inclusiv

Community Development Credit Unions:

Financial Inclusion in Action

October 2023

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About Inclusiv

Founded in 1974, Inclusiv empowers its member credit unions to advance financial inclusion through advocacy, education, technology, and impact investment.

Inclusiv is a certified CDFI intermediary instrumental in driving private and public investment in credit unions to build wealth for individuals, households, businesses, and communities formerly excluded from the financial mainstream.

Acknowledgements

Inclusiv is grateful for our longstanding partnership with TruStage that made this report possible. Their support and partnership were key to growing the number of CDFI credit unions by 80% in the past four years. As part of this work, TruStage funded the creation of Inclusiv's Data Analytics Platform (DAP), which allows Inclusiv to efficiently collect, analyze and report on data on CDFI credit union lending. We look forward to launching the next generation of DAP, the Financial Inclusion Data Analytics Platform (FIDAP) in 2024.

Many Inclusiv staff contributed to this report, with a special thank you to primary researchers Ann Solomon, Senior Consultant; Terry Ratigan, Senior Consultant; and Michael Sampson, Data Analyst.

TruStage™

Introduction

The Inclusiv Network of Community Development Credit Unions (CDCUs) works to remove barriers to financial opportunities for people living in economically distressed communities. CDCUs provide vital banking services that help people with low incomes build wealth, and CDCUs reinvest that wealth locally by making affordable loans to expand homeownership, finance small businesses, grow environmental sustainability, and support financial security. Further, CDCUs leverage private investment at a ratio of 10:1, turning every dollar of external investment into $10 of lending in high-need communities. In 2022 the Inclusiv Network played a critical role in meeting the credit and banking needs of low-income communities and communities of color across the country. This report utilizes a combination of Inclusiv's data assets and government data resources to illustrate the Inclusiv Network's remarkable reach in distressed communities and the scale and types of lending the Network delivered in 2022 to meet low-income communities' credit needs.

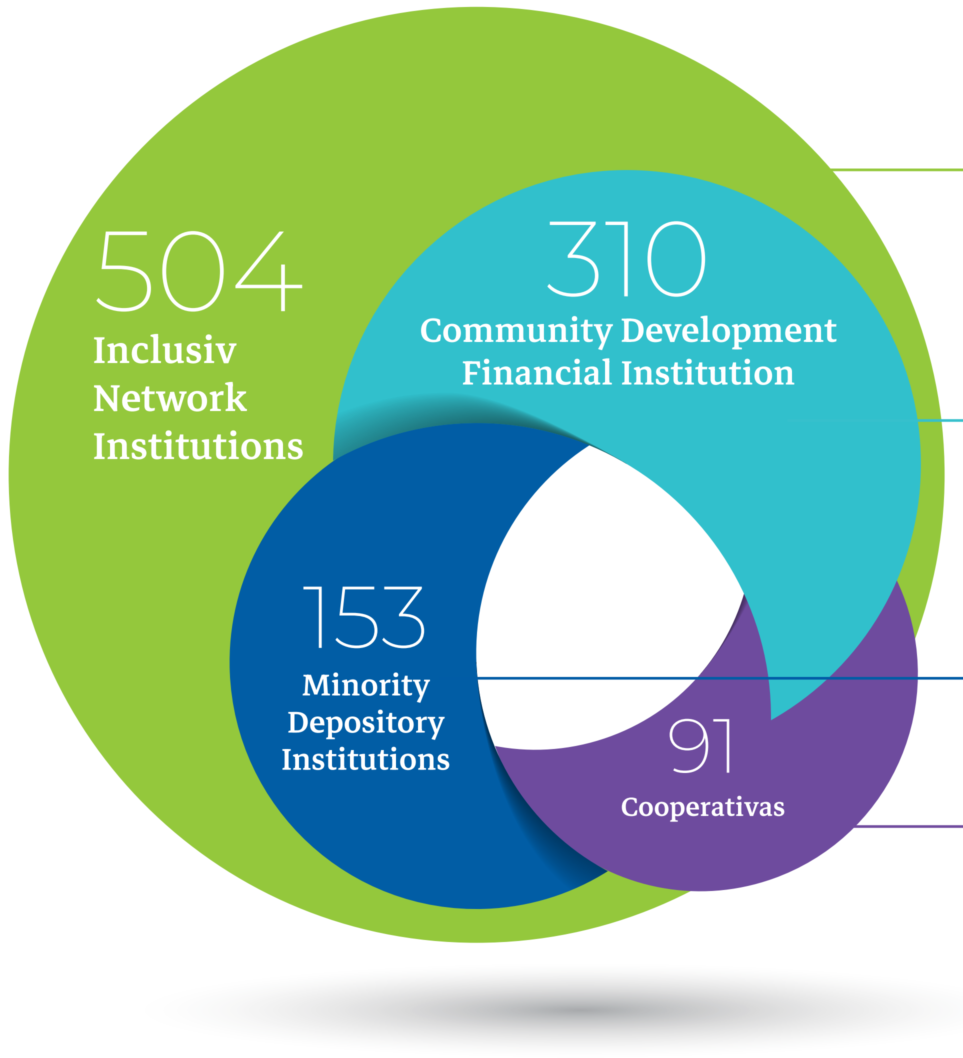
Inclusiv Network Overview

504
Credit Unions & Cooperativas

$288.7 billion
Cooperatively Controlled Assets

19.6 million
People Served

The Inclusiv Network of credit unions and cooperativas (cooperatively-owned financial institutions in Puerto Rico) has grown to record size and reach in underserved communities. At year-end 2022, the Network spanned 504 institutions across 46 states, Washington DC, Puerto Rico and the US Virgin Islands. These 504 institutions served 19.6 million people and managed combined assets of $288.7 billion.



