A Future for Community Credit Unions

Martin D. Eakes

September 24, 2015
National Federation of CDCUs,
Phoenix, Arizona
Goals of this presentation

- Brief overview of Self-Help Credit Union and its key affiliate organizations
- Credit union consolidation over next 20 years (or less)
- Key goals/numbers for credit union sustainability
- Passion for the mission: economic equality and justice
Self-Help Overview
About Self-Help and CRL

- **Self-Help Credit Union** is a $670 million NC chartered credit union, 58,000 members, NC focused (1984).

- **Self-Help Ventures Fund** is a $1 billion community development loan fund: home loans and new markets (1984).

- **Self-Help Federal Credit Union** is a $600 million federal credit union, 61,000 members, CA and Chicago (2008).

- **Center for Responsible Lending** is an affiliated nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices (2002).
Self-Help’s Business Model

- Long-Term Sustainability Capital Grants
- Mission & Impact Wealth-Building, Civil Rights, Social Justice Movements
- Financial Sustainability (Back Wheel)
- Lending Methodology SH Internal Capacity
- Mission & Impact (Front Wheel)
Creating ownership and economic opportunity for all, especially people of color, women, rural residents and low-wealth families and communities.
Our Story

Humble Beginning

- Founded in 1980 in Durham, NC
- Originally created to encourage and support worker-owned cooperative businesses
- First capital in Self-Help Credit Union was $77 donation from a bake sale in late 1983
Self-Help Now

- $1.8 billion in total assets
- $942 million in total deposits
- $508 million in net worth
- Serving 117,000 borrowers, depositors, and members
- $6.8 billion invested in more than 102,000 families, individuals, businesses and nonprofits since 1980
- 568 staff working in NC, DC, CA, and Chicago
- ~73% of our staff are women; ~52% are people of color.
- More than 60% of staff directly serve credit union members
American Tobacco Campus

- $40 million dollar loan
- One million sq. ft. redevelopment of mixed use space
Revitalizing Downtowns

Creating ownership and economic opportunity for all
Affordable Homeownership

- Originated over 6,300 home loans totaling $527 million
- Provided $4.5 billion in financing to support more than 50,000 homebuyers through Self-Help Home Loan Secondary Market Program
Revolution Mill
Greening Food Deserts

- Renaissance, a 40,000 SF neighborhood shopping center in Greensboro, NC, sat vacant of a grocery store for 15+ years.

- Self-Help plans to complete a $5 million renovation project and recruit tenants such as a Co-op grocery store, independent pharmacy, and other neighborhood retail.
Solar Lending

- Self-Help has financed over $100 million of Solar Loan Development in NC alone.
- Self-Help has supported the development and expansion of 37 Solar Loan projects, across 20 of NC’s counties.
Self-Help Structure and Principles

• Charitable civil rights nonprofit joined at the hip with federally insured depository credit union
  • Equity shares and secondary capital
  • Advocacy voice for the underserved: families of color, women, immigrants, rural communities
• Always do what’s right for members, families, and communities
• Two tithing principles
  • Tithe to the future
  • Tithe to the “movement”
• Equal balance between social justice mission and financial sustainability
Some unlikely successes

- Home loans to un-bankable African American and Latino families
- Secondary capital - $50 million to grow SHFCU
- $5 billion home loan secondary market from 30 national lenders
- Helped design the CDFI Fund and legislation passed in 1994
- Commercial loans
  - $200+ million of NMTC business and facility loans
  - $100 million of loans to child care centers and charter schools
  - $100+ million of solar energy loans to power 60,000 homes
- $150+ million of direct real estate development projects
- Outreach and lending to dreamers and deferred action immigrants
- Purchase of $140 million and 3 branch failed bank in Chicago
- 40 CRL advocates and researchers helped design CFPB and model legislation against payday lending and abusive mortgages
Credit Union Consolidation
1994 to 2014: Half as many credit unions 50% more credit union members

