Building Community Assets:

A Guide to Credit Union Partnerships

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By

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Chapter I: Why Form a Partnership With a Credit Union?

Membership in a credit union is an excellent way to begin to build assets—something that low-income families sorely need. Too many families who *could* belong to a credit union do not—especially in distressed communities. The purpose of this guide is to help community organizations enable their members to join a mainstream credit union and begin to build modest assets.

Assets are anything of economic value, such as homes, automobiles, or savings. They provide an economic cushion in case of job loss, serious illness, or other potentially disastrous events. Assets can also leverage additional wealth when they are sold, invested, or used as collateral.

Helping families build assets is key to community development. Households with assets tend to be more stable, and their children have better life chances, than households without assets. Families with assets are more apt to plan for the long-term; they report a greater sense of well being, and they tend to participate in civic life. Assets enable the development of human capital and provide a foundation for the kind of risk-taking that is indispensable to entrepreneurship.

Millions of Families Lack Financial Services

To build assets, families need affordable and comprehensive financial services, including checking and savings accounts, credit cards and consumer loans, home mortgages, investment products, financial information, education and reliable advice. While affluent families have countless links to such services—through the workplace, in the community, via phone, mail, and the Internet—many lower income families live in economic isolation. According to the General Accounting Office, more than 22 million households had no relationship with a bank or other mainstream financial institution in 1999.[1] Millions more have limited banking relationships; they may own a bank account but maintain very low balances and do not tap into other bank services.

Families pay dearly for lack of financial services that meet their needs. Those without checking accounts pay high fees for money orders, check-cashing privileges, and money transfers. Check cashers in Illinois, where fees are regulated, charge up to three times as much as banks and credit unions for basic financial services. In states where check cashers are not regulated, fees are much higher. In 1998, Americans without bank accounts paid about $1.5 billion in check-cashing fees alone, *excluding* money order fees and interest paid on credit.[2] A disproportionate percentage of check-cashers' customers are low-income people and racial minorities.

People who do not have bank accounts find it hard to save money; check cashers do not provide saving or credit-building vehicles. Forty-one percent of banked families with incomes between $15,000 and $31,000 save regularly, compared to only 13 percent of non-banked families with the same earnings.[3] One consequence is that many low-income families are deeply in debt. In the late 1990s, almost a quarter of all families earning between 100-150 percent of the poverty level owed more than they earned.[4] Non-banked families in need of small, short-term emergency loans often turn to predatory lenders, which charge excessive fees and sink them even further into debt.

A deposit account helps families manage their resources, however limited. Families that do not have banking relationships must operate on a cash basis, which is not only inconvenient but increases the risk of loss or theft. Funds held in deposit accounts are federally insured. Checking and savings accounts help people maintain

[1] General Accounting Office, 2002.

[2] Ibid.

[3] Jacob, Bush and Immergluck, 2002.

[4] Ibid.

financial records, build a financial history, and qualify for mortgage loans and other credit products. Lower-income people with deposit accounts are more likely to have a major credit card, a first mortgage or a car loan than those who do not have accounts.[5]

Financial Literacy Rates are Low for Disadvantaged People

Low rates of financial literacy can drag down an entire community. Financial literacy affects the ability to own a home, find employment, buy a car to get to work, purchase life insurance, rent an apartment, or pay tuition. The term refers to the ability to budget, manage cash and use credit wisely, as well as to knowledge of consumer laws and investment vehicles. Most people learn these skills by trial and error—and almost half of all Americans do not learn them well. More than 20 percent of adults cannot perform arithmetic operations beyond simple addition.[6] An additional 25-28 percent of the population has trouble with basic consumer tasks, such as writing a letter about a credit card bill or using a calculator to determine price differences. Financially illiterate people are likely to be poor; a substantial number are immigrants or people with physical, mental or health problems. When barraged by solicitations for credit cards, payday loans, or home equity loans, these consumers may not have the skills to make informed decisions.

Credit Unions Can Help

Credit unions can be a very good option for meeting the financial needs of lower income families. The Federal Credit Union Act, signed into law in 1934 by President Franklin D. Roosevelt, emphasizes the role of credit unions in providing affordable services and credit to consumers with modest incomes. The legislation's purpose, according to its preamble, is "to make more available to people of small means credit for provident purposes through a national system of cooperative credit."

Credit unions are in business to build members' assets. They generally offer higher interest rates on deposits and lower interest rates on loans than banks. Credit unions provide formal and informal financial literacy training as part of their day-to-day operations. They also share "profits" with members.

Many activists are familiar with community development credit unions (CDCUs), whose special mission is to serve low-income communities. Woodstock Institute has written several reports about the innovative work of community development credit unions, but this guide focuses on mainstream credit unions. Because of their scale, regular credit unions offer large-scale opportunities.

Now is an opportune time for community organizations to form partnerships with mainstream credit unions. Political and market pressures are pushing these institutions to expand outreach and improve services to lower-income customers. Recent regulatory changes have made it easier for mainstream credit unions to adopt underserved areas and recruit lower-income members, and the credit union movement has expressed renewed interest in underserved communities. While some community development organizations have dreams of starting their own credit unions, it would take years, if not decades, to reach the scale of an established mainstream institution. A better option is to encourage mainstream credit unions to practice what they preach and honor their historic mission.

About This Guide

The purpose of this guide is to help community organizations form successful partnerships with mainstream credit unions. It begins with an overview of credit union basics—their history, operations, and regulation—and provides background on the forces that are driving credit unions to do a better job of serving lower-income communities. Next comes a step-by-step guide to zeroing in on community needs, identifying and researching potential credit union partners, preparing a proposal, making contact, negotiating an agreement, and imple-

[5] Hogarth and O'Donnell, 1999.

[6] Flack, Grossman and Jennings, 1999.

menting and monitoring a partnership. Several appendices contain detailed information that activists may need, and a glossary defines terms that are commonly used by credit union professionals.

The goal of a credit union partnership can be very simple—for example, to expand membership opportunities for non-banked consumers in targeted neighborhoods.

Community organizations can also assist in developing and marketing low-cost deposit accounts, loan products, or financial education programs—or work to attract new ATMs or credit union branches to under-served lower income neighborhoods. The particular form your partnership takes, and the goals you establish, will depend on the needs of your community and the willingness and capacity of local credit unions to meet those needs.

Chapter II: Credit Union Basics

Credit unions developed in Germany in the 1840s as cooperative associations that made loans to members. The first credit union appeared in the United States in 1908.

Fields of Membership

Credit unions pool the savings of their members, ordinary people, to provide financial services and loans. These institutions are non-profits organized to serve groups of people who have something in common—for example, members of a church, employees of a company, residents of a community, or people who work in a given occupation, such as taxi drivers or teachers. The common bond, in legal parlance, constitutes the credit union's "field of membership (FOM)." Only people who fall within a credit union's FOM are eligible to join the credit union. (There may be additional membership requirements as well, such as for minimum opening deposits.) Appendix A provides more specifics on the regulations governing FOM.

Accounts

Members buy a share of ownership by establishing a savings account, known as a "share" account. Other basic financial services include draft accounts (equivalent to checking accounts) and share certificates (equivalent to certificates of deposit).

Loans

Credit unions make loans, too—most commonly consumer loans, including unsecured credit card loans, lines of credit, and auto loans. Some credit unions also make first mortgage or other residential real estate loans. Less than one-fifth of credit unions directly offer small-business loans (known as member business loans, or MBLs). Some credit unions underwrite MBLs as personal or home equity loans.

Financial Literacy

Credit unions also provide training in personal finance management. They are more likely than banks to offer financial counseling, such as debt management, although they vary greatly in the extent to which they provide these services.

Governance

Credit unions are controlled and governed by members. Each member gets one vote, regardless of his or her account balance. Credit unions provide leadership opportunities. Members may volunteer to serve on the board of directors, which is elected by the members of the credit union. Members may also attend and participate in membership meetings and serve on credit union committees.

Regulation

Six out of every ten credit unions are federal credit unions, chartered and regulated by the National Credit Union Administration (NCUA). This agency also administers the National Credit Union Share Insurance Fund (NCUSIF), which insures deposits up to $100,000. Most states also charter and regulate credit unions, and state-chartered credit unions may opt for federal deposit insurance. Those that do are regulated and examined by the NCUA. An overwhelming majority of credit unions have federal charters or federal deposit insurance and are regulated by statutes and rules quite similar to those governing banks.