Key Terms

Community Development Credit Union
A community development credit union (CDCU) is a credit union with a mission of serving low-income people and communities. CDCUs specialize in serving populations with limited access to safe financial services.

Community Development Financial Institution (CDFI)
Financial institutions that lend in economically disadvantaged communities and have obtained CDFI certification through a rigorous evaluation administered by the CDFI Fund, part of US Treasury.

Minority Depository Institution (MDI)
MDIs are credit unions that serve and are governed by a majority of people of color.

Cooperativa
A cooperatively owned financial institution on the island of Puerto Rico, similar to credit unions.

Inclusiv member institutions range in size from under $100,000 to over $10 billion in assets, serving a broad range of urban, rural, reservation, and island communities. This diverse Network is unified by a shared mission of building financial well-being in low-income communities and communities of color. At year-end 2022, the Inclusiv Network included 310 Community Development Financial Institution (CDFI)-certified institutions, 153 Minority Depository Institution (MDI) credit unions, and 91 cooperativas.

Expanding Access to Banking

Access to safe and affordable banking services is necessary not only for day-to-day financial life, but having a bank account also supports financial health and is a critical step on the path to building long-term wealth.[1] This is especially true for low-income communities and banking “deserts” where high-cost predatory providers abound. A CDCU branch represents a safe place for community members to transact, save, borrow, and, importantly, get trusted guidance on financial challenges. Although digital banking access has become an important tool for expanding financial access, brick-and-mortar branches remain critical, particularly in underserved communities. More than 96% of households with bank accounts access their account in-person throughout the year, and 25% of households with incomes under $30,000 use tellers as their primary means of accessing their account.[2]

CDCUs not only expand access to checking accounts and transactional services, but also are safe places for low-income communities to build short- and long-term savings and, in doing so, to reinvest their money locally. As of December 2022, the 19.6 million Inclusiv Network credit union and cooperativa members across the US had $231.5 billion in deposits at their local institutions. The vast majority of deposits (77%) at CDCUs are held in savings products including savings accounts, share certificates (i.e. CDs), money market accounts, and retirement accounts, with the remainder held in checking account products.

[1] Terri Friedline, Mathieu Despard, & Stacia West, Navigating Day to Day Finances: A Geographic Investigation of Brick-and-Mortar Financial Services and Individuals' Financial Health. (New America, February 2017).

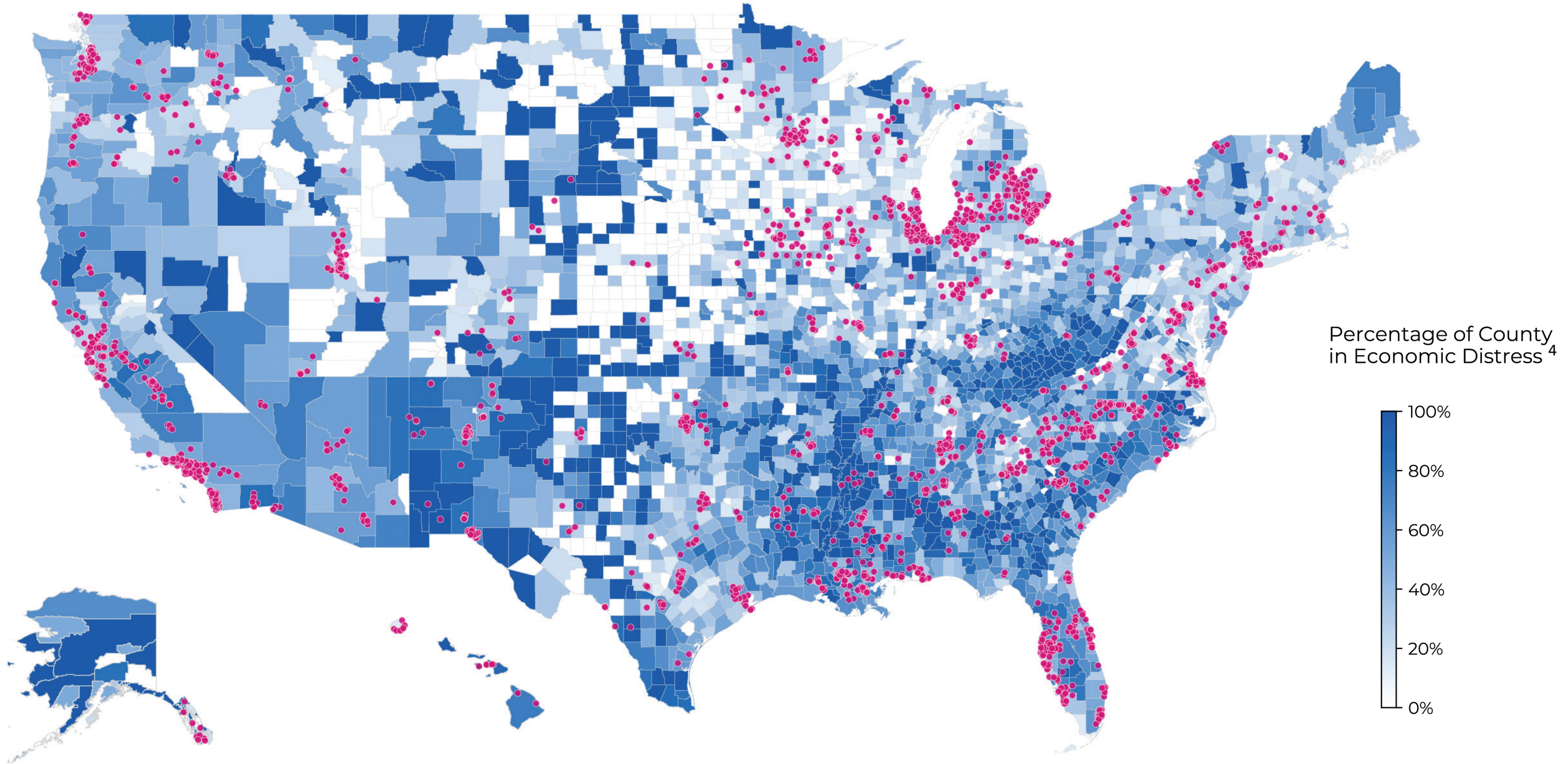
[2] Federal Deposit Insurance Corporation (FDIC), 2021 FDIC National Survey of Unbanked and Under-banked Households (October 2022).

