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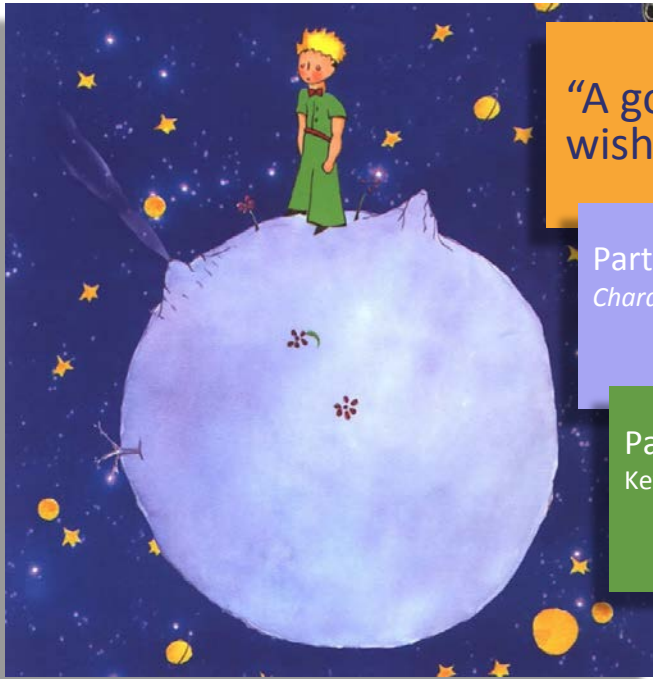


Doing Well by Doing Good

Successful Business Models &
Key Elements of Business Plans
for CDFI Credit Unions



Today



“A goal without a plan is just a wish”

– Antoine de Saint-Exupéry

Part 1: “How to Succeed in Business...”
Characteristics of Successful CDFI Credit Unions

– Terry Ratigan

Part 2: “...by Planning for Success”
Key Elements of Successful CDFI Business Plans

– Cathi Kim



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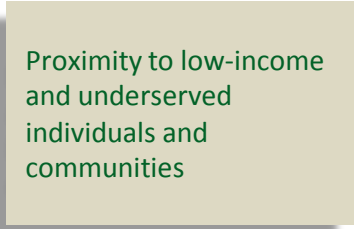




Three Pillars of CDFI Performance



Target Market Opportunity



Proximity to low-income
and underserved
individuals and
communities



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Three Pillars of CDFI Performance



Target Market Opportunity



Target Market Response



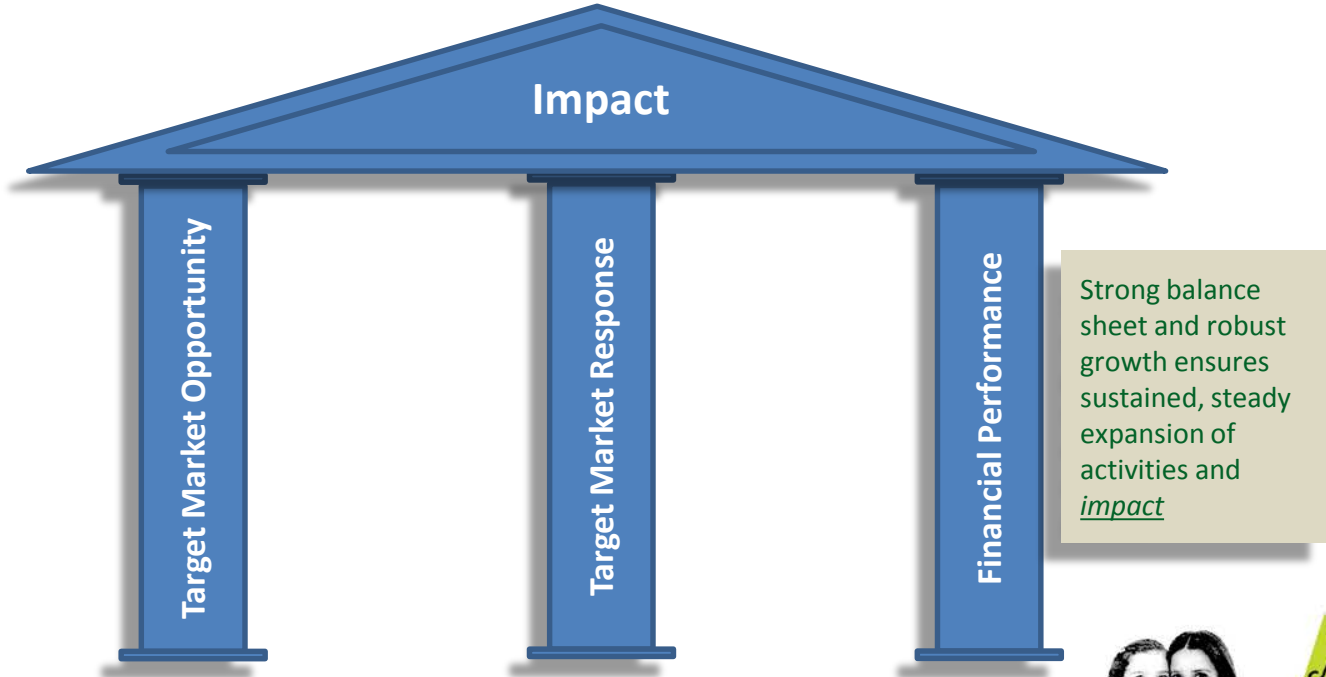
Focus on serving CDFI Target Markets with responsive and inclusive products, services, policies and practices.



