Building Community Assets

Growing Lower-Income Credit Union Membership
Through Community and Credit Union Partnerships

Woodstock Institute
applied research, policy and practice
innovation for community economic development

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Executive Summary

Credit unions offer lower-income people an opportunity to open affordable transaction accounts and access other low cost financial products or services. However, many credit unions have difficulty enrolling new lower-income members and instead partner with community-based organizations to determine product demand and remove barriers to enrollment such as modifying account fees or providing financial literacy training. Through the *Building Community Assets* program, Woodstock Institute provided technical assistance to four such partnerships operated by Fresno West Coalition for Economic Empowerment of Fresno, California; Spokane Neighborhood Action Program of Spokane, Washington; Community Action Project of Tulsa County, Tulsa, Oklahoma; and Hartford Individual Development Account Collaborative of Hartford, Connecticut.

This report details the partnership process and lessons learned from a two-year technical assistance program designed to help community organizations partner with mainstream credit unions with the goal of enrolling new lower-income members or expanding an existing partnership. The report uses the stories of these four partnerships as case studies to identify four strategic areas through which partnerships can be strengthened and the common barriers to developing a successful partnership can be overcome. The lessons learned section of the case studies and the report conclusions are color coded to reflect the four strategic areas discussed below:

Determining Product Demand and Organizational Capacity
Evidence from the case studies support the use of formal or informal market analysis by a community organization as a first step in defining a community's demand for affordable financial products and services and as a means to assess the organizational capacity needed to meet that demand. Additionally, knowing community needs and strengths can be an invaluable asset when developing a partnership.

Increasing Access
Forming partnerships with existing credit unions is often the most successful way a community organization can ensure that community financial needs are being met. However, credit union regulations can mean that not everyone can join a credit union. These case studies illustrate that credit unions can find ways to change their field of membership to become more inclusive and, therefore, better able to meet the financial services needs of lower-income people.

Negotiating a Beneficial Partnership
A successful partnership appears to be collaborative and incremental, and being able to identify opportunities for additional partnership is key to realizing long-term goals. Starting with small goals and bringing credit union management, local employers and, in some cases, more than one financial institution on board can help realize larger objectives quicker and more fully.

Supporting a Partnership
A credit union partnership often requires a community organization to commit additional resources and identify new funding sources. Evidence from the case studies suggests that new funding can come from forming relationships with organizations such as credit union leagues, or internally developing new sources of earned revenue.

Introduction

Credit unions offer their members low-cost access to affordable financial products and services through non-profit, cooperatively owned financial institutions. In many cases, an account at a credit union may be a family's first, allowing them to cash checks, pay bills, and manage their money at substantially lower cost than check cashing outlets or other fringe financial service providers. However, too many lower-income families who might belong to a credit union do not.

In an effort to help bring lower-income people into a formal banking relationship, community organizations and social service agencies continuously strive to establish new and innovative ways to better serve the needs of these individuals. These efforts often enable lower-income people to open accounts at banks where they were previously rejected. Many banks, however, are still reluctant to take on new customers with troublesome credit histories, low monthly balances, or other issues.

For these and other constituents who may be excellent candidates for credit union membership, many community organizations consider starting a new credit union. Dozens of community development credit unions have been successfully founded in this manner across the country, but the considerable time and capital requirements necessary to start and sustain a credit union may often prove prohibitive. Because of this, many community organizations may better serve their clients by partnering with an existing mainstream credit union that already offers a wide variety of products and services.

To illustrate the potential of these types of partnerships, Woodstock Institute provided technical assistance in four cases where a community organization and credit union partnership might be more beneficial in the long-term compared to the establishment of a new credit union. This project also sought to identify the factors that contributed to a successful partnership. With funding from the Annie E. Casey Foundation, this assistance program was formalized as the *Building Community Assets Program* in 2004 to assist organizations seeking to offer financial services to their lower-income clients. The program helped launch new or expanded partnerships and helped increase the number of lower-income people that can benefit from credit union products and services.

This report provides a description of the *Building Community Assets* program and case studies analyzing the impact of Woodstock Institute's technical assistance carried out in Fresno, California, Spokane, Washington, Tulsa, Oklahoma, and Hartford, Connecticut between 2004 and 2006.

Benefits of Credit Union Membership

Families need fairly priced and affordable financial services, including checking and savings accounts, credit cards and consumer loans, home mortgages, investment products, financial information, and reliable financial advice in order to build assets. While the majority of Americans have some sort of transaction account, a significant number of households--particularly low-income and minority households--do not.

According to the 2004 Federal Reserve Board Survey of Consumer Finances (SCF), only 80 percent of minority households and only 75 percent of the poorest families hold a transaction account.[1] Not having a bank account has substantial effects on families and communities.[2] People who do not have bank accounts find it hard to save money and build assets. 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

[1]Bucks, Brian K, Arthur B. Kennickell and Kevin B. Moore. 2004. *Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances*. Washington, D.C.: Federal Reserve Board.

[2]Williams, Marva and Valjean McLenighan. 2004. *Building Community Assets: A Guide to Credit Union Partnerships.* Chicago, Illinois: Woodstock Institute.

earnings. One consequence of being unbanked is that many 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. With low savings rates and rising debt levels, low-income people often turn to "fringe" service providers who do not provide saving or credit-building vehicles, and that charge excessive fees which may sink them further into debt.

In *Currency Exchanges Add to Poverty Surcharge for Low-Income Residents* and *Affordable Alternatives to Payday Loans: Examples from Community Development Credit Unions*, Woodstock Institute researchers found that formal banking institutions offered comparable services to currency exchanges and payday loans, but at a lower cost. Because credit unions are exempt from all federal and many state and local taxes, members of credit unions enjoy lower interest rates on loans, higher interest payments for share draft accounts, and pay less for services than at a retail bank.[3] Lower-income credit union members may also benefit from the lower minimum balance requirements, micro-lending capabilities, and financial literacy programs offered by many credit unions.