Credit unions are distinct from banks in three important respects:

- Credit union fields of membership (FOM) are limited to people with a common bond.
- As non-profit, member-owned cooperatives, credit unions do not pay federal income taxes, and they are also exempt from most state and local taxes (except on real property). These tax exemptions are a major reason that they often offer better rates on share accounts and loans.
- Banks, as any good activist knows, are subject to the federal Community Reinvest-

ment Act (CRA). This legislation encourages them to meet the credit needs of low- and moderate-income neighborhoods. Failure to do so can stymie a bank's application for a merger or acquisition. Credit unions are *not* subject to CRA regulation, although credit unions with assets over $33 million must file annual reports on mortgage lending under the federal Home Mortgage Disclosure Act (HMDA).

Political and Market Forces

Now is a particularly good time to partner with a mainstream credit union. The industry is growing rapidly. Between 1993 and 2003, total assets of federally insured credit unions more than doubled, from $277 billion to $610 billion. During that same period, membership increased more than 28 percent.

The credit union industry is consolidating. As assets and membership have grown, the number of credit unions has declined—from 11,392 in 1998 to 9,369[7] in 2003. Much of this reduction is due to mergers and acquisitions. Credit unions grew larger and richer as their numbers declined, but very little of this growth was in underserved communities. A 2002 study by Woodstock Institute provided the first hard evidence that the credit union movement had lost its original focus on serving "people of modest means." The study found that only 12 percent of Chicago-area families with incomes between $10,000-$20,000 belong to a credit union, compared to 40 percent of families with incomes between $60,000-$70,000.[8]

Political and market pressures are pushing credit unions to improve services to low-income communities. As credit unions gobbled up a growing market share of small- and mid-sized banking customers, the banking industry launched a counter-attack. Banks went to the courts, then Congress, contending that credit unions that do not serve a common bond should not be tax exempt. Community activists joined in asserting that there is a role for a carefully crafted community reinvestment policy requiring credit unions to penetrate modest-income markets more effectively.

At the federal level, the powerful credit union lobby has largely succeeded in protecting its tax and federal regulatory exemptions. The battle is now moving to the states, where Nevada and others are considering legislation to level the playing field.

One upshot of all this skirmishing was the 1998 Credit Union Membership Access Act, which revised federal rules governing community FOM in credit unions, and encouraged them to adopt underserved areas. Since 1998, the number of credit unions with a community FOM has increased by more than 100 percent. This FOM allows credit unions to recruit anyone who lives, works, worships, or attends school in that community. Appendix A provides details on provisions of the 1998 legislation. It is important to understand the regulations on fields of membership and community charters, because these affect which credit unions can enroll members in targeted communities.

As the middle- and upper-income market becomes increasingly saturated, the lower income market is becoming more attractive to financial services providers. For example, the Credit Union National Association (CUNA), the premier trade association for mainstream credit unions, has begun to focus on the Hispanic market predicted to expand by 75 percent in the next 25 years. CUNA has established a Hispanic Advisory Task Force, published a 100-page manual on how to reach and serve the Hispanic market and begun to advertise in Spanish.[9] Information technology is reducing the costs of developing and delivering services to lower income families, a market that some credit unions once considered prohibitively expensive. The Brookings Institution reports that the total lower-income market for financial services may be as large as 35 million households.[10] Lower

[7]NCUA, 2004.

[8]Op. cit., Jacob, et al.

CUNA, 2004.

[10]Weissbourd, 2002.

income consumers are defined as those whose earnings do not exceed 80 percent of the U.S. median. These families spend a lot of money on financial services—in 1997 people without bank accounts spent $980 million on money orders alone.[11]

Community development organizations, in short, can provide something that credit unions are finding increasingly attractive: access to lower-income families and help with developing products and services targeted to their needs. The question is how best to approach these institutions and structure a win-win partnership. That's what the following sections are all about.

[11] *Ibid.*

Chapter III: Steps to Forming a Credit Union Partnership

The following is a step by step guide on how your organization can form a partnership with a credit union. For updates and additional resources, please refer to Woodstock Institute internet site (woodstockinst.org). An internet resource on credit union partnerships is being developed.

Step 1: Determine Your Community's Needs

Because lower-income market segments differ in their need for financial services, demographic information on the community you serve can help to illuminate gaps. Credit unions will want to review demographic information in considering how they might serve the community. The following resources may be helpful.

Assemble Demographic Information

The U.S. Census Bureau has a handy online "American Factfinder" service that can generate a fact sheet on any zip code in the country, based on information from the 2000 Census. The fact sheet includes data on population, race, social characteristics, housing characteristics, and economic data such as median income, number of families and individuals below poverty level. Set your browser to http://www.factfinder.census.gov and click on Fact Sheet. You can also enter a street address and get a wide range of useful, detailed information on the census tract or block group to which the address belongs.

The Internet offers a wealth of additional resources. Ask your favorite search engine for demographic information on your city or town and see what comes up.

State, county and city planning departments may be good sources of demographic information. You can also check with local universities and go through the archives of your local paper.

Determine Community Needs

Once you've nailed down community demographics, you will want to zero in on your target market's specific needs. It may be useful to think about short- and long-term priorities. What are your community's most pressing needs, and what services would be nice to develop over time? The Chicago CRA Coalition has put together a model checking account product showing desirable features for lower income families. You will find it in Appendix B.

Give some thought, not only to what financial services your community needs, but also to how your target families might get access to them. Do most people in our community have phones? Cars? Internet access? Is your community well served by public transportation? Do you need a credit union partner with ATMs or branch offices in your community?

Meetings

Formal and informal meetings with your members can give you a firsthand idea of how many have bank accounts, where people cash checks, how they pay their bills, whether or not they have access to consumer loans—in short, who needs what services (and in what language). Meetings can also provide some clarity on access issues.

Surveys

Membership surveys are another technique. These can be distributed at membership and community meetings, through newsletters, after services at local churches—wherever your target market congregates. If you can find a local university or nonprofit to help you design your survey and tabulate results, great. If not, keep your survey simple. You want to gather enough basic data on community needs to demonstrate to a potential partner that there is a demand for financial services. If a credit union is interested, it might eventually finance more sophisticated market research.

Focus Groups

Focus groups are a common market research technique. These are more useful for determining consumer preferences than for gathering hard data. A facilitator poses questions to small groups of consumers to probe their attitudes. Professional market researchers often set up cameras or observers behind two-way mirrors to record or study consumer responses in depth. You don't have to be that fancy (or sneaky). You could organize a few small groups to learn what community residents think about banks and credit unions, check cashers, and payday loan firms, or you could use the focus group technique to test a financial literacy program. If a local university teaches advertising and marketing, ask for an intern or pitch your focus group as a class project.

Generalize From Published Studies

The Federal Reserve Board triennial survey of consumer finances studies characteristics of U.S. families—including financial service use patterns of low-income and minority consumers (www.federalreserve.gov/pubs/oss/oss2/scfindex.html). Take a look at this and other studies to get a sense of the lower income market. The Internet can direct you to a host of information: we went to www.askjeeves.com, asked for "financial service needs of lower income consumers," and found links to studies by the Fannie Mae Foundation, the Brookings Institution, the Federal Reserve Bank of Chicago, and—yes!—Woodstock Institute.

Clarify Needs of Various Market Segments

It is always useful to think about your community from the credit union's point of view: that is, in terms of market segments.[12] Most lower-income people can benefit from financial literacy training, but their need for other financial services depends on their circumstances.

Working Poor

The U.S. Department of Labor Bureau of Labor Statistics defines the "working poor" as people who spent at least 27 weeks in the labor force working or looking for work, but whose incomes fell below the official poverty level for residents of the lower 48 states: slightly under $9,000 in 2003, or $18,400 for a family of four.[13] Other sources raise the family earnings threshold as high as $35,000 for the working poor. However you define the term, if a good percentage of your target market is employed, they might be a good market for a full range of transaction (check cashing and bill payment) services, share and draft accounts, and consumer loans. It would make sense to investigate how many work for companies that have employer-based credit unions.

People on Public Assistance

This segment probably pays the greatest percentage of their income for overpriced basic transaction services. Welfare-dependent people could benefit most from low-cost check cashing and bill payment services.

People Impoverished by One-Time Events

Divorce, serious illness, a fire or natural disaster—personal catastrophes can deplete limited assets and throw an individual or family into poverty, at least temporarily. People who manage to hang on to their jobs through such crises may have a good chance of returning to economic stability and thus are attractive customers for mainstream institutions. Many already hold deposit accounts with a financial institution; their main need is likely to be for loan products.