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>Count</th>
<th>Members</th>
<th>Assets</th>
<th>% of total ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td></td>
<td>7,498</td>
<td>40,837,392</td>
<td>182,528,894,599</td>
<td>62%</td>
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<tr>
<td>State</td>
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<td>4,494</td>
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<td>36%</td>
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<tr>
<td>Priv Insur</td>
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<td>209</td>
<td>1,106,372</td>
<td>5,314,944,535</td>
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<td></td>
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<td>12,201</td>
<td>66,238,736</td>
<td>294,844,808,178</td>
<td>100%</td>
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<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>Count</th>
<th>Members</th>
<th>Assets</th>
<th>% of total ($)</th>
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</thead>
<tbody>
<tr>
<td>Federal</td>
<td></td>
<td>3,927</td>
<td>53,396,203</td>
<td>596,140,433,294</td>
<td>52%</td>
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<tr>
<td>State</td>
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<td>2,346</td>
<td>45,888,237</td>
<td>526,042,131,739</td>
<td>46%</td>
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<td>Priv Insur</td>
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<td>129</td>
<td>1,229,660</td>
<td>13,939,921,196</td>
<td>1%</td>
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<tr>
<td></td>
<td></td>
<td>6,402</td>
<td>100,514,100</td>
<td>1,136,122,486,229</td>
<td>100%</td>
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</table>
1994 to 2014: Larger credit unions had massive growth in % of members and assets

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<thead>
<tr>
<th></th>
<th>1994</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Members</td>
</tr>
<tr>
<td>&lt;$500 mm*</td>
<td>12,088</td>
<td>53,272,309</td>
</tr>
<tr>
<td>&gt;$500 mm*</td>
<td>113</td>
<td>12,966,427</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0.9%</td>
</tr>
<tr>
<td></td>
<td>Growth in share</td>
<td>8x</td>
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</table>

*$500 mm is equivalent to $340 mm in 1994 dollars
**2014 to 2034: Larger credit unions will dominate % of members and assets**

<table>
<thead>
<tr>
<th></th>
<th>Count</th>
<th>Members</th>
<th>Assets</th>
<th>Av Assets/ CU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>6,402</td>
<td>100,514,100</td>
<td>1,136,122,486,229</td>
<td>177,463,681</td>
</tr>
<tr>
<td>&lt;$500 mm</td>
<td>5,942</td>
<td>38,909,128</td>
<td>347,777,580,287</td>
<td>58,528,708</td>
</tr>
<tr>
<td>&gt;$500 mm</td>
<td>460</td>
<td>61,604,972</td>
<td>788,344,905,942</td>
<td>1,713,793,274</td>
</tr>
<tr>
<td>% for large</td>
<td>7.2%</td>
<td>61.3%</td>
<td></td>
<td>69.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Count</th>
<th>Members</th>
<th>Assets</th>
<th>Av Assets/ CU</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2034</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>3,841</td>
<td>150,771,150</td>
<td>2,556,275,594,015</td>
<td>665,488,804</td>
</tr>
<tr>
<td>&lt;$500 mm*</td>
<td>3,265</td>
<td>15,077,115</td>
<td>255,627,559,402</td>
<td>87,507,723</td>
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<tr>
<td>&gt;$500 mm*</td>
<td>920</td>
<td>135,694,035</td>
<td>2,300,648,034,614</td>
<td>2,500,704,385</td>
</tr>
<tr>
<td>% for large</td>
<td>24%</td>
<td>90%+</td>
<td></td>
<td>90%+</td>
</tr>
<tr>
<td>Growth in share</td>
<td>3x</td>
<td>.33x</td>
<td></td>
<td>30%</td>
</tr>
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</table>

* <$500 mm will be equivalent to $750 mm - $900 mm in 2034 dollars
Possible implications for the movement

• The voice of the small credit unions that survive will be marginalized.
• CUNA/NAFCU and Leagues will be dominated by large credit unions. Just a fact.
• Trade groups will focus on federal and state policy advocacy, and to lesser degree, face-to-face peer networking among large credit unions.
• If trades do not adapt soon, new credit union associations will emerge.
• Smaller credit unions must “Come Together, Right Now” – CUSOs for core processing, mobile, info security, mortgage, and ALM.
• (The alternative Beatles song is: “Let It Be”)
Sustainability of Community Credit Unions
Sustainability keys for community credit unions

• Expand assets per member!!

