Financial Inclusion & Consumer Finance

Tracking and Measuring Outcomes and Impact
What does it mean to be a CDFI?

Community Development

• Key Products & Services
  – Inclusive transaction services
  – Credit Builder Loans
  – Payday Alternatives
  – Financial counseling / 1st Time Homebuyers

• Consumer Impact
  – Financial inclusion of un / underbanked
  – Asset protection
  – Credit building

• Community Impact
  – Asset Accumulation
  – Increased employment
  – Reduced crime
  – Increased property values

Financial Institution
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- **Community Impact**
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**Financial Institution**

Impact of each CU branch:
- 4% decrease in robberies
- 3% increase in property values
- $9.8 Billion added to property values over 8 years
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**Financial Institution**
- Regulatory compliance
  - Safety & Soundness
  - PCA Capital
  - Delinquencies & Charge-offs
  - ROA
- Growth & Survival
  - Membership
  - Assets
  - Loans
  - Charter Expansion
  - Mergers, Competition & Sustainability
  - Regulatory Environment
What does it mean to be a CDFI?

CDFI Credit Unions consistently record higher ROAs than their peers*

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

Despite focus on toughest markets, “CDFIs show no greater risk of institutional failure than similar ‘mainstream’ peer institutions”**

Financial Institution

- Regulatory compliance
  - Safety & Soundness
  - PCA Capital
  - Delinquencies & Charge-offs
  - ROA

- Growth & Survival
  - Membership
  - Assets
  - Loans
  - Charter Expansion
  - Mergers, Competition & Sustainability
  - Regulatory Environment

* NCUA call report and 5300 data from 12/31/2012 9/30/2016

** Fairchild, Jia, “Risk and Efficiency among CDFIs: A Statistical Evaluation using Multiple Methods”
CDFI Certified Credit Unions 1996-2016

- Increased resources and capacity for CDFI Industry
- Increased visibility and influence of CDFI model across credit union industry
- Increased interest and expanded alliances with credit union regulators, leagues and trade associations to strengthen advocacy for CDFI Fund
CDFI Certified Credit Unions 1996-2016

How can we evaluate CDFI credit union commitment, impact and performance?

Community Development Financial Institutions

Total Membership (Millions)
- 1996: 40
- 2000: 66
- 2004: 123
- 2008: 123
- 2012: 200
- 2016: 286

Total Assets ($ Billions)
- 1996: $40
- 2000: $123
- 2004: $200
- 2012: $286
- 2016: $300
What does it mean to be a CDFI Credit Union?

CDFIs significantly outpace their Low-Income & Mainstream peers in:

- Focus on CDFI Target Markets
- Delivery of accessible, high-impact loan products
- Provision of financial counseling & other Development Services
- Advanced member service technologies
Characteristics of CDFI Credit Unions

Focus in CDFI Low-Income and Investment Area Target Markets

**Target Market Opportunity**
- Branch locations in CDFI Investment Areas
- Low Income Designation
- Poverty, Income and demographic data

**Target Market Response**
- High impact loan products
- Inclusive transaction & account services
- Capacity building development services

Provision of Community Development Products & Services

Focus in CDFI Low-Income and Investment Area Target Markets
Characteristics of CDFI Credit Unions

Focus in CDFI Low-Income and Investment Area Target Markets

Highest Impact Products & Services

Where they live

Highest Target Market Concentration

Provision of Community Development Products & Services

What they do
Characteristics of CDFI Credit Unions

Focus in CDFI Low-Income and Investment Area Target Markets

Provision of Community Development Products & Services
2017 CDFI Profile of Credit Union Industry

Credit Union rankings for Target Market Opportunity and Target Market Response

- 5,909 Credit Unions in USA as of 12/31/2016
2017 CDFI Profile of Credit Union Industry

- 5,909 CUs as of 12/31/2016
  - 2,280 with Low Opportunity and Low Response
2017 CDFI Profile of Credit Union Industry

- 5,909 CUs as of 12/31/2016
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  - 1,568 in “High Response Zone”
2017 CDFI Profile of Credit Union Industry

- 5,909 CUs as of 12/31/2016
  - 2,280 with Low Opportunity and Low Response
  - 1,568 in “High Response Zone”
  - 1,257 in “Missed Opportunity Zone” (High Opportunity, Low Response)
2017 CDFI Profile of Credit Union Industry

- 5,909 CUs as of 12/31/2016
  - 2,280 with Low Opportunity and Low Response
  - 1,568 in “High Response Zone”
  - 1,257 in “Missed Opportunity Zone” (High Opportunity, Low Response)
  - 804 in “CDFI Zone” (High Opportunity and High Response) of which 260 are already certified
Can we look deeper?