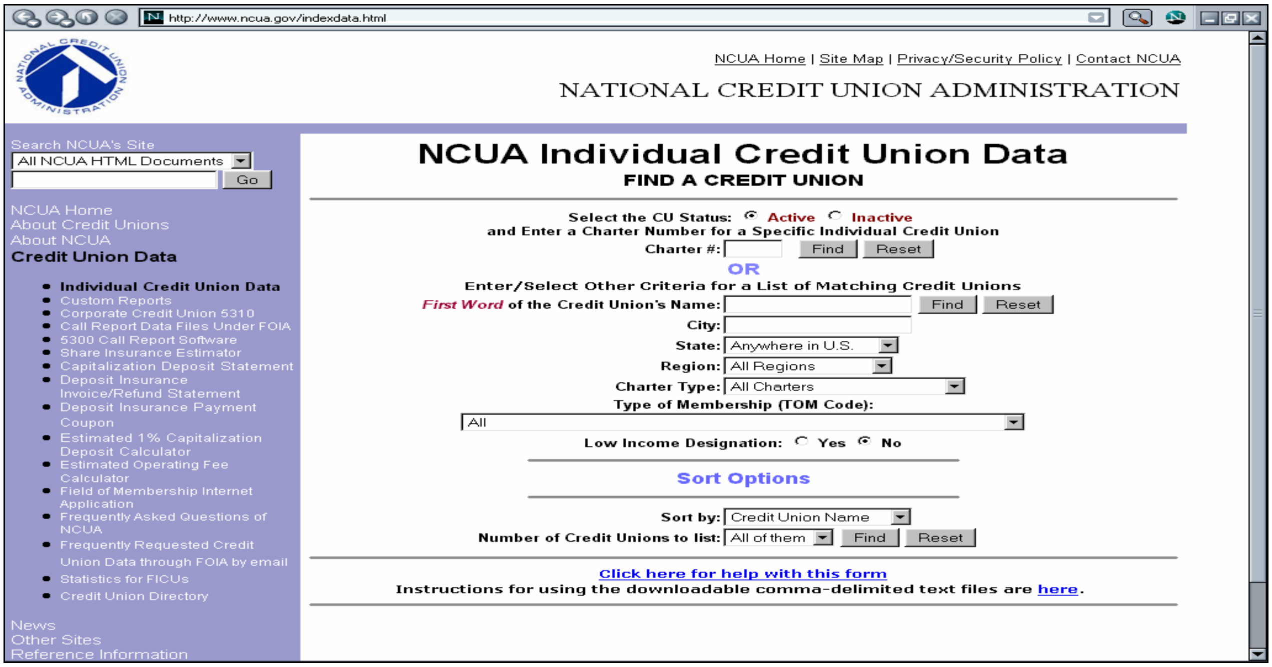
Immigrants

Immigrants are often heavy users of money-wiring services. Many immigrant groups are serious savers, but they may be wary of entrusting their money to banks and less knowledgeable about financial institutions than other market segments. The immigrant

[12] Weissbourd, 2002.

[13] Federal Register, 2003.

Exhibit 1: NCUA Individual Credit Union Data



population has high potential for upward mobility; many market analysts consider this an attractive segment. Community organizations can assist in connecting credit unions to the immigrant market, sensitizing them to cultural issues, and addressing language barriers.

Racial and Ethnic Groups

Spending, saving, and financial decision-making customs vary greatly from one racial and ethnic group to another, and it is important to understand the distinctions in order to market financial services effectively. One key issue is access. In African-American communities, for example, churches might be a good point of access to financial services. Churches can also help negotiate with mainstream credit unions in which their congregations qualify for membership.

Different Age Segments

The largest group of non-banked consumers is under the age of 35. Many lower income people over 75 are also without a banking relationship. Younger people are heavier users of credit and tend to have the highest rates of Internet access and literacy. Older people have a greater need for savings and investment vehicles, plans, and education. Older people tend to have higher net worth, because savings accumulate over time, although those without savings are at high risk of falling into poverty.

Urban and Rural Residents

City dwellers have more points of access to mainstream financial services than rural residents, although impoverished neighborhoods, as a rule, have fewer access points than other parts of town. Lower- income people, whether urban or rural, tend to pay more for financial services than more affluent consumers. Expanding access to affordable services is a key goal for most community development organizations.

Step 2: Identify Potential Credit Union Partners

Once you have done your homework on your community's financial service needs, it's time to start looking for potential credit union partners.

A few clicks on the Internet are all it takes to generate a master list of credit unions that serve your community. With this in hand, you can start to weed out credit unions that aren't appropriate and generate a short list for further investigation.

A good source of information on credit unions that serve your community is the National Credit Union Administration (http://www.ncua.gov/indexdata.html), the federal agency that regulates and insures most mainstream credit unions. (See Exhibit 1 on page 11). NCUA's web site lets you do a geographic search by city, state or region.

Another good source of information is the Credit Union National Association (CUNA), the premier trade association for credit unions. In partnership with state credit union leagues, CUNA provides many services to credit unions. CUNA's web site lists a credit union league for every state (http://www.cuna.org/cuna/lg_roster.html.) These leagues can provide information about which credit unions operate in your target market.

A third resource is the National Association of Federal Credit Unions (http://www.nafcunet.org). This is the trade association for federally chartered credit unions.

Create a Short List of Potential Partners

If you haven't already reviewed the details on credit union fields of membership (FOM) in Appendix A, do this before you start to narrow down your list. You need to understand the restrictions and opportunities governing credit union fields of membership to determine which ones can accommodate the people you represent.

CUNA and state leagues can suggest likely candidates. These organizations may have information on credit unions that have expanded their fields of membership to underserved communities or are interested in forming relationships with community organizations. They may also arrange introductions. Appendix C contains other resources that can point you to potential partners.

Check Out Individual Credit Union Data

You can look up any credit union using the NCUA web site feature that provides individual credit union data. This information can help you weed out poor choices. For each credit union on your list, a data summary on the left side of the page provides an overview. The right side of the page lets you review a wealth of recent and historical financial data on the credit union. (See Exhibit 2 below).

The data presented in the individual credit union data table includes:

- *Total Assets*

  Mainstream credit unions with less than $7 million may lack the resources you need. Many community development credit unions are smaller than this, but their special mission is to serve lower income families, and their programs are targeted to this market.

- *Members*

  Compare this number to the number of members that you could potentially bring to the table, and you'll get a sense of how attractive a partner you might be for the credit union.

- *Year Chartered*

  As a rule, look for credit unions that have been around for a while—they may be more stable than new organizations.

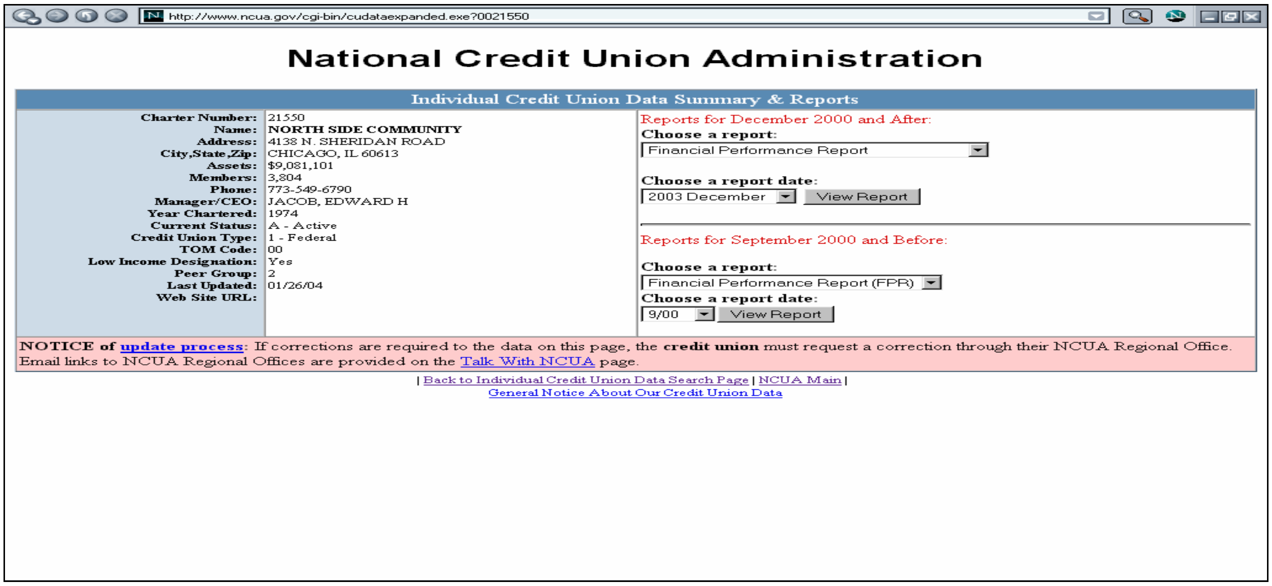
- *Current Status*

  Eliminate inactive credit unions.

