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CDFI Certification: A Building Block for Credit Union Growth

Terry Ratigan

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CDFI Certification: A Building Block for Credit Union Growth

Performance, Profiles and Prospects for CDFI Credit Unions

**A white paper commissioned by CUNA's
Community Credit Union Committee**

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Report prepared by
The National Federation of Community Development Credit Unions
Terry Ratigan



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EXECUTIVE SUMMARY

In conjunction with the Credit Union National Association, the National Federation of Community Development Credit Unions (Federation) undertook this White Paper to assess the current status and potential impact of CDFI certification on credit unions and the communities they serve. Since 1996 the Federation has been certified by the U.S. Treasury Department Community Development Financial Institutions (CDFI) Fund as the only national intermediary exclusively devoted to CDFI credit unions. Since then, the Federation has served as the leading advocate and provider of technical assistance and consulting services to help credit unions obtain, retain and capitalize on CDFI certification.

Credit unions have long been at the forefront of community development finance. Today, CDFI certification offers fresh access to resources, a key to unlock the potential for credit union growth in diverse, low-income and underserved markets for years and decades to come. This paper compares CDFI certified credit unions with peer groups of low-income designated and mainstream credit unions and identifies important similarities and differences.

KEY FINDINGS

1. **CDFI credit unions thrive in tough markets.** By definition, CDFI credit unions focus most of their loans and services in the nation's most economically disadvantaged communities, yet the financial growth and performance of CDFI credit unions meets or exceeds that of their mainstream peers. This performance is built on a foundation of products and services that respond to the needs of tough markets; CDFI credit unions offer a significantly greater number and variety of community development products and services than their peers, including credit-builder loans, anti-predatory loans, check-cashing services, bilingual services, financial counseling and more.
2. **CDFI credit unions maximize leverage of external resources.** From 2009 through 2013, 61 credit unions received \$102.7 million in CDFI Financial Assistance grants. During that time, these credit unions increased total assets by \$2.4 billion – a leverage rate of \$23.70 for each equity grant dollar added by the CDFI Fund – and increased total loans by more than \$1.5 billion. Credit unions are resilient platforms for the deployment of CDFI Fund capital; while CDFIs have not been immune to the widespread consolidation in the financial industry, 99% of the dollars awarded to credit unions as permanent capital grants from the CDFI Fund are still at work in credit unions.
3. **CDFI credit unions are leaders in technology and innovative member services.** Traditionally known as “high touch” rather than “high tech”, CDFI credit unions today significantly outpace their peers in the use of high technology for member services. The high-transactional needs of low-income communities pushed CDFI credit unions to lead the way with innovative services such as online and mobile banking, bill payment services, online loan applications and 24/7 access to account information.
4. **CDFI credit unions represent a viable business model for community development finance.** CDFIs blend financial products with capacity-building services to help members better manage their personal finances; as a result, CDFI credit unions put a higher percentage of their assets to work as loans. Since 2009 CDFI credit unions have grown tremendously in number, size and capacity, and intensified their focus on community development products and capacity-building services.
5. **CDFI certification is within reach for thousands of credit unions.** CDFI credit unions are defined by what they do, not where they live. Nearly half of all credit unions are concentrated in economically distressed census tracts that qualify as CDFI Investment Areas, but that alone does not make them CDFIs. Credit unions that make a strategic decision and take decisive action to address the needs of these underserved communities can become eligible for CDFI certification.

1. INTRODUCTION

The Community Development Financial Institutions (CDFI) Fund was established in by Congress 1994 and certified their first financial institutions in 1996. Five types of financial institutions are eligible for certification provided they meet the CDFI Fund criteria: community-focused credit unions; community development banks; depository holding companies; non-profit loan funds; and community development venture capital funds.

Since inception, the CDFI Fund has awarded nearly \$1.5 billion in financial and technical assistance to certified CDFIs across the country, including \$157 million in awards to 173 CDFI certified credit unions. These credit unions together deliver vital financial products and services in some of the nation's most impoverished communities, providing a path to financial security for low-income, minority and under-banked individuals and communities.