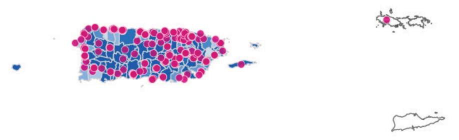
St. Louis Community® Credit Union

Checking and Savings Where it Counts

For St. Louis Community Credit Union, a CDFI and MDI, financial services are more than transactions — they are part of a holistic, community centered response to increase the standard of living of their members and the communities they serve. St. Louis Community CU has strategically located its branches in underinvested communities that have some of the highest racial wealth and income gaps in the St. Louis region. Of their 15 branches, 11 are located in or immediately adjacent to distressed census tracts, and 8 are within a Persistent Poverty County. The credit union works in partnership with several social service organizations to meet the community where they are — three of its branches are co-located with partner nonprofits. This focus on the underserved is also reflected in the credit union's lending – 85% of St. Louis Community's 2022 loans were to low-income people and economically distressed communities.

Inclusiv Member Branches





In 2022, the Inclusiv Network spanned 3,162 branches across the US. Two out of every three CDCU branches are located in low-income communities that are underserved by mainstream finance and targeted by alternative finance providers.[3]

[3] Inclusiv conducted a geographic analysis of Inclusiv Network branches and considered a branch as "low-income" if it is located in a census tract or census block in which the median family income was below 80% of the median family income benchmark for that location.

[4] The base layer for the map of economic distress reflects the percentage of census tracts in a county that are designated as Investment Areas by the US Treasury's CDFI Fund. Residents of CDFI Investment Areas experience one or more types of economic distress including high poverty rates, high unemployment, median family income below 80% of the area median income benchmark, and/or high levels of population loss.

Expanding Access To Credit

CDCU 2022 Lending

4.5 million
Households Accessed $64.6 Billion in Consumer Loans

$23.8 billion
in Mortgage Loans Enabled 158,900 Families to Become Homeowners

$11.7 billion
Lent to 19,400 Small Businesses

Consumer Lending

Inclusiv Network credit unions made more than 4.7 million loans in 2022, representing $107.4 billion in new lending in their communities.[5] Consumer loans (which include personal loans, small dollar and payday alternative loans, vehicle loans, and credit cards) made up the largest share of CDCUs' 2022 lending – roughly 9 out of every 10 loans CDCUs issued were consumer loans.

In total, CDCUs made $64.6 billion in consumer loans to an estimated 4.5 million borrowers. Access to safe and affordable credit is a key aspect of every household's financial stability. Unfortunately, low-income households, as well as Black and Hispanic households, are less likely to have access to formal credit like personal loans and more likely to utilize costly forms of credit, such as payday lenders.[6] The concentration and volume of CDCU consumer lending illustrates the critical role that CDCUs play in addressing this inequity by expanding access to affordable consumer credit products ranging from small dollar loans to auto loans for individuals and families.

[5] Based on Inclusiv's analysis of National Credit Union Administration 2022 Q4 lending data. Note that 2022 lending data was not available for Puerto Rico cooperativas and is not included in 2022 lending analysis.

[6] See Federal Deposit Insurance Corporation (FDIC), 2021 FDIC National Survey of Unbanked and Under-banked Households (October 2022) and Consumer Financial Protection Bureau (CFPB), Consumer Use of Payday, Auto Title, and Pawn Loans: Insights from the Making Ends Meet Survey Research Brief No. 2021-1 (May 2021).

Resource One
CREDIT UNION

Combatting Payday by Expanding Access to Small Dollar Lending

Texas has the largest predatory lending market in the country – Texans pay $1.1 billion in fees and interest on payday loans each year. Due to the correlation between race and banking status, much of these fees are being extracted from households of color. Resource One Credit Union is a CDFI and MDI credit union working to combat the payday challenge in Texas. The credit union expanded its safe and affordable small dollar loan products to reach to reach high-need populations in the Dallas and Houston regions, including individuals with no credit history and immigrant ITIN holders. The credit union also adopted new technology to offer rapid loan review and funding to meet members' emergency needs. At year-end 2022, Resource One had grown its portfolio of unsecured loans to $38 million, up from $30 million the year prior, helping members avoid high-cost, debt-trap payday loans. Small dollar lending is just one way in which Resource One is expanding its services to underserved markets – overall the credit union had $632 million in loans outstanding in December 2022.