While any formal banking institution offers an opportunity to save, credit union membership may encourage a higher and more consistent level of savings because credit union services contain terms and conditions that are clearer and fairer. In *Blindfolded Into Debt: A Comparison of Credit Card Costs and Conditions at Banks and Credit Unions,* Woodstock Institute reported that credit unions are far less likely to impose penalty rates and short grace periods, practices that contribute to rising levels of credit card debt.

Barriers to Enrolling Lower-Income Credit Union Members

The Federal Credit Union Act, which regularized the credit union movement in 1934, explicitly states that credit unions have an obligation to provide financial services to people of modest means.[4] Despite this mandate and the substantial benefits that lower-income people can accrue through membership in a credit union, there is strong evidence that the credit union movement has not effectively reached out to new lower-income members. In *Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People*, Woodstock Institute found that credit union membership in the Chicago region was disproportionately comprised of middle- to upper-income households, not consumers "of modest means."

While the use of mainstream financial services generally increases with income, certain regulatory characteristics of credit unions may limit their ability to enroll new lower-income members. Credit unions are restricted by charter to serve a particular population with a common bond, known as its field of membership. In the past, credit union leadership argued that a credit union's obligation to its field of membership prevented it from reaching underserved communities.[5] In recent decades, many restrictions on credit unions have been reduced including lowering of capital requirements, permitting additional savings and lending products, and relaxing field of membership restrictions to include underserved areas, larger geographic areas, and communities with a majority of low-income households.[6]

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[3]See Caskey, John P. 1999. *Credit Unions and Asset Accumulation by Lower-Income Households*. Madison, Wisconsin: Center for Credit Union Research.

[4]12 U.S.C. § 1751 (1934).

[5]Credit Union Times. 2002. *Lawsuits, Statistics, Misconceptions; What's Really Going on with CUs' and the Underserved?*

[6]See Jacob, Katy and Malcolm Bush and Dan Immergluck. 2002. *Rhetoric and Reality: An Analysis of Mainstream Credit Unions' Record of Serving Low-Income People*. Chicago, Illinois: Woodstock Institute.

Barriers to the Establishment of a New Credit Union

As part of an effort to link the underserved with fair and affordable financial services, community organizations are now seeking to start their own credit unions. Starting a credit union, however, is a difficult process. For community organization, a better option may be to encourage mainstream credit unions to extend credit union membership to some low-income people affirmatively and creatively.[7]

Establishing a credit union under a federal charter is a time consuming and potentially expensive process. Candidates are required to demonstrate to regulators sufficient purpose as well as financial and organizational fitness in order to be considered for a federal charter. Applicants must have significant start-up capital, a potential membership base of between 750 and 1000 members with a defined common bond, organizational sponsorship and demonstrate long term feasibility, among other things.[8] In addition to the long and potentially prohibitive process, new credit unions are often not yet financially able to offer many of the products and services needed by communities.

According to the Illinois Credit Union League, start-up costs for establishing a credit union can reach as high as $500,000.[9] Several factors can influence the cost of establishing a credit union including the type of charter, the type of services and products offered, and whether or not a professional credit union organizer is retained.[10] As of June 2000, pre-chartering costs were estimated at $33,515 for a basic credit union (one that offers regular share accounts and small consumer loans) and $109,150 for a full service credit union (one that offers additional services such as share drafts, ATMs, debit and credit cards, mortgage loans, cash operation and check cashing services).[11] Credit unions with an employer or church affiliation may be more subsidized than a credit union with a community charter and therefore have lower start-up costs.[12] Additionally, the use of a professional organizer with experience in chartering credit unions may increase the cost of establishing a credit union substantially.[13]

In addition to the initial funding required to start a credit union, a credit union is expensive to operate. Annual operating costs were estimated in 2000 by the National Credit Union Association (NCUA) at $50,683 for a basic credit union and $250,665 for a full service credit union.[14] Operating costs vary significantly by the size and scope of a credit union, where it is located, and its affiliation. A credit union that is chartered as an employer credit union may, for example, have subsidized staff or rents.

Like any business, it can take several years for a start-up credit union to be financially stable. Because services and products are tied to capital, and new credit unions often are not sufficiently capitalized; it may take many years for a credit union to be able to provide the products and services needed by their membership. In *Banking Services for the Poor: Community Development Credit Unions*, Woodstock Institute found that for new and smaller credit unions, the range of financial services that can be offered is limited by the cost and complexity of offering multiple products. For example, many deposit and financial services necessitate a paid professional staff to administer them and some services, like credit cards,

[7]Williams, Marva and Valjean McLenighan. 2004. *Building Community Assets: A Guide to Credit Union Partnerships.* Chicago, Illinois: Woodstock Institute.

[8]National Credit Union Association. 2003. *Chartering and Field of Membership Manual*. Arlington, Virginia.

[9]Ponzo, Vicki Lyn. Letter to Sarah Duda. 29 January. 2008.

[10]National Credit Union Association. 2000. Estimated Costs in Chartering a Federal Credit Union. Arlington, Virginia.

[11]Ibid

[12]Ibid

[13]National Credit Union Association. 2003. *Chartering and Field of Membership Manual*. Arlington, Virginia.

[14]National Credit Union Association. 2000. Estimated Costs in Chartering a Federal Credit Union. Arlington, Virginia.

require a significant initial investment.[15] Often, start-up credit unions offer only one deposit account to members, a basic share or savings account. It is only as the credit union grows that some of the most needed products, such as share draft accounts (checking accounts), share certificates (CDs), and emergency loan products become viable options.[16]

Why Establish Partnerships

Establishing a credit union is a lengthy and expensive process, and it can take years to reach the scale of an established mainstream institution. A better option for community groups seeking to offer affordable financial products and services may be to form a partnership with an existing credit union. In *Building Community Assets: A Guide to Credit Union Partnerships*, Woodstock Institute described the benefits of collaboration between credit unions and community organizations. Partnerships between established credit unions and community organizations can be mutually beneficial, fulfilling a community group's goal of increased access to financial services for lower-income families, and helping credit unions expand their membership.