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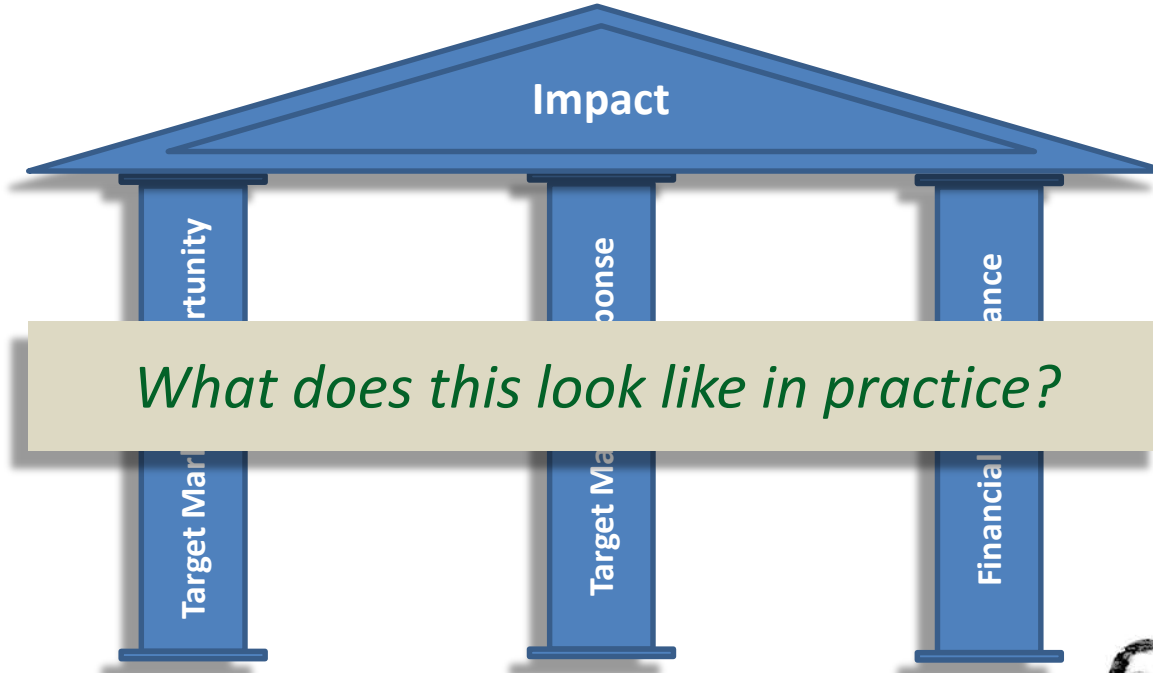
Three Pillars of CDFI Performance



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Three Pillars of CDFI Performance

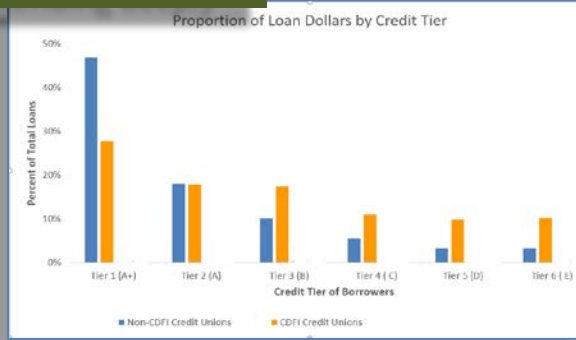


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Characteristics of Successful CDFIs