Mortgage Lending

CDCUs also play a critical role in expanding access to homeownership for disadvantaged families and communities. Homeownership is one of the primary avenues for families to build intergenerational wealth, yet Black and Brown households, immigrants, and individuals with damaged credit continue to face significant barriers to owning their own homes. CDCUs offer innovative mortgage products to reach these communities, including Individual Tax Identification Number (ITIN) mortgage loans to immigrant buyers, downpayment assistance for buyers with limited savings, and mortgage programs designed for buyers with imperfect credit. In 2022, CDCUs originated a total of $23.8 billion in new mortgage loans, supporting approximately 158,900 households to become homeowners and made an additional $7 billion in home equity and other real estate secured loans.[7]

[7] The number of consumer loans and residential real estate loans are not reported in NCUA 5300 data and are therefore estimated here, based on residential real estate loan size data from Inclusiv's data set. The average residential real estate loan originated in Inclusiv's 2022 CDFI credit union data set is approximately $150,000.

Opportunities CREDIT UNION

Making Homeownership a Reality

Opportunities CU is a Burlington, Vermont based CDCU with a mission to "create wealth and promote economic development by bringing affordable capital and financial services to low-income and other traditionally underserved populations." As a CDFI-certified credit union, Opportunities has intentionally designed its mortgage program to reach homebuyers struggling to purchase homes as the region has become increasingly unaffordable. The credit union also offers free financial counseling and HUD-certified housing counseling to support families in their journey to make homeownership a reality. At the outset of 2022, Opportunities had closed over $25 million in mortgages, 39% of which were made to immigrants and refugees and over 78% were made to low-income Vermonters earning less than 80% of HUD Area Median Income.

Small Business Lending

Small business lending is another key component of CDCUs' community development work that supports their members in building wealth and creating jobs and opportunities in their communities. As with all their products and services, CDCUs design small business products and services to reach small business owners who are underserved by mainstream finance, including sole proprietors with limited business records and immigrant entrepreneurs. Inclusiv Network members offer programs such as business development courses, multi-lingual loan applications for non-English speakers, and accept alternative forms of credit to serve these business segments in their communities. In 2022, CDCUs originated $11.7 billion in small business loans to over 19 thousand businesses.

SANTA CRUZ COMMUNITY CREDIT UNION

Investing In Local Small Businesses

Founded in 1977, Santa Cruz Community Credit Union's vision is to advance "vital local communities whose members contribute individually and collectively to a just society...where all people have full access to economic opportunity." As the only financial institution in Santa Cruz County that makes loans to immigrants with Individual Taxpayer Identification Numbers (ITINs), the credit union was critical in providing financial access and relief to Hispanic immigrants and migrant workers during the pandemic. Through its longstanding work to support local small businesses and community partnerships, Santa Cruz Community provided nearly $19 million in Paycheck Protection Program loans to local small businesses, helping to save more than 2,050 jobs. Since then, the credit union has continued to create resources for immigrants and migrant workers. SCCCU worked with the County of Santa Cruz to create a Resilience Microloan Program and provided more than $500,000 to small businesses that were unable to access federal COVID-19 relief programs.

Network Loan Portfolios

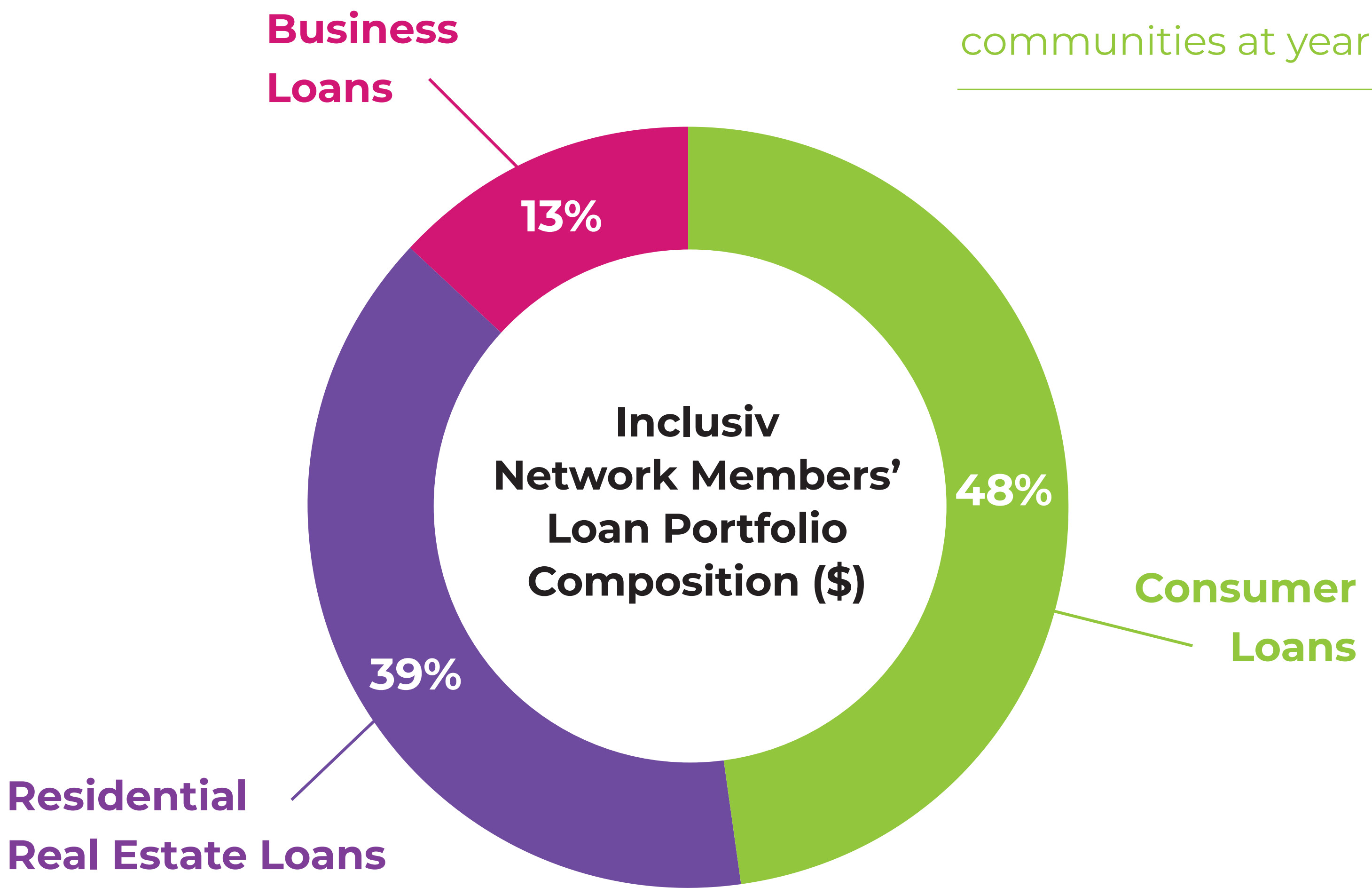
Loan portfolios round out the picture the Inclusiv Network's high-impact lending in communities. At year-end 2022, CDCUs and cooperativas had a total of $211 billion in loans outstanding in their communities.[8] In other words, the Inclusiv Network had collectively loaned out 73% of total assets, demonstrating how CDCUs effectively and efficiently reinvest wealth locally.