A saturated financial services market for middle- and upper-income households and the recent regulatory changes that have liberalized field of membership rules, have given mainstream credit unions fresh incentives to enroll new lower-income members. Some credit union leaders, however, have suggested that many mainstream credit unions lack the infrastructure to serve low-income communities, and that it may take many years to begin serving the underserved.[17] A partnership with a community organization can provide informed access to lower-income communities and can lower the transaction costs for credit unions learning to specialize in these markets.[18] Since community groups have firsthand knowledge of the needs of the communities that they assist, a partnership with a credit union may also reduce costs and entry barriers in the tasks that require specialized financial services knowledge, such as marketing, product development and location decisions.

The expertise of credit union staff can also increase the success of financial literacy programs, and can allow the credit union to offer tested programs and financial products tailored to community needs. Most importantly, partnerships can provide key benefits to lower-income people – linking the underserved with a lower cost, fair financial services provider that can help families become financially literate, save, and build wealth.

Growing Lower-Income Credit Union Membership through the *Building Community Assets Program*

The *Building Community Assets Program* was designed to provide key technical assistance to community organizations seeking to establish a new partnership with a mainstream credit union or expand an existing partnership. Through its credit union research program and nearly 35 years of community reinvestment policy development and practice innovation, Woodstock Institute's staff has developed extensive expertise in identifying financial services partnerships and brokering agreements between large financial institutions and community organizations.

[15]National Credit Union Association. 2000. Estimated Costs in Chartering a Federal Credit Union. Arlington, Virginia.

[16]Tholin, Kathryn and Jean Pogge. 1991. *Banking Services for the Poor: Community Development Credit Unions*. Chicago, Illinois: Woodstock Institute.

[17]Credit Union Times. 2002. *CUNA, NAFCU Respond to Letter to the Editor from Woodstock Institute Leader*. Arlington, Virginia.

[18]Williams, Marva and Valjean McLenighan. 2004. *Building Community Assets: A Guide to Credit Union Partnerships*. Chicago, Illinois: Woodstock Institute.

In 2004, Woodstock Institute issued a request for qualifications from community organizations across the country that wished to promote the accessibility of affordable financial services and loans and financial management resources of mainstream credit unions.

Over 80 community organizations responded to the request for qualifications, detailing their capacity to develop and maintain a credit union partnership, any previous experience with community development finance issues, a proposed business model to deliver financial services to the communities they serve, the diversity of their service area, and their expectations for the proposal partnership. Based on these criteria, Woodstock Institute selected four organizations; Fresno West Coalition for Economic Development, of Fresno, California; Spokane Neighborhood Action Program, of Spokane, Washington; Community Action Project of Tulsa County, of Tulsa, Oklahoma; and Hartford Individual Development Account Collaborative of Hartford, Connecticut.

Woodstock Institute provided technical assistance to the four community development organizations seeking to partner with mainstream credit unions to increase financial opportunities for low-income families. To foster these partnerships, Woodstock Institute offered applied research assistance, site visits, and organizational planning to help community organizations and their constituents take advantage of the services offered by credit unions. This technical assistance program was documented in a series of case studies designed to identify the strategies used to establish the credit union partnership, develop goals for the partnership, and how to negotiate an agreement with a credit union. The case studies also document lessons learned at each site.

Case Study: Fresno West Coalition for Economic Development

Fresno West Coalition for Economic Development (Fresno West CED) developed a partnership with Fresno County Federal Credit Union (Fresno County FCU). The partnership included the establishment of a credit union ATM in a local grocery store and the expansion of the credit union's field of membership to include participants of Fresno West CED's financial education and small business trainings.

Community Organization: Fresno West Coalition for Economic Development

Credit Union: Fresno County Federal Credit Union

Community Need: Check cashing and wire transfer services

Request: Establish new partnership

Technical Assistance Provided: Recommended charter change to permit associational members, provided assistance writing association bylaws

Outcomes: Change in credit union field of membership, new credit union ATM in community organization service area.

New Members: 50

Background: Community Organization

Fresno West is a nonprofit organization that was started in the late 1990s by a group of community residents who wanted to bring a grocery store and full service shopping center to their predominately lower-income and geographically isolated neighborhood. After succeeding in these efforts, Fresno West turned its attention to advocating for improvements in the health, housing, and employment status of its residents. Since then, Fresno West organized several resume-building and interviewing skills sessions, business development sessions, and tax assistance programs.

The community of Fresno West is isolated from the rest of the City of Fresno by a six-lane highway and a set of railroad tracks. Access to shopping and community facilities is limited to travel by car, which few residents own. The residents of Fresno West are disproportionately low-income with a median household income of $21,991, or roughly half the median income of City of Fresno. Additionally, Fresno West has a higher concentration of minority residents compared to other parts of Fresno. While greater Fresno is 40 percent Latino and 8 percent African American, Fresno West is approximately 50 percent Latino and 25 percent African American.

Fresno West Coalition for Economic Development learned about the great need for improved access to mainstream financial services in 2003, when a survey of residents revealed that 25 percent of the Fresno West community used payday loan products. A subsequent survey of 900 low-income Fresno residents found that 95 percent of respondents were interested in using credit union services; with check cashing and wire transfers cited as the most needed services.

Background: Credit Union Partner

Fresno County FCU was incorporated in 1941 by 11 county employees and has since grown to a membership of over 40,000. Fresno County FCU has four branches, 14 ATMs, over 150 employees, a membership of over 40,000 and more than $400 million in assets. Membership in Fresno County FCU is open to employees of over 100 select employee groups and the immediate family members of those employees, as well as several professional or occupational association groups.

Fresno County FCU educates its members about the financial problems associated with repeat payday loan usage, and encourages members to come to the credit union before going to a payday lender. Additionally, Fresno County FCU offers free financial seminars to their membership. Seminar topics include budgeting, long-term care planning, identity protection, and home ownership training. It also provides checking services with no monthly service charges and no minimum balance to open accounts. These checking accounts include direct deposit services and services accessible by telephone.