• Home loans for 50% of loan portfolio!
  • Cannot survive with car loans only
  • 90% of credit unions >$75 mm already offer home mortgage loans (15% at CUs of $5 to $10 million)

• Mobile phone technology is essential
Typical view of larger CU expense advantage

CU Operating Expenses as a Percent of Average Assets
By CU Asset Size
Source: NCUA and CUNA. Mid-Year 2012.

- $<5 \text{ mm}: 3.97\%$
- $5-$20 mm: 3.69\%
- $20-$100 mm: 3.68\%
- $100 \text{ mm}+: 3.01\%$

Creating ownership and economic opportunity for all
Small credit unions serve more members / FTE

Number of Members Served/ FTE
2014 year end call report data
(credit union size in millions)

<table>
<thead>
<tr>
<th>Size</th>
<th>Number of Members</th>
</tr>
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<tbody>
<tr>
<td>5-10</td>
<td>431</td>
</tr>
<tr>
<td>10-20</td>
<td>444</td>
</tr>
<tr>
<td>20-50</td>
<td>412</td>
</tr>
<tr>
<td>50-100</td>
<td>372</td>
</tr>
<tr>
<td>100-200</td>
<td>348</td>
</tr>
<tr>
<td>200-500</td>
<td>348</td>
</tr>
<tr>
<td>500-1,000</td>
<td>352</td>
</tr>
<tr>
<td>1,000-2,000</td>
<td>383</td>
</tr>
<tr>
<td>2,000-5,000</td>
<td>403</td>
</tr>
<tr>
<td>5,000-10,000</td>
<td>431</td>
</tr>
</tbody>
</table>
## Spread operating costs over more assets!!

### Operating Expense Comparisons
(based on 12/31/14 call reports)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SECU</strong></td>
<td>$29 B</td>
<td>1,900,000</td>
<td>1.07%</td>
<td>1.7%</td>
<td>15,083</td>
<td>21,574</td>
<td>57%</td>
<td>379</td>
<td>0.2%</td>
<td>7.97%</td>
<td>$1.9 B</td>
</tr>
<tr>
<td><strong>Self-Help (includes affiliates)</strong></td>
<td>$1.8 B</td>
<td>120,000</td>
<td>1.09%</td>
<td>2.5%</td>
<td>11,570</td>
<td>21,367</td>
<td>59%</td>
<td>396</td>
<td>0.5%</td>
<td>13.16%</td>
<td>$508 M</td>
</tr>
<tr>
<td><strong>CU #1 (pre-merger 2008)</strong></td>
<td>$43 mm</td>
<td>7,000</td>
<td>-1.21%</td>
<td>4.4%</td>
<td>5,457</td>
<td>7,533</td>
<td>72%</td>
<td>312</td>
<td>0.7%</td>
<td>6.20%</td>
<td>$3 M</td>
</tr>
<tr>
<td><strong>CU #2 (pre-merger 2012)</strong></td>
<td>$60 mm</td>
<td>11,000</td>
<td>0.63%</td>
<td>5.1%</td>
<td>5,151</td>
<td>7,636</td>
<td>66%</td>
<td>501</td>
<td>1.8%</td>
<td>13.80%</td>
<td>$7.9 M</td>
</tr>
<tr>
<td><strong>CU #3 CDCU</strong></td>
<td>$36 mm</td>
<td>9,000</td>
<td>3.59%</td>
<td>6.8%</td>
<td>4,021</td>
<td>7,687</td>
<td>75%</td>
<td>402</td>
<td>1.6%</td>
<td>15.30%</td>
<td>$5.6 M</td>
</tr>
</tbody>
</table>
How to expand assets to $10k per member

- Target small % of older or “Robin Hood” members w larger savings
  - 2% of members at $250k increases avg by $5k
  - 5% of members at $100k increases avg by $5k
- Loans, deposits, net worth, and expertise must be balanced
  - **Loans come first -- without sufficient member loan demand, more deposits are harmful (See section on home loans)**
  - Must have expertise to increase loans responsibly
  - Must have net worth to support doubling of deposits
  - Can grow assets at same rate as ROE w/o decreasing net worth
- Figure out how to raise rates on your 1 year CD
  - Regulators often get this dead wrong and push for lower CD rates
  - If operating expense is too high and assets/member too low, the solution is to spread expenses across a larger asset base
Challenges to home lending by credit unions

