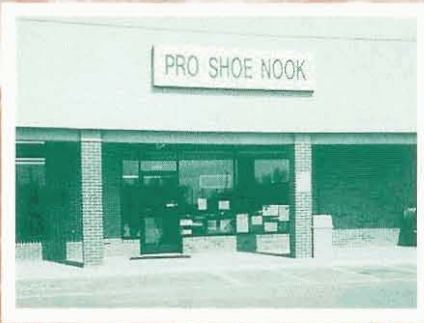


CREDIT TO THE COMMUNITY

*The Role of CDCUs in
Community Development*



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The Role of CDCUs in Community Development

by
Marva E. Williams

September, 1997

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About the Author

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Preface

This publication describes the community development impacts of community development credit unions (CDCUs). There are currently about 300 CDCUs in the U.S.¹ Their mission is to provide access to financial services and credit in low-income communities, many of which have been abandoned by banks and other financial institutions. CDCUs are an important source of financing for community development activities. However, the financing impacts of CDCUs, such as the development of affordable housing, the establishment, growth and stabilization of small businesses and micro-enterprises and other community development activities have not been well documented outside the CDCU movement. This report fills this gap by highlighting the community development activities of eight credit unions, located in geographically, economically, and demographically diverse communities throughout the U.S.: Bethex and Central Brooklyn in New York City; Demopolis in western Alabama; Faith Community United of Cleveland; Santa Cruz Community in California; St. Luke and Tri-County in northeastern North Carolina; and Vermont Development, a statewide CDCU.

The goal of this publication is to increase the understanding of foundations, regulators, banks, mainstream credit unions, and others about the diverse interests and contributions of CDCUs. These organizations will then be in a better position to help CDCUs fulfill their mission and CDCUs will be able to compete more effectively for their support. In addition, the report will help existing CDCUs explore ways to expand their community development activities and inspire the establishment of new CDCUs in underserved areas.

The first section of this report provides a short history of credit unions and the CDCU movement. Section II, the main focus of this report, describes the affordable housing and small business assistance and financing activities of the CDCUs that participated in the study. Section III explores how CDCUs overcome obstacles and extend services through collaborations or partnerships. The report concludes with short profiles of each CDCU. There are two appendices to this report. Appendix A provides information on sources of technical and financial support to CDCUs mentioned in this report. A brief description of the research methodology employed for this study is provided in Appendix B.

¹ National Credit Union Administration, 1997. *Low-Income Credit Unions 1996 Mid-Year Report*.

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Section I: What are CDCUs?

Credit unions are not-for-profit financial cooperatives owned and controlled by their membership. First organized in the United States in 1908, credit unions are truly self-reliant—they pool the savings of members to provide services and to make loans. Credit unions are organized among people with a common bond: an association such as church membership; an occupational/employment link; or residence or business in a community. In addition, some credit unions have multi-group fields of membership (FOM); they are comprised of several groups with a common bond. The assets of credit unions exceed \$300 billion and their total membership is 70 million.¹

‘Low-income’ is a designation given to community development credit unions (CDCUs) by the National Credit Union Administration (NCUA), an independent federal agency that regulates and insures credit unions. To qualify for this designation, at least half of the credit union’s members must earn less than 80 percent of the average median household income for the community. For most parts of the country, an annual income of \$24,000-25,000 will qualify members as low-income.² In contrast to ‘mainstream’ credit unions, CDCUs:

- Serve low-income people and communities;
- Can expand their capital base by accepting deposits from non-members or by establishing secondary capital accounts;
- Are eligible to receive low-interest loans, deposits, and technical assistance from NCUA’s Community Development Revolving Loan Program; and
- Have greater flexibility in determining membership bases.

CDCUs are very diverse. They serve urban and rural communities in all parts of the U.S. Further, CDCUs assist predominantly minority communities: African-American, Hispanic, Native American, and Asian-American. Many are also affiliated with community-based organizations or churches.

CDCUs have a rich and long history. Many were formed by African-Americans during the Depression, in response to lending discrimination in the South. CDCUs also proliferated during the Civil Rights Movement with the assistance of the Office of Economic Opportunity (OEO). In collaboration with the Credit Union National Association (CUNA), a credit union trade association, OEO established almost 400 ‘anti-poverty’ credit unions in the 1960s.³ In 1974, CDCUs formed their own trade association. The National Federation of Community Development Credit Unions

¹ Gilpin, Kenneth N. January/February, 1997. *Credit Unions are Thriving, to Chagrin of Banks*. [The Capital Reporter](#).

² National Federation of Community Development Credit Unions. No date. *Questions and answers about the National Federation of Community Development Credit Unions*.

³ For more information, see *Credit and the War on Poverty: An Analysis of the Credit Union Programs of the Office of Economic Opportunity*, 1993, Woodstock Institute.

(NFCDCU) provides advocacy, capital access, technical support, training, and organizing assistance to CDCUs. The 1980s were also an active time for CDCUs. Many were formed in response to community opposition to redlining and bank branch closings. During the 1990s, two federal agencies were formed to support CDCUs. In 1993, NCUA established the Office of Community Development Credit Unions to raise the profile of CDCUs, provide technical and financial assistance and help establish new CDCUs.⁴ Joyce Jackson, Director of the Office, also facilitates technical assistance or information exchanges between mainstream credit unions and CDCUs. CDCUs are also targeted by the Community Development Financial Institutions (CDFI) Act of 1994. The Act promotes economic revitalization and community development by providing equity investments, loans and grants to CDCUs and other CDFIs (Appendix A for more information).

CDCUs reflect the multifaceted nature of community development. As self-managed and self-sustained organizations, CDCUs are committed to developing the potential of their members. They teach thrift and the wise use of credit. CDCUs also provide low-cost financial services in many low-income communities where residents might otherwise resort to pawn shops, loan sharks, rent-to-own stores, and check cashers.⁵ CDCUs provide members with loans to purchase cars for travel to work, to consolidate debts and repair credit ratings and to pay college tuition. Most credit unions successfully meet this challenge. According to an industry study released in February 1997, consumers rate credit unions high at 'caring about the people they serve' and 'caring about low-income consumers'.⁶ Credit unions offer lower rates or fees for loans and services, and higher rates on savings than check cashing outlets or banks. According to a 1996 industry study, 'unbanked' consumers can save financing fees by switching from a check cashing outlet to a credit union for basic financial services. Savings range from \$250 to \$450 per year.⁷

CDCUs can also organize and stabilize communities by connecting individuals, families, businesses, institutions, and political leaders. Along with churches and local clubs, CDCUs serve as vehicles for community members and stakeholders to come together around shared values as well as to solve contentious issues. CDCUs therefore play an important role in catalyzing community interest, commitment and activity.

The focus of this report is the role that CDCUs play in providing capital for community development, enabling the expansion of affordable housing, women- and minority-owned and other small businesses, cooperatives, micro-enterprises, and non-profits. However, the impacts of these community development activities are not well documented. Unlike other non-profits with a history of government and foundation support, CDCUs are not accustomed to documenting jobs created or retained, affordable housing units constructed or rehabilitated, number of businesses created or other impacts. One CDCU manager fears that requiring information on jobs and other community impacts from loan recipients may be viewed as intrusive and a breach of confidentiality. Others argue that placing reporting requirements and conditions, such as job creation or retention, on already fledgling businesses is burdensome.