While the leadership of Fresno County FCU was committed to the goal of expanding lower-income membership, the staff was unable to identify an effective strategy to reach this goal until they began working with Fresno West Coalition for Economic Development.

Woodstock Institute's Technical Assistance

Woodstock Institute's technical assistance included researching appropriate credit union candidates for partnership and aiding in the partnership process. After Fresno West CED chose Fresno County FCU as its preferred candidate, steps were taken to ensure that the partnership could both enroll Fresno West CED clients as credit union members, and protect the integrity of Fresno County FCU's membership base. However, early on in the process, Fresno West CED confronted a major complication: how to expand Fresno County FCU's field of membership to include the residents of Fresno West. The credit union was reluctant to add Fresno West's zip code as a geographical field of membership because of concerns about maintaining a narrow customer focus and maintaining customer service. The ZIP code also extends into a rural area to the west of town, which would have the effect of adding additional rural communities.

To address this problem, Woodstock Institute's staff suggested that a Fresno West CED *associational* field of membership be added to the credit union's charter, which would allow new lower-income members to enroll without significant changes to the credit union's charter. To strengthen the membership-base, Fresno West CED proposed the development of entry requirements, such as financial education classes, to ensure that new members had the financial skills to manage their new accounts.

Woodstock Institute's staff met with representatives of Fresno West CED and Fresno County FCU in early 2005 to broker an agreement on the structure of the new association. The goals of the partnership were to increase credit union membership among Fresno West residents, provide better access to credit union services by locating an ATM in the area, and offer financial services tailored to the community such as affordable home mortgages and small business loans. Other planned outcomes of the agreement were that the credit union would assist Fresno West CED in providing financial education services, including sessions on basic personal financial management, first-time homeownership, small business development, and information sharing on lower-cost alternatives to payday loans. With assistance from Woodstock Institute, bylaws for the new Fresno West Association were written and adopted, which started the process of establishing the associational field of membership between the Fresno West Coalition and the Fresno County Federal Credit Union. Fresno County FCU also agreed to provide a credit union ATM at the very community grocery store that catalyzed the establishment of the Fresno West CED seven years earlier.

Partnership

Both the community organization and the credit union committed to a number of activities designed to increase lower-income membership at Fresno County FCU. For example, Fresno West CED and Fresno County FCU agreed to market credit union membership to community residents. Fresno West CED regularly sends information on the credit union to participants in their educational programs and visitors to their employment center. On March 1, 2006, Fresno West CED organized a community ribbon cutting event for the installation of a credit union ATM at the area grocery store—which was extensively covered by local media. At an affordable housing fair organized by Fresno West CED in the Fall of 2005, Fresno County FCU conducted two 3-hour home ownership workshops, which were attended by over 60 community members. Fresno County FCU also set up booths at Fresno West CED's Earned Income Tax Credit (EITC) tax assistance sites.

As part of the partnership, Fresno County FCU committed staff time to organize and lead financial workshops integrated into the new Fresno West Association's programming. For example, Fresno County FCU staff participated in the First Time Homebuyer workshops offered by Fresno West CED, which had an average attendance of 25 attendees per month during the technical assistance period. Fresno County

FCU also partnered with Fresno West CED in their Homeowners Institute, which provided credit counseling and repair assistance as well as home ownership counseling to local residents. The Homeowners Institute classes also gave participants extensive information on avoiding predatory home mortgages. In 2007, Fresno West CED and Fresno County FCU began working to establish an Individual Development Account (IDA) program to help consumers finance new homes and start or expand businesses.

By the Summer of 2006, the Fresno West Association had 275 members, 50 of whom became members of Fresno County FCU.

Lessons Learned

Documenting the demand for credit union services through survey, Fresno West was not only in a much more informed position to define long-term goals, but also gained an invaluable tool to leverage credit union support for a partnership: an understanding of local market demand.

Although many credit unions face field of membership restrictions, there is some flexibility to enable residents of lower-income communities to join. Fresno West confronted this problem by forming an association whose membership is eligible to join Fresno County FCU. The agreement by Fresno West Association and Fresno County FCU to hold financial literacy programs not only worked to strengthen new membership, but also insulated existing credit union membership from potentially problematic accounts.

Case Study: Co-opportunity, Inc and Hartford Individual Development Account Collaborative

Community Organization: Co-opportunity, Inc and Harford Development Account Collaborative

Credit Union: Hartford Federal Credit Union

Community Need: Basic transaction accounts

Technical Assistance Request: Identify a credit union partner

Technical Assistance Provided: Identified credit union partner, refined partnership model, negotiated partner-ship

Outcomes: Hartford Federal Credit Union offered accounts to VITA site participants

New Members: 116

Co-opportunity, Inc. (Co-opportunity) is a nonprofit organization working to provide asset development opportunities to the lower-income residents of Hartford, Connecticut. In partnership with the Hartford Individual Development Account Collaborative (HIDAC), Co-opportunity worked to expand its existing relationship with Hartford Federal Credit Union (Hartford FCU). The partnership yielded 116 new lower-income credit union members.

Background

Co-opportunity was founded in 1987 as an affiliate of El Hogar del Futuro, a Hartford nonprofit housing developer. To date, Co-opportunity has trained over 900 families to own and manage cooperative housing.

Although originally founded to address housing needs, Co-opportunity's mission has evolved to include asset building programs for lower-income residents. Hartford has one of the highest poverty rates in the nation and is one of a handful of cities that actually saw poverty increase during the past decade. The number of Hartford census tracts where 30 percent or more of the residents live below the federal poverty level increased from 18 to 32 from 1990 to 2000, with 31 percent of Hartford's residents living in poverty in 2000. In response to this trend of concentrated and increasing poverty, Co-opportunity developed a comprehensive asset building program combining financial education and counseling, workforce development, and asset building skills with hopes of increasing the asset building potential of lower-income residents in the Hartford region.