Credit unions have made the most of these awards; a CDFI Fund study indicates that CDFI grants to credit unions have been sufficient to leverage more than \$1.5 billion in asset growth. In an era marked by the rapid consolidation of financial institutions of all types, 99% of the total amount of CDFI Financial Assistance (FA) grants to credit unions is still at work; 92% in the original recipient institutions and another 7% with successor credit union entities. CDFI capital awards have helped to expand services to target populations through the expansion of branch networks and the introduction of new products and services, like credit-builder loans, first-time homebuyer programs and financial education and counseling.

Credit unions were among the nation's first community development financial institutions and were instrumental in the creation of the CDFI Fund. Yet despite these historic links and the sheer magnitude of capital available, the CDFI Fund gained little traction among credit unions for the first fifteen years of its existence. During that time, unregulated loan funds came to dominate the ranks of certified CDFIs and claimed 84% of all capital grants awarded to CDFIs. As a result, the CDFI Fund was increasingly perceived by credit unions as a program for loan funds.

That perception changed sharply with the onset of the financial crisis and announcement of the U.S. Treasury Department's 2010 Community Development Capital Initiative (CDCI), which offered long-term, low-interest secondary capital loans for credit unions with both low-income designations from NCUA and CDFI certification.¹ Interest in CDFI certification began to grow; from 2009 to 2013 the number of CDFI certified credit unions grew by 46%, from 118 to 173, with dozens more awaiting final approval from the CDFI Fund. Interest accelerated further in early 2014, as more than 175 credit unions applied for grants from the National Credit Union Administration (NCUA) to pursue CDFI certification. By the end of 2014 the number of certified credit unions is projected to surpass three hundred.

The 173 credit unions that were certified as of December 2013 serve more than 2.6 million members with more than \$20.2 billion in combined assets. CDFI credit unions are more likely than their peers to serve predominantly minority membership and be located in communities designated as "Investment Areas" by the CDFI Fund due to prevailing high levels of economic distress. Despite this concentration on low-income and underserved communities, as shown in Section 3 of this paper, the financial performance and profile of CDFI credit unions is comparable to their low-income designated and mainstream peers.

¹ In response to the sudden surge in demand for CDFI certification for the CDCI program, the Federation developed a streamlined, statistically valid approach to target market analysis for CDFI certification of credit unions. The CDFI Fund approved the Federation's methodology, which has become the primary basis for credit union certifications ever since.

Although comparable in many ways, CDFI credit unions are distinguished by the full range of community development products and services that they offer. For example, CDFI credit unions are far more likely than their peers to offer:

- » **Community development loan products**, such as credit builder loans, shared secured credit cards, micro business and consumer loans, pay day loans, refund anticipation loans and anti-predatory short-term, small amount loans;
- » **Community development savings and account services**, such as check-cashing, international remittances, money orders, and business share accounts; and,
- » **Capacity-Building Services**, such as financial counseling, financial education, first-time home-buyers programs, bilingual services and free tax preparation services.

Interestingly, CDFI credit unions also significantly outperform their peers in their provision of electronic services (e.g., ATM, mobile banking) and complex loan products (e.g., member business loans, risk-based loans).

The rapid increase in credit union certifications is expected to continue for several more years. As of December 2013, a total of 1,138 non-certified, low-income designated credit unions are concentrated in CDFI Investment Areas; 283 of these have profiles that compare favorably to current CDFIs and are estimated to be immediately certifiable. This paper reviews the history of the relationship between credit unions and the CDFI Fund, analyzes the profile and performance of CDFI credit unions today, assesses the opportunities and impacts of CDFI credit unions on their members and communities, and evaluates the prospects to convert hundreds of eligible credit unions into the CDFIs of tomorrow.