- *TOM Code*

  TOM means type of membership and tells you who can belong. Code 00 (community credit union) is choice number one, but all credit unions are encouraged to adopt underserved areas. Appendix D contains a complete index to TOM codes.

Exhibit 2: NCUA Individual Credit Union Data Summary and Reports Web Page



Check Out Financial Data

The right-hand side of the NCUA Individual Credit Union Data page contains information that can help you determine a credit union's financial soundness. Click on the year-end 5300 Financial Statement to check out some leading indicators. If you want more details on how to interpret a credit union's financials, turn to Appendix E.

- *Net Worth* (Account Code 997)

  Look at net worth totals for the past few years. A declining net worth over time indicates that a credit union's income does not adequately cover expenses, and that it may not be able to support itself during periods of low-income.

- *Net Worth Ratio* (Account Code 998)

  The NCUA classifies credit unions with net worth ratios between 4-6 as under-capitalized. Credit unions with net worth ratios less than 4 percent may not have sufficient resources to establish and implement a partnership.

- *Total Loans and Leases* (Account Code 025B)

  Tells you the number and interest rates of loans for credit cards, vehicles, and real estate. Access to consumer loans is important for building assets, so you will want to ensure that these products are available. Later you can determine their suitability for your target community.

- *Total Shares and Deposits* (Account Code 018)

  This tells the total number of share draft accounts (checking accounts) and regular share (savings) accounts. Schedule F tells you if the credit union offers retirement accounts and other savings vehicles, and what interest the credit union pays on these.

- *Loan Delinquency Rate*

  This indicates the quality of a credit union's loans. Divide the total dollar volume of loans delinquent for two months or more (account code 041B) by the total amount of loans (account code 025B). Anything higher than 0.8 percent might be a cause for concern.

- *Staff*

  Account codes 564A and B tell you how many full- and part-time staff the credit union employs. You can divide the number of members (account code 083) by the number of FTE staff to get a member-to-staff ratio. In

2003, the average for federal credit unions was 412 members per full-time staff. Credit unions with lower ratios may have more capacity to provide additional services, although this is not always the case.

Step 3: Do Your Homework

Once you've created your short list of potential credit union partners, you'll want to find out as much as you can about each of them before you ask for a meeting. It's also important to think through what you want from a partnership and to be clear about the resources that you are willing to commit to make the partnership work.

Sources of Information

If a credit union has its own web site, check it out. If not, phone or write for membership brochures, annual reports, newsletters, or other publications. Go through local newspaper archives. Ask around. CUNA and the resources in Appendix C are good sources of information. Check with your contacts in other community organizations, and find out if any of your own members belong to the credit unions on your short list.

Questions to Ask Credit Unions on Your Short List

You should be able to get a lot of the following information from the sources we've listed, but you may have to meet with credit union staff to answer the last question.

What Are the Criteria for Opening an Account?

Membership must be affordable for lower income people. Assuming the credit union's field of membership is right for your target community, what is the minimum opening deposit for a share account? Is there a minimum balance requirement?

What Services are Available?

Check to ensure that the credit union provides the services that your community needs. If you represent a large immigrant community, for example, you'll want a credit union that offers low-cost wire transfers. As a rule, look for a full range of financial service products, such as draft (checking) accounts, ATM and debit cards, credit cards, and consumer loans—preferably tailored to lower income people.

How Do Members Gain Access to Services?

Does the credit union offer multiple points of access, through ATMs, branches, the Internet, phone transactions?

What Consumer Loans Does the Credit Union Offer?

Does the credit union provide mortgages and home repair loans? Car loans? Education loans? Short-term emergency loans?

Does the Credit Union Want to Add Lower-Income Members or Expand Services in Your Community?

You won't get far unless the credit union can see the value of partnering with a community development organization. This is probably the most important issue in selecting a credit union partner, and it may take one or more face-to-face meetings to get a definitive answer. Meanwhile, look into the organization's governance. How does the board of directors work? How often do they meet? Do they publish minutes? Are board members community residents? Are you acquainted with any of them? What do the credit union's publications or web site say about expanding services to lower income people? Most politically savvy credit unions will pay lip service to their willingness to collaborate with community groups. You want to find one that is eager to take the initiative and make concrete suggestions about enrolling your constituents.

Think About Partnership Goals

Gathering this information may eliminate some credit unions from further consideration. You'll want to zero in on two or three likely candidates and consider the shape that a partnership with each might take. This will depend on your community's needs, the product offerings of the credit unions on your list, and what you can bring to the partnership. You might want to start with a simple goal, such as enrolling new credit union members. Once you have had some success with that, you can move on to more ambitious challenges. Common partnership goals and challenges include:

Sign up Non-banked, Low- or Moderate-Income Members

Most credit unions want to expand their membership base. Automation has lowered the cost of administering accounts, but not to the point where all accounts generate significant profits. Credit unions are looking for opportunities to cross-sell credit cards, consumer loans, and other products to members—this is how they make their money. The credit union may need your help with marketing, training, or even underwriting loans in order to generate profits from your members. It may take time for lower income people to learn how to use telephone or ATM access and to manage their accounts effectively.

Develop and Market Affordable Account Services

Most lower-income families need the same services as others, but products may have to be tailored—for example, by lowering thresholds for minimum balances and initial deposits. The best option is to look for credit unions that already serve the lower income market. The less product re-design a credit union has to do, the easier it will be to form a productive partnership.

Develop and Market Affordable Loans

Consumer loans, low-cost used car loans, affordable mortgages, home improvement and refinance loans, small business loans—all of these provide opportunities for the credit union to generate profits and for lower-income people to reduce the cost of financial services from predatory lenders. The challenge is to structure loan products to be attractive and convenient for consumers, but also to provide a reasonable measure of safety and soundness for the credit union. Some credit unions have established loan loss reserves funded by foundations to support new, innovative programs where the risk is not known, such as low-cost alternatives to payday loan products.

Develop and Market Financial Education

Most credit unions offer financial literacy training, but this may need to be tailored to your community. Don't ever write a curriculum from scratch—plenty of financial education material is available for the asking. Check with local credit counseling agencies, social service providers, and cooperative extension programs. Web-based resources include the National Credit Union Administration (http://www.ncua.gov/FinancialEducation/index.htm), the National Community Reinvestment Coalition (www.ncrc.org), and the National Endowment for Financial Education (www.nefe.org), as well as resources listed in Appendix C. The challenge is to find the staff to tailor education to your community's needs, and to market financial training to targeted families.

Expand Access to Financial Services

It is always easier to work with a credit union that already offers convenient points of access for your community—local branches, ATMs, or telephone access (assuming your target families have phone service). Start slow when talking to a credit union about expanding access points—you might invite the credit union to set up at your organization once a week, just to open accounts, or to consider extending telephone banking hours. Convincing a credit union to open a new branch is a hard sell. It is expensive even to set up an ATM, let alone to open a branch.

Think Through the Resources You are Willing to Bring to the Table

Knowing where a credit union partnership fits with your overall community development strategy can help you decide on what resources you're willing to commit to the enterprise. Don't expect your partner to do everything.

Financial Resources

Besides pledges of deposits from your members, what other financial resources can you bring to the table? Are you willing to deposit some or all of your organization's funds with the credit union? Can you make or arrange for a capital investment in the credit union, provide collateral for loan pools, or create a loan loss reserve fund as a hedge against defaults on loans taken out by your members?

Human Resources

How much staff time are you willing to commit? Can you provide staff with the skills needed to assist with financial literacy training, or to work with the credit union on developing specialized products and services?

Community Relationships

Are you willing to provide a credit union partner with your organizational database or other marketing data on your community? Can you assist with outreach—for example, by advertising the credit union in your newsletter or scheduling a credit union presentation at your regular meetings?

