



Investing in
**Community Development
Credit Unions**

Clifford Rosenthal
National Federation of CDCUs

What's the *Federation*?

- Nonprofit Charity
- Founded: 1974
- HQ: New York City. Staff = 20.
- 225 credit unions in 43 states,DC,PR
- Certified CDFI Intermediary
- Co-founder and chairman of CDFI Coalition

The Federation's Services

- Capital (deposits, loans, grants)
- Management consulting
- Education and Training
- Research
- Regulatory advocacy
- Assistance to organizing groups
- Special programs: VISTA, faith-based CU network, Latino CU network

What's a "CDCU?"



What's a “CDCU?”

- A type of **CDFI**
- A **financial institution** with the specific mission of serving low-income people and neighborhoods
- **Regulated, insured, and bonded**
- **Nonprofit** (but not a charity)
- **Community-owned** cooperative— 1 member, 1 vote
- ***CRA-eligible investment***
- ***BEA-eligible investment***

Services CDCUs Provide

- **Credit**

- ✓ Small, unsecured loans for family needs – medical, clothing, tuition, debt consolidation
- ✓ Microenterprise and small-business loans
- ✓ Housing loans (limited-equity co-ops; small 1 to 4-family mortgages; home rehab and repair)

- **Savings**

- ✓ Low minimum balances
- ✓ Payroll deduction; X-mas Clubs
- ✓ Individual Development Accounts (IDAs)

More CDCU Services

- **Transactions**

- ✓ Direct deposit
- ✓ Check-cashing
- ✓ ATM access
- ✓ International money remittances

- **Other Services**

- ✓ Financial Literacy, Counseling
- ✓ Earned Income Tax Credit, VITA

Examples of local CDCUs

- **LA:** Episcopal Community FCU, Comunidades FCU, Family FCU (Wilmington), Watts United CU, Hanin FCU, Second Baptist Church CU
- **Bay Area:** Northeast Community FCU (SF), Mission Area FCU (SF), People's Community Partnership FCU (Oakland)
- **Santa Cruz** Community CU (Santa Cruz)

More CDCUs

- Modesto: Food Processors CU
- **El Centro: Sun Community FCU**
- **Porterville: El Futuro FCU**

Why Banks Help

CDCUs help banks:

- provide products
- reach markets

that are difficult and/or uneconomical to serve

Banks qualify for:

- CRA credit
- Bank Enterprise Act awards

Advantages of CDCU Investment

- Cheaper/more efficient
- Preservation of capital
- Possibilities for leverage
- Potential for lending partnerships (e.g., mortgages)
- Develops future bank customers
- Builds community capacity

How Banks Invest in CDCUs

Spectrum of investments:

No/Low risk → High risk

- Insured deposits
- Uninsured deposits
- Equity grants
- Secondary capital (equity-like subordinated debt)

Investments through Federation

- Federation is a CDFI intermediary
- Since 1982, a conduit for capital from banks, foundations, social investors into local CDCUs
- Emerging program: CDCU Mortgage Center™
 - Promote mortgage lending by CDCUs
 - Aggregate CDCU mortgages for re-sale

The State of the CDFI Field

There are more CDFIs

... of more types

... with a stronger financial base

... serving more people & institutions

... with more products

than ever before.

CDFI Fund + Increased private investment =

- Increased assets
- Expanded customer reach
- New branches
- New products
- Growth of specialized intermediaries
and especially
 - ✓ *growth in equity (net worth)*

Equity is Fundamental to Building Institutions.

Increased CDFI net worth ⇒

- ✓ **Greater sustainability**
- ✓ **expanded CDFI risk capacity**
- ✓ **Stronger CDFI/bank partnerships**

Outlook for CDFIs

CDFI Fund at crossroads

- Diminished Administration support and funding
- Shift in policy emphasis and delivery strategies (e.g., “Hot Zones”)
- Impact of New Markets Tax Credit
 - Absorbs Fund resources & attention
 - Irrelevant for many CDFIs

Outlook for Depository CDFIs

- Less dependence on CDFI Fund
- Good access to liquidity
- Expansion may be slowed if equity pipeline diminished -- but survival not jeopardized

Conclusion

- CDCUs, in particular, can help banks reach hard-to-serve markets.
- Varied investment mechanisms are available for any risk appetite.
- Equity (net worth) is critical to CDFI field.
- Specialized intermediaries like the Federation can make investment easier, safer, and more efficient.

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Come to Puerto Rico!

**3rd National Latino Credit Union
Conference (June 9-10, 2004)**

&

**30th Anniversary Meeting
of the Federation (June 10-12, 2004)**

San Juan, PR