In 2001, Co-opportunity organized HIDAC, a coalition of 14 community-based organizations, banks, funders, and technical assistance providers collaborating to address Hartford's need for asset building opportunities. The purpose of HIDAC is to promote asset building products and services, including Individual Development Accounts (IDAs), affordable financial services and financial education services. Co-opportunity serves as the lead organization and fiscal agent of HIDAC and its membership includes the Annie E. Casey Foundation, Hartford YWCA, Citizens Research Education Network, Hartford Public Library, Mt. Sinai Hospital, Hartford's 14 Neighborhood Revitalization Zone Committees, and the City of Hartford. Hartford is also a designated participant in the Annie E. Casey Foundation's "Making Connections" program, an initiative to improve the financial wellbeing of families and children in lower-income communities.

As the lead agency of HIDAC, Co-Opportunity manages 120 IDAs for adults and 100 for youth who were recruited to the program by HIDAC members. In addition to providing case management services to IDA participants, Co-opportunity provides financial literacy training and homebuyer education to all IDA programs in the greater Hartford region. In 2005, Co-opportunity assumed management of the city-wide Volunteer Income Tax Assistance (VITA) and Earned Income Tax Credit (EITC) campaigns, which serve hundreds of lower-income consumers every year.

Co-opportunity and HIDAC identified a demand for credit union services based on a financial services market analysis for the city of Hartford commissioned by the Annie E. Casey Foundation and conducted by Metis Associates. The analysis found that Hartford residents believed that they had received sub-standard access to bank loan products in the past, that bank branches were not conveniently located, and that the overall quality of bank customer service was poor. Credit unions were also viewed more favorably than banks based on a perception of better customer service, although most people were not actually credit union members and largely depended on check cashers for basic banking transactions.

Credit Union Partner

Hartford FCU is a full service financial institution with a community field of membership that allows anyone who lives, works, worships, or attends school in the Hartford metropolitan area to become a member. In addition, the employees of Mt. Sinai Hospital, a HIDAC member, are a select employee group of the credit union, and have reported great satisfaction with credit union services. The credit union has four offices and seven ATMs and offers free share savings accounts as well as draft (checking) accounts with no monthly fee or minimum balance, and unlimited check writing. The credit union also offers affordable consumer loans, ATM and debit cards, direct deposit, and on-line services.

Woodstock Institute's Technical Assistance

Woodstock Institute assisted Co-opportunity and HIDAC in identifying strategic goals of the partnership and locating potential credit union partners. Like many community organizations looking for ways to offer financial services to their clients, HIDAC initially sought to establish a new community development credit union. However, after reviewing the start up requirements with Woodstock's staff, HIDAC recognized that forming a new credit union would be a tremendous regulatory and financial challenge. It was also clear that the process could take years before the new credit union would have sufficient resources to provide the full range of financial services HIDAC wished to offer, such as draft (checking) accounts, consumer loans, and home mortgages. Partnering with an existing credit union, on the other hand, would allow HIDAC the ability to offer products within a few months.

Woodstock Institute and HIDAC developed a comprehensive list of potential credit union candidates, based on branch locations, account opening criteria, willingness to serve lower-income consumers, and the credit union's current field of membership requirements. The Connecticut Credit Union Association also proved to be a great resource in HIDAC's search for a credit union partner. Ultimately, the positive relationships held by a few HIDAC members with several local credit unions, narrowed the focus to two credit unions. After carefully considering each field of Membership, HIDAC chose to approach Hartford Federal Credit Union (Hartford FCU) about forming a partnership.

The initial goal of HIDAC was to attract a new Hartford FCU branch to a lower-income community in Hartford. Although there was substantial demand for a new branch, Woodstock Institute's staff advised that HIDAC instead begin discussions with more modest goals, such as promoting credit union membership to neighborhood residents, because developing a new facility would require such a significant investment of time and resources. Although HIDAC could substantiate demand for a credit union branch, they realized that beginning discussions with such a large scale task could have suspended any partnership projects.

Working with Woodstock Institute, HIDAC modified its approach and identified a number of strategies that could be adopted by the Hartford FCU to better serve HIDAC clients. For example, HIDAC identified certain account features and loan products they believed to be critical to the program's success, including low monthly fees, no minimum balance requirements, affordable short-term personal loans, small business loans, auto loans, and mortgages. Recognizing that the long-term success of any program would require creativity, it became important that Hartford FCU demonstrate a willingness to develop or support innovative financial products, such as stored value cards and IDAs.

Partnership

In early October 2005, HIDAC began a series of meetings with Hartford FCU to discuss partnering on an upcoming EITC campaign. The credit union was very receptive to the idea and agreed to open credit union accounts for tax filers at HIDAC's free tax preparation sites. The credit union quickly modified its account opening procedures to allow Volunteer Income Tax Assistance (VITA) site volunteers to assign account numbers, file the proper paper work, and collect required documentation before turning this information over to the credit union for next-day processing. Hartford FCU also provided advertisements for the program, as well as signage, flyers, and informational pamphlets at the tax preparation sites.

HIDAC identified the $50 initial deposit requirement on Hartford FCU savings accounts as a potential barrier to membership for many low-income people. This barrier was overcome by a generous donation by the Annie E. Casey Foundation that provided the $50 deposit for new members at several sites. At other sites, Hartford FCU changed its account opening procedures, such as permitting a tax refund to be counted as the first $50 minimum deposit.

By Spring 2006, 65 credit union accounts had been opened, 32 of which remained open six months later. Eight of the 32 accounts also had checking and debit card features. This take-up rate exceeded HIDAC's projections, subsequently encouraging the partnership to continue into the 2007 tax season. By March 2007, 51 tax clients had opened savings accounts at Hartford FCU, five of whom also opened checking accounts with ATM and debit cards. Outside of the tax season, HIDAC works with the program participants of selected partners, like the Hartford YWCA, which has a capacity to reach underserved consumers, and market and facilitate credit union membership.