Relationships With Other Organizations

Do you have connections to government agencies, foundations and other organizations that can bring resources to the partnership? Social service agencies, for example, can help to market or deliver financial literacy training. Foundations may be willing to provide a loan loss reserve. A partnership with the Small Business Administration for small business loans may make allay a credit union's concerns about jeopardizing safety and soundness. If you have potentially useful relationships with outside organizations, are you willing to leverage them on behalf of the partnership?

Step 4: Prepare a Preliminary Proposal

Before you contact the credit unions on your short list, it's a good idea to put some information together on who you are, what you're looking for in a partnership, and what you can offer a potential credit union partner. If your organization has a brochure describing your purpose, history, and activities, this would be appropriate to include. You will also want to develop a preliminary proposal or business plan. **This does not have to be lengthy or elaborate.** You want to accomplish two goals: (1) describe your community and any unmet needs for financial services and (2) identify market opportunities for the credit union, such as the potential to recruit more members and increase loan production.

When and how you present this information depends on the circumstances of your first meeting with the organizations on your short list. The point is to think it through and have it ready by the time you make your first contact, so that you will be well prepared to meet with your potential partners.

What to Include

A short statement demonstrating the need for affordable basic financial services for residents of your community may get the ball rolling. However, you should also consider developing a more final proposal. Following is a checklist of the material your proposal may contain.

Information on Your Organization

- Name, address, phone, and email of the person to contact
- Organization purpose, history, and activities
- Description of management team expertise

Information on Your Community or Constituency

- Demographic information on your target population: income, educational attainment, ethnicity/race, home ownership, employment, and the like.
- Financial service opportunities: document the need for financial service products or branches, residential or small business loans, financial literacy training, etc.

Proposed Partnership Goals

Spell out what you want from the partnership—usually one or more of the following:

- Sign up non-banked, low- or moderate-income consumers, and consumers who are

expensively banked—that is, who have bank accounts with high monthly fees and other charges
- Develop and market affordable retail account services
- Develop and market affordable loans
- Develop and market financial education
- Expand access to other financial services

Resources you Bring to a Partnership

- Funding
- Staff
- Community connections
- Relationships with other organizations

Tangible Benefits to Credit Union

- New members
- New share and draft accounts
- New transaction services, such as check cashing and bill payment
- Increased loan production
- New resources (investments, non-member deposits, loan loss reserves)
- Others, such as greater participation in financial literacy programs, more volunteerism

You can prepare virtually the same proposal for all your potential partners. The only substantial difference from one to another might be in the partnership goals you propose and, therefore, the potential benefits to the credit union. You'll have to tailor these to the credit unions you are approaching.

Step 5: Make Contact

Having done your homework and prepared your proposals, you are ready to contact your potential partners.

Introduce Yourself

If you don't already know someone at the credit union, try to arrange an introduction through CUNA, another community organization, or one of your constituents.

Meet with a senior executive or manager, if possible—you may not be able to meet with the CEO immediately, but you want to start off with someone fairly well placed in the credit union hierarchy.

If you have to contact the organization without a personal introduction, direct a letter of inquiry to a credit union executive, and follow up with a phone call a few days later. Include information about your organization and a short version or executive summary of what you are proposing. This should emphasize potential benefits to the credit union of working with your organization.

From the very first phone call or meeting, establish a tone that is professional, knowledgeable, and eager to engage. Remember that all contact with the credit union is part of any subsequent negotiations.

Send Two Representatives

Think carefully about what staff and community representatives should participate in the initial meeting. It's a good idea to send two people, including at least one of the principals who will negotiate any subsequent agreement. Both should be on the same page. Your representatives should be familiar with your partnership proposal and end game—that is, the partnership goals and community benefits you are trying to achieve.

Practice Your Pitch

Several rehearsals may be helpful, with each person from your side responsible for delivering a part of the proposal.

Clarify Your Agenda

The purpose of your initial meeting is to determine the credit union's interest in working with you. One meeting should be enough to weed out credit unions that aren't serious.

For those that *are* serious, use the meeting to find out whatever you don't already know about the organization. This is your opportunity to gather more of the information you need to decide whether the credit union will make a good partner. You want to come away from the first meeting with:

- A good overview of the credit union's products, services, fields of membership
- A better understanding of the credit union's governance and organizational culture
- At least an initial sense of the credit union's flexibility and willingness to collaborate
- A general sense of how your proposal fits in with the credit union's goals and strategic direction
- A sense of the credit union's major concerns: issues that may have to be addressed, people who may have to be convinced, or hurdles that may have to be overcome for a partnership to move forward

Be Up Front

Trust is fundamental to a business partnership. If you end up having more than one serious conversation about a potential partnership, be up front with both credit unions. Let them know that you are pursuing opportunities with another organization, when you will make a decision, and what your criteria will be. There might be a way for your organization to work productively with two credit unions. For example, one might have an excellent small-business lending program, while the other might excel in account services for lower income people. Your organization could steer business start-ups to the first and consumers to the second.

Step 6: Negotiate An Agreement

A partnership agreement should outline the goals of the partnership, the responsibilities of each partner, the resources each will bring to the partnership, and outcome, outputs, and other evaluation criteria. Your initial proposal can form the basis for discussions, with details fleshed out in a series of meetings.

Negotiations that do not result in an agreement are not necessarily fruitless. A mainstream credit union's willingness to enter negotiations is a sign that your community is marketable. In addition, the experience may help you to evaluate your approach and modify it for the next negotiation.

Pick Your Team

Your negotiating team should include the two people from your organization who participated in the initial meeting. This will help when dealing with complex issues and will enhance your ability to respond quickly to requests from the credit union. If you add anyone to your team, make sure he or she is up to speed on your initial proposal, negotiating strategy and end game. You may also want to re-structure (and re-rehearse) your presentation.

Meet With Representatives Who Have Decision-making Authority

Find out at the outset how the credit union will make a final go/no-go decision on the partnership agreement you negotiate. This may require a vote by the credit union's board of directors. If so, one or more board members should be on the credit union's negotiating team. The point is to ensure that at least one of the credit union professionals participating in the negotiations has decision-making authority.

Know Your Strengths

Do not assume that the credit union is in the driver's seat. Your organization has resources the credit union wants: access to members, community legitimacy, knowledge of the local financial services market, access to foundation or government subsidies, and marketing and outreach expertise. These resources are valuable.

Demonstrate Good Faith

Trust is a fundamental part of negotiations. Be careful not to promise more than you can deliver. Both parties must feel that each is operating in good faith. Treat the negotiations as confidential unless both parties agree to involve outsiders or the media. Part of demonstrating good faith is to follow up on information promised. A big chunk of the negotiation process consists of identifying and providing data or information.

Be Clear on Your Goals

Clarify the impact you want the partnership to have on individual constituents, families, and the community as a whole, and what outcome measures you will use. These might include:

- Improvements in financial literacy skills
- Increases in total or average savings of lower-income credit union members
- Cost savings for financial services
- Reduction in the number of non-banked families
- Increased rates of home ownership or small business startups

Gather Support

Be prepared to demonstrate widespread support for your project. Obtain letters from civic, community, government, and political leaders. You may also ask trusted local leaders who understand the partnership goals to participate in a negotiation session (with the knowledge and support of the credit union) or have them call the credit union on your behalf.

Perform Due Diligence

You are selling your community and your ideas for a partnership during the negotiating process, but your organization is also *buying*. You have a responsibility to your community to ensure that the credit union where you are asking them to entrust their hard-earned dollars is financially sound. As negotiations progress, go over the credit union's financials with a fine-toothed comb. Appendix E provides tips on interpreting a credit union's financial statements; have your accountant look these over carefully.

Don't Overpay

Understand how much you are willing to pay in terms of concessions, compromises, or deal sweeteners. For example, if you are thinking about raising foundation money to pay for opening a credit union branch office in your neighborhood, do a cost-benefit analysis *before* you make a commitment to determine how many people the branch office will serve and what impact it will have on the community.

Elements of An Agreement

The following is an outline for a Partnership Agreement:

- Define the roles and resources of each organization.
- Describe how your organization and the credit union will benefit from the partnership.
- Identify the communities that are covered by the agreement.
- Clearly state the goals of the agreement: membership goals, specific lending goals and loan terms, financial service products, savings goals, financial literacy classes, etc.
- Establish a timetable for meeting each goal.
- Determine marketing and outreach methods, responsibilities, and timetable.
- Establish a regular meeting schedule to monitor progress toward goals.