Lending *deeply*



Lending *profitably*

Median Return on Average Assets
FY 2016

Peer Group (Asset Size)	CDFIs	Non CDFIs
Less than \$2 million	0.02%	0.09%
\$2 million to \$10 million	0.34%	0.14%
\$10 million to \$50 million	0.41%	0.27%
\$50 million to \$100 million	0.53%	0.37%
\$100 million to \$500 million	0.68%	0.49%
More than \$500 million	0.71%	0.75%

Lending *effectively*

Dollar

Current FICO	A+	Original FICO Grades					
		A	B	C	D	E	
A+	740+	\$ 33,886,855	\$ 4,944,282	\$ 1,696,945	\$ 425,522	\$ 105,543	\$ 63,014
A	690-739	\$ 7,886,015	\$ 11,359,490	\$ 5,212,544	\$ 857,840	\$ 146,947	\$ 147,464
B	660-689	\$ 1,857,191	\$ 4,604,064	\$ 10,527,101	\$ 2,055,535	\$ 1,333,447	\$ 158,714
C	630-659	\$ 910,286	\$ 910,852	\$ 2,541,847	\$ 2,547,064	\$ 886,367	\$ 848,199
D	600-629	\$ 17,970	\$ 123,766	\$ 1,903,642	\$ 2,480,152	\$ 715,706	\$ 525,832
E	<600	\$ 91,337	\$ 610,842	\$ 1,026,951	\$ 2,088,359	\$ 717,208	\$ 643,272
Not Reported		\$ 75,084	\$ 30,047	\$ 483,778	\$ 189,437	\$ -	\$ 300

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



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Characteristics of Successful CDFIs

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”*

...but what characteristics distinguish the most successful CDFIs?

Lending profitably

Median Return on Average Assets

FY 2016

Peer Group (Asset Size)	CDFIs	Non CDFIs
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Median Return on Average Assets

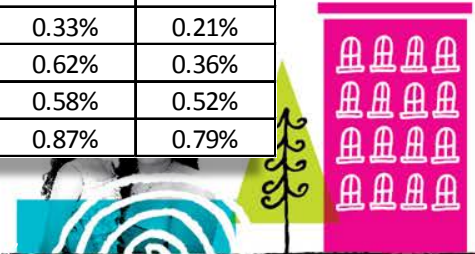
FY 2015

Peer Group (Asset Size)	CDFIs	Non-CDFIs
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Median Return on Average Assets

FY 2014

Peer Group (Asset Size)	CDFIs	Non CDFIs
Less than \$2 million	0.47%	-0.03%
\$2 million to \$10 million	0.48%	0.09%
\$10 million to \$50 million	0.33%	0.21%
\$50 million to \$100 million	0.62%	0.36%
\$100 million to \$500 million	0.58%	0.52%
More than \$500 million	0.87%	0.79%



A Closer Look at CDFI Credit Unions

- Group comparisons of CDFI and mainstream CUs mask important information
 - Variation of performance among individual CDFIs
 - Factors that contribute to superior performance of leading CDFIs

Median Return on Average Assets for CDFI Credit Unions						
FY 2016						
Peer Group (Asset Size)	Total Number of CDFIs	Median ROAA	CDFIs <i>Above</i> Median ROAA		CDFIs <i>Below</i> Median ROAA	
			#	Median ROAA	#	Median ROAA
Less than \$2 million	24	0.02%	12	1.04%	12	-0.69%
\$2 million to \$10 million	26	0.34%	13	1.17%	13	-0.47%
\$10 million to \$50 million	76	0.41%	38	0.66%	38	0.08%
\$50 million to \$100 million	48	0.53%	24	1.00%	24	0.30%
\$100 million to \$500 million	92	0.68%	46	1.00%	46	0.37%
More than \$500 million	36	0.71%	18	1.05%	18	0.48%

Next Level Analysis



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A Closer Look at CDFI Credit Unions

- Begin with three key ratios
 - Loans to Shares
 - Operating Expenses to Average Assets
 - Fee Income to Gross Income