The largest portion of Inclusiv Network's loan portfolios are consumer loans with a total of $102.1 billion in loans outstanding to 11.6 million borrowers, further underscoring the vital role the Network plays in expanding access to credit for consumers.

The Network's loan portfolio also provides a more complete picture of the scale of CDCUs residential real estate loans, which total $82.6 billion, including mortgages and home equity loans and lines of credit. Additionally, CDCUs had $26.2 billion in small business loans outstanding to 54,715 businesses.

[8] Total loans outstanding loans represents the current balance of all active loans the credit union had at the close of 2022. Note total loans outstanding does not represent the total amount of loans that CDCUs have originated, because it takes into account repayments that have been made since origination.

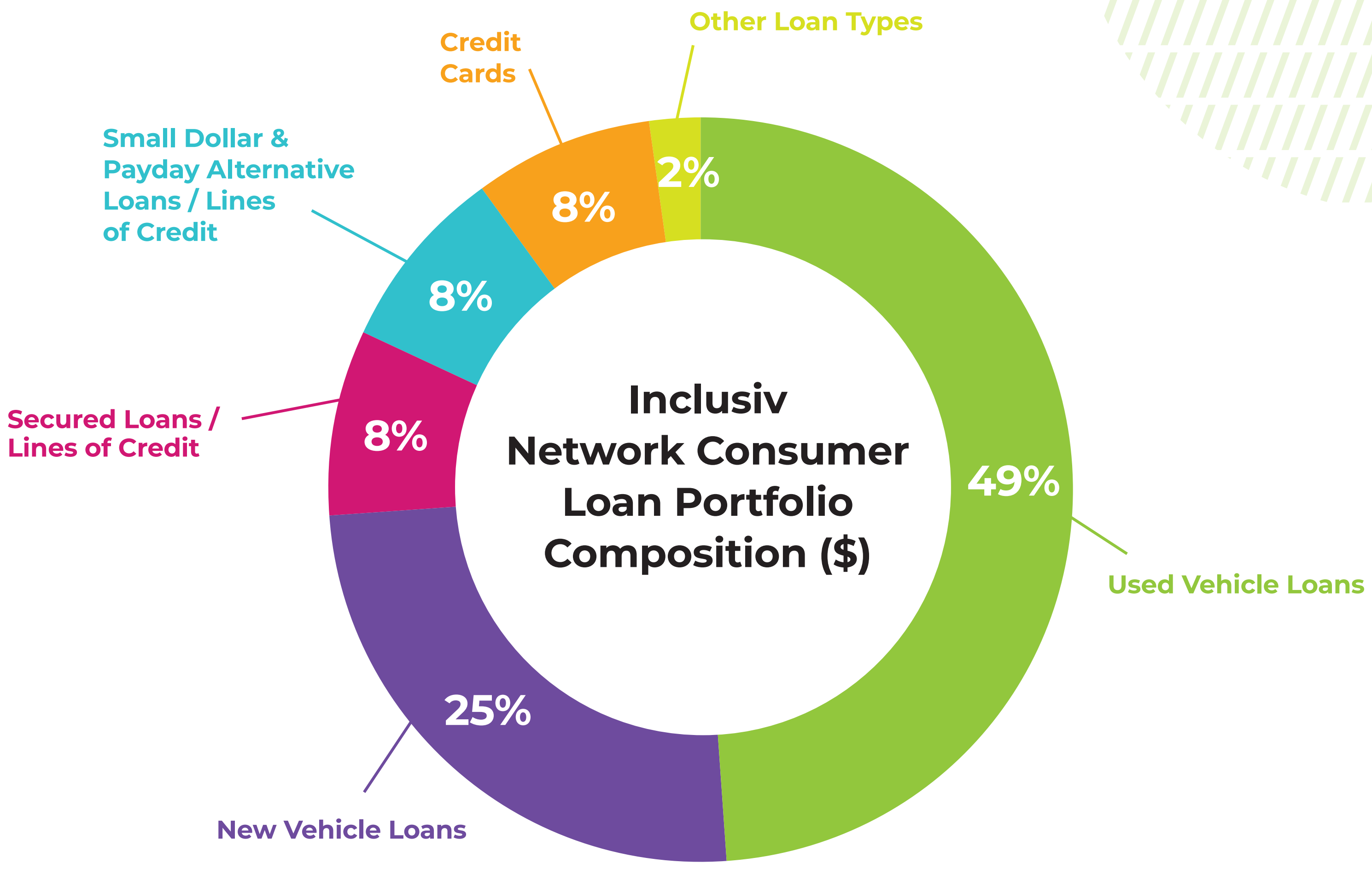
The Inclusiv Network had a total of $211 billion in loans outstanding in their communities at year-end 2022.