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

Key Questions
• Do CDFI credit unions lend *deeper* into CDFI Target Markets than their mainstream peers?
• Do CDFI credit unions have a measurable impact on *financial capability of members*?
• What is the *institutional impact* of deeper CDFI lending on financial performance & growth?

Credit migration measures changes in credit scores & risk of individual loans
• Aggregate data provides valid risk measure for total portfolio & net impact on member credit scores
Can we look deeper?

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

Thanks!

Randy Thompson, PhD
CEO, TCT Risk Solutions
## Credit Migration Matrix

**Sample Credit Union**

### Risk Change By Credit Score

For Period Ending 11/30/2012

<table>
<thead>
<tr>
<th>Current FICO</th>
<th>A+</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>740+</td>
<td>$33,886,855</td>
<td>$4,911,282</td>
<td>$1,696,945</td>
<td>$425,522</td>
<td>$105,543</td>
<td>$63,014</td>
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<tr>
<td>690-739</td>
<td>$7,886,015</td>
<td>$11,359,190</td>
<td>$5,212,544</td>
<td>$857,840</td>
<td>$146,917</td>
<td>$147,464</td>
</tr>
<tr>
<td>660-689</td>
<td>$1,857,191</td>
<td>$4,601,064</td>
<td>$10,527,101</td>
<td>$2,055,535</td>
<td>$1,333,417</td>
<td>$158,714</td>
</tr>
<tr>
<td>630-659</td>
<td>$910,286</td>
<td>$910,852</td>
<td>$2,541,847</td>
<td>$2,547,064</td>
<td>$886,367</td>
<td>$848,199</td>
</tr>
<tr>
<td>600-629</td>
<td>$17,970</td>
<td>$123,766</td>
<td>$1,503,642</td>
<td>$2,480,152</td>
<td>$715,706</td>
<td>$525,812</td>
</tr>
<tr>
<td>&lt;600</td>
<td>$91,237</td>
<td>$610,842</td>
<td>$1,026,951</td>
<td>$2,088,359</td>
<td>$717,708</td>
<td>$643,272</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current FICO</th>
<th>A+</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not Reported</td>
<td>$75,089</td>
<td>$29,047</td>
<td>$481,778</td>
<td>$189,437</td>
<td>-</td>
<td>$300</td>
</tr>
</tbody>
</table>

**Grand Total**

- $44,724,643
- $22,546,043
- $22,990,809
- $10,643,908
- $3,905,658
- $2,386,776

Loans Not Risk Rated and Adjustments

Total in Portfolio
Opportunities & Risk Mitigation

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

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

<table>
<thead>
<tr>
<th>Dollar</th>
<th>Opportunities &amp; Risk Mitigation</th>
<th>Original FICO Grades</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current FICO</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>A+</td>
<td>$32,876,152</td>
<td>$4,281,310</td>
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<tr>
<td>A</td>
<td>690-759</td>
<td>$2,801,599</td>
</tr>
<tr>
<td>B</td>
<td>660-689</td>
<td>$1,825,121</td>
</tr>
<tr>
<td>C</td>
<td>630-659</td>
<td>$903,150</td>
</tr>
<tr>
<td>D</td>
<td>600-629</td>
<td>$12,971</td>
</tr>
<tr>
<td>E</td>
<td>460</td>
<td>$51,137</td>
</tr>
<tr>
<td>Not Reported</td>
<td>$50,859</td>
<td>$59,042</td>
</tr>
</tbody>
</table>

Lending More Effectively

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

### Proportion of Loan Dollars by Credit Tier

<table>
<thead>
<tr>
<th>Credit Tier</th>
<th>Non-CDFI Credit Unions</th>
<th>CDFI Credit Unions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 (A+)</td>
<td>65% of Mainstream CU Loans</td>
<td>65% of CDFI “A” Loans</td>
</tr>
<tr>
<td>Tier 2 (A)</td>
<td>48% of CDFI CU Loans</td>
<td></td>
</tr>
<tr>
<td>Tier 3 (B)</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Tier 4 (C)</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Tier 5 (D)</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Tier 6 (E)</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>
Lending *Deeper* in CDFI Target Markets

Proportion of Loan Dollars by Credit Tier

- **Tier 1 (A+)**: 65% of CDFI “A” Loans
- **Tier 2 (A)**: 30% of CDFI “B” Loans
- **Tier 3 (B)**: 20% of CDFI “C” Loans
- **Tier 4 (C)**: 15% of CDFI “D” Loans
- **Tier 5 (D)**: 10% of CDFI “E” Loans
- **Tier 6 (E)**: 5% of Non-CDFI Credit Union Loans