This lack of documentation of the impacts of CDCUs has several potential consequences. It can restrict CDCUs from taking their rightful place as major players in neighborhood development, and may restrict their fund raising potential from foundations and government agencies which do not recognize their significant achievements or advantages as agents of community revitalization. It may also mitigate the development of collaborations with non-profits and other agencies involved in community development activities. Further, it restricts the flow of information to other CDCUs in need of guidance on structuring and expanding their own

⁴ A NCUA community development office also operated from 1980-1982. It was dissolved by Chairman Ed Callahan.

⁵ Mink, Mary. *Serving low-income members*. The Credit Union Executive, March-April, 1995.

⁶ The survey was conducted in 1997 on 700 adults nationwide about credit unions, banks, and how they should be regulated. For more information see *Special Report: Overwhelming majority believe consumers should have access to CUs*. Credit Union NewsWatch, March 31, 1997.

⁷ See *Consumers Can Save Hundreds by Joining a CU*, November 4, 1996. Credit Union NewsWatch.

activities. This report describes a range of CDCU activities in housing and small business development in the interest of building knowledge about their role in community revitalization.

Section II: The Community Development Programs and Activities of Community Development Credit Unions

This report documents the community development roles of a group of eight CDCUs.⁸ Bethex Federal Credit Union in the Bronx was established by a group of welfare mothers in the late 1970s. Central Brooklyn Federal Credit Union, sponsored by the Central Brooklyn Partnership to help revitalize the community, is known as the ‘hip hop’ credit union due to the dynamic and energetic style of its management. Demopolis Federal Credit Union, which operates in a small town in southwestern Alabama, was established in 1966 after a visit by Martin Luther King Jr. Founded in 1952, Faith Community United Credit Union, located in Cleveland, Ohio, is implementing a comprehensive community revitalization program in cooperation with a local community organization. Economic development is the primary goal of Santa Cruz Community Credit Union, the third largest CDCU in the U.S. St. Luke Credit Union in North Carolina was founded on the premise that job creation and home ownership are integral to community development. Also located in North Carolina, Tri-County Credit Union leverages its lending capacity with funds from banks, other credit unions and government agencies. Last, Vermont Development Credit Union, a statewide CDCU, is a pioneer of affordable housing finance (Section IV of this report contains a detailed description of each credit union).

These credit unions provide a variety of community development programs and services. We first describe their residential financing activities. The second section describes the small business finance and technical assistance programs of these CDCUs.

Affordable Housing Finance and Assistance

By increasing access to home mortgages and home improvement loans, CDCUs help minority and low-income families develop a crucial and long-term financial asset. Equity in a home is the largest single asset of most families and is a key financial resource for starting a new business and for funding post-high school education. A sense of well-being and achievement are also associated with owning a home. Home ownership is also integral to community development. It is an important building block for neighborhood stability and community commitment. Home owners often have a greater sense of commitment to a community and are more likely to engage in local organizations than renters.⁹

Although the credit union recognizes the importance of home ownership to community and personal development, residential loans would encumber a high proportion of Demopolis’s funds in long-term loans. Therefore, Demopolis does not make residential mortgages. However, the credit union does make home improvement loans.¹⁰ Most of the loan recipients do not qualify for bank financing. The credit union makes about 3-4 such loans per year, comprising about 10 percent of its total loan portfolio. These loans help to protect equity, improve housing values, and contribute to community stability.

Bethex has limited experience making direct residential loans. Until recently, it concentrated its efforts on providing personal loans. The credit union does, however, help members make downpayments by providing low-interest personal loans. It also makes small loans for remodeling and home improvements.

⁸ The CDCUs were chosen in consultation with the National Federation of Community Development Credit Unions. Research methodology is outlined in Appendix B.

⁹ Rohe, William M. and Leslie S. Stewart. *Homeownership and Neighborhood Stability*. Housing Policy Debate. Volume 7, Issue 1, 1996.

¹⁰ Demopolis Federal Credit Union. CDFI Application, 1996.

Bethex is expanding its housing activities with the help of a \$100,000 CDFI grant awarded in 1996. According to the Physical Plan adopted by the Mount Hope community in 1995, the lack of capital for housing is a major obstacle to the continued revitalization of the community. Major repairs cost more than most people can afford without a home improvement loan and many of them do not meet income requirements or have sufficient credit histories to obtain conventional financing. Bethex plans to collaborate with several community-based non-profits, including the Mount Hope Housing Company (MHHC), the University Neighborhood Housing Program (UNHP), and Neighborhood Housing Services (NHS), on a home improvement and home ownership program. Bethex's role in the collaboration is to provide financing for home improvements and to help first-time home buyers with downpayments and closing costs. Bethex's role is key because its lending criteria are more flexible than conventional lenders; lack of a credit history does not automatically disqualify people. Further, credit union loans often leverage larger loans from banks.

The other parties to this collaboration also have unique services to contribute. UNHP will help provide loans from conventional lenders when larger amounts are required. NHS, which operates a highly successful home ownership program in New York City, provides home ownership and credit counseling, technical assistance and outreach services particularly important to first-time home-buyers. MHHC's role is to identify potential first-time home buyers, work with existing home owners whose homes need repair, and monitor construction activities. An employee of MHHC, who also serves on Bethex's board of directors, is responsible for managing these services.

Central Brooklyn makes a limited number of real estate loans. However, it does provide credit counseling which enables borrowers to obtain home mortgages from banks. The credit union also sponsors seminars on home repair, energy conservation and the like.

Faith Community United makes home improvement loans and home mortgages. Its home improvement loans totaled about \$100,000 in 1996. To promote its home improvement loans, the credit union offers awards for the best improvements.

Real estate lending can sometimes tax the time and experience of credit union staff. As a result, Faith Community United has established a volunteer committee, composed of realtors and others with real estate experience, to review loans. They tour sites, review loan documents, make recommendations to loan officers, establish interest rates for real estate loans, and formulate lending policies.

Faith Community United, in collaboration with Working for Empowerment Through Community Organizing (WECO), recently completed a major community organizing and planning effort. The goals of the plan, which culminated in an application to the CDFI Fund, is to make a visible impact in a targeted area. Supported by grants from the Lilly Endowment and the Cleveland and Gund Foundations, the strategic planning process examined how the credit union can become a more active participant in the neighborhood surrounding its office. With the help of community residents, business owners, and the City of Cleveland, Faith Community United and WECO will target a 'street at a time' for redevelopment in the interest of making visible and tangible impacts. Information gathering comprised the first stage of the process. Neighborhood stakeholders helped to identify neighborhood blocks with opportunities for development and the City of Cleveland Planning Department provided information on targeted properties, including name of owner, tax status, vacancies, and liens. During the second stage of the process, with the aid of a \$350,000 CDFI grant, Faith Community United and WECO will market the properties to developers and potential home owners. The credit union, along with local banks, will provide home mortgages and rehabilitation loans. In addition to planning, organizing, and development assistance, WECO will help the credit union improve its operations to meet new demands for financing.

St. Luke began making residential mortgages in the 1980s. Its management maintains that the best method for low-income persons to build wealth is through the acquisition and improvement of real property. In fact, one of the compelling reasons for organizing the credit union was to offer loans to install bathrooms in housing

units without indoor plumbing. As recent as 1990, North Carolina had the fourth largest number of homes without indoor plumbing in the U.S.¹¹ Leon Johnson, the credit union manager, reports that approximately 40 percent of St. Luke's \$1.9 million in secured loans are for home improvements, 50 percent for mortgages, and 10 percent home equity loans.