Median Return on Average Assets for CDFI Credit Unions						
FY 2016						
Peer Group (Asset Size)	Total Number of CDFIs	Median ROAA	CDFIs <i>Above</i> Median ROAA		CDFIs <i>Below</i> Median ROAA	
			#	Median ROAA	#	Median ROAA
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More than \$500 million	36	0.71%	18	1.05%	18	0.48%

Next Level Analysis



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A Closer Look

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Peer Group (Asset Size)	CDFIs Above Median ROAA				CDFIs Below Median ROAA			
	Loans-to-Shares			Median ROAA	Loans-to-Shares			Median ROAA
Less than \$2 million	71.09			1.04	60.30			-0.69
\$2 million to \$10 million	80.61			1.17	56.98			-0.47
\$10 million to \$50 million	73.92			0.66	63.91			0.08
\$50 million to \$100 million	76.29			1.00	68.33			0.30
\$100 million to \$500 million	83.59			1.00	77.44			0.37
More than \$500 million	86.80			1.05	89.29			0.48

Higher earning CDFIs tend to be more loaned out



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A Closer Look

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Peer Group (Asset Size)	CDFIs Above Median ROAA				CDFIs Below Median ROAA			
	Loans-to-Shares	OpEx / Avg Assets		Median ROAA	Loans-to-Shares	OpEx / Avg Assets		Median ROAA
Less than \$2 million	71.09	9.36		1.04	60.30	6.45		-0.69
\$2 million to \$10 million	80.61	5.95		1.17	56.98	7.34		-0.47
\$10 million to \$50 million	73.92	5.00		0.66	63.91	5.04		0.08
\$50 million to \$100 million	76.29	4.47		1.00	68.33	4.08		0.30
\$100 million to \$500 million	83.59	4.46		1.00	77.44	4.71		0.37
More than \$500 million	86.80	3.44		1.05	89.29	3.86		0.48

Comparison of OpEx ratios is mixed across peer groups



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A Closer Look

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Peer Group (Asset Size)	CDFIs Above Median ROAA				CDFIs Below Median ROAA			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	Median ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	Median ROAA
Less than \$2 million	71.09	9.36	1.62	1.04	60.30	6.45	0.75	-0.69
\$2 million to \$10 million	80.61	5.95	1.22	1.17	56.98	7.34	1.20	-0.47
\$10 million to \$50 million	73.92	5.00	1.43	0.66	63.91	5.04	1.21	0.08
\$50 million to \$100 million	76.29	4.47	1.30	1.00	68.33	4.08	0.97	0.30
\$100 million to \$500 million	83.59	4.46	1.24	1.00	77.44	4.71	1.09	0.37
More than \$500 million	86.80	3.44	0.76	1.05	89.29	3.86	0.90	0.48

Fee income tends to be more important for the higher earning group, but not enough to explain differences in ROA



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A Closer Look

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Peer Group (Asset Size)	CDFIs Above Median ROAA				CDFIs Below Median ROAA			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	Median ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	Median ROAA
Less than \$2 million	71.09	9.36	1.62	1.04	60.30	6.45	0.75	-0.69
\$2 million to \$10 million	80.61	5.95	1.22	1.17	56.98	7.34	1.20	-0.47
\$10 million to \$50 million	73.92	5.00	1.43	0.66	63.91	5.04	1.21	0.08
\$50 million to \$100 million	76.29	4.47	1.30	1.00	68.33	4.08	0.97	0.30
\$100 million to \$500 million	83.59	4.46	1.24	1.00	77.44	4.71	1.09	0.37
More than \$500 million	86.80	3.44	0.76	1.05	89.29	3.86	0.90	0.48

Can we look even closer?



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million								

- Two comparable credit unions
 - CDFI "A"
 - CDFI "B"
- Similar asset size
- Similar membership size
- Both Low Income Designated & CDFI Certified



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%				100%			

- CDFI "B" puts more of its assets to work as loans



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%			100%	3.90%		

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%	7%		100%	3.90%	18%	

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio
- CDFI "B" is more reliant on Fee Income than CDFI "A"



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%	7%	??	100%	3.90%	18%	??

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio
- CDFI "B" is more reliant on Fee Income than CDFI "A"

Which CDFI has a higher return on assets?



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%	7%	??	100%	3.90%	18%	??