Consumer Loan Portfolios

Consumer loans make up a significant proportion of CDCU lending and the Network's consumer portfolio provides valuable insights into the credit needs CDCUs are responding to in their communities. At year-end 2022, CDCUs held $47.6 billion in used auto loans which together with $24.7 billion in new auto loans, made up just under 75% of CDCUs' consumer loan portfolio.[9] The scale of CDCUs' used car lending is not surprising given the markets that CDCUs serve: communities with low-incomes, savings, and average credit scores. And, in most of the US, owning a car is essential to get to school, work, and carry on day-to-day life.

[9] Based on Inclusiv's analysis of National Credit Union Administration 2022 Q4 loan data. Note that though Puerto Rico cooperativa loan portfolio summary data is included in Network Loan Portfolio above, data was not available on cooperativas' consumer loan portfolio breakdown and is not included in this consumer loan portfolio analysis.



CDCU used vehicle loan interest rates were 3% lower than market rates, resulting in estimated $2,300 savings per borrower.

Further, used car lending is a market rife with predatory players that trap buyers in loans with exorbitant interest rates. The average interest rate for a used car in 2022 was 9.3% and for anyone with subprime credit, the average rates are in the double digits: 18-21%.[10] The average CDCU used vehicle interest rate in 2022 was 6.2%, a full three percentage points under the market average. Though loan-level data is not available to determine what this savings represents for the entire portfolio, for an average borrower, a CDCU loan would save them over $2,300 in interest over the course of a 5-year car loan –a significant savings for any household and one that's particularly meaningful for families living with low incomes.[11]

Unsecured personal loans, small dollar loans and credit cards are another important way that CDCUs are filling credit gaps in low-income communities. At year-end 2022, CDCUs held $15.8 billion in unsecured personal loans, lines of credit, payday alternative loans, and credit cards. Though these loans together comprise only 16% of the dollars lent to consumers, these unsecured loans represent 6 out of 10 of the number of consumer loans outstanding. These loans are typically $3,000 or less, a loan size that's eschewed by mainstream lenders in favor of larger loans to higher income borrowers, leaving households seeking small dollar credit to predatory lenders.

CDCUs have stepped up to fill in these small credit needs in their communities at affordable rates. The average interest rate offered by CDCUs for an unsecured personal loan in 2022 was 11.8%, compared to the typical payday loan APR of around 400%.[12] Even the maximum rate permitted for federal credit unions under the National Credit Union Administration's Payday Alternative Loan product of 28% with a $20 fee is an order of magnitude less expensive than a payday product. In other words, a payday loan is anywhere from 10 to over 30 times more expensive than a CDCU small dollar loan.[13]

[10] "Used vehicle finance market begins to level out, as used vehicle loans see smaller year-over-year increases in Q3 2022," Experian, accessed July 31 2023,https://www.experianplc.com/media/latest-news/2022/used-vehicle-finance-market-begins-to-level-out-as-used-vehicle-loans-see-smaller-year-over-year-increases-in-q3-2022/. Shannon Bradley, "Average Car Loan Interest Rates by Credit Score," Nerd Wallet, accessed July 31 2023, https://www.nerdwallet.com/article/loans/auto-loans/average-car-loan-interest-rates-by-credit-score

[11] This calculation is based on the 2022 average used car loan size of $27,000 over a 5-year (60 month) loan term at the CDCU average interest rate of 6.21% compared to the average market rate of 9.34%.

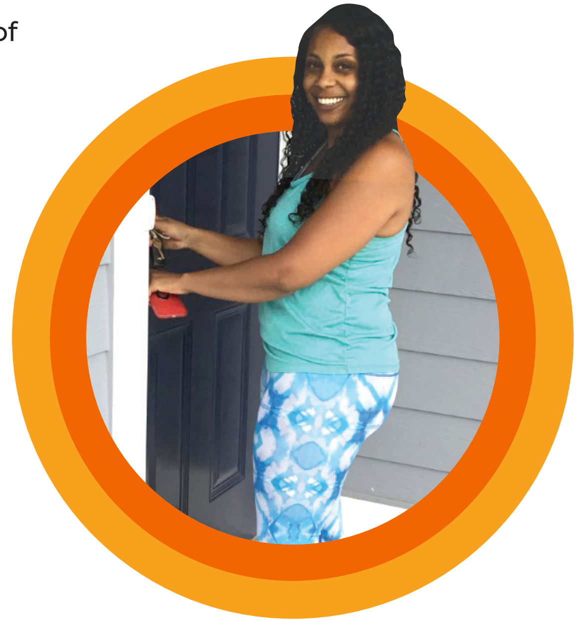
[12] Charla Rios, Red Alert Rates: Annual Percentage Rates on $400, Single-Payment Payday Loans in the United States, Center for Responsible Lending (June 2023), https://www.responsiblelending.org/research-publication/map-us-payday-interest-rates.