According to a recent study by the National Association of Home Builders, Santa Cruz County ranks as the third least affordable housing market in the nation. To alleviate housing shortages for low- and moderate-income families, Santa Cruz Community has provided more than \$2 million in bridge and long-term financing for affordable housing. Santa Cruz Community also provides financing to individuals and organizations which traditionally experience difficulties obtaining loans from conventional institutions. It has provided funding for Neary Lagoon Cooperative, the largest low-income equity housing cooperative in Santa Cruz. It also financed three low-income limited equity mobile home park cooperatives, several houses developed by a Hispanic self-help housing agency, a HIV-positive client residential home, two homeless shelters, a community residence for severely retarded persons, a battered women's shelter, and a low-income elderly housing project containing a start-up business incubator. In addition to these activities, the credit union also works with members to obtain mortgages with other financial institutions.

CDCUs are prohibited from taking an equity interest in real estate projects. Therefore, in partnership with a local non-profit, Santa Cruz Community formed Seascope Senior Housing, Inc. Seascope is a non-profit developer and owner of an 80-unit apartment building for the elderly and handicapped persons. Seventy-five thousand dollars of excess funds raised for the project were invested in the credit union's Affordable Housing Revolving Loan Program, which provides bridge financing for low-income housing projects.

Tri-County Credit Union in North Carolina has been making home improvement and home mortgages for over 25 years. The credit union is committed to building the wealth of its members, enhancing community pride and encouraging revitalization activities. Initially, small residential loans were made to people who built their own homes. Currently Tri-County targets home mortgages through the First Time Homebuyers Plan, which is funded by deposits made by NFCDCU using the proceeds of a loan from the Ford Foundation. The credit union makes about six to eight of these loans per year. Noting that downpayments can sometimes limit low-income families from purchasing homes, Tri-County finances up to 90 percent of acquisition costs. The credit union also makes residential loans in participation with the Choanoke Area Development Association (CADA). CADA provides downpayments of up to 20 percent for potential home buyers. Further, the credit union makes about 30 home equity loans per year, averaging \$40,000. In addition to financing home improvements, these loans are also used to pay college tuition, consolidate debts, or for other personal purposes.

Vermont Development began making affordable mortgage loans in 1992 and established an Affordable Mortgage Department in 1994. Program planning costs as well as operating expenses were subsidized by a grant from the Credit Union Foundation. The Department provides counseling, gap financing and equity as well as two loan products. "Tracker" loans allow members to payoff existing debts. "Closer" loans reduce financing gaps related to property values. Within one year, the credit union made 27 loans and within two years was self-supporting through mortgage interest payments and fees. Of the 76 loans originated to date, there has been only one default. Much of the success of the program is due to partnerships with other organizations. Non-profit housing groups complement credit union services with downpayment assistance and home and credit counseling.

Vermont Development, which is over 100 percent loaned out, has developed several other partnerships. These partnerships were developed to extend financing for affordable housing, energy conservation, lead-based paint abatement, and the disabled.¹²

¹¹ Annual Report, 1990. The North Carolina Rural Economic Development Center.

¹² Vermont Development Credit Union and the Burlington Ecumenical Action Ministry. *Investing in Vermont's Future: From the Grassroots Up*, 1997.

The credit union is a participating lender of the Vermont Housing Finance Agency (VHFA). Vermont Development is one of the top participating lenders in the VHFA's first-time home buyers program. In addition, a \$6,000 grant from the Federal Home Loan Bank of Boston provides downpayment assistance to qualified borrowers with income 80 percent or less of the state's median. The credit union matches these grants for borrowers with incomes 50 percent or less of the median. In addition to providing access to funds, VHFA provides training to credit union staff.

Energy costs in Vermont are the highest in the U.S., creating a significant burden for low-income families and individuals. The credit union works with the Vermont Energy Investment Corporation (VEIC), a non-profit, to provide energy improvement loans for home owners. VEIC helps clients develop energy conservation proposals and the credit union provides the financing. In addition, Vermont Development works with two area utilities, Green Mountain Power and Central Vermont Public Services, to provide low-interest energy conservation loans to home owners. The utilities provide loan guarantees and grants to the credit union to subsidize the interest rate. Green Mountain also made a \$100,000 deposit in the credit union.¹³

In cooperation with two state agencies and several local municipalities, Vermont Development coordinates funding for lead-paint abatement. The credit union performs financial analysis of prospective borrowers and arranges grant and loan financing.

The credit union also packages assistive technology loans for the disabled. The loans allow recipients to make modifications to their residences or to purchase and install specialized communication equipment and computers. The Vermont Department of Aging and Disabilities has provided over \$500,000 in loans to the disabled in the last few years. The credit union earns fee income in return for packaging and servicing these loans.

Role of CDCU Housing Activities

Several of these credit unions concentrate on regular mortgage lending for first-time home owners and for low-income buyers. A few, like Santa Cruz Community, have developed an even more focused approach.

Most of the CDCUs also stimulate loans from conventional lenders. The key tools of these credit unions are downpayment and closing cost financing to members who otherwise could not complete a home purchase, and home buying, and home ownership counseling to new home owners.

An equally important service are home improvement loans. Without these loans, home owners who lack deep pockets or access to conventional lending could stand to lose their home. Or they could resort to costly contractor-arranged financing which could result in shoddy and overpriced work. CDCU home improvement lending is, therefore, a critical means of protecting members' housing investments and community assets.

CDCUs are also cognizant of the importance of making a visible impact on the community. As a result, some CDCUs like Faith Community United target residential lending to specific areas.

Small Business Development

Financial and technical assistance to small businesses and micro-enterprises is on the agenda of many CDCUs for several reasons. Business development is a route to economic opportunity for minority and low- and

¹³ Ibid.

moderate-income entrepreneurs and their families. Many communities lack essential, affordable services and products, aggravating the poverty surcharge many low-income people pay in the form of high prices for low quality goods and services. Small business development can, for example, increase residents' access to competitively priced groceries, personal services, and daycare. The communities that CDCUs serve are disproportionately plagued by unemployment, under-employment, and labor force withdrawal by residents, as well as low wages and limited opportunities for training and advancement. Low-income communities are also typically characterized by low rates of new business formation and durability. Although most of the businesses that CDCUs assist are modest employers, some researchers contend that small businesses and micro-enterprises create two-thirds of all new jobs nationwide.¹⁴ Last, business investments in facade improvements, new building construction and rehabilitation have community revitalization benefits--such as improving the appearance and vitality of commercial business districts and attracting additional private and public investments.

Encouraging business development involves mitigating or removing barriers to business creation, finance, and management. Financing is a major barrier to business development in low- and moderate-income communities. Redlining, lack of collateral or equity, and negative credit histories block access to financing for minority and other entrepreneurs. In addition, under-capitalization and low debt-to-equity ratios are major causes for business failures. CDCUs have effectively overcome this barrier by providing small business financing at flexible terms. In addition, credit unions like Demopolis are known as problem solvers when for instance, entrepreneurs run short of funding to complete projects.

CDCU Business Finance Activities

A major determinant of CDCU small business lending practices are restrictions imposed by NCUA, the national regulator of credit unions. First, each credit union interested in making small business loans must adopt and implement written loan policies which incorporate NCUA lending criteria. Second, due to the risks and complexities of small business lending, the credit unions' board must ascertain that the staff has sufficient experience with business lending. Third, NCUA does not allow loans to 'non-natural persons' or business entities¹⁵ except under specific conditions.

As a result, many credit unions structure their business financing as loans to individuals or partnerships. There is a demonstrated need for such loans. A survey of 800 residents by a new CDCU in Washington Heights near New York City found that 34 percent of them needed loans to start a business and 12 percent to expand an existing business.¹⁶ The following description of the business financing of CDCUs illustrates the range of lending.