2. METHODOLOGY

This paper uses data from the CDFI Fund and NCUA 5300 call reports for fiscal years 2009 and 2013 to analyze the institutional performance and community development profile of 173 credit unions that were CDFI certified as of December 31, 2013. Unless otherwise noted, two peer groups are used for comparison throughout this report:

- » **Low-Income Designated (LID) Credit Unions**, defined as the 1,992 credit unions with NCUA Low-Income Designation as of December 31, 2013, including those that have CDFI certification; and,
- » **Mainstream Credit Unions**, defined as the 4,672 credit unions with neither LID nor CDFI certification as of December 31, 2013.²

Institutional performance is evaluated based on:

- » **Scale**, measured by membership, assets and loans;
- » **Growth**, measured by changes in membership, assets, loans, net worth;
- » **Financial health**, measured by key ratios such as net worth, loans-to-assets and return on assets ratios;
- » **Member Service Technology**, measured by the number of 22 key electronic services provided by individual credit unions;
- » **Lending complexity**, measured by the number of 11 complex or sophisticated loan products offered by individual credit unions.

² Comparison groups were defined using both NCUA 5300 Call Report Data Files from December 31, 2013 (<http://www.ncua.gov/Data-Apps/QCallRptData/Pages/CallRptData.aspx>) and the List of certified CDFIs released by the U.S. Treasury CDFI Fund as of December 15, 2013 (http://www.cdfifund.gov/news_events/CDFI-2013-58-CDFI_Fund_Releases_Updated_Certified_CDFI_Results.asp)

The community development profile is evaluated based on three categories of products and services:

- » **Financial services**, measured by the number of 12 key community development savings and account services offered by individual credit unions;
- » **Loan Products**, measured by the number of 10 key community development loan products are offered by individual credit unions; and,
- » **Capacity-Building Services**, measured by the number of 9 educational and other key community development services are offered by individual credit unions.

A simple A/B test has been used to determine the statistical significance of differences in key characteristics among the three groups of credit unions discussed in this paper. Appendix B contains a full comparison of the data on Technology, Lending Complexity, Financial Services, Loan Products, Capacity Building Services and Demographics among these three comparison groups.

3. THE US TREASURY COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Birth of the CDFI Fund

Credit unions were among the nation's first financial institutions dedicated to community development finance. From the low-wage employees in Edward Filene's factories to hard-working families on small farms and the waves of new arrivals in small towns and large cities, credit unions have opened their doors to communities too often overlooked and underserved by mainstream banks. Fitting, then, that credit unions were among the first advocates for public investment in community development finance and instrumental in the creation of the Community Development Financial Institutions (CDFI) Fund itself.

In the early 1980s the National Federation of Community Development Credit Unions (Federation) developed the concept for a "Corporation for Community Banking" in New York State, with legislation introduced in the State Assembly in 1985.³ Over the following years a national coalition of leading advocates for community development finance formed around this concept, including the Federation, the Center for Community Self-Help, the Financial Democracy Campaign, the Woodstock Institute and Community Capital Bank. Together they urged the creation of a national "Neighborhood Banking Corporation". In the early 1990s the coalition was buoyed by proposals for a new network of "community development banks" that were put forward both on Capitol Hill and also as part of the ongoing presidential campaign. It fell to the coalition members to coin a more inclusive label; "community development financial institutions" or "CDFIs".

In 1994 Congress passed the Riegle Community Development and Regulatory Improvement Act to expand access to safe, affordable financial products and services for underserved and economically distressed people and communities across the United States; the CDFI Fund was born. While early drafts of the Riegle Act had described a Fund that would primarily focus on regulated banks and credit unions, the CDFI Coalition, which included unregulated non-profit loan funds since its inception, successfully advocated for equal treatment of both regulated and unregulated CDFIs.