- Cannot break even putting Fannie/Freddie-eligible home loans in portfolio
- Small lenders cannot break even with home loan servicing business, but important for member relationship
- Niches are credit-blemished borrowers, jumbo loans, and ARM borrowers – loans not covered by GSEs
- ALM and interest rate swaps needed to serve low and moderate income borrowers, who prefer fixed rate loans
- Regulations for HMDA, RESPA, HOEPA, ECOA, Fair Housing, Dodd-Frank, SAFE Act for mortgage originators are COMPLEX
How to make home loans 50% of total loans

• CU portfolio target is only 2.5% – 3% of its members!
  • This is true even for $30+ billion NC SECU
  • If $10k av assets/ member, it takes 20 members to support one home loan of $200k
  • Thus, only possible to fund 5% of members even if 100% of credit union assets used for portfolio home loans, which is NOT prudent
  • At goal of 50% of assets, home loan target is 2.5% of total members
• Must “come together” with other credit unions and CUSOs to handle originations, ALM, legal compliance, mortgage loan servicing
• And yet CDCU and Community CUs cannot survive without portfolio home lending program!
  • $200k home loan vs $20k car loan: 10x difference
  • 8 yr av life for home loan vs 2 yr av life for car loan: 4x difference
  • **40 times greater impact on balance sheet for home vs car loan**
  • If doubling assets/ member, home loans are how to deploy
Mobile phone banking is essential

- Mobile access is great cost equalizer for small cu’s
- Natural outcome of two technology trends
  - Cost of MIPS (CPU speed) trending toward $0
  - Cost of bandwidth trending toward $0
  - Hence, EVERYONE will have a smart phone
- Adopted faster than ANY other banking innovation
  - Faster than ATMs, checking, credit, debit cards
- B of A, Chase report 25% reduction in branch transactions in just two years.
Mission – the “front” wheel
Mission Overview

- Homeownership by race
- Self-Help Home Loan Secondary Market (appendix)
- Abusive subprime lending
- Economic inequality
Homeownership Rates by Race & Ethnicity

Average Homeownership Rates by Race and Ethnicity

Source: U.S. Census Bureau
Minority Renters Have Minimal and Significantly Less Savings and Wealth than Non-Minorities

Cash Savings (Dollars)

- 25th Percentile
- Median
- 75th Percentile

Total Net Wealth (Dollars)

- 25th Percentile
- Median
- 75th Percentile

■ Minority ■ White, Non-Hispanic

Note: Data for Renters only. Cash savings includes checking, saving, CD and money market accounts. Source: JCHS tabulations of 2007 Survey of Consumer Finances.
Minority Household Growth

Minorities Will Account for Three-Quarters of Household Growth Over the Coming Decade

Share of Households (Percent)

Household Composition in 2012 vs. Projected Composition of Household Growth in 2015–25

- White
- Asian/Other
- Hispanic
- Black

Joint Center for Housing Studies & US Census Bureau
<table>
<thead>
<tr>
<th>Net Worth 2005</th>
<th>Net Worth 2012</th>
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<tbody>
<tr>
<td><strong>Owners</strong></td>
<td><strong>Renters</strong></td>
</tr>
<tr>
<td>&lt;$0</td>
<td>$38,145</td>
</tr>
<tr>
<td>$0-$10,000</td>
<td>$40,861</td>
</tr>
<tr>
<td>$10,000-$20,000</td>
<td>$37,532</td>
</tr>
<tr>
<td>$20,000-$30,000</td>
<td>$64,344</td>
</tr>
<tr>
<td>&gt;$30,000</td>
<td>$84,426</td>
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</tbody>
</table>

Source: Center for Community Capital, Low- and Moderate-income Homeownership and Wealth Creation 2014
### Higher cost 1st lien total loans, 2005 HMDA

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th># Higher cost</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>388,471</td>
<td>52%</td>
</tr>
<tr>
<td>Latino</td>
<td>375,889</td>
<td>40%</td>
</tr>
<tr>
<td>White</td>
<td>1,214,003</td>
<td>19%</td>
</tr>
</tbody>
</table>
Creating ownership and economic opportunity for all

U.S. Single Family Market Cycles (1976 Q1 – 2014 Q2)

Note: Percentage values in boxes represent real cumulative changes during shaded area