As of this writing, the partners are looking ahead to new collaborations. For example, they are considering establishing a financial incentive to encourage new account holders to maintain their credit union membership for a longer-term, and are committed to finding ways to encourage new members to engage in the credit union's asset building services, such as financial education and small consumer loans. Finally, as a result of discussions with Woodstock Institute's staff, Hartford FCU and HIDAC are discussing another opportunity for partnership to expand access to financial services in Hartford. In the proposed project, HIDAC will use its financial education and counseling expertise to help consumers open accounts who, because of ChexSystems violations, are currently unable to open Hartford FCU checking accounts.

Lessons Learned

HIDAC, like many organizations, initially planned to meet the financial services needs of their community by establishing their own credit union. Starting a new credit union is a time consuming, expensive, and challenging project and developing a partnership with a credit union can be a quicker and less difficult process with a potential to enroll new lower-income credit union members.

Starting with an ambitious goal could have stalled partnership negotiations. For example, the success of the HIDAC/Hartford FCU partnership was related to the participants' ability to identify mutually beneficial programs and new opportunities for partnership. While the partnership began with the secondary involvement of Hartford FCU in its VITA program, the partnership has since expanded to include joint financial education programs throughout the year. As the partnership is strengthened, discussions of a new credit union branch may develop.

The partnership between HIDAC and Hartford FCU is mutually beneficial. For example, in addition to giving low-income community members' new access to high quality financial services, the partnership gives Hartford FCU access to an untapped market. The partnership also found new ways to expand credit union membership through a proposed program that would give Hartford FCU an alternative to rejecting draft checking account applicants that have ChexSystems violations.

Building on community strengths such as existing networks, can help build a sustainable program. For example, HIDAC was able to capitalize on a significant asset of the organization: the hundreds of lower-income consumers, and potential new credit union members, who use its VITA program.

Case Study: Spokane Neighborhood Action Program

Spokane Neighborhood Action Programs (SNAP) worked with Woodstock Institute to expand its partnerships with two credit unions: Numerica Credit Union (Numerica CU) and Washington State Employees Credit Union (Washington State Employees CU). The partnership included financial education programs and opportunities for SNAP program participants to become credit union members and to establish savings plans.

Community Organization: Spokane Neighborhood Action Program

Credit Union: Numerica Credit Union and Washington State Employees Credit Union

Community Need: Basic transaction accounts

Technical Assistance Request: Expand existing partnership

Technical Assistance Provided: Strategic planning

Outcomes: Developed alternative measures of providing cash services.

New Members: 57

Background

SNAP was formed in 1966 as an initiative of Spokane's Catholic Charities to serve lower-income residents of Spokane, Washington. In 1985, the agency became a separate, independent organization. SNAP's mission is to help low-income, homeless, and other vulnerable people transition from crisis to sustainability. SNAP provides human services, housing assistance, and economic opportunities for its program participants, and works to increase resources for vulnerable Spokane residents.

SNAP has three urban outreach centers and a rural center that operates seasonally and serves some of the surrounding rural population. With a staff of a 120 full-time and 30 part-time employees, SNAP offers comprehensive case management and emergency services such as "sack dinners," emergency housing, substance abuse programs, and life skills programs. SNAP also offers energy bill assistance, mortgage assistance, and affordable housing development. In 2003, SNAP established the Neighborhood Assets Program, chartered with the purpose of helping SNAP program participants access affordable financial services and build assets.

According to SNAP estimates, most of its 13,000 clients lack access to financial services. A survey of 257 program participants revealed that 46 percent didn't have checking accounts and 33 percent used check cashers, payday lenders and other fringe-banking services. Additionally, 91 percent of those surveyed indicated they would be interested in using SNAP-sponsored financial services if they were available.

Based on this research, SNAP's staff began talking with local banks and the Washington State Credit Union League about partnering to provide basic financial services to SNAP program participants. All of the local banks identified as potential partners stated that they were unwilling to participate or felt they could not commit to such a program. However, two credit unions, Numerica CU and Washington State Employees CU, showed substantial interest in providing credit union membership to SNAP program participants. The partnership included an agreement to refer SNAP clients first to Washington State Employees CU, which has a more restricted field of membership, and then to Numerica CU if that client was ineligible to join. In April 2004, a credit union satellite branch was established in the SNAP office.

Credit Union Partners

Numerica Credit Union has a community field of membership allowing anyone residing in the Spokane region to join the credit union. Numerica CU has ten branches, 195 full-time employees, over 64,000 members, and $530 million in assets. It offers a free savings account with a minimum $25 initial deposit and no minimum balance requirement. In addition, the credit union has a basic checking account without a minimum balance requirement, and a modest $3 monthly service charge. The credit union serves its members at its 19 branches located throughout the state of Washington. Numerica CU is also a participant of the Shared-Branch Credit Union Program, which allows members to access their accounts at over

2,400 locations in 46 states. Debit and ATM cards are available, as are the direct deposit of benefits and pay checks.

Washington State Employees Credit Union has a field of membership limited to city, county, state, higher education or public school employees, and the relatives of current members. However, the credit union's membership has a strong desire to reach low-income consumers within its current field of membership. Washington State Employees CU has 338 full-time employees, 130,000 members, and over $1 billion in assets. It offers a free savings account that can be opened with as little as $5, no minimum balance requirements, ATM cards, and direct deposit accounts. All of Washington State Employees CU's checking accounts are free, although there is a minimum opening deposit of $50 if a member desires checks or a debit card.

Woodstock Institute's Technical Assistance

As part of the *Building Community Assets* program, SNAP sought to expand its existing partnership with Washington State Employees CU and Numerica CU. Key features of the SNAP pilot program included its unique enrollment process and marketing program. For example, SNAP designed its enrollment process so that a person who opens a credit union account can graduate to "full membership" after following a series of steps meant to provide enrollment incentives, including a $50 match by SNAP for the first $50 saved. The benefits of full membership, achieved after demonstrating financial literacy, includes a checking account, as well as ATM and debt cards. SNAP also found ways of increasing the success of its program by capitalizing on existing community networks, including local employers who were interested in increasing the number of their employees with direct deposit.