Step 7: Implement, Monitor, and Evaluate the Partnership

A successful partnership takes nurturing and monitoring. In fact, the real work begins once you have negotiated the partnership. It is important to participate actively in implementing the agreement, not only to monitor progress toward goals, but also to support the credit union. Your community organization has unique strengths to contribute to the partnership's success, particularly in the areas of outreach and marketing, program design, and troubleshooting.

Regular communication between the partners is essential to address any issues before they become serious. Meetings do not have to be formal and can be held by phone, if necessary. You can also use e-mail to bring up areas of concern. The point is to create one or more lines of communication with your partner—and to keep them open.

Formal evaluations of the partnership are also key to assess progress toward output and outcome goals established in the agreement. Evaluations should measure participant satisfaction with credit union membership. Written progress reports—twice a year at first, and than annually after the first couple of years—can improve the technical capacity of staff and help to gain support from a range of stakeholders. These include funders, policymakers, and the media, as well as credit union and community organization volunteers, board members, and others. It is valuable to identify lessons learned by each organization and to pinpoint factors that contribute to success. Publicize lessons learned so that successful credit union partnerships can be replicated in other communities.

As time goes by, the parties may opt for new and different goals and strategies. Of course, modifications to the partnership agreement will require approval by all parties.

Appendix A: Credit Union Fields of Membership

Credit unions are organized among people with a common bond, such as membership in a church, employment in a given occupation or company, or residence in a geographic community. This common bond is the credit union's field of membership (FOM). Only people within the FOM are eligible to join a credit union. The National Credit Union Administration (NCUA, the federal agency governing credit unions) permits select employee groups or multiple groups of employers to form a credit union FOM. Credit unions may also have *multiple common bond* FOMs. For instance, a credit union's FOM may include several churches and employers.

The rapid expansion of the credit union industry during the 1990s was due largely to mergers and acquisitions made possible by multiple common bond charters and multiple select employee groups. The banking industry went all the way to the Supreme Court seeking to outlaw these charters. When the Supreme Court ruled in favor of banks, the credit union industry went to Congress. The result was the Credit Union Membership Access Act (CUMAA), approved by Congress in July 1998.

CUMAA expands the membership bases of credit unions by liberalizing policies both for multiple common bond charters and community charters.[14] By permitting multiple common bond groups, the NCUA allows a credit union to adopt a wide number of trade, industry, and professional groups. Community or geographic FOMs typically allow anyone who lives, works, worships, or attends school in a given community to join the credit union.

Rules Governing Community Charters

In order to receive a community FOM, a credit union must document that the proposed area is a "well-defined locality, community, neighborhood, or rural district" comprising individuals with common interests or inter-actions. Multiple political jurisdictions may be permitted if the population does not exceed 500,000 or consists of a U.S. Census Bureau-designated Metropolitan Statistical Area (MSA) with a population of 1 million or less. Applications for community FOMs with populations exceeding 1 million require additional documentation. NCUA requests that applicants for a community FOM submit evidence that the area is a well-defined community, including evidence of shared/ common facilities, common organizations and clubs, area newspapers or other periodicals, history of the area, or a description of the common characteristics and background of residents. NCUA will also consider documents that describe how the area and its residents are distinguishable from the immediate surrounding areas and residents. CUMAA does not include objective or measurable criteria defining a local community.

Congress made it clear that the NCUA should encourage the creation of separately chartered credit unions where appropriate. Therefore, FOM applications that will add a new group of more than 3,000 members are encouraged to establish a new credit union.[15]

The number of community credit unions increased by more than 100 percent from 1998 to 2002, to almost 900.[16] Further, 125 community FOM conversions were approved by NCUA in 2003.

All federal credit unions are permitted by the NCUA to include in their fields of membership, without regard to location, communities satisfying the definition of underserved or investment areas. Underserved/investment areas are communities that have significant unmet needs for loans or equity investments and meet one or more of the following criteria: has been designated as an Empowerment or Enterprise Community; at lease 20 percent of residents have incomes below the poverty line; median

[14] Reosti, 2003.

[15] ABA, 2000.

[16] NCUA, 2003.

family income is at or below 80 percent of the area median family income or the national median family income; or the unemployment rate is at least 1.5 times the national average. For more information, see Underserved or Investment Areas as defined in Section 103(16) of the Community Development Banking and Financial Institutions (CDFI) Act of 1994 or the CDFI Fund website at www.cdfifund.gov.

NCUA requires that if the credit union does not have an office within close proximity of the underserved area, an office or facility must be established within two years. From 1998-2002, 223 credit unions added 424 underserved areas to their FOMs, equating to an additional 23.5 million *potential* members.[17] However, there is no evidence that disadvantaged families have actually signed up in large numbers since this policy was established.

"Low-Income" Communities

Credit unions may also apply for "low-income" designation, which confers more benefits than the "underserved" designation. For example, low-income credit unions are eligible for special community development loan programs sponsored by the NCUA. They can also receive non-member deposits from foundations or banks. In 1996 NCUA approved a regulation that allows low-income credit unions to increase their net worth by accepting secondary capital investments. The NCUA Board intended that the additional capital be used to increase lending and services.

Therefore, applicants are required to submit a long-term business plan to NCUA that describes how the secondary capital will promote institutional growth and stability and help the credit union achieve its goals. The investments must have a term of at least five years and are subordinate to all other credit union debt. The investor and the credit union negotiate the interest rate of the investment. Some investors limit the amount of secondary capital investments to a 1:1 ratio to total net worth.

The term ''low-income'' refers to members who make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics, or members whose annual household income falls at or below 80 percent of the U.S. median household income established by the Census Bureau, or members otherwise defined as low-income by the NCUA Board. In documenting its low-income membership, a credit union that serves a geographic area where a majority of residents fall at or below the annual income standard is presumed to be serving predominantly low-income members.

Although the bar is set fairly high for low-income designation, thousands of mainstream credit unions have applied for and won it since CUMAA was passed.

[17]Morrison, 2003.

Appendix B: Model Access Account for Non-Banked People

Access accounts remove the barriers experienced by low- and moderate-income consumers to establishing savings and checking accounts and are an alternative to currency exchanges and other check cashing establishments.

Customer Profile

Senior citizens, immigrants, the working poor, federal and state program beneficiaries, and other market segments in your community may be in need of financial services. It is important to understand these markets and develop specialized outreach. Geographic targeting may be an option—for example, communities with a high use of currency exchanges, or high percentage of the population receiving public benefits.

Products

Several products may be developed for non-banked people. Alternatives include:

- Access checking and savings
- Debit/ATM cards
- Low cost money orders, perhaps automated
- Financial literacy services

Account Features

Access accounts should provide an affordable alternative to currency exchanges and include as many of the following features as possible.

- No credit check
- $10 or less opening requirement
- No minimum balance
- No monthly service fee
- Unlimited check writing
- Free withdrawals from ATM machines
- Clear policies, especially on funds availability. Checks drawn on out of state accounts may take up to five days to clear. To avoid overdrafts—and overdraft fees—people who live from paycheck to paycheck need to know exactly when they can access funds from checks they deposit.
- Six free foreign-bank ATM transactions per month
- No teller charges
- Promotion of direct deposit of paychecks and government benefits