Demopolis Federal Credit Union, although the smallest of the credit unions in this study, has made business loans for decades. While loans to small businesses constitute a small portion of its loan portfolio, the credit union plays an integral role in providing gap financing to minority-owned commercial real estate and business enterprises.¹⁷ For instance, when Harrison Coleman (a son of one of the founding members of the credit union), owner of Twin River Enterprises, exhausted bank financing to renovate a commercial office complex he turned to the credit union for a small loan to complete the project. Charles E. Jones Jr. received funding from the credit union to complete the construction of a \$12,000 aerial for his radio station, saving six jobs. In total, the credit union has made six loans for commercial real estate projects that otherwise might not have

¹⁴ Brock, Williams and David Evans. *Small Business Economics*. Small Business Economics, 1989.

¹⁵ By adopting a Bylaw amendment, credit unions can make loans to non-natural members if they meet certain requirements. See *Not So Natural* by Maria Berkowitz in What You Need to Know published by the NFCDCU, April 1997.

¹⁶ Liu, Jane H. *Building a Nest Egg and a Community*. New York Times, March 30, 1997.

¹⁷ Demopolis Federal Credit Union. CDFI Application, 1996.

been completed. It has also funded several small businesses, including barber and beauty shops, restaurants, farm equipment and supplies, a grocery store, a trucking company, a timber supplier, and a cardboard recycling business. Most of these loans were structured as personal loans.

Bethex began making business loans in 1989. The credit union often makes very modest loans, averaging about \$7,000, to start-ups.¹⁸ Loan amounts increase as repayment records are established. Bethex, which has developed a flexible underwriting policy enhanced by site visits, personal references, and co-signors, has made business loans to an audio store, wholesale companies, beauty and barber shops, a carpenter, several retailers, day care centers, and other personal and business services. The credit union currently has 20 business loans outstanding, with a volume exceeding \$250,000.

St. Luke's business loans average \$10,000-15,000. Businesses requiring larger loans are referred to the local SBA field office. The credit union has financed start-ups and established businesses, including a restaurant, five daycare centers, a trucking/hauling firm, an accountant, a flower shop, and several beauty shops, creating or retaining 30 jobs.¹⁹ In addition, one of its loans expanded bus transportation to Newport News, Virginia, a major employment center for residents of northeastern North Carolina. The credit union also supported an employee buy-out. The Workers' Owned Sewing Company is one of the area's largest employers, with contracts with K-Mart and Proctor and Gamble.

Vermont Development also has an active small business program. It has made business loans to farms, energy firms, and several daycare centers, to name a few. In addition, it makes loans to resource-based firms, which are targeted for growth and incentives by the Vermont Economic Development Plan. Acquiring adequate staff capacity was identified as a barrier to increasing business lending. Therefore, the credit union hired a full-time small business loan officer in March, 1997, with grants from the U.S. Department of Housing and Urban Development.

Central Brooklyn's loans for business purposes are fairly small, ranging from \$1,000 to \$5,000. In 1996 it made a total of \$186,000 in business loans, comprising about 14 percent credit union's lending activity. The credit union management hopes that by helping start-up businesses, they will remain loyal to the credit union as the business grows and becomes stable. One such case is Anthony Kirby, a designer of men's ties and sole proprietor and employee of Anthony T. New York. Kirby conducts sales by distributing marketing packages consisting of a letter of introduction, fabric swatches, and color reproductions of his ties to department stores and boutiques. Saks Fifth Avenue carries his ties in one of its Midwest stores and Kirby hopes to expand sales to Saks stores in the New York area. Kirby initially approached the credit union for a loan to purchase a computer. However Bill Wilkins, a Senior Loan officer, talked to Kirby and learned that the business really needed working capital to purchase inventory. Kirby, who had no credit history, obtained a line of credit with Central Brooklyn, secured by a \$250 deposit. Combined with a strong business plan, purchase orders and samples, Kirby's line of credit was eventually increased to \$3,000.²⁰ Kirby commends the credit union for being one of the few institutions to support his work.

Central Brooklyn has also linked community education and business development goals. It developed a special loan product to promote the purchase of home computers from Advanced Technological Solutions (ATS), a local computer retailer and business member of the credit union. Central Brooklyn offered special loans for the purchase of computers. The interest rate was only 9.5 percent, far below the rate of most credit cards. Loans cover up to 80 percent of the purchase price of a computer, printer, and related equipment. Borrowers contribute 20 percent, half of which is deposited with the credit union for the term of the loan. The credit union and ATS jointly market the program.

¹⁸ Bethex Federal Credit Union. CDFI Application, 1996.

¹⁹ St. Luke Credit Union. CDFI Application, 1996.

²⁰ Woodcock, Martha. *Personal Stores*. Credit Union Times, 1996.

Targeting Key Business Sectors

Some CDCUs are faced with a large potential pool of business borrowers. Santa Cruz Community, a major CDCU business lender, copes with this difficulty by developing targeted lending programs. Santa Cruz Community's core mission is economic development. Since its inception in 1977, the credit union has provided over \$40 million in funding to small businesses, non-profits and cooperatives. The credit union is also one of only three credit unions which have been certified by the U.S. Small Business Administration to make 7(a) guaranteed loans to businesses that cannot obtain financing from conventional lenders.²¹ Loans may be used for working capital, real estate development and acquisition and to purchase equipment or inventory. SBA guarantees 75 percent of each loan, up to \$750,000.

In conjunction with state and local governmental agencies, Santa Cruz Community has established three business loan programs. The Small Business Micro Loan Guarantee Program makes high risk loans to small businesses. It is funded by the credit union and Cal Coastal, a quasi-governmental state agency, guarantees the loans. Total funding is over \$600,000. Low-interest financing for residents of mobile home parks and apartments undergoing conversion to limited equity cooperatives is provided by the Cooperative Membership Share Financing Program. Funded by the Santa Cruz County Redevelopment Agency, this program helps low-income residents become home owners.

Watsonville, located in the southern end of Santa Cruz County, is one of the community's poorest areas. It experienced several blows to the local economy in recent years, including the closing of several food processing plants and a military base. To encourage the growth of micro-enterprises, the City of Watsonville and Santa Cruz Community formed the Watsonville Micro Business Loan Guarantee Program. Funded by several local authorities and the U.S. Department of Agriculture, this \$800,000 fund makes low-interest loans to small businesses, with an emphasis on minority-owned firms. The City will guarantee the loans. Jeff Wells, a former credit union staff member, administers the program.

Loans to farms and non-profit agencies are another lending niche of the credit union. Santa Cruz Community has made over \$6 million in loans and other financial support to over 50 farmers and farming cooperatives in the County. The largest community development borrower is a Latino strawberry grower operating in the Watsonville area. However, the business has grown so large that it may have to approach a bank for future financing. Credit union manager, Jim Sudduth, credits the extensive knowledge of farming practices and patterns by staff members for the success of these loans.

Santa Cruz City is a major location for non-profit agencies--many of which are frequently strapped for working capital. The credit union has developed flexible lending policies, such as using personal guarantees of staff or board to secure loans, to underwrite receivable loans as well as financing for fixed assets to non-profits.

Affordable daycare is in great demand in Santa Cruz, as it is in many communities. To spur the development of daycare centers, the credit union formed Community Ventures, Inc. (Ventures). Ventures administers the Childcare Revolving Loan Program, funded by a \$67,000 grant from the Packard Foundation. The credit union management decided to form a separate entity because the low-interest rate, only 3 percent, could cause regulatory problems with NCUA.

Santa Cruz Community plans to increase its small business loan portfolio and create or save 5,000 jobs with a \$1 million CDFI grant awarded in 1996. Leveraged by \$4 million in member and non-member deposits, the credit union will:

²¹ Certified lenders are nominated by an SBA field office, or a lender may request that a field office consider it for certification. Certified lenders must demonstrate that they engage in prudent lending practices and meet operational requirements.