**Credit Tier of Borrowers**

- **Non-CDFI Credit Unions**
- **CDFI Credit Unions**
Lending More *Profitably*

<table>
<thead>
<tr>
<th>Peer Group (Asset Size)</th>
<th>Median Return on Average Assets FY 2016</th>
<th>Median Return on Average Assets FY 2015</th>
<th>Median Return on Average Assets FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CDFIs</td>
<td>Non CDFIs</td>
<td>CDFIs</td>
</tr>
<tr>
<td>Less than $2 million</td>
<td>0.02%</td>
<td>0.09%</td>
<td></td>
</tr>
<tr>
<td>$2 million to $10 million</td>
<td>0.34%</td>
<td>0.14%</td>
<td></td>
</tr>
<tr>
<td>$10 million to $50 million</td>
<td>0.41%</td>
<td>0.27%</td>
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<tr>
<td>$50 million to $100 million</td>
<td>0.53%</td>
<td>0.37%</td>
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<tr>
<td>More than $500 million</td>
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*Fairchild, Jia, “Risk and Efficiency among CDFIs: A Statistical Evaluation using Multiple Methods”*

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**Research shows...**

CDFI credit unions consistently outperform their mainstream peers in overall profitability.

Despite focus on toughest markets, “CDFIs show no greater risk of institutional failure than similar ‘mainstream’ peer institutions”.*
A Business Model for CDFI Credit Unions

Lending effectively

Lending profitably

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CDFI Credit Unions

1. Fulfill the historic credit union mission of serving people of modest means
2. Focus on markets that offer the highest potential for credit union growth and financial returns
3. Use the best available tools to build the financial health and capability of our members
Impact Indicators for CDFI Credit Unions

Lending deeply

- Distribution of credit union loans by credit tier
- Shows commitment to financial inclusion

Lending effectively

Graph: Proportion of Loan Dollars by Credit Tier
- 65% of CDFI "A" Loans
Impact Indicators for CDFI Credit Unions

Lending deeply

- Distribution of credit union loans by credit tier
- Shows commitment to financial inclusion

Lending profitably

Lending effectively

- Net change in credit scores
- Shows institutional impact on members, Target Market
- Detailed numbers, percentages

### Impact Indicators

- **Distribution of credit union loans by credit tier**
- **Shows commitment to financial inclusion**
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- **Shows institutional impact on members, Target Market**
- **Detailed numbers, percentages**

### Table: Original FICO Grades

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<tr>
<td>A+ 740+</td>
<td>$33,866,855</td>
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<td>$2,696,245</td>
<td>$4,752,372</td>
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<td>$5,014</td>
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<td>$7,086,013</td>
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<td>$1,161,317</td>
<td>$147,964</td>
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<td>$643,272</td>
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<tr>
<td><strong>Not Reported</strong></td>
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<td>$29,017</td>
<td>$481,728</td>
<td>$178,477</td>
<td>-</td>
<td>$100</td>
</tr>
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</table>
Impact Indicators for CDFI Credit Unions

**Lending deeply**
- Distribution of credit union loans by credit tier
- Shows commitment to financial inclusion

**Lending effectively**
- Net change in credit scores
- Shows institutional impact on members, Target Market
- Detailed numbers, percentages

**Lending profitably**
- Financial strength and growth
- Shows capacity to expand impact on community
Impact Indicators for CDFI Credit Unions

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Development Services
- Pathways to Financial Empowerment
- Impact data collected through integrated tracking systems
Impact Indicators for CDFI Credit Unions

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**Development Services**
- Pathways to Financial Empowerment
- Impact data collected through integrated tracking systems
Tracking and Measuring Outcomes and Impact

QUESTIONS
Overview

**Hope Enterprise Corporation**
- Not-for-Profit 501(c) 3
- Loan Fund
- Policy Institute
- Community Development Intermediary
- CDFI & CDE

**Mission:** Strengthen communities, build assets and improve lives in economically distressed areas in the Mid South by providing access to affordable, high-quality financial products and related services.

**Hope Credit Union**
- Federally Chartered, Insured CU
- CDFI & CDE
- Member-owned
41% of business loans made to Minority- & Women-owned Businesses.
FFRI/MSHFI
ECONOMIC IMPACT

- 9 projects
- Number of Jobs created and retained **402**
- Total square footage- **203,147**
- leveraged- **43,936,077**
- Number of people served- **83,057**
76% of mortgaged borrowers were first-time homebuyers.

73% of Hope Mortgages made to people of color.

2017 Annual Conference
This growth has come without reducing female and minority borrowers, and with reducing delinquency.