As part of their technical assistance program, Woodstock Institute facilitated a memorandum of understanding between SNAP, Numerica CU, and Washington State Employees CU to expand the partnership beyond the pilot phase, and provided information on the feasibility of check cashing services. In January 2005, Woodstock Institute facilitated a meeting intended to help in this first goal, which resulted in the development of a memorandum of understanding that guided the expansion of the program beyond the pilot phase.

The memorandum of understanding laid out the goals of the partnerships for both the community organization and the credit unions, as well as served to outline each party's expected contribution. Goals identified at the meeting included serving a diverse market; establishing clear measurable outcomes; offering products that meet target customers needs; and moving the program towards financial sustainability. At the meeting, the attendees established strategies for meeting many of these goals. One of these strategies was an agreement to conduct a market analysis and to develop a marketing plan going forward in order to better understand the needs and demands of the local market.

While providing cash services at the SNAP satellite branch was an initial goal of SNAP coming into the partnership, the complexity of the process was eventually a deterrent. Woodstock Institute's staff, using information from the National Federation of Community Development Credit Unions, helped SNAP to identify the pros and cons of, and alternatives to, handling cash on-site. SNAP determined that handling cash would require additional staff time and expertise, a greater financial commitment from the Neighborhood Assets program, more complicated bookkeeping, and additional space. After examining the feasibility of taking on these added costs, SNAP decided to use alternative measures of providing cash services. These alternatives include agreements with local banks and check cashers to use their cash services for a reduced cost or, in some cases, for free.

To lessen the funding burden on SNAP, the partnership received grants from Washington Credit Union Foundation and the National Credit Union Administration. In addition, both Numerica CU and Washington State Employees CU donated their staff time, equipment, and materials.

Partnership

Between April 2004 and June 2006, SNAP registered 551 clients and graduated 57 into full credit union membership. These full members received many benefits, such as checking account and ATM privileges. As of this writing, SNAP has plans to expand their financial services offerings to include an auto loan that will have a term of up to three-years, and an unsecured one-year automobile repair or cash emergency loan.

Throughout the initial pilot period and during the expansion process, SNAP required financial literacy and counseling for all new credit union members. SNAP also held individual financial counseling and financial education classes for over 200 people which enabled many new credit union members to make significant debt reduction payments and to build assets. SNAP found that by improving the financial management skills of their program participants, members were better able to manage their accounts effectively and not incur additional fees.

Lessons Learned

Developing relationships outside of the partnership can serve to strengthen the partnership. For example, through collaboration with local employers, SNAP was able to expand its market and increase access to underserved consumers who require affordable financial services.

Working with multiple financial institutions is possible. SNAP's partnership with Numerica CU and Washington State Employees CU served to increase access to financial services without requiring an alteration in the fields of membership of either institution.

State credit union leagues can be an important resource. The Washington State Credit Union League proved to be an ally in the process for SNAP by helping them identify potential credit union partners. In addition, some state credit unions also operate foundations that may be able to provide financial support to credit union partnerships.

Case Study: Community Action Project of Tulsa County

Community Action Project of Tulsa County (CAP) expanded its partnership with the Tulsa Federal Employees Credit Union. The goals of the partnership included expanding membership opportunities to the Community Action Project program participants, reducing predatory lending by offering affordable financial services and loans, and offering joint financial education programs.

Community Organization: Community Action Project of Tulsa County

Credit Union: Tulsa Federal Employees Credit Union

Community Need: Alternatives to fringe financial services and new pathways to deliver financial education

Technical Assistance Request: expand existing partnership

Technical Assistance Provided: Develop partnership goals and ensure commitment from credit union management

Outcomes: Commitment to open accounts at tax preparation sites and expansion of homebuyer training program.

New Members: 772

Background

CAP is a comprehensive anti-poverty organization of 277 full-time staff focusing on improving the financial circumstances and economic independence of families with young children in the five county Tulsa region. Among its many programs, CAP offers a free income tax preparation service and manages an Individual Development Account (IDA) program which provides savings incentives for participating families. During the 2005 tax season, over 250 volunteers contributed more than 10,000 hours preparing tax returns serving 17,772 clients; and generating $23.8 million in refunds.

In 2003, CAP realized the need for credit union services after recognizing that many of their clients were either unaware or not taking advantage of the financial or educational services available to them. Instead of these resources, CAP clients often used payday loans, check cashers and other expensive financial services. The need for affordable financial services was further informed by an estimate that approximately 6,500 CAP clients had become repeat users of payday loans since they first became available in Oklahoma in September, 2003. Because of this realization, CAP became interested in finding ways to assist victims of predatory lending, increase access to financial education programs, and help CAP clients build assets.

Credit Union Partner

Established in 1943, Tulsa Federal Employees CU has a community field of membership that allows consumers living and working in Tulsa County and surrounding counties to join. With 107 full-time employees, Tulsa Federal Employees CU has more than $368 million in assets and 57,000 members.

Tulsa Federal Employees CU offers a free savings account which requires a minimum initial deposit of only $5. The credit union's checking account, which may be opened with a minimum deposit of $30, has a $5 per month service charge which is waived if the account balance exceeds $300. However, the account is free if the account balance is $300 or more. Tulsa Federal Employees CU also offers several consumer loans, including new and used auto loans and unsecured consumer loans. Members may also apply for the credit union's First Time Home Buyer Program, which offers 20 year mortgage loans with no down payment. Tulsa Federal Employees CU has eight locations in the Tulsa region.

Woodstock Institute's Technical Assistance

Although Woodstock Institute's staff identified other potential partners, CAP decided to pursue a partnership with Tulsa Federal Employees CU, with whom they have had a longstanding relationship (Tulsa Federal Employees CU hosts a CAP tax preparation site each year). Woodstock Institute's technical assistance effort included helping to establish the goals of a partnership, developing the most strategic way to initially approach Tulsa Federal Employees CU, and securing the commitment of both parties. CAP began the partnership process with the following goals: securing credit union membership for CAP clients, finding a mechanism through which to market credit union products as alternatives to high cost payday loans, and working with a credit union partner to provide joint CAP and credit union financial education programs.