- Liberalize its underwriting standards to enhance the eligibility of low-income persons;
- Increase its community development lending;
- Increase loans to minority-owned firms and non-profit agencies; and
- Increase staff support and expenditures for low-income products and services in Santa Cruz City and Watsonville.

Small Business Development Collaborations

CDCUs often lack the funding or organizational resources to implement comprehensive small business development programs on their own. Consequently, some CDCUs limit loan amounts or seek partners to expand lending capacity.

Bethex has developed several collaborations to assist small business development. It works with the Burnside Development Corporation to provide business members with loans for facade and tenant improvements and to finance fixtures and inventory. The credit union is also a member of the South Bronx Micro-Enterprise Project, a joint venture of Bethex, the Mount Hope Housing Company and PROMESA, a local social service provider. The Enterprise Project will provide small loans to start-up businesses and to expand existing small businesses owned by female heads of households. It is seeded by a \$50,000 grant from Citicorp to offset loan losses and defray a portion of the technical assistance costs. Joy Cousminer, Bethex's manager, makes presentations to South Bronx Overall Development Corporation's Entrepreneurial Assistance Program classes and provides feedback on business plans prepared by students. The credit union has also funded some of the proposals.

The Central Brooklyn Partnership, a local community-based organization, and Central Brooklyn Federal Credit Union were instrumental in establishing a revolving loan fund for women- and minority-owned businesses. The \$200,000 Community Loan Fund, capitalized by the New York State Urban Development Corporation, is managed by a loan committee comprised of community residents with financial and business experience.²² The Fund is co-sponsored by two other local community organizations, the Local Development Corporation of Crown Heights, and the Central Brooklyn Economic Development Corporation.²³

Central Brooklyn also operates the Sisters Lending Circle, in cooperation with the Central Brooklyn Partnership. Funded by the New York Women's Foundation, the program helps welfare recipients develop business plans, improve their financial management and job readiness skills, and build their self-esteem. Fifteen women participated in the first round, nine of whom were welfare recipients. At the end of the first round, only two of the women remained on welfare--having secured jobs and/or opened their own businesses. The second round of the Sisters Lending Circle began in April 1997. In addition to activities offered during the first round, the participants are developing community-based responses to welfare laws and policies that affect their lives, such as work requirements, immigration restrictions, and reproductive rights.

²² *Credit rebuilds city life.* Rockland Journal-News, 1993.

²³ *Community Loan Fund Launched.* Brooklyn Reinvestment, Spring 1992.

Faith Community United and WECO have a long history of jointly supporting business development. The credit union has made loans to an upholsterer, a flowershop, several nursery schools, a computer consultant, and to a trucking and towing company. Many of these loans were made to firms which concurrently received technical assistance from WECO or were referred to the credit union by WECO loan packagers. In addition to small business development, Faith

Community United has also made a loan to a non-profit social service agency, the Taylor Center, so that it could purchase a building for offices and programs. Faith Community United will use a portion of its \$350,000 CDFI grant to fund loans and provide training for micro-enterprise entrepreneurs.

Technical Assistance and Support

While business financing is critical to business success in low-income communities, technical assistance can make the difference between a business success or failure. Developing good business plans is essential to business viability as are basic business management skills. By providing technical assistance and public education directly or brokering them through community colleges and others, CDCUs are empowering business owners and enhancing the stability and growth of fledgling businesses.

Most of the credit unions that participated in this study actively promote and support member businesses. Central Brooklyn distributes information on member businesses in its newsletters, sells business ads in quarterly statements mailed to its 5,200 members, and posts business materials in lobby display space. Central Brooklyn has held book signings by credit union members and displayed and sold paintings by a noted local artist. The credit union also provides information on member businesses in press releases and at media events. For instance, Central Brooklyn held a press conference to announce a grant it received from a bank at a member business.

Faith Community United has made similar efforts. Member businesses can place ads in the credit union's calendar and newsletters. Another unique service of the credit union is the Benevolent Fund, established by member churches and administered by the credit union. Small business owners are frequently approached by employees for salary advances or small loans for personal emergencies. Instead of taxing these already vulnerable enterprises, employees can tap the Benevolent Fund for low-interest loans.

A great deal of Bethex's work with small businesses is not financing but technical assistance. It contracts with a small business consultant to help firms develop business plans. The consultant is supported by a grant from Citibank; the Surdna Foundation provided a grant to market the program. Consultations are free of charge to the businesses. Once the business plan is completed, the entrepreneur and the consultant meet with the credit union's loan officer. The loans to participants in the program are fairly small, ranging from \$10,000-15,000. In addition to helping new businesses, the consultant also provides tax planning, franchising, bookkeeping, and other forms of technical assistance to existing businesses.

Tri-County management has worked hard to establish a reputation as a small business 'one-stop shop'—the credit union provides technical assistance and business planning, as well as short and long-term financing. The credit union sponsors several business seminars annually and serves as a local small business information center.

Several credit unions partner with local organizations to provide small business assistance. Bethex, Santa Cruz Community, St. Luke, and Tri-County collaborate with the small business development centers of local community colleges and universities to package loans and develop business plans for credit union members. In some cases, credit union managers develop and deliver a portion of the curriculum. Business members of Faith Community United are often referred to WECO, a local community development corporation, for technical assistance.

Section III: Seeking Partnerships with Associations and Financial Institutions

The successes described in the previous section are partly due to partnerships with community organizations that provide technical assistance and support to CDCUs. CDCUs also need support for operations and financing. Most of the credit unions profiled in this report are fairly small. They have modest assets with which to fund staff and other programs and lack large reserves of cash to make large community development loans. Underwriting is also an issue. Because CDCUs serve low-income people, they have had to develop flexible lending guidelines. Due to limited staff resources, another tension for small CDCUs is the struggle between providing financial services and lending. These challenges could easily constrain the community development lending and service activities of CDCUs.

However, CDCUs are beginning to overcome many of these challenges. To attract resources, CDCUs have become adept at building partnerships and initiating alliances with credit union associations and financial institutions. Alliances have allowed CDCUs to enhance lending and services, improve personnel capacity, market programs, and identify, increase and support their membership.

Intermediary and Trade Associations

Intermediary and trade associations are an important resource for CDCUs. The NFCDCU, with a membership of over 150 CDCUs, provides financial, technical, staffing, and organizational assistance. NFCDCU provides financial assistance in the form of non-member deposits, secondary capital and grants. Central Brooklyn was a recipient of NFCDCU's Mott Micro-enterprise Collateralization Program in December, 1995. The credit union was one of five CDCUs that received a deposit to secure small business loans. Bethex is one of several CDCUs that received a portion of \$10 million in non-member deposits raised by NFCDCU. NFCDCU also channels secondary capital and equity grants from banks, foundations, religious organizations, and others to CDCUs. NFCDCU currently has over \$7 million available in investments to members.