Source: Consumer Price Index (CPI) & Case-Schiller as of June 30, 2014

Homes Prices in Real Terms Are Mean Reverting

US Single-Family Market Cycles in 30 Years
(1976Q1-2007Q1)

Nominal 4Q rollover growth rate

Real 4Q rollover growth rate

Real cumulative changes shown in boxes

U.S. Single Family Market Cycles (1976 Q1–2014 Q2)

12-month Rolling Growth Rate in Case-Schiller U.S. National Home Price Index

Note: Percentage values in boxes represent real cumulative changes during shaded area
Source: Consumer Price Index (CPI) & Case-Schiller Index as of June 30, 2014
National Income Inequality

Top 1% Share of Total Pre-Tax Income, 1913-2007

- 1928: 23.9%
- 1976: 8.9%
- 2007: 23.5%

Creating ownership and economic opportunity for all
Thomas Piketty, Top 10% Share of U.S. National Income

INCOME INEQUALITY IN THE UNITED STATES, 1910-2010

SHARE OF TOP DECILE IN NATIONAL INCOME

25%  30%  35%  40%  45%  50%

American Pie

- Top 1%: 43% of Financial Wealth
- Next 4%: 29% of Financial Wealth
- Next 5%: 11% of Financial Wealth
- Next 10%: 12% of Financial Wealth
- Bottom 80%: 7% of Financial Wealth

Addendum Slides
National Income Inequality

Income Gains at the Top Dwarfed Those of Low- and Middle-Income Households

Percentage change in after-tax income, 1979-2007

Source: CBPP calculations based on Congressional Budget Office data

Center on Budget and Policy Priorities | cbpp.org
Thomas Piketty, Top 1% Wealth Holdings since 1810
Self-Help Affiliated Organizations

Self-Help Credit Union
SHCU is a member-owned, federally-insured, NC-chartered (1983) CU, originally launched to raise deposits from members to make commercial, consumer, and home loans. To expand our impact and provision of services, in 2006, SHCU began merging in NC credit unions. SHCU has merged in nine credit unions that have served NC since as early as 1954, and now has over 20 branches, $650 million in assets, and serves 60,000 North Carolinians. SHCU is a Treasury Department certified Community Development Financial Institution (CDFI), and a low income designated CU.

Self-Help Federal Credit Union
SHFCU is a member-owned, federally-insured, federally chartered CU. SHFCU was chartered in 2008, to build a network of CU branches to operate on a scale uncommon in the community development industry. Through a series of over 10 mergers, acquisitions, and new branch launches, in both CA and IL, we are building a CDCU that provides high-impact financial services to working-class communities. SHFCU now has over 20 branches, $600 million in assets, and serves over 80,000 people. SHFCU family includes credit unions that have served CA since as early as 1936 and IL as early as 1882. SHFCU is a Treasury-certified CDFI, a low-income designated CU, and a Minority Depository Institution (MDI).

Self-Help Ventures Fund
Nonprofit 501(c)(3) loan fund capitalized with loans and grants from foundations, religious organizations, corporations and government sources. SHVF manages Self-Help's higher-risk business loans, real estate development and home loan secondary market programs.

Center for Responsible Lending
CRL is a national nonprofit, nonpartisan research and policy organization. CRL is dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices.

Center for Community Self-Help
Charitable nonprofit 501(c)(3) organization that develops and coordinates Self-Help's programs, raises resources, and advocates for economic opportunity.

Creating ownership and economic opportunity for all
Mission / Finances Chart

Create ownership and economic opportunity for all

Mission Impact

<table>
<thead>
<tr>
<th>Benefit to Net Worth</th>
<th>Mission Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(high)</td>
<td>Make sure financial gain is worth the mission distraction</td>
</tr>
<tr>
<td>(low)</td>
<td>Avoid</td>
</tr>
<tr>
<td>(low)</td>
<td>Make sure mission impact is worth the financial cost</td>
</tr>
<tr>
<td>(high)</td>
<td>Scale up</td>
</tr>
</tbody>
</table>
FICO Score at Origination for Purchase Loans

Source: Corelogic Prime servicing and Urban Institute calculations.
Minorities will account for the bulk of household growth (net new households, millions)

Source: Urban Institute