth.

CDCUs do not depend on external subsidy.

- While CDFI grants can greatly increase the impact for all credit unions – and have been particularly important for CDCUs with less than $10 million in assets – grants have not measurably contributed to the financial results of most CDFI credit unions; every asset class includes "Benchmark" CDCUs that lead their peers in both financial performance and financial inclusion without any CDFI grants whatsoever.

CDCUs do not depend on fee income.

- Although CDCUs are generally more reliant on fee income than their mainstream peers, Benchmark CDCUs in every asset class lead their peers in financial inclusion and financial performance with minimal reliance on fees.

While this business model has been identified through an analysis of community development credit unions, it is important to note that non-CDFI credit unions can adopt equally inclusive practices – and evidence suggests that many already do.[17] Although CDCUs are more concentrated in low-income areas than most of their peers, nearly all credit unions have low-income and underserved communities within their fields of membership. The data suggests that credit unions have much to gain by adopting elements of this more inclusive business model.

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ANNEX

Comparative Median Financial Performance Ratios for Mainstream and Community Development Credit Unions

Median FPR Values for CDFI and Non-CDFI Credit Unions by Peer Group

	Peer Group 1		Peer Group 2		Peer Group 3		Peer Group 4		Peer Group		Peer Group	
	less than $2 million		$2 - $10 million		$10 - $50 million		$50 - $100 million		$100 - $500 million		> $500 million	
Capital Adequacy	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Net Worth Ratio	17.30	12.21	14.31	9.72	11.77	10.93	10.85	9.87	10.48	10.27	10.63	10.25
Total Delinquent Loans / Net Worth	3.36	10.16	3.00	13.15	3.03	6.43	3.44	6.13	4.01	6.74	3.50	5.15
Solvency Evaluation (Estimated)	120.93	113.95	116.73	111.35	113.28	112.38	112.13	110.97	111.69	111.53	112.04	111.66
Classified Assets (Estimated) / Net Worth	5.14	13.20	3.15	7.39	2.68	5.42	3.16	4.50	3.94	6.78	4.73	6.42
Asset Quality	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Delinquent Loans/Total Loans	1.57	1.34	0.96	2.25	0.79	1.28	0.73	1.01	0.67	1.01	0.54	0.69
Net Charge Offs / Average Loans	-	1.27	0.28	0.79	0.32	0.70	0.35	0.52	0.38	0.76	0.42	0.50
Fair Mkt HTM Invest Val/Book Val	-	-	-	-	-	-	-	-	-	-	-	-
Accum Unreal G/L on AFS/Cost of AFS	-	-	-	-	-	-	-	-	(0.58)	(0.68)	(0.80)	(0.79)
Delinquent Loans / Total Assets	0.57	0.78	0.46	1.29	0.36	0.68	0.41	0.67	0.43	0.73	0.38	0.51
Earnings	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Return on Average Assets (ROAA)	0.04	0.56	0.17	0.28	0.32	0.29	0.42	0.57	0.56	0.61	0.76	0.80
Gross Income /Average Assets	3.58	7.36	4.02	6.51	4.08	6.21	4.46	5.88	4.79	6.29	4.87	5.53
Yield on Average Loans	7.57	9.52	6.04	7.95	5.26	6.28	4.99	5.65	4.70	5.40	4.31	4.58
Yield on Average Investments	0.55	0.46	1.08	0.87	1.32	1.24	1.39	1.36	1.48	1.46	1.54	1.62
Fee & Other Op Income/Average Assets	0.11	1.52	0.29	1.24	0.79	1.75	1.09	1.53	1.31	2.04	1.34	1.71