NFCDCU also provides a wide range of technical assistance to CDCUs. Telephone consultations are free of charge, and low cost on-site assistance is also available. NFCDCU offers specialized assistance for church and youth credit unions, has developed a Latino Credit Union Network, and is launching a pilot mortgage assistance program referenced in the previous section. It also helps CDCUs respond to legal challenges. For instance, NFCDCU has been extremely helpful to Bethex, which has a multi-group field-of-membership, assess the impact of recent judicial rulings which constrain the membership scope of multi-group credit unions. A major component of NFCDCU's technical assistance services is the Mortgage Lending Program which assists CDCUs develop residential mortgage services. The Program includes the NFCDCU Mortgage Lending Institute to train CDCU staff as well as on-site and telephone technical assistance. Training sessions and technical assistance are provided at no cost to the credit union. Last, since 1992, NFCDCU has provided staffing resources to CDCUs through the National and New York State Americorps VISTA Program. Annually, it places about 40 volunteers charged with establishing or improving outreach activities. Volunteers have developed new marketing programs and credit counseling services, established new lending or financial service programs, and increased membership and non-member deposits. Bethex and Faith Community United have participated in this program. Last, NFCDCU organizes, motivates, mentors, and supports its members. Marcus Simmons, CEO/Manager of Tri-County, credits the networking resources and informational opportunities of NFCDCU as vital in developing his interest in obtaining non-member deposits for the credit union and expanding its loan portfolio. Simmons has also obtained grants for equipment, and assistance in developing procedures, conducting internal audits and reviews, marketing, product design, streamlining procedures and operations from NFCDCU.

CDCUs in southern states also have access to two technical and financial assistance intermediaries: The North Carolina Minority Support Center and the Federation of Southern Cooperatives. The Support Center, launched in 1990 to halt a rash of CDCU closings in the late 1980s, helps CDCUs maintain liquidity to satisfy loan demand, and improve operations. It raises non-member deposits from banks, foundations, credit unions, and state agencies, including \$1.8 million for St. Luke and \$750,000 for Tri-County. The Support Center has also received a \$100,000 grant from the Z. Smith Reynolds Foundation which will be used to fund credit union secondary capital accounts and funding for credit union small business financing. The Support Center helps improve the skills of CDCU personnel through capacity grants which fund staff expenses for 1-2 years until a credit union can support the staff salary through operations. A capacity grant enabled St. Luke to hire a manager for its branch office. Tri-County and St. Luke participate in quarterly meetings of CDCU managers convened by the Support Center for mutual problem solving. They discuss accounting procedures, employment issues, and other challenges. Joshua Stein, Development Director of the Support Center, contends that the meetings mitigate the isolation that many managers experience, encourage creative problem solving, and stimulate a sense of friendly competition and cooperation among credit unions.

St. Luke has made many of its small business loans with the assistance of the Support Center's Economic Development Account Program. Funded by a \$1,900,000 grant from the North Carolina General Assembly, the Support Center's Development Account is a revolving loan fund which provides the security required by the NCUA for credit unions to make home and business loans. The interest earned on the account can be reinvested in the fund or used to fund business technical assistance. Josh Stein reports that St. Luke has made 58 loans totaling over \$900,000, and created or saved almost 260 jobs since 1989, with assistance from the Development Account.

Tri-County increased its business loan portfolio with the help from the Support Center, the Rural Economic Development Fund, NFCDCU, the Mid-East Commission, and Self-Help Credit Union. A \$131,000 deposit by the Support Center and a \$40,000 deposit from the Rural Economic Development Fund secures economic development loans to 24 business loans totaling \$281,000 and creating or saving 115 jobs. Loans were made to a fish market, a daycare center, a computerized accountancy service, a sporting goods store, a paving business, a trucking/hauling contractor, and a restaurant. There are no losses on these loans to date. With the assistance of the Support Center and the NFCDCU, the credit union has increased its small business lending capacity by raising \$3 million in member and non-member deposits. Most of these deposits are from local banks. The Mid-East Commission, a regional, quasi-governmental, economic development agency, and Self-Help Credit Union, a statewide CDCU, make direct loans to credit union members or make participation loans in cooperation with the credit union.²⁴ The Mid-East Commission also guarantees a portion of business loans made by the credit union.

One of the beneficiaries of Tri-County's business financing is Sam Newsome, owner of a reforestation company. With ten employees, Mr. Newsome has been confronted with a variety of issues common to small businesses, such as managing cash flow and financing. The credit union has supported the business by providing working capital and financing to purchase equipment.

The Federation of Southern Cooperatives provides self-help economic opportunities in low-income communities in 17 southern states. Ernest Johnson, who has over 30 years of experience, and other credit union specialists provide financial and technical support to CDCUs. This is vital because many of these credit unions are in isolated rural areas or small towns with limited support or networking opportunities for credit union managers and other staff members. The Federation of Southern Cooperatives also provides planning assistance for new credit unions; trains board members and staff, and develops training materials, lending policy, credit evaluation procedures, fair lending policies, and internal controls. It is also instrumental in keeping CDCUs apprised of changing NCUA regulations and new funding programs. Mr. Johnson, a

²⁴ Participation loans are made by more than one lender and serviced by one of the participants, called the lead lender.

founding member of NFCDCU, has worked with Demopolis since the mid-1960s. He helped them increase deposits and membership and establish loan policies and new procedures to improve their regulatory ratings.

Mainstream Credit Unions and Credit Union Leagues

Mainstream credit unions can also be a big help to CDCUs. Recent changes in NCUA regulations have made participation loans between CDCUs and mainstream credit unions more common, allowing CDCUs to ease liquidity pressures, serve more members and spread lending risk.

Other CDCUs may also be instrumental in assisting credit unions. Self Help, a statewide CDCU in North Carolina, has assisted Tri-County provide loans to members. Borrowers who require loans larger than Tri-County can handle are referred to Self Help, which underwrites and services loans to Tri-County members.

State and national credit union leagues are also supportive of CDCUs. The North Carolina League provides technical support, seminars, and manuals to support small credit unions such as Tri-County. Tri-County and St. Luke have also benefited from assistance from the Credit Union Foundation of North Carolina. The New York Credit Union League is helping Bethex computerize its services. The Credit Union National Association Foundation helped fund Vermont's Affordable Mortgage program. It also worked with Tri-County to organize its accounts and loan documents and establish loan procedures. CUNA has also established a Credit Union Unique Programs division to help credit unions make mortgages to low-income families and other nontraditional members. Features include no or low down payments, and loan amortizations of up to 40 years in some cases.²⁵

Banks

Banks have also been instrumental in the development of CDCU community development programs.²⁶ Bethex used funding from Citibank to hire a consultant to provide technical services, such as business planning. Banks are also an important component of their residential mortgage program due to the limited financing capacity of the credit union. Further, banks make non-member deposits, equity grants and secondary capital or subordinated loans to CDCUs, like St. Luke and Tri-County.²⁷ There are two incentives for banks to make non-member deposits in CDCUs. First, deposits in federally insured CDCUs are insured by NCUA for up to \$100,000. Second, the Community Reinvestment Act (CRA) now has a specific provision that credits banks for investments in community development financial institutions which enhance credit availability in assessment areas.

Conclusion

Community development is complex. It requires commitment and vision. It requires expertise in a variety of areas, including community organizing, finance, real estate development, human resource management, and marketing. CDCUs play an integral role in a community development strategy by employing a community's

²⁵ *Nontraditional Mortgages*. *Credit Union Magazine*, March 1995.

²⁶ For more information on bank partnerships, see *Partners in Community Building*, a 1997 Woodstock publication, written by Kathryn Tholin.

²⁷ Secondary capital, also known as subordinated debt, are funds lent to a credit union for five years or more. Due to the long term and the subordination of repayment to other debts, it can be treated as a form of equity, thus strengthening a credit union's capital base.

resources and savings into the provision of financial services, affordable residential and small business lending and a host of other community-empowering activities.

CDCUs also contribute to community development by brokering outside resources. The CDCUs in this study have enlisted community colleges, local and state governments, mainstream credit unions, banks, and community-based organizations to provide housing and small business finance, technical assistance, and support.

