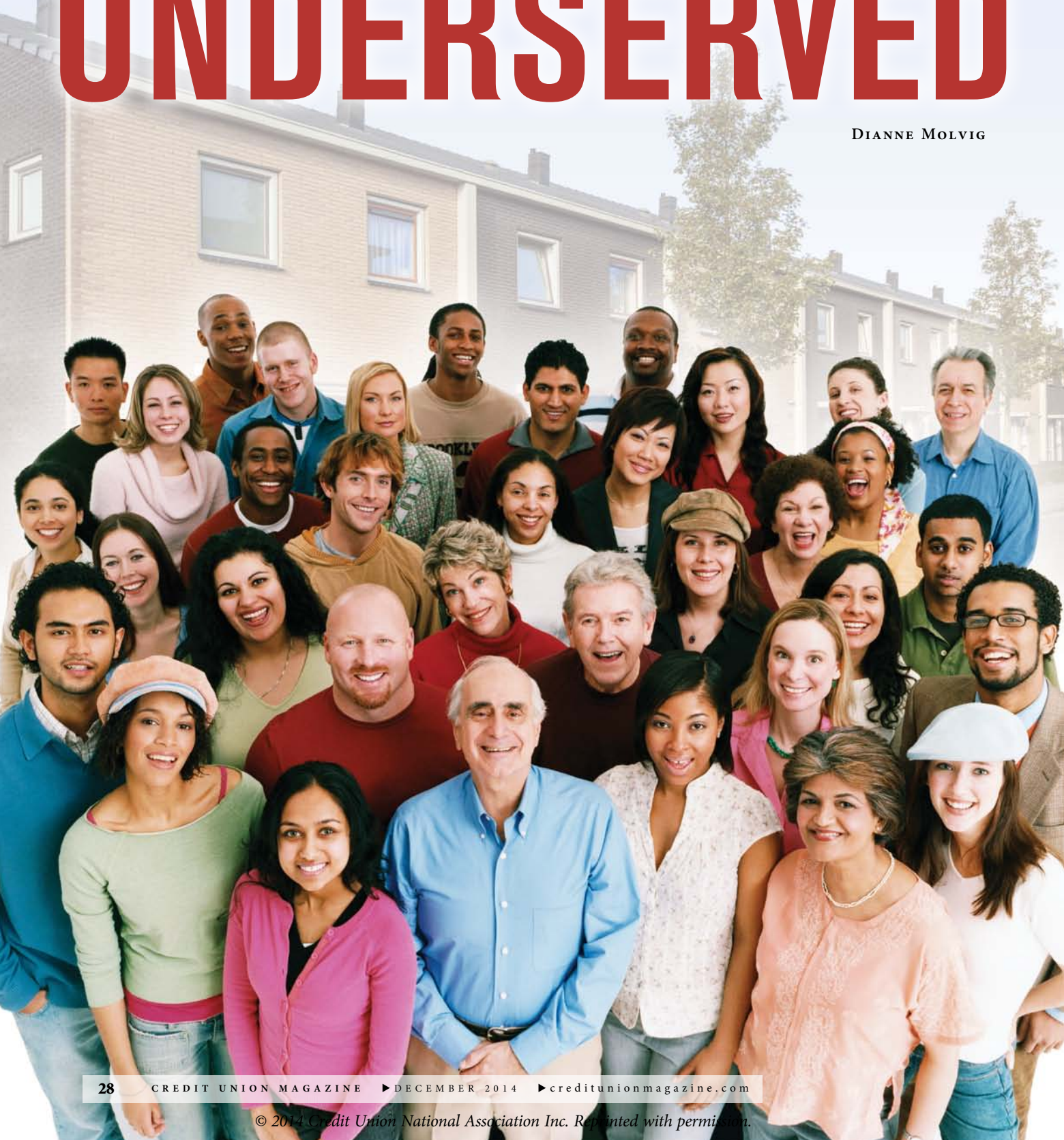


# EMPOWERING THE UNDERSERVED

DIANNE MOLVIG



# More CUs are seeking CDFI certification to boost economic growth in underserved communities.

Linda Levy has no doubt CDFI certification and grants are making a huge difference for her credit union. “We’re stronger and more successful, and that benefits our members,” says Levy, president/CEO of \$42 million asset Lower East Side People’s Federal Credit Union in New York City.