Cost of Funds/Average Assets	0.20	0.25	0.22	0.26	0.23	0.24	0.26	0.35	0.34	0.39	0.48	0.52
Net Margin/Average Assets	3.24	7.12	3.71	6.17	3.82	5.83	4.17	5.37	4.44	5.84	4.37	4.91
Operating Exp/Average Assets	3.30	7.05	3.37	6.61	3.35	5.01	3.55	4.28	3.61	4.62	3.18	3.64
Provision for Loan & Lease Losses/Average Assets	-	0.65	0.11	0.31	0.13	0.44	0.19	0.35	0.25	0.62	0.34	0.45
Net Interest Margin/Average Assets	3.04	4.25	3.23	4.47	2.98	3.95	3.00	3.55	3.08	3.68	2.95	3.23
Operating Exp/Gross Income	87.43	92.74	84.14	94.73	81.63	83.92	79.11	76.84	75.08	74.76	66.61	66.62
Fixed, Foreclosed & Repossessed Assets / Assets	-	0.35	0.09	1.31	1.15	2.52	2.10	3.03	2.60	3.49	2.19	2.57
Net Operating Expenses / Average Assets	3.12	4.90	2.99	5.03	2.74	3.78	2.77	3.05	2.80	3.32	2.58	2.85
Asset / Liability Management	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Net Long-Term Assets/Total Assets	0.94	1.26	3.55	5.31	17.23	18.33	25.28	23.07	30.34	26.10	34.03	34.78
Regular Shares / Total Shares & Borrowings	100.00	79.21	80.92	62.66	58.99	53.22	46.50	45.80	38.69	37.75	30.53	30.79
Total Loans/Total Shares	51.65	59.82	58.62	73.97	56.76	70.45	64.41	73.13	76.76	84.68	87.39	91.59
Total Loans/Total Assets	41.12	48.99	49.24	60.44	49.50	61.89	56.82	64.92	66.72	73.73	74.13	78.77
Cash+Short Term Investments / Assets	39.91	39.21	28.21	23.61	22.67	19.65	17.63	15.98	13.32	11.90	10.28	7.71
Tot Shares, Deposits, Borrowings/Earning Assets	82.17	90.55	86.67	94.70	91.38	94.46	93.59	95.17	94.49	96.17	93.33	94.24
Reg Shares + Share Drafts / Shares & Borrowings	100.00	83.48	89.34	71.21	75.16	70.16	64.69	65.55	57.05	59.86	48.56	46.87
Total Borrowings / Total Shares & Net Worth	-	-	-	-	-	-	-	-	-	-	0.44	1.95
Productivity	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Members / Potential Members	50.55	28.60	46.90	27.08	31.62	7.45	11.89	7.55	8.27	5.40	7.89	7.05
Borrowers / Members	26.55	26.09	38.63	33.70	44.70	45.42	48.94	54.01	53.52	52.71	58.12	56.63
Members / Full Time Employees	230.00	256.67	414.54	443.71	412.46	350.71	371.58	338.46	342.24	315.18	365.32	341.33
Average Shares/Member	$ 2,436	$ 1,377	$ 4,937	$ 2,639	$ 7,329	$ 5,182	$ 8,554	$ 6,683	$ 9,424	$ 8,029	$10,719	$ 9,942
Average Loan Balance	$ 4,649	$ 2,871	$ 7,307	$ 5,264	$ 9,037	$ 8,765	$10,750	$ 8,672	$12,642	$11,648	$15,546	$14,297
Salary & Benefits / Full Time Employees	$11,400	$24,743	$44,582	$45,880	$55,720	$53,881	$60,006	$54,034	$64,585	$60,064	$76,089	$69,667
Other Ratios	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI	Non CDFI	CDFI
Net Worth Growth	0.14	4.60	1.14	4.29	2.63	2.92	3.76	6.37	5.41	6.58	7.57	9.06
Market Share Growth	(1.13)	0.88	(0.08)	6.54	1.70	2.36	2.70	4.25	3.51	3.84	5.96	8.95
Loan Growth	(3.52)	5.87	0.84	6.48	3.62	5.06	5.35	8.23	7.81	6.96	10.50	12.96
Asset Growth	(1.47)	0.40	0.12	7.85	1.88	3.56	2.76	4.46	3.96	4.21	6.42	8.97
Investment Growth	(0.85)	5.70	(1.46)	4.01	(0.25)	0.98	(1.25)	0.00	(3.39)	(5.24)	(3.88)	(2.39)
Membership Growth	(1.72)	1.38	(1.49)	3.48	(0.76)	0.74	0.16	2.19	1.44	3.01	4.58	6.30

ENDNOTES

1) Mike Schenk, VP Research & Policy Analysis presentation, “CDFI Credit Unions: So What?” (CUNA 2018 GAC CDFI Roundtable, February 2018).