One of the most enduring attributes of CDCUs is community empowerment. As these case studies have demonstrated, CDCUs foster and sustain resident participation in community life. CDCUs empower their members by providing an opportunity for them to define their own problems, develop solutions, and establish community networks by leveraging a community's savings.

However crucial challenges remain for CDCUs. First, they must develop a consistent means to chronicle the community development impacts of their affordable housing and small business development lending. Information on number of units developed or jobs created will enable CDCUs to compete more effectively for support from foundations and others. In addition, a documentation of community development impacts will facilitate the formation of community development partnerships and provide information to other CDCUs interested in expanding their community development programs.

A second challenge faces smaller CDCUs whose resources are not yet large enough to permit some of the lending activities described in this report. The capitalization programs organized by NFCDCU offer the opportunity for more CDCUs to achieve a capital scale.

Last, CDCUs that have not yet reached out to other institutions as partners in community development will have to attempt such connections if they want to achieve greater impact. As the accounts in the report demonstrate, such partnerships can greatly enhance a CDCUs capacity to achieve its community development goals.

Section IV: CDCUs Profiles

Bethex Federal Credit Union

Year Established	1970
Field of Membership	Multi-group; Residents and businesses in Bronx, New York
Lending Services	Consumer, business and real estate lending
Members	1,786
Assets	\$2,220,569
Number of Loans - 1996	282
Amount of Loans - 1996	\$1,031,187
Total Outstanding Loans	\$1,311,662
Outstanding Real Estate Loans	\$4,988

History and Description

The credit union was established by a group of Bronx welfare mothers attending a class sponsored by the New York City Board of Education. The intent of the organizers of the credit union was to provide program participants with a place to save and obtain small loans to meet emergencies. Bethex has grown substantially over the years and now has almost \$2 million in deposits. Further, most of the original members are now employed.

Bethex is the only credit union in this study with a multiple group Field of Membership (FOM). Its FOM includes several churches too small for their own credit union, failed CDCUs, small employer groups from the Bronx and other nearby communities, and small community development credit unions. The credit union also has a very diverse membership, including immigrants, African-Americans, Hispanics, and whites. Most of the members of Bethex reside in the South Bronx area of New York City. The community is predominately low-income, with large scale housing abandonment and a deteriorating economic base.

Similar to most CDCUs, Bethex's primary lending activity is consumer loans. These loans are used for a variety of purposes, including the establishment or expansion of micro-enterprises. Due to limited funds, the maximum loan Bethex will make is \$15,000. Although this allows the credit union to maximize its assistance to credit union members, it limits its community development projects. As a result, it has formed collaborative partnerships with other non-profits and banks to make home mortgages and business loans.

Central Brooklyn Federal Credit Union

Year Established	1993
Field of Membership	Residents and businesses in Central Brooklyn, New York
Lending Services	Consumer lending
Members	5,187
Assets	\$4,897,455
Number of Loans - 1996	226
Amount of Loans - 1996	\$954,151
Total Outstanding Loans	\$1,976,471
Outstanding Real Estate Loans	-0-

History and Description

Central Brooklyn offers a full range of financial services and products. It is sponsored by the Central Brooklyn Partnership (CBP), a coalition of community-based organizations and churches convened in 1989. The coalition discovered that many of the community's problems, such as abandoned buildings, joblessness, and business closings, were due to a lack of access to capital. They therefore decided that a CDCU, with its focus on self-help, was integral to efforts to revitalize the community. In addition to community development lending, in cooperation with the Central Brooklyn Partnership, the credit union also offers a peer lending circle and a youth financial management program. The credit union is located in a busy neighborhood business district in a bank branch it purchased from Chemical Banking Corporation for \$1.

Demopolis Federal Credit Union

Year Established	1966
Field of Membership	Residents and business of Demopolis, AL
Lending Services	Consumer, business and real estate lending
Members	686
Assets	\$584,772
Number of Loans	98
Amount of Loans	\$167,672
Outstanding Real Estate Loans	-0-

History and Description

Located in Marengo County in west Alabama, this credit union was formed during the Civil Rights Movement after a visit to the town by Martin Luther King Jr. Demopolis Federal is the smallest credit union profiled in this study. The credit union Board has discussed expanding its FOM to Marengo County.

Formerly dominated by agriculture, the local economy has diversified. The largest employer is Gulf States Paper Mill. However, the area remains one of the poorest in Alabama. The majority of the members of the credit union (88 percent) have incomes below \$20,000.²⁸

Loans for education and personal purposes comprise over 80 percent of the credit union's portfolio. However, it has also financed numerous small businesses owned by minority and women entrepreneurs, including a radio station, several restaurants, and personal service firms. The credit union has recently started concentrating its efforts on increasing its assets and expanding the number of moderate-income members by providing additional services, such as ATMs, checking, investment plans, etc.

Faith Community United Credit Union

²⁸ Demopolis Federal Credit Union. CDFI Application, 1996.

Year Established	1952
Field of Membership	Residents or business owners who worship in Cuyohoga County, OH
Lending Services	Consumer, business and real estate lending
Members	2,500
Assets	\$4,722,512
Number of Loans - 1996	822
Amount of Loans - 1996	\$1,087,761
Total Outstanding Loans	\$3,317,837
Outstanding Real Estate Loans	1,323,107

History and Description

Faith Community United, located in Cleveland, was founded in 1952 by members of Mt. Sinai Baptist Church. The membership was committed to providing community services, and changed its charter in 1991 with the community organizing assistance of Working for Empowerment through Community Organizing (WECO), a local community development corporation. Faith Community United's services have made a profound difference to its members who live in communities with inadequate access to financial services and credit. It is located in a low-income, African-American neighborhood on the southeast side of Cleveland, in a former branch of Key Bank. Over 40 percent of the area's population over age 25 did not complete high school and a quarter of the population lives below the poverty level.²⁹ Sixty percent of the members of Faith Community United are low-income and many are long-term, senior citizen, members. Faith Community United was a recipient of a 1996 CDFI award to establish a community development program.

²⁹ The figures are from the 1990 Census for the zip code of the credit union, 44105.

Santa Cruz Community Credit Union

Year Established	1977
Field of Membership	Residents or businesses in Santa Cruz County, CA
Lending Services	Consumer, business and real estate lending
Members	6,227
Assets	\$24,041,410
Number of Loans - 1996	668
Amount of Loans - 1996	\$16,269,933
Total Outstanding Loans	\$18,053,244
Outstanding Real Estate Loans	\$6,853,363

History and Description

With over \$24 million in assets, Santa Cruz Community is the third largest CDCU in the U.S. and the largest participating in this study. The board and staff have developed a unique, cooperative form of management; staff are involved in all major decisions and have a seat on the board of directors.

Although Santa Cruz Community offers the widest range of financial services and products of any CDCU, its major focus is economic development and job creation. Over 80 percent of its loans are to non-profit agencies, cooperatives, farms or women- and minority-owned small businesses, totaling over \$100 million in its 20 year history. In addition, the credit union also operates a revolving loan program for home mortgages and child care.

Santa Cruz County has a population of approximately 230,000. Hispanics comprise almost 20 percent of the population, followed by Asian-Americans, African-Americans, and Native Americans. The area has significant pockets of poverty in Santa Cruz City, Watsonville, and Live Oak. The economic base of the County is tourism, farming, small personal and business sector firms, and light industry. Santa Cruz City also has a high proportion of non-profit agencies.

The credit union is currently undergoing tremendous growth catalyzed by a \$1,000,000 CDFI grant. It projects to leverage these funds with \$4,000,000 in deposits and other funds to open a second branch, increase services to low-income persons, and expand small business and affordable housing lending.