**Female borrowers**
1/11-6/17, % of mortgages originated
- 2011: 58%
- 2012: 57%
- 2013: 58%
- 2014: 58%
- 2015: 61%
- 2016: 59%
- 2017: 61%

**Black borrowers**
1/11-6/17, % of mortgages originated
- 2011: 67%
- 2012: 71%
- 2013: 82%
- 2014: 70%
- 2015: 67%
- 2016: 63%
- 2017: 72%

**Real estate delinquency**
% of mortgages 60+ days late
- 2012: 0%
- 2013: 1%
- 2014: 2%
- 2015: 3%
- 2016: 4%
- 2017: 5%

Source: Callahan; data is Jun for each year, except 2017, which is Mar.
HOPE’s impact is even more pronounced when compared with home buyers nationally

<table>
<thead>
<tr>
<th>Category</th>
<th>National, 2016</th>
<th>HOPE, 1/16-6/17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Racial minorities % of buyers</td>
<td>15%</td>
<td>77%</td>
</tr>
<tr>
<td>Median HH income $k/year</td>
<td>86</td>
<td>47</td>
</tr>
<tr>
<td>First-time home buyers % of buyers</td>
<td>32%</td>
<td>85%</td>
</tr>
</tbody>
</table>

Source: National Association of Realtors

*For HOPE, borrowers not refinancing or who haven’t purchased a home in the last 3 years are assumed to be first-time home buyers.
HOPE’s full financing has enabled its impact

100% LTV financing

% of mortgages

National, 2016

14%

HOPE, 1/16-6/17

69%

HOPE mortgages with >96.5% LTV

1/11-6/17, % of mortgages originated (total n=1078)

Source: National Association of Realtors
More of HOPE’s borrowers are investing in place

Borrowers staying in same Census tract
1/11-6/17, % of mortgages with Census data (n=1030)

- Research has tied home-ownership to increased community participation and other positive social outcomes (Rohe and Lindblad, 2013)
- Helping members own homes where they already live thus may help improve those areas
- A follow-up survey can explore this topic in more detail
Of those moving tracts, borrowers are more likely to be Black and younger.

**Borrowers by race**
- **1/11-6/17, % of borrowers with Census data (n=1030)**
  - Other: 21% moved tracts, 33% did not move tracts
  - White: 8% moved tracts, 33% did not move tracts
  - Black: 4% moved tracts, 59% did not move tracts

**Median age**
- **1/11-6/17**
  - Moved tracts: 38
  - Did not move tracts: 46

**Median HH income**
- **1/11-6/17, $k**
  - Moved tracts: 39
  - Did not move tracts: 41

**Median home value**
- **1/11-6/17, $k**
  - Moved tracts: 92
  - Did not move tracts: 92
Of those moving, most are going to higher-wealth, higher-opportunity areas

Members moving to higher-wealth areas

1/11-6/17, % of borrowers moving tracts (n=750)

Members moving to higher-opportunity areas

Tracts w/ a higher % of residents with at least an AA
Tracts w/ higher % of 16yo+ residents employed

Source: US Census
Young families are moving to better schools

Post-mortgage school quality for members age 20-50 in Jackson, MS* 1/11-6/17, by change in average Great Schools rating

- Better: 60%
- Worse: 30%
- No change: 10%

Median school ratings before and after move
For those moving school zones only; scores are 1-10

Before: 2.2
After: 3.2

Random sample of 30 borrowers moving to new school zones (see notes section for more detail); Source: NCES, Great Schools
Members also are gaining access to financial services and increasing racial diversity

Members leaving bank deserts
1/11-6/17, % of borrowers who started in bank deserts and moved tracts (n=307)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>58%</td>
<td>52%</td>
<td>46%</td>
<td>34%</td>
<td>43%</td>
<td>55%</td>
<td>75%</td>
</tr>
</tbody>
</table>

Source: FDIC, NCUA, US Census

Members moving to more diverse areas
1/11-6/17, % of borrowers moving tracts (n=750)

<table>
<thead>
<tr>
<th>Year</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>48%</td>
<td>54%</td>
<td>52%</td>
<td>40%</td>
<td>51%</td>
<td>50%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Source: US Census, PolicyMap
HOPE Member Characteristics

**Annual Income**
- < $35,000: 52%
- $35,000 - $50,000: 25%
- > $50,000: 23%

**HOPE Members with Children**
- Members with Children: 70%
- Without Children: 30%
HOPE Member Characteristics

Race
- African American 73%
- White 19%
- Asian 2%
- Hispanic 1%
- Other 5%

Banking Status (Upon Joining HOPE)
- Banked, 63%
- Unbanked, 37%