It’s one of 173 credit unions that had gained certification as a community development financial institution (CDFI) as of year-end 2013. By the end of 2014, that number is expected to surpass 300. Credit unions then would make up nearly one-third of all CDFIs.

The CDFI Fund, which issues the CDFI certification, is an agency of the U.S. Treasury Department. Dating back to 1994, the fund aims to boost economic growth in distressed communities across the country, with a focus on building businesses, creating jobs, and revitalizing neighborhoods.

A white paper from the National Federation of Community Development Credit Unions, commissioned by the CUNA Community Credit Union Committee, compares CDFI and non-CDFI credit unions and finds CDFI-certified credit unions are more likely to offer:

► **Community development loan products**, such as credit-builder loans, share-secured credit cards, micro business and consumer loans, payday loans, refund-anticipation loans, and short-term anti-predatory loans in small amounts.

► **Community development savings** and account services, such as check cashing, international remittances, money orders, and business share accounts.

► **Capacity-building services**, such as financial counseling, financial education, first-time home buyers programs, bilingual services, and free tax preparation.

CDFI-certified credit unions also outperformed their peers in providing electronic services and complex loan

products, such as member business loans and risk-based loans, according to the white paper (“Partnering to increase CDFI awareness,” p. 31).

As a glimpse into what CDFI certification can do, the white paper reports that from 2009 through 2013, 61 credit unions received \$102.7 million in CDFI financial assistance grants. During that time, those credit unions grew their total assets by \$2.4 billion, a leverage rate of \$23.70 for each equity grant dollar the CDFI Fund added. These credit unions also grew total loans by more than \$1.5 billion.

What are the stories behind those numbers? Here’s a look at what three CDFI-certified credit unions have accomplished to improve their communities.

## Lower East Side People’s FCU, New York City

Founded in 1986, Lower East Side People’s Federal Credit Union has been CDFI-certified since 1998, one of the first credit unions to do so.

Over the years, the credit union received \$4.4 million in CDFI financial and technical assistance awards, while also increasing assets by \$33 million, loans by \$26 million, and membership by 663%, through the end of 2013.

“We wouldn’t be as healthy as we are today if we hadn’t received CDFI grant money,” Levy says.

From its original branch location in the Lower East

## FOCUS

► **The Treasury Department’s** CDFI Fund aims to boost economic growth in distressed communities.

► **CUs** make up nearly one-third of all CDFI-certified institutions and are the fastest growing segment.

► **Board focus:** CDFI certification can strongly improve financial performance and loan growth, research shows.



‘Serving the needs of Hispanic members just became part of what we do here.’

**Joe Thomas**

Side of Manhattan, the credit union expanded to add branches in both the Central and East Harlem neighborhoods. Low-income individuals from all five New York City boroughs also are eligible to join, and they make up 70% of total membership.

In addition to CDFI certification, the credit union has NCUA’s low-income designation (“What do CDCU, CDFI, and LID stand for?”, p. 30).

Lower East Side People’s Federal offers its diverse members a wide range of products and services: ATMs, card services, online banking and bill pay, mortgages, credit-builder loans, small business loans, no-cost tax preparation, financial counseling, and more.

“The grant money we’ve received over the years has helped us cover costs, so we could afford to offer services we might not have been able to otherwise,” Levy says. “It also helps build our capital ratio so we’re able to make larger loans and remain healthy.”

Most loans go to low-income housing co-ops located throughout the city. “We make loans to the cooperative buildings themselves to finance maintenance, repairs, and so on,” Levy says, “and we also lend to the individual cooperators [residents]” to make home

ownership possible. Because these cooperatives are income-restricted, most banks won’t make loans to the people living in them.

Credit unions with CDFI certification must document their activities to demonstrate they’re generating the promised impact, so it’s important to prepare for that, Levy says. “You have to be able to show that you not only have a targeted low-income community, but that you’re also actually serving that community. It takes a fair amount of effort to track all that.”