St. Luke Credit Union

Year Established	1944
Field of Membership	Residents or businesses within a 50 mile radius of Windsor; residents in Bertie and Martin Counties in northeastern N.C.
Lending Services	Consumer, business and real estate lending
Members	1,323
Assets	\$5,738,394
Number of Loans - 1996	311
Amount of Loans - 1996	\$2,244,421
Total Outstanding Loans	\$3,896,306
Outstanding Real Estate Loans	\$2,471,991

History and Description

A rural, coastal plains community in northeastern North Carolina is the setting of St. Luke Credit Union. It was formed in the 1930s by a group of about 20 African-American families involved in share cropping. They were unable to obtain bank financing, and therefore formed a savings club by pooling resources. The fund, named for a church and school located in the Coopers Hill area of North Carolina, was used by members to buy or repair equipment, purchase seed or materials, or for household expenses.

The St. Luke fund grew over the years and its members obtained a credit union charter from the State of North Carolina in 1944. Its philosophy is that job creation and home ownership are keys to successful community development. Poverty is marked in the area. More than 35 percent of African-American families live in poverty and unemployment is 50 percent higher among African-Americans than whites.³⁰ The credit union's main office is in Windsor in a former bank building. A branch opened July 1996 in Williamston.

³⁰ St. Luke Credit Union. Executive Summary, 1996.

Tri-County Credit Union

Year Established	1953
Field of Membership	Residents and businesses of Bertie, Gates, Northhampton and Hartford Counties in northeast N.C.
Lending Services	Consumer, business and real estate lending
Members	3,303
Assets	\$5,850,829
Number of Loans - 1996	645
Amount of Loans - 1996	\$3,004,847
Total Outstanding Loans	\$4,900,751
Outstanding Real Estate Loans	\$2,884,981

History and Description

Located about 65 miles south of Norfolk, Virginia, Tri-County serves some of the most poverty-stricken counties in the state, with poverty rates ranging from 23 percent to 35 percent. The regional economic base is primarily agricultural and forestry related, with some light manufacturing. Unemployment has recently increased due to the downsizing of the Navy Shipyard in Newport News, Virginia.

Volunteer spirit catalyzes this credit union, whose membership is 98 percent African-American.³¹ It is housed in a new building built by credit union board members who donated their time to construct the new headquarters.

The credit union has witnessed tremendous growth in recent years. Its assets have more than doubled since 1991, and during 1995, grew by 37 percent to \$3.8 million. Its lending activity has also grown. The credit union's outstanding loans have increased five-fold in the 1990s—to over 650 loans in 1996. Despite its aggressive lending policy, Tri-County's default rate is only 3 percent. However, rapid growth has stretched the credit union's lending capacity. As a result, Tri-County has developed several creative partnerships to increase its currently exhausted lending capacity.

Vermont Development Credit Union

³¹ Tri-County Credit Union. Executive Summary.

Year Established	1989
Field of Membership	Residents and businesses of Vermont
Lending Services	Consumer, business and real estate lending
Members	2,136
Assets	\$2,661,169
Number of Loans - 1996	335
Amount of Loans - 1996	\$2,926,333
Total Outstanding Loans	\$2,162,888
Outstanding Real Estate Loans	\$900,226

History and Description

Founded by the Burlington Ecumenical Action Ministry (BEAM), this state-wide credit union is located in one of Vermont's poorest communities, the Old North End of Burlington. Due to a recent influx of immigrants from Bosnia and Viet Nam unfamiliar and often distrustful of financial institutions, the credit union provides educational and promotional programs to establish trust and encourage savings and thrift. It has developed financing programs for the disabled, energy conservation, business development, and lead-based paint abatement, in addition to customary credit union services and products. Vermont Development also pioneered an affordable mortgage lending program with funding from the Credit Union Foundation, Inc., an affiliate of CUNA.³²

³² For more information, see *Credit Unions and Communities: Breaking New Ground in Affordable Mortgage Lending*, 1996, Woodstock Institute.

Appendix A: Support to CDCUs

Several national organizations provide technical and financial assistance to CDCUs:

National Federation of Community Development Credit Unions (NFCDCU)

Clifford Rosenthal, Executive Director
120 Wall Street, 10th Floor
New York, NY 10005-3902
(212)809-1850

A coalition of 150 CDCUs, NFCDCU was formed to provide technical and financial assistance and to advocate on the behalf of CDCUs. It provides training and management, channels investments from banks and foundations. It also has a regulatory and policy advocacy program to assure access to credit for low-income communities and helps to organize new CDCUs.

NCUA Office of Community Development

Joyce Jackson, Director
1775 Duke Street
Alexandria, VA 22314
(703)518-6610

Provides assistance to new and existing CDCUs. Low-interest loans and technical assistance grants are provided through the Community Development Revolving Loan Program. The purpose of the program is to help CDCUs increase their ability to meet loan demand, improve their ability to provide services and pay salaries, and to build the CDCU's capital base. The Office also helps charter new CDCUs.

Community Development Finance Institutions Fund (CDFI Fund)

1500 Pennsylvania Avenue, NW, Room 5116
Washington DC 20220
(202)622-8662

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. The Fund can make investments in the form of equity, loans, grants, deposits, and shares. In addition, technical assistance and training is also provided by the Fund.

The Coalition of Community Development Financial Institutions

Christine Gaffney, Director
924 Cherry St., Second Floor
Philadelphia, PA 19107
(215)923-4754

The Coalition's mission is to increase public and financial support for CDFIs through advocacy, out-reach, public education, and training. It prepares information on individual CDFIs, publishes a news-letter, sponsors public educational briefings and conferences, and works with community based advocates at the national, state local levels.

Credit Union National Association (CUNA)

5710 Mineral Point Road
Madison, WI 53701
(608)231-4000

A trade association, CUNA provides management, supervisory and technical training, research and new product development, and legal assistance. It also lobbies on behalf of credit unions with Congress and others. CUNA also sponsors a national training conference and publishes several magazines.

Credit Union National Association Foun-

Provides grants to credit credits for special projects,

ation, Inc.
P.O. Box 431
Madison, WI 53701
(608)231-5766

operations or lending programs. Funds can not be used for organizing efforts.

Appendix B: Research Methodology

Information on each credit union was collected from December 1996 to May 1997. We examined financial records, marketing materials, annual reports, plans, grant proposals, loan documents, newspaper or magazine articles, and other secondary data. Each CDCU manager was personally interviewed and the following issues documented:

1. Type of CDCU: church, community, multi-group
2. Year established
3. Field of Membership (FOM)
4. Service area characteristics: population, income, industry, quality and availability of housing, public safety, etc.
5. Charter: state or federal
6. Finances: deposits, shares, assets, delinquencies, loan profile
7. Organizational Structure: board committees and activities, credit union leadership, selection/recruitment of board and volunteers, board planning
8. Membership: number, description, how involved in credit union
9. Staff: current and future needs
10. Relations with community: methods of organizing, identification of needs and outreach programs
11. Community development programs and services: loans by type and amount, technical assistance, education, community services, etc.
12. Community development program benefits: jobs created, new services, savings for members, new businesses created, new housing or rehabilitated
13. Community development partnerships, coalitions or associations: banks, community groups, other credit unions, businesses, foundations, job or entrepreneurial training programs, government agencies
14. Current and future goals and objectives: loans, deposits, membership, board development, programs, plan for meeting objectives, role in community
15. Financial or technical assistance needs

Woodstock Institute

Woodstock Institute, a Chicago nonprofit incorporated in 1973, works locally and nationally to promote 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 including local employment programs.

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