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio
- CDFI "B" is more reliant on Fee Income than CDFI "A"

Let's look
a little bit deeper...

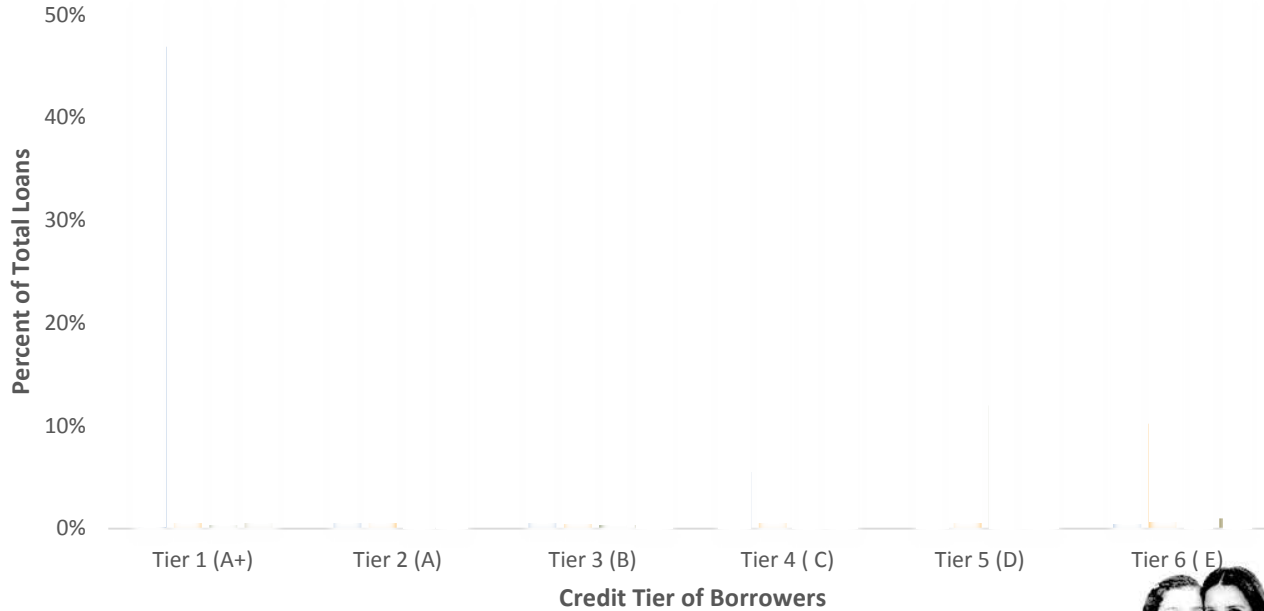


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Lending *Deeper* in CDFI Target Markets

Proportion of Loan Dollars by Credit Tier



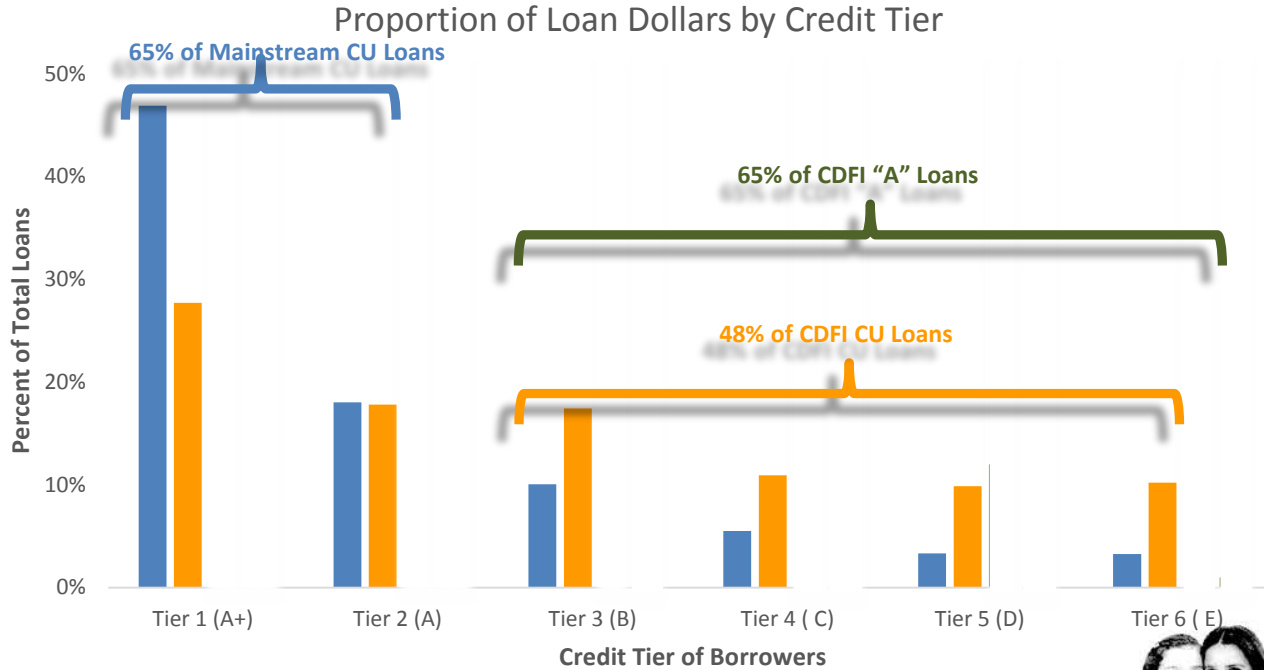
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■ Non-CDFI Credit Unions