### **CoVantage CU, Antigo, Wis.**

More than 100 families facing foreclosure are still in their homes today thanks to the Real Estate Rescue Refinance program at \$1.1 billion asset CoVantage Credit Union in Antigo, Wis.

“For many of these families, the foreclosure process already had started,” says Paul Grinde, CoVantage’s community development officer. “We not only refinanced their homes, but we also got them into affordable payment plans with an affordable interest rate.”

The refinancing program was made possible by a \$1.5 million CDFI financial assistance grant, which CoVantage received in 2011 after earning CDFI certification the previous year.

In addition, the credit union put nearly \$11 million of its own money into the program. CoVantage lends up to 90% loan to value, and the grant dollars finance a second mortgage.

Nearly all of the families in the program had their original mortgages with other financial institutions. When job loss, serious illness, or some other misfortune resulted in delinquency, these borrowers’ lenders

## **WHAT DO ‘CDCU,’ ‘CDFI,’ AND ‘LID’ STAND FOR?**

► **Community development credit union (CDCU)** is a credential provided by affiliation with the National Federation of Community Development Credit Unions. CDCUs are usually low-income designated and CDFI-certified, dedicated to serving and revitalizing low-income areas. The Federation provides capital, knowledge, expertise, and partnerships to help its members better serve their markets.

► **Community development financial institution (CDFI)** certification comes from the CDFI Fund, an agency of the Treasury Department. To become CDFI certified, credit unions must have a primary mission of promoting community development in underserved target markets, and providing development services to borrowers and prospective borrowers. CDFI credit unions can apply for

financial and technical assistance grants and also have access to funds, training, and other resources through federal programs reserved for certified CDFIs.

► **Low-income designated (LID) credit unions** is an NCUA designation. LID credit unions must have a majority of members (50% plus one member) who qualify as low-income (defined in Section 701.34 of the NCUA Rules and Regulations). These members must earn no more than 80% of the median family income for the metropolitan area where they live, or the national metropolitan area, whichever is greater. LID credit unions can accept non-member deposits up to a certain limit, accept secondary capital, and are exempt from the 12.25% member business lending cap.

were unwilling to work with them.

“We heard many stories,” Grinde says, “about lenders that wouldn’t reinstate the loan, even when the borrower had saved up money to bring all the payments current.” Others who couldn’t catch up on past payments were turned away even though they were able to make future payments.

A comment Grinde heard repeatedly, even from some homeowners CoVantage wasn’t able to help, was “you’re the only people who listened.” Of the 111 families in the program, only two relapsed into foreclosure. The credit union also steered 20 additional borrowers to other programs better suited to their needs.

In addition, CoVantage dispersed \$25,000 of its first CDFI grant to a local county loan fund that provides capital to small businesses, primarily owned by Native Americans.

Since receiving the grant, CoVantage has increased total assets by \$147 million and loans by \$99.3 million, with more than 70% of loans deployed in its CDFI target market, as of year-end 2013. The credit union’s net worth ratio increased from 9.83% to 10.65%.

Recently, the credit union received notice it had won a second CDFI grant, this one for \$2 million to help first-time home buyers purchase houses needing major repairs to become safe and sound. CoVantage will invest at least \$12 million of its own money into this program, Grinde reports.

He notes that CoVantage is still looking into obtaining a low-income designation from NCUA, in addition its CDFI designation.

Grinde strongly advises low-income designated credit unions to consider CDFI certification, as well. Once you’ve received the low-income designation, he says, “CDFI certification becomes a much easier process.”

As Grinde sees it, the CDFI certification is evidence that CoVantage remains true to its original mission. Local farmers and business owners launched the credit union in 1952 to help their neighbors and strengthen the community. Having the CDFI certification, Grinde says, “is confirmation that we’re continuing what they started.”

### **Fairfax County FCU, Fairfax, Va.**

For Fairfax County Federal Credit Union, a CDFI certification seemed a natural fit. “We realized we could get recognition and grants for work we’d already been doing,” says Joe Thomas, president/CEO of the \$280 million asset credit union in Fairfax, Va.