Appendix C: Resources

America Saves Consumer Federation of America (202) 387-6121 www.americasaves.org	America Saves is a national coalition convened by the Consumer Federation of America to help families save and build wealth utilizing local savings campaigns.
Coalition of Community Development Financial Institutions 1601 N. Kent Street, Suite 803 Arlington, VA 22209 (703) 894-0475 www.cdfi.org	The CDFI Coalition coordinates industry wide initiatives to increase the availability of capital, credit, and financial services to CDFIs in low-income communities. It promotes public policy related to CDFIs, monitors the activities of the CDFI Fund, and sponsors a bi-annual national policy conference.
Community Development Financial Institutions Fund (CDFI Fund) 601 13th Street, N.W., Suite 200 South Washington, DC 20005 (202) 622-8662 www.treas.gov/cdfi	Administered by the U.S. Treasury Department, the CDFI Fund provides seed and expansion capital to community-based banks, credit unions, loan funds and micro-lenders. Also administers the New Markets Tax Credit (NMTC) Program which provides tax credits to investors in community development projects.
Corporation for Enterprise Development (CFED) 777 N. Capitol Street, N.E., Suite 800 Washington, DC 20002 (202) 408-9788 www.cfed.org	CFED promotes asset-building and economic opportunity strategies, primarily in low-income and distressed communities. It coordinates several savings programs, including Individual Development Accounts (IDAs).
Credit Union National Association (CUNA) 5710 Mineral Point Rd Madison, WI 53705-4454 (800)356-9655 www.cuna.org	CUNA is a national trade association of U.S. credit unions. In partnership with state credit union leagues, CUNA and its state leagues can provide referrals and introductions to credit unions interested in reaching more lower-income consumers. See http://www.cuna.org/cuna/lg_roster.html for a list of state leagues.
Department of the Treasury (202) 622-1260 www.treas.gov	The Treasury provides resources and materials on electronic funds transfer (EFT), direct deposit, and many other banking and consumer issues.
Fannie Mae (202) 752-7000 www.fanniemae.com	Fannie Mae is one of the two major players in the secondary mortgage market. They provide materials and resources on homebuyer education and consumer education.
Federal Deposit Insurance Corporation (FDIC) MoneySmart program (800) 934-3342 www.fdic.gov	FDIC has a host of information on financial literacy and basic banking. FDIC also runs the MoneySmart program, which works with community groups, financial institutions, and governmental bodies to implement financial literacy programs and bilingual curricula.
Federal Home Loan Banks http://www.fhlbanks.com/index.html	The twelve FHLBs operating in the U.S. provide low-cost funds to financial institutions, including credit unions, for home mortgage, shall business, rural and agricultural loans. The Affordable Housing Program (AHP) and the Community Investment Program (CIP) are designed to meet the pressing housing and local economic needs of low- moderate-income Americans and neighborhoods.

National Community Capital Association 620 Chestnut Street, Suite 572 Philadelphia, PA 19106 (215) 923-4754 www.communitycapital.org	A national membership organization of CDFIs, NCCA provides financing, training, consulting, and advocacy. It operates several CDFI finance and investment products, operates a CDFI Start-up Service and other training, and help CDFIs develop and implement new programs.
National Community Investment Fund (NCIF) 2230 S. Michigan Avenue Suite 200 Chicago, IL 60616 (312) 881-5851 www.ncif.org	NCIF's mission is to increase the number and capacity of domestic, insured, depository institutions that provide loans, services and investments in lower-income communities. It provides loans, investments, deposits, and engages in research projects documenting best practices.
National Community Reinvestment Coalition 733 15th Street, Suite 540 Washington, DC 20005 (202) 628.8866 www.ncrc.org	NCRC develops and harnesses the collective energies of community reinvestment organizations from across the country so as to increase the flow of private capital into traditionally underserved communities. NCRC has Financial Education, Fair Housing/Civil Rights, Research and Policy, and Small Business Development programs.
National Congress of Community Economic Development (NCCED) 1030 15th Street, N.W., Suite 325 Washington, D.C. 20005 (877) 44-NCCED www.ncced.org	An association of community organizations that engage in small business, affordable housing, and community development. NCCED conducts public policy research, provides technical assistance, and disseminates information through its newsletters publications, trainings, and conferences.
National Credit Union Administration (NCUA) 1775 Duke Street Alexandria, VA 22314-3428 (703) 518-6300 www.ncua.gov	NCUA is a federal agency that charters and supervises federal credit unions. NCUA operates the National Credit Union Share Insurance Fund (NCUSIF). NCUA's internet site has a wealth of credit union data. It's Office of Credit Union Development and regional offices can provide advice on identifying credit unions for community partnerships. Further, NCUA's Access Across America initiative enables credit unions to expand their FOM to underserved communities.
National Credit Union Foundation 601 Pennsylvania Ave., N.W., Suite 600 S. Bldg. Washington, DC 20004-2601 (800) 356-9655 www.ncuf.org	Provides grants to credit unions for special projects, operations or lending programs. Areas of interest include financial literacy, minority outreach, and cooperative development.
National Endowment for Financial Education (NEFE) 5299 DTC Boulevard, Suite 1300 Greenwood Village, CO 80111 (303) 741-6333 www.nefe.org	NEFE and the Cooperative Extension Service created the High School Financial Planning Program (HSFPP) to facilitate financial education in high schools. NEFE also has an online clearinghouse of financial literacy materials.
National Federation of Community Development Credit Unions (NFCDCU) 120 Wall Street, 10th Floor New York, New York 10005 (212) 809-1850 www.natfed.org	The Federation is a coalition of 225 CDCUs dedicated to revitalizing low-income communities. It provides training, investments, grants, technical assistance, and advocates on the behalf of CDCUs.

Neighborhood Reinvestment Corporation (NRC) 1325 G Street, N.W., Suite 800 Washington, DC 20005-3100 (202) 220-2300 www.nw.org	A national network of local nonprofit organizations that work to revitalize older, distressed communities. C*redit Union Partnerships With NeighborWorks Organizations: Proven Models for Success* is a NRC report with eight case studies of homeownership partnerships between credit and Neighbor Works organizations.
Woodstock Institute 407 S. Dearborn, Suite 550 Chicago, IL 60605 (312) 427-8070 www.woodstockinst.org	Has a long history of credit union research and technical assistance, including documenting best practices of CDCUs and assessing whether mainstream credit unions serve people of modest means. The Institute has also documented best practices of financial services and asset development programs for lower-income consumers.

Appendix D: Types of Membership (TOM) Codes

http://www.ncua.gov/data/custmqry_search_tips.html

7. You can include expressions that use field names in the "Field Values" column (You must know the account number of that field.). E.g., if you type ".5 * ACCT_010" in "Field Values" you are querying on half (.5) of Total Assets.

Credit Union Status	Credit Union Types
A = Active	1 = Federal (charter numbers 0-59999)
I = Inactive	2 = Federally Insured State Chartered (charter numbers 60000-79999)
	3 = Non-Federally Insured (charter numbers 80000+)

Type of Membership (TOM) Codes	Peer Groups
00 = Community credit union	
01 = Associational - faith based	Less than $500,000
02 = Associational - fraternal	$500,000 - $2,000,000
03 = Associational - other than faith based or fraternal	$2,000,001 - $10,000,000
04 = Educational	$10,000,001 - $50,000,000
05 = Military	$50,000,001 - $100,000,000
06 = Federal, State, Local Government	Over $100,000,000
10 = Manufacturing - chemicals	
11 = Manufacturing - petroleum refining	
12 = Manufacturing - primary and fabricated metals	
13 = Manufacturing - machinery	
14 = Manufacturing - transportation equipment	
15 = Manufacturing - all other	
20 = Service - finance, insurance, real estate, trade	
21 = Service - health care	
22 = Service - transportation	
23 = Service - communications and utilities	
24 = Single common bond - other	
34 = Multiple common bond - primarily educational	
35 = Multiple common bond - primarily military	
36 = Multiple common bond - primarily federal, state, local government	
40 = Multiple common bond - primarily chemical	
41 = Multiple common bond - primarily petroleum refining	
42 = Multiple common bond - primarily primary and fabricated metals	
43 = Multiple common bond - primarily machinery	
44 = Multiple common bond - primarily transportation equipment	
49 = Multiple common bond - primarily other manufacturing	
50 = Multiple common bond - primarily finance, insurance, real estate, trade	
51 = Multiple common bond - primarily health care	
52 = Multiple common bond - primarily transportation	
53 = Multiple common bond - primarily communications and utilities	
54 = Multiple common bond - primarily faith based	
60 = Corporate credit unions	
98 = Multiple common bond - other	
99 = State chartered natural person credit union	

Appendix E: How to Read a Credit Union Financial Statement

Credit unions are nonprofit cooperatives. Still, they are responsible for developing and maintaining financially sustainable products and programs. Their goal is to maintain an appropriate level of net worth and maximize member dividends. Credit unions are required to operate in a safe and sound manner by the National Credit Union Administration and other parties that provide share insurance. One of the key indicators of safety and soundness is net worth—a measure of the credit union's earnings and reserves. Unlike banks, which pay interest on many accounts, credit unions provide dividends. Dividends are based on the net of gross income minus total expenses and reserves.

Credit unions have two basic financial statements. The Income and Expense Statement provides information on the credit union's sources of income and expenses for a given period of time. The Balance Sheet summarizes the credit union's assets, liabilities, and net worth.