■ CDFI Credit Unions



Lending *Deeper* in CDFI Target Markets



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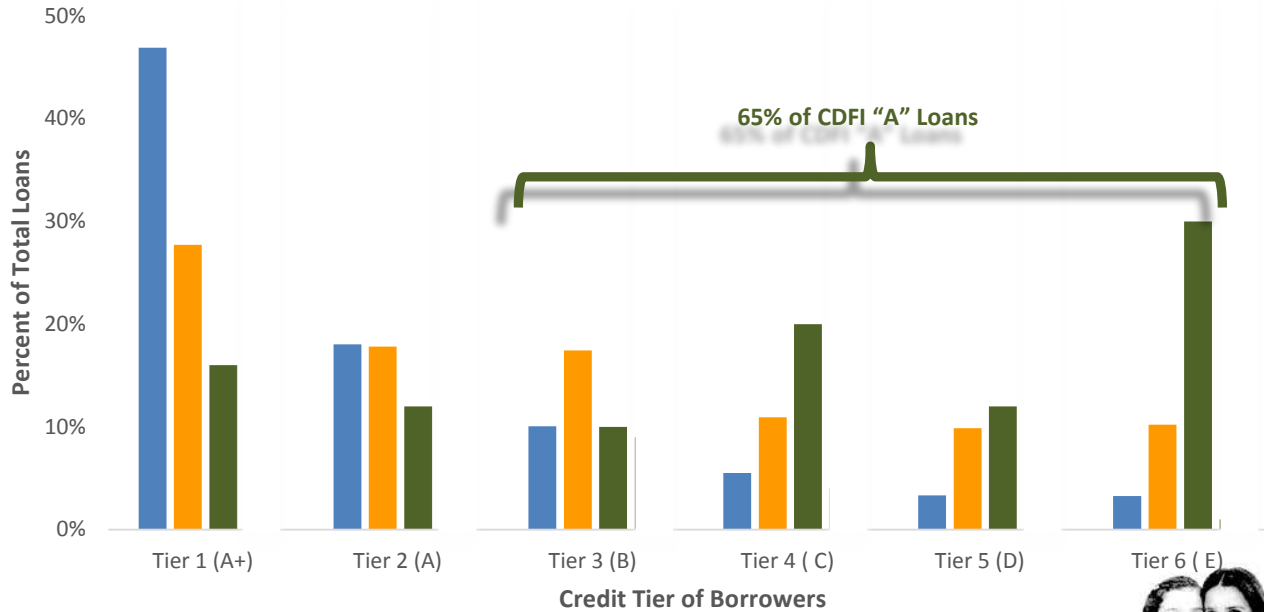
■ Non-CDFI Credit Unions