[13] For this analysis, Inclusiv used the advertised rates from a large payday lender (Ace Cash Express) on a $1,000, 6-month installment loan and compared that loan cost to the cost of the same loan at a credit union under two scenarios: first, a CDCU charging the average personal loan rate of 11.8% with no fees; second a CDCU following the National Credit Union Administration Payday Alternative Loan maximum rate structure of 28% with a $20 application fee. "Missouri Storefront Installment Loan Fee Schedule," Ace Cash Express, accessed July 31, 2023, https://www.acecashexpress.com/locations/missouri/.

Breaking Down Barriers In Communities Of Color

The Inclusiv Network is dedicated to the financial empowerment of communities of color and working to close the racial wealth gap that persists in our society. As financial cooperatives, credit unions are the ideal mechanism to address this divide by strengthening communities and helping their members build assets by providing responsible financial products and financial empowerment services. Though there is no comprehensive data on the racial composition of credit union borrowers, Inclusiv's analysis of segments of the Network's lending help demonstrate how CDCUs are actively expanding credit access in Black and Brown communities.

Inclusiv's analysis of the 2022 lending of 176 CDFI-certified credit unions in the Network found that 33% of loans were originated in neighborhoods that were majority people of color, on par with the proportion of US communities that are now majority "minority".[14] Additionally, Inclusiv analyzed the race of borrowers of the nearly 200 mortgages our organization purchased from 25 CDCUs in the Inclusiv Mortgage program. Inclusiv found that 48% of these homebuyers were people of color, far above the merely 12% of homebuyers in 2022 that were nonwhite.[15] Though these are not representative samples, they are illustrative of the fact that Inclusiv Network is expanding access to credit in communities of color despite credit and appraisal systems that continue to be biased against Black and Brown people.



From Inclusiv's founding in 1974 to today, supporting institutions led by and serving people of color is an essential part of our work to advance racial equity in the US and a central element of the Inclusiv Network. At year-end 2022, nearly half (48%) of the Network institutions were led by and served people of color, including 153 Minority Depository Institutions (MDIs) and 91 cooperativas on the island of Puerto Rico.

[14] This analysis used the geocoded data of every loan originated by the 176 CDFI-certified credit unions that provided data to determine which loans were originated in a census tract is majority "minority", defined as any tract in which the more than 50% of the population was nonwhite.

[15] 2023 Snapshot of Race and Home Buying in America, National Association of Realtors (2023), https://www.nar.realtor/sites/default/files/documents/2023-snapshot-of-race-and-home-buying-in-the-us-03-02-2023.pdf.

Minority Depository Institutions

In December 2022, there were a total of 512 Minority Depository Institution (MDI) credit unions across the country, 153 of which (30%) were Inclusiv members. MDI is a designation defined by the National Credit Union Administration, the primary credit union regulator, as a credit union in which the credit union's membership, potential members in the community they serve, and the board of directors are made up of a majority of people of color. In other words, MDIs are credit unions that are led by and serve Black, Hispanic, Native, and/or Asian communities.

MDIs in the Inclusiv Network had a total of 2.1 million members and $24.2 billion in assets with $16.6 billion in loans outstanding at the end of 2022. As a result of their mission as CDCUs and the racial inequities that persist in the US, MDIs are even more concentrated in low-income communities than CDCUs overall. The 153 Inclusiv Network MDIs have a total of 491 branches, and more than 3 out of 4 branches are located in low-income geographies and 28% are in Persistent Poverty Counties.[16] Further, Inclusiv's analysis of the 2022 lending of a group of CDFI-certified MDI credit unions found that 68% of these institutions' loans were originated in neighborhoods that are majority people of color, underscoring not only how MDIs are situated in the communities of highest need, but also the critical role they play in expanding credit access in communities that have been excluded and remain underserved.

[16] Persistent Poverty Counties have been identified by US Census as areas of long-term financial distress where the poverty rate has exceeded 20% for 30 years or more; 10.9% of all counties in the US are considered Persistent Poverty Counties. "Census Bureau Releases New Report About Persistent Poverty at County and Census-Tract Level," United States Census Bureau, accessed July 31, 2023, https://www.census.gov/newsroom/press-releases/2023/persistent-poverty.html#:~:text=Approximately%206.1%25%20of%20the%20U.S.,in%20a%20 persistent%20poverty%20county.

MDI Credit Unions in the Inclusiv Network serve over 2 million people and have $16.6 billion in loans in their communities.