The CDFI Fund received its first appropriation in 1995 and rapidly established a formal procedure for certification. In 1996 the CDFI Fund awarded a total of \$35.2 million in Financial Assistance (FA) grants to 31 certified CDFIs, including \$2.7 million to six CDFI credit unions. As of December 2013 the CDFI Fund has awarded nearly \$1.5 billion in financial and technical assistance to 811 certified CDFIs across the country, including \$ 157,869,618 awarded to 173 CDFI certified credit unions.⁴

³ Rosenthal, Clifford, "Credit Unions, Community Development Finance and the Great Recession", Federal Reserve Bank of San Francisco Working Paper, February 2012 (<http://frbsf.org/cdinvestments>)

⁴ US Treasury CDFI Fund, Award Database as of March 2014 (<http://www.cdfifund.gov/awardees/db/>)

Characteristics of CDFIs

The CDFI Fund has established seven tests for certification. As discussed further in section five of this paper, in order to be certified, financial institutions must demonstrate that they:

- i. Are a **legal entity**;
- ii. Have a **primary mission** of community development;⁵
- iii. Are a **financing entity**;
- iv. Conduct more than 60% of their activities in an eligible **target market**;
- v. Are **accountable** to the target market;
- vi. Provide **development services** to borrowers and prospective borrowers; and,
- vii. Are a **non-governmental** entity.

Loan Funds have historically accounted for more than 80% of all certified institutions. As a result, they have received 84% of CDFI financial awards since inception; a total amount of more than \$1.2 billion. But the increased pace of credit union certifications has already begun to shift the balance. At the end of 2013, credit unions accounted for 22% of all certified CDFIs and loan funds had declined to just over 60% of total certifications. Credit unions make up the bulk of new CDFI certifications and by the end of 2014, are projected to account for nearly one-third of all certified CDFIs.

Certified CDFIs by Type

Type of CDFI	December 2013 (actual)		December 2014 (projected)	
	Number	Percent	Number	Percent
Unregulated CDFIs				
Loan Funds	492	61%	515	53%
Venture Capital Funds	13	2%	14	2%
Regulated CDFIs				
Credit Unions	173	22%	304	32%
Banks and Thrifts	76	9%	81	8%
Depository Holding Companies	50	6%	50	5%
Total	804	100%	964	100%

Characteristics of CDFI Certified Credit Unions

Similarities with Peers

As of December 2013, 173 credit unions were officially certified as CDFIs with several dozen more awaiting final approval. Although federal credit unions with community charters make up approximately one third of all CDFI certified credit unions, CDFIs are defined as *community* financial institutions, whether or not that is their principle type of charter.

⁵ As explained further in section five, the CDFI Fund deems all credit unions with low-income designations from NCUA to have a primary mission of community development.

Credit Unions by Charter Type

Type of Charter	CDFI Credit Unions		LID ¹ Credit Unions		Mainstream ² Credit Unions	
	Number	%	Number	%	Number	%
State Chartered Natural Person	58	34%	306	15%	2,582	39%
Community Credit Union	53	31%	553	28%	1,129	17%
Multiple Common Bond	51	29%	721	36%	1,826	27%
Associational	7	4%	164	8%	308	5%
Other	4	2%	248	12%	842	13%
Total	173	100%	1,992	100%	6,687	100%

The size distribution of CDFI credit unions is also comparable to those of their peer groups.

Comparative Distribution of Credit Unions by Asset Size

Credit Union Peer Groups by Asset Size	CDFIs	LIDs	Mainstream
1: Less than \$2 million	14%	16%	9%
2: \$2 million - \$10 million	14%	24%	21%
3: \$10 million - \$50 million	34%	32%	33%
4: \$50 million - 100 million	12%	10%	12%
5: \$100 million - \$500 million	20%	14%	17%
6: More than \$500 million	6%	4%	8%
Total number of credit unions	173	1,992	4,672

As shown in the table below, while the CDFIs represent a small but growing slice of the credit union industry, the median CDFI credit union is comparable in size and financial performance to their LID and mainstream peers, with a larger membership and higher rate of loan deployment.