■ CDFI Credit Unions



Lending *Deeper* in CDFI Target Markets

Proportion of Loan Dollars by Credit Tier



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■ Non-CDFI Credit Unions

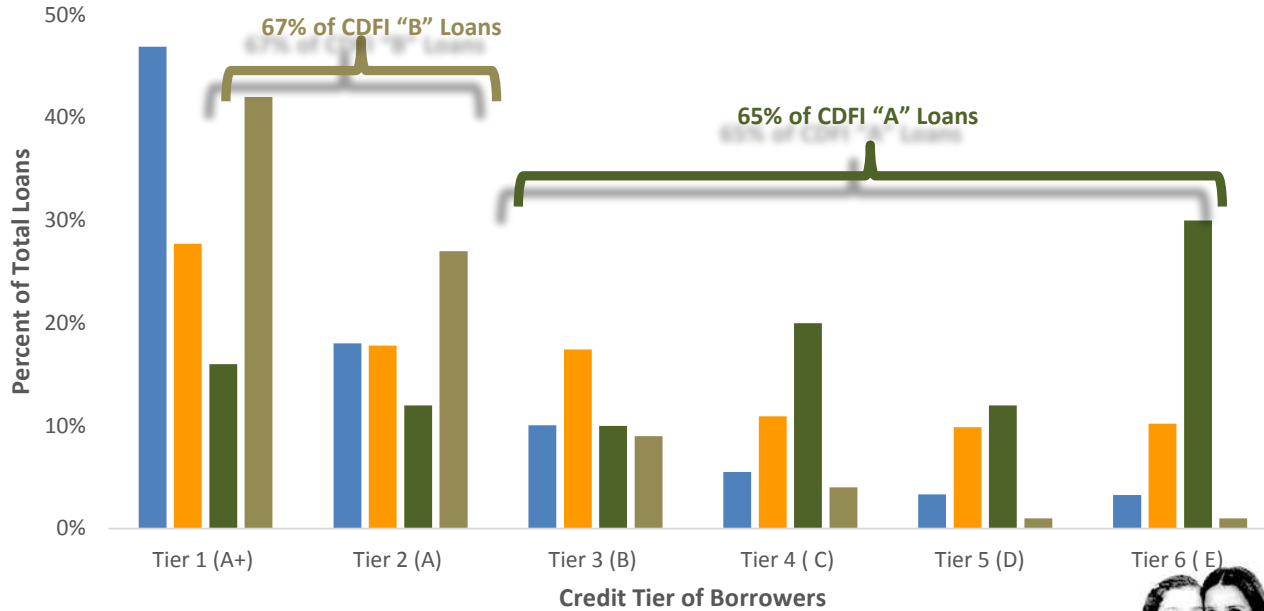
■ CDFI Credit Unions

■ CDFI "A"



Lending *Deeper* in CDFI Target Markets

Proportion of Loan Dollars by Credit Tier



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■ Non-CDFI Credit Unions

■ CDFI Credit Unions

■ CDFI "A"

■ CDFI "B"



A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%	7%	??	100%	3.90%	18%	??

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio
- CDFI "B" is more reliant on Fee Income than CDFI "A"
- CDFI "A" lends much more deeply into its CDFI Target Market

Which CDFI has a higher return on assets?



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A Tale of Two Credit Unions

Key Income Ratios for CDFI Credit Unions								
FY 2016								
Asset Size	CDFI "A"				CDFI "B"			
	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA	Loans-to-Shares	OpEx / Avg Assets	Fee Income/ Gross Income	ROAA
Greater than \$100 million	85%	4.00%	7%	>0.80	100%	3.90%	18%	<0.40

- CDFI "B" puts more of its assets to work as loans
- CDFI "B" has slightly lower OpEx ratio
- CDFI "B" is more reliant on Fee Income than CDFI "A"
- CDFI "A" lends much more deeply into its CDFI Target Market
- *CDFI "A" earned more than twice the return on average assets than CDFI "B"*

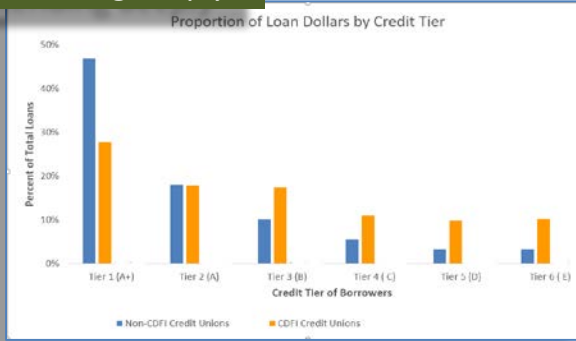


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A Business Model for CDFI Credit Unions

Lending *deeply*



Lending *profitably*

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Questions?



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