2) Gregory Fairchild & Kulwant Rai, *"Perdido en la Traducción"*. The Opportunity in Financial Services for Latinos (University of Virginia Darden School of Business Tayloe Murphy Center, 2011)

3) For the purpose of this paper, “non-prime” is defined as credit scores below 650.

4) T. Ratigan, “CDFI Credit Unions: A Business Case for Community Development Finance” (CDFI Institute Presentation, NFCDCU, March 2017)

5) The 97 CDFI credit unions have combined assets of $42 billion and serve 4.2 million members through 689 branches in 37 states. The credit unions were evenly distributed across asset classes; 49 had less than $100 million in assets and 48 had more. The 97 CDCUs submitted more than 400,000 loan records, of which 50,691 were randomly drawn for the purpose of CDFI reporting and the analyses contained in this paper.

6) This paper uses the CDFI Fund’s definition of “Target Markets” to measure activities in economically distressed communities. The three types of CDFI Target Markets are: (i) CDFI Investment Areas; (ii) Low-Income Targeted Populations; and, (iii) Other Targeted Populations. More information is available at www.cdfifund.gov

7) Excerpts from Financial Capability definitions from the World Bank (www.responsiblefinance.worldbank.org); Prosperity Now (www.prosperitynow.org); and, Accion Center for Financial Inclusion (www.centerforfinancialinclusion.org), respectively.

8) Ratigan, “CDFI Credit Unions: A Business Case” (CDFI Institute Presentation, March 2017)

9) Research includes Gregory Fairchild & Rua Jia, “Risk and Efficiency among CDFIs: A Statistical Evaluation Using Multiple Methods” (CDFI Fund, August 2014); Terry Ratigan, “CDFI Certification: A Building Block for Credit Union Growth” (CUNA Community Credit Union Committee, May 2014); Larry Fazio, “Managing Risk, Presentation to Federation Annual Conference” (NCUA Office of Examination and Insurance, September 2015); Schenk, “CDFI Credit Unions: So What?”.

10) The exceptions were for CDFIs in Peer Group 3 in 2017 and Peer Group 6 in 2016.

11) NCUA 5300 Call Report data as of December 31, 2017. Grant schedule includes data from 1998-2017.

12) Kirsten Moy & Cathie Mahon, “From Distrust to Inclusion: Insights into the Financial Lives of Very Low-Income Consumers” (National Federation of Community Development Credit Unions, January 2015); “CDFI Certification: A Building Block for Credit Union Growth”

13)The parameters for safe courtesy pay programs have yet to be defined and require further study. The significant costs to low-income consumers have been found in numerous studies, most recently in Erin El Issa “Confusion About Overdraft Coverage Can Cost You Dearly” (Nerdwallet.com, September 26, 2017) and in Low, Nagypál, Parrish, Skhirtladze & Stone “Data Point: Frequent Overdrafters” (Consumer Financial Protection Bureau, August 2017)

14) Many comment letters submitted to NCUA on Payday Alternative Loan regulations draw a direct comparison with high-cost, predatory alternatives. See “Proposed Regulations: Payday Alternative Loans,” https://www.ncua.gov/regulation-supervision/Pages/rules/comment-letters/2018/payday-alternative-loans.aspx

15) Larry Fazio, “CDFI-Certified Credit Union Supervision” (SL No. 16-01, NCUA Office of Examination & Insurance, September 19, 2016)

16) A detailed history of the CDFI Fund can be found in Clifford N. Rosenthal, *Democratizing Finance: Origins of the Community Development Financial Institutions Movement* (Victoria, BC: FriesenPress, 2018).

17) Annual analyses of NCUA data for Inclusiv’s Community Development Profile indicates several hundred non-CDFI credit unions offer high-impact products and services at levels comparable to their CDCU peers, regardless of how concentrated they are in CDFI target markets

ABOUT THE AUTHOR

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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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