Income and Expense Statement

This statement has four major components: gross income, total expenses, net income, and transfers to reserves (see Table 1). Interest income is the largest source of income for most credit unions. It includes income from lending as well as investment income. Of the two, loan income is most important because it is the largest single source of earnings for most credit unions. Credit unions also generate non-interest income, such as fees for services.

Expenses are divided into interest and non-interest expenses. Interest expenses are the largest expense for most credit unions. Interest expenses include dividends to members as well as interest paid on borrowed funds. These are sometimes referred to as cost of funds (COF)–a reference to the total cost of generating credit union funds. Non-interest expenses include the credit union's operating costs, such as rent, staff, administration, consultants, and travel.

Net income is gross income minus total expenses. Transfers to reserves are allowances or funds set aside for loan or other losses. In general, the higher a credit union's loan delinquencies, defaults, and charge-offs, the higher the required reserves.

There is a direct relationship between a credit union's income and net worth. The net income of the credit union, after paying interest and non-interest expenses (including dividends and transferring funds to reserves), is added to undivided earnings or net income in the equity section of the balance sheet.

Balance Sheet

Assets, liabilities, shares and deposits, and equity are the four main categories of the balance sheet (Table 2). A balance sheet "balances" because assets must equal liabilities, shares and deposits, and equity.

Assets are items that the credit union owns. In addition to being the largest source of income, loans are usually a credit union's biggest category of assets. Other assets include cash, investments, real estate, and fixed assets (furniture, fixtures, and equipment). The average assets of federal credit unions exceeded $51 million in 2002.

Liabilities are debts or payments that the credit union owes to others. Liabilities include funds that the credit union has borrowed as well as payments owed to vendors and suppliers. Member shares and deposits are also included on this side of the balance sheet because they are owed to credit union members. Shares and deposits are generally the largest category of liability. Shares and deposits include share (savings) and draft (checking) accounts, and share certificates (certificates of deposit).

Table 1: Credit Union Income and Expense Statement

Gross Income
Interest Income
Non-Interest Income
Total Gross Income
Expenses
Interest Expenses (including dividends)
Non-Interest Expense
Total Expenses
Total Gross Income - Total Expenses = Net Income (Loss)
Transfers to Reserves

Table 2: Credit Union Balance Sheet

Assets	**Liabilities, Shares, and Equity**
Cash	**Liabilities**
Investments	Dividends and Interest Payable
Land and Building	Borrowings
Fixed Assets	Accounts Payable
Loans	**Total Liabilities**
	Total Shares and Deposits
	Equity
	Undivided Earnings
	Regular and Other Reserves
	Donated Equity
	Net Income
	Secondary Capital
	Other
	Total Equity
Total Assets	**Total Liabilities, Shares, and Equity**

Equity or net worth is a calculation that NCUA uses to assess the financial condition of the credit union. It is total assets minus total liabilities and shares and deposits, and is therefore income that a credit union accrues over time. A declining net worth over time indicates that a credit union's income does not adequately cover expenses. It also suggests that the credit union will not have sufficient funds to support itself during periods of low-income.

The amount of net worth is meaningless if it is not examined relative to the credit union's asset size. The **net worth ratio**, which is net worth divided by assets, allows one to determine whether net worth is sufficient in relation to outstanding loans, which are the primary component of assets. Generally, the higher the net worth ratio, the better. The ratio is interactive. If assets increase, and net worth remains the same, the ratio will fall. Conversely, if assets fall, the ratio will rise. The average net worth ratio of credit unions was 10.72 percent in 2002. The NCUA classifies credit unions with net worth ratios between 4-6 percent as under-capitalized and those with rates less than 4 percent as significantly or critically under-capitalized.

Credit union financial statements provide information on loans that are delinquent at least two months. The **loan delinquency rate**, which is total delinquent loans divided by total loans, is a measure of the quality of a credit union's loans. A higher delinquency rate may indicate a problem with the credit union's management, underwriting procedures or collection practices. The average delinquency rate of federal credit unions was 0.80 percent in 2002.

The **loan-to-share ratio** measures the credit union's lending volume relative to shares and deposits. The higher the ratio, the higher the volume of lending. However, a low ratio can also be an opportunity—a credit union with a low ratio has the resources to make more loans. The average loan-to-share ratio of federal credit unions was 69.43 percent in 2002.

Glossary

Assets: anything of commercial value owned by a credit union. Typically includes cash, outstanding loans (minus allowance for loan losses), real estate, furniture and fixtures, and equipment.

Common Bond: a factor that defines or delineates a group of people, such as employment or church membership.

Community Credit Union: a credit union with a field of membership (FOM) that consists of people who live, work, attend school, or worship in a well defined community.

Community Development Credit Unions (CDCUs): members of the National Federation of Community Development Credit Unions, CDCUs serve lower-income, often minority, communities. Their services are often coordinated with community-based and other non-profit organizations.

Community Reinvestment Act (CRA): passed (approved) in 1977, CRA is a federal law that prohibits discrimination, or redlining, by banks and savings and loans on a neighborhood or geographic basis. CRA obligates financial institutions to **help to** provide loans, services, and investments in their entire assessment area, including lower-income neighborhoods.

Delinquent Loans: loans that are more than two months overdue. The comparative measure of this statistic is the loan delinquency rate, or percentage of delinquent loans, which is the total dollar amount of delinquent loans divided by the total dollar amount of loans.

Field of Membership (FOM): defines people allowed to join a credit union.

Home Mortgage Disclosure Act*:* banks, savings and loans, and credit unions with assets exceeding $33 million and an office in a metropolitan statistical area (MSA) are required to submit data on their residential loans. **Passed (**Established) in 1975, HMDA is a federal law that provides information on the geography and borrower characteristics of those applying for and/or approved for home ownership, improvement, and refinance loans. **It is a tool for monitoring discrimination in home mortgage lending**.

Low-Income Credit Union (LICU): LICU is a designation given to credit unions by the NCUA. To receive the designation, at least half of a credit union's members must earn less than 80 percent of the median household income of the community.

Loan-to-Share Ratio*:* the gross amount of loans divided by the amount of shares in a credit union, this ratio measures the extent to which a credit union has "turned-around" deposits, or converted them into loans to members.

Mainstream Credit Unions: credit unions that do not have a LICU designation.

Member Business Loans (MBL): loans made for commercial, corporate, business investments, venture, or agricultural purposes. Credit unions wishing to engage in MBL must establish a loan policy that addresses security and collateral requirements, among other issues.

Multiple Common Bond Credit Union: a credit union FOM comprising several groups of people with a common bond. For instance, a multiple common bond FOM can include members of several churches and employees of a local business.

Net Capital: a measure of total assets (minus liabilities and member deposits) in a credit union. It includes regular reserves, secondary net capital, accumulated unrealized gains or losses, other reserves, undivided earnings, and net income. The Net Capital to Assets Ratio divides net capital by total assets.

Non-Member Deposits: unlike other credit unions, LICUs are able to accept deposits from non-members. These deposits are insured like members' deposits.

Select Employee Groups (SEGs): credit unions are allowed to add to their fields of membership groups with a common bond, including employee groups.

Shares: all members of credit unions are in effect, owners of the credit union. Their deposits therefore represent shares. Credit unions offer regular *share accounts* (savings accounts); *share draft accounts* (checking accounts); and *share certificate* (certificates of deposit) accounts.

Single Common Bond Credit Union: a credit union with a FOM that encompasses one group with a common bond.

Types of Charter: credit unions can be chartered and regulated by federal or state government. However, most state-chartered credit unions receive some level of federal regulation because most of their members' deposits are insured by the National Credit Union Share Insurance Fund.

Type of Membership: describes the membership of the credit union, whether a community, association, educational, military, government, multiple common bond, or manufacturing or service sector.

Underserved Community: a community that meets at least one criterion of economic distress as defined by the Community Development Banking and Financial Institutions Act of 1994. Criteria include percentage of people living in poverty, median-income, and unemployment.

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Woodstock Institute

Woodstock Institute, a Chicago nonprofit incorporated in 1973, works locally and nationally to promote sound community reinvestment and economic development in lower-income and minority communities. It collaborates with community organizations, financial institutions, foundations, government agencies, and others to promote its goals.

The Institute engages in applied research, policy analysis, technical assistance, public education, and program design and evaluation. Its areas of expertise include: CRA and fair lending policies, financial and insurance services, small business lending, community development financial institutions, and economic development strategies.

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