Despite Cap's longstanding relationship with Tulsa Federal Employees CU, the relationship was tentative because there was no established commitment from the credit union's upper management. In collaboration with Woodstock Institute's staff, several advantages of partnership to the credit union were identified to aid CAP in their initial discussions with senior Tulsa Federal Employees CU's staff. These benefits were determined to be: the ability to expand credit union membership to consumers that have participated in financial education classes, increased loan production, and positive public relations. Also, because CAP has a growing number of Hispanic program participants, a relationship with CAP could provide Tulsa Federal Employees CU informed access to this growing and underserved market in the Tulsa region.

After some negotiations with Woodstock Institute and CAP, the credit union agreed to collaborate on several projects. These projects included: CAP trainings at tax sites on the consumer advantages of credit union membership, services and products; a credit union customer service representative who would be available to inform tax filers of products and services offered at the credit union and to help them apply for credit union membership; a collaborative system to track new members; a partnership to leverage CAP's home counseling and mortgage loan incentives with Tulsa Federal Employees CU's mortgage program; and a CAP managed financial literacy program for credit union members with problem accounts.

In order to increase the program's reach into lower-income Tulsa communities, Woodstock Institute's staff provided the partnership with informational resources about financial products that are most successful with low- and moderate-income consumers. Among these resources were successful marketing strategies used to reach lower-income and Spanish speaking consumers, including the use of the Matricula card as a valid form of identification for new accounts.

Partnership

To date, the partnership has implemented many of the recommendations that Woodstock Institute made as part of the *Building Community Assets* program and has witnessed 772 clients direct deposit $958,988 into Tulsa Federal Employees CU accounts through federal tax refunds. Including state refunds, CAP clients have deposited over $1 million into Tulsa Federal Employees CU accounts.

Lessons Learned

By determining in advance the ways in which partnership could benefit Tulsa Federal Employees Credit Union, CAP had an important mechanism to leverage support during initial negotiations: self interest.

Obtaining the commitment of senior management contributes to the success of partnerships. While it may be possible to establish relationships with junior credit union staff, including customer service representatives, loan officers or branch managers, a more comprehensive partnership necessitates the participation of senior management.

Conclusion

Rather than establishing a new credit union, a process that can require a substantial investment of time and resources, these four community organizations were able to successfully partner with a mainstream credit union in order to expand their capacity to offer affordable financial services and asset building products.

Based on the results of the *Building Community Assets* technical assistance program offered by Woodstock Institute, four strategic areas were identified through which partnerships can be strengthened and the common barriers to developing a successful partnership can be overcome.

Determining Product Demand and Organizational Capacity

Through Market Analyses: Several organizations, such as Fresno West and HIDAC, began the partnership process by conducting an in-depth market analysis or using an existing one. These analyses helped the partnerships demonstrate need, design products, and identify areas for potential collaboration.

By Building on Strengths: Community organizations have strengths that can be attractive to credit unions and increase the success of partnerships. For example, several of the community organizations profiled had financial counseling expertise that increased the success of their respective partnerships. Additionally, existing community programs and networks can be useful for new partnerships as marketing platforms and sources for potential new members.

By Identifying How the Credit Union Can Benefit From the Partnership: Most community organizations are aware of the community advantages of a credit union partnership. However, it is equally important to identify how the partnership can help the credit union achieve its business goals, like CAP was able to do. These benefits may include increasing membership, growth in loan volume, and improved financial skills of credit union members.

Increasing Access

By Starting a Credit Union Partnership, Not a New Credit Union: Many organizations, like Co-Opportunity and HIDAC, initially planned to meet the financial services needs of their community by establishing their own credit union. However, starting a new credit union can be a time consuming, expensive, and a challenging project, while developing a partnership with a credit union can be a quicker and less difficult process. These case studies illustrate, however, that a partnership can yield high returns to a community in a relatively short amount of time.

By Finding Creative Ways to Make Field's of Membership More Inclusive: Although credit unions do face field of membership restrictions, there is considerable flexibility to enable residents of lower-income communities to join. For credit unions with an associational field of membership, a community organization can form an association, like Fresno West Coalition for Economic Development did to provide its constituents with financial services.

Negotiating a Beneficial Partnership

By Starting with Modest Goals and Building Slowly: Many potential partnerships begin with a request for a new credit union branch. This is a significant investment, could take years to realize and because it is a difficult negotiating point, could stall a partnership. These case studies illustrate that a request to modify a credit union's field of membership, open a new ATM, or collaborate on administering a program serve as successful introductory negotiating points.

By Involving Senior Management of Credit Unions in Partnership Planning: A commitment from senior management to serving lower-income people through a community organization's partnership is critical to a partnership's success. While many community organizations may have an existing relationship with credit union staff, a successful partnership must have decision makers on board.

By Working with Multiple Financial Institutions: Partnering with more than one credit union may allow a community organization to offer different types of products, expand their geographic reach, or overcome field of membership limitations. As SNAP's partnerships with Numerica CU and Washington State Employees CU illustrates, multiple partnerships can be beneficial to individual credit unions as well.

By Including Local Employers in Credit Union Partnerships: Collaboration with local employers is important for community organization and credit union partnerships. Employers, particularly those with large numbers of lower-wage employees, provide access to underserved consumers needing affordable financial services. Further, financial management skills, access to financial tools, and other services can be coordinated at the workplace.

Supporting a Partnership

By Building Relationships with Large Interest Groups: State credit union leagues can be an important contact when identify potential credit union partners or to learn about potential funding sources for credit union partnerships. The Credit Union National Association keeps an updated contact list for state credit union leagues at www.cuna.org.

Through Financial Management and Asset Development: Obtaining long-term financial support for a credit union partnership is challenging and requires an active, on going search for new streams of funding. Although the credit unions in the case studies shared many of the costs of partnership, community organizations may need to identify charitable funding sources to subsidize their activities.

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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