Comparative Size and Performance of CDFI Credit Unions for FY 2013

Type of Credit Union	Total Mem-bers	Total Assets	Loans/Assets Ratio	Net Worth Ratio	Return On As-sets
173 CDFI CUs					
Median	5,255	\$28,319,954	62%	10.4%	0.27%
Total	2,638,903	20,244,065,758	67%	10.0%	0.65%
1,992 LID CUs*					
Median	2,580	\$15,611,723	53%	11.2%	0.16%
Total	20,086,041	\$177,976,632,690	63%	10.8%	0.75%
4,672 Mainstream CUs**					
Median	3,211	\$25,764,526	50%	11.5%	0.18%
Total	76,938,585	\$893,388,928,840	60%	10.8%	0.77%

While CDFI credit unions have traditionally been known as “high touch” rather than “high tech” institutions, CDFI credit unions today significantly outpace their peers in the use of advanced technology for member services. As shown in the table below, CDFI credit unions provide a number of key electronic services at significantly higher rates than their peers. As of December 2013, CDFIs provide higher rates of all 22 electronic services listed in the 5300 call report; for the 10 services listed in the table below, the differences are statistically significant at a confidence level of 99%:⁶

**Credit Union Member Service Technology
Provided at Significantly Higher Frequency by CDFIs**

Electronic Services	CDFI	LIDs	Mainstream
ATM/Debit Card Program	84%	73%	76%
Account Balance Inquiry	83%	73%	76%
View Account History	82%	71%	74%
Automatic Teller Machine (ATM)	82%	69%	73%
e-Statements	77%	57%	64%
Audio Response/Phone Based	75%	55%	60%
Download Account History	74%	59%	65%
Bill Payment	70%	53%	61%
New Loan Application	57%	39%	46%
Mobile Banking	50%	32%	38%

NCUA 5300 Call Reports include data on the provision of eleven complex or specialized loan products, such as indirect lending, mortgage processing and overdraft lines of credit. CDFI credit unions provide all eleven products at higher rates than their LID or Mainstream peers; for the four products listed in the table below, the differences are statistically significant at a confidence level of 99%.

**Credit Union Specialized Loan Products
Provided at Significantly Higher Frequency by CDFIs**

Specialized Loan Products	CDFI	LIDs	Mainstream
Risk Based Loans	75%	66%	64%
Overdraft Protection/Courtesy Pay	55%	44%	46%
Member Business Loans	51%	27%	31%
Participation Loans	41%	20%	25%

Distinctive Characteristics of CDFI Credit Unions

The CDFI Fund uses the term “Other Targeted Populations” to describe communities that have been historically overlooked and underserved by mainstream financial institutions, specifically including African American, Hispanic, Native American, and other minority communities. NCUA data shows that CDFI credit unions serve these communities at significantly higher rates than their peers; 46% of CDFI credit unions serve memberships that are predominantly minority, compared with 26% of LID and 7% of Mainstream credit unions.⁷

⁶ NCUA 5300 Call Report data as of December 31, 2013. A simple A/B test compared the results of CDFIs with LIDs and then CDFIs with Mainstream credit unions with the null hypothesis being that the groups were the same. For the ten services listed in the table, the null hypothesis was rejected for both LIDs and Mainstream credit unions at the 99% confidence level.

⁷ Ibid., comparison of “Eligible Minority Status” account data

The CDFI Fund is particularly interested in expanding access to capital and financial services in two types of geographically-defined target markets: CDFI Investment Areas and Persistent Poverty Counties.⁸ Credit unions overall have significant presence in both of these areas; 21% of all CDFI Investment Area census tracts and 52% of all Persistent Poverty Counties are home to at least one credit union branch.⁹ Not surprisingly, as shown in the table below, CDFI credit unions are significantly more concentrated in both types of markets than their peers.

Credit Union Presence in Defined CDFI Target Markets

Locations	CDFIs	LIDs	Mainstream
Total Branch Locations	675	5,567	16,298
% Locations in CDFI Investment Areas	67%	60%	44%
% of Locations in CDFI Persistent Poverty Counties	18%	11%	2%

Community Development Profile of CDFI Credit Unions

CDFIs are ultimately defined by *what they do*, not where they are or who they serve. The most distinctive characteristic of CDFI credit unions is their commitment to the delivery of products and services that respond to the needs of their communities