The credit union is located in one of the wealthiest counties in the country, just outside Washington, D.C., but 72% of its members are low-income. Thus, the credit union has NCUA’s low-income designation, as well as the CDFI certification.

It obtained CDFI certification in 2009, after several years of reaching out to the growing local Hispanic community. “They needed a safe place to put their money,” Thomas says, “and an introduction to financial services.”

The credit union hired bilingual staff, incorporated bilingual technology into its branch services, and partnered with local Spanish-speaking media outlets to promote the credit union. Word spread and serving the needs of Hispanic members “just became part of what we do here,” Thomas says.

A grant from the National Credit Union Foundation

## **PARTNERING TO INCREASE CDFI AWARENESS**

In 2014, the National Federation of Community Development Credit Unions embarked on an industry-wide effort to educate credit unions about the benefits and opportunities CDFI certification represents, says Pablo DeFilippi, the Federation’s vice president of membership and business development.

“The goal,” he says, “is to significantly increase the number of CDFI-certified credit unions and to build on the momentum created by NCUA’s fast-track process to provide low-income designation to eligible credit unions.”

Here’s how the Federation and system partners are working together to increase awareness throughout the industry:

- ▶ **NCUA** added a CDFI Certification Challenge to its Technical Assistance Grants (TAG) initiatives, enabling 61 credit unions to seek this credential.
- ▶ **CUNA’s Community Credit Union Committee** and the Federation published a white paper, showing the impact of CDFI-certified credit unions and their financial performance compared with other types of CDFIs. Four findings show CDFI credit unions:
  - 1. Thrive** in tough markets;
  - 2. Excel** in leveraging external resources;
  - 3. Are** among the most innovative financial institutions; and
  - 4. Represent** a viable business model for community development finance.
- ▶ **Suncoast Credit Union, Tampa**, at \$5.8 billion in assets, became the largest CDFI and represents a new breed of high-capacity credit unions impacting low-income communities and financially underserved populations.
- ▶ **State credit union leagues/associations** and the Federation have hosted CDFI/LID roundtables.

CDFI certification is within reach for thousands of credit unions, DeFilippi says.

Learn more about this growing segment of the industry at two conferences in 2015. The Federation will host a CDFI Credit Union Roundtable at CUNA’s Governmental Affairs Conference in Washington, D.C. in March. And in September, the Federation joins with CUNA’s Community Credit Union & Growth Conference in Phoenix. Visit [cdc.ucoop](http://cdc.ucoop).

furthered that outreach work, and a \$1.5 million CDFI grant received in 2011 enabled the credit union to do even more. With the grant dollars, the credit union made affordable first mortgages to Hispanic members. While some of these members may have been able to get bank financing, Thomas notes, they would have paid higher interest rates and more points up front because of limited down payment amounts, past credit troubles, or other factors.

“We worked with individuals to make the loans possible,” he says. “We got the payments where they needed to be so people wouldn’t have to struggle to meet them.” In all, the credit union dispersed about 30 purchase mortgages within a one-year period.

Since obtaining the CDFI grant, the credit union has grown total assets by \$33.7 million and loans by \$50.7 million, with 77% of loans held by low-income members, as of year-end 2013.

When initially pursuing CDFI certification, Thomas recommends credit unions seek outside help from someone who knows the process and can guide you through it. The National Federation of Community Development Credit Unions helped Fairfax County Federal.

Besides benefiting members directly, CDFI certification enables credit unions to work with other local partners to improve their communities. “The CDFI certification gives

you credibility in your community with people who may not be familiar with how credit unions operate,” Thomas says.

For instance, when he meets with representatives from other local programs that must partner with CDFIs to carry out their work, they’re often surprised to find out Fairfax County Federal is a CDFI.

“They tell me they looked for months trying to find a CDFI institution to work with on a project,” Thomas says, “but they only looked at banks. They’d never thought of a credit union.”

## RESOURCES

► CUNA: [cuna.org](http://cuna.org):

1. Training and events (select “training and events”)
2. “CDFI Certification: A building block for CU Growth,” a free white paper. Select “stay informed,” “CUNA initiatives,” and then “community credit unions.”

► National Federation of Community Development Credit Unions: [cdcu.coop](http://cdcu.coop)



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