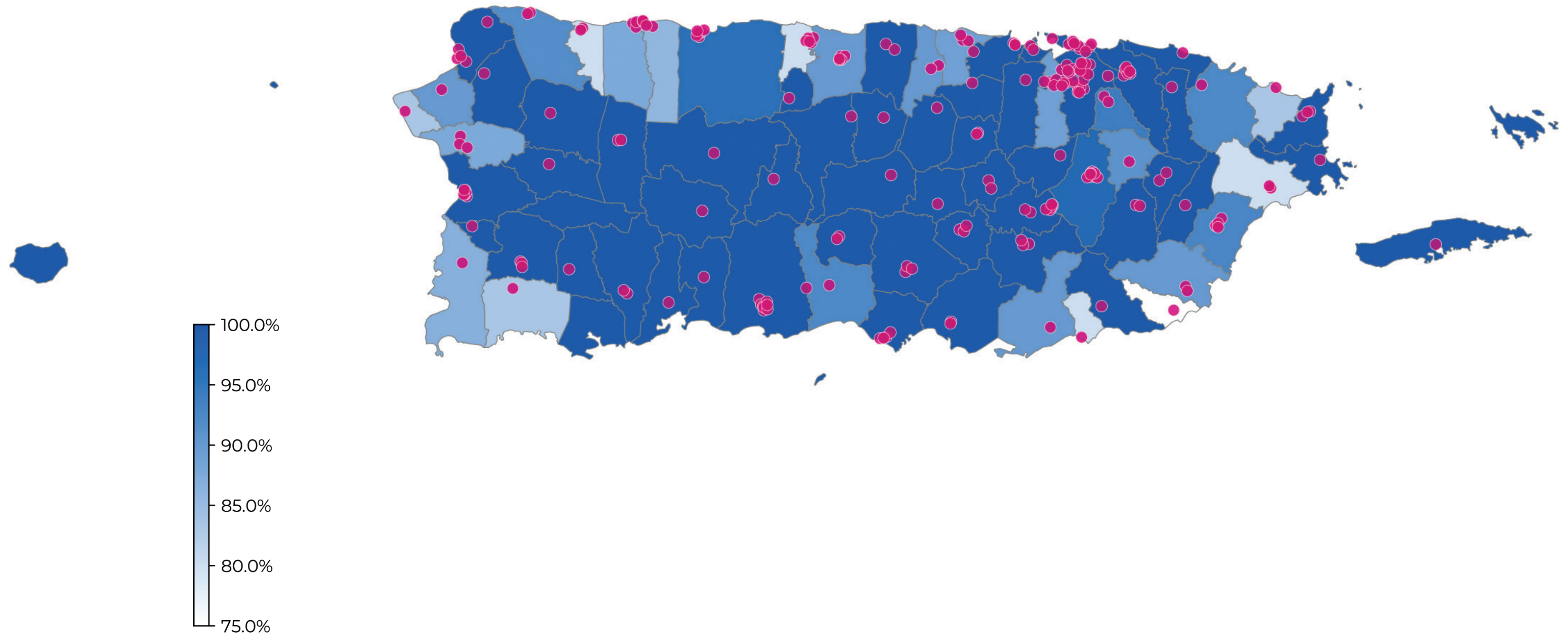
Jesús Obrero Cooperativa

Advancing Equity In Clean Energy & Resilience

The impacts of climate change are experienced by all communities, however low-wealth communities are frequently on the front lines of that impact. Inclusiv and its Network of CDCUs are working to expand clean energy, reduce energy costs, and increase resiliency in low-income communities. Puerto Rico, with its rich culture and vibrant communities, experiences high levels of poverty, with nearly 40% of residents living below the poverty line. The island has felt the brunt of disinvestment and increasingly intense natural disasters with the devastating Hurricane Maria in 2017 as well as Hurricane Fiona in 2022. Cooperativas have been financial first responders in each of these events, providing critical humanitarian relief and financial services to their communities.

Cooperativa Jesús Obrero, a CDFI serving 11,500 residents on the island, has been leading the way in solar finance to increase resiliency and reduce energy costs locally. They have financed 850 photovoltaic solar systems in 30 municipalities across the island, and the cooperativa's renewable energy financing makes up 10% of their total loan portfolio.

Inclusiv Member Branches - Puerto Rico



[17] The base layer for the map of economic distress reflects the percentage of census tracts in a municipality that are designated as Investment Areas by the US Treasury's CDFI Fund. Residents of CDFI Investment Areas experience one or more types of economic distress including high poverty rates, high unemployment, median family income below 80% of the area median income benchmark, and/or high levels of population loss.

Puerto Rico Network

At year-end 2022, there were 102 cooperativas and 5 federal credit unions on the island of Puerto Rico, of which 94 institutions (88%) were part of the Inclusiv Network. Though cooperativas have their own regulator and deposit insurer organized under the laws of Puerto Rico, they are similar to credit unions as financial cooperatives that are owned and governed by their members. And like CDCUs, they have a mission of serving underserved communities on the island, particularly rural areas and working-class urban areas where the local cooperativa is often the only financial institution with a branch presence.

The 91 cooperativas in the Inclusiv Network had $10.8 billion in assets and served over one million people, roughly one-third of the population of Puerto Rico. Cooperativas had $6.4 billion in loans outstanding, 100% of which are in communities considered economically distressed by the CDFI Fund.

The cooperativa Network also played a critical role in recovery efforts when Hurricane Fiona hit the island in September 2022, not only by ensuring access to cash and financial services throughout the crisis but also going above and beyond to transform into community centers for families to access electricity, food, water and other supplies. The network is a vital part of the lifeblood of communities with branches in 75 of the 78 municipalities on the island.

Conclusion

As the country continues to rebuild the economy in the wake of the pandemic, with a renewed focus on our persistent racial wealth divide, Community Development Credit Unions and cooperativas in the Inclusiv Network are demonstrating that they are an essential part of the solution. The Inclusiv Network branches are located in the communities where they're most needed and Network credit unions and cooperativas are growing their lending strategically to meet local consumer, mortgage, and business credit needs with responsible products that save their borrowers money, fostering wealth-building and greater financial health.

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Data Sources

The primary sources of data analyzed and included in this report include: 5300 and Credit Union Profile data from the fourth quarter of 2022 published by the National Credit Union Administration; data provided by the Public Corporation for Supervision and Safety of Cooperativas of Puerto Rico (COSSEC) on cooperativas in Puerto Rico on assets, members, branches, and 2022 loan portfolios; and Inclusiv's 2022 CDFI Data Analytics Platform dataset, which includes lending data provided by 176 CDFI-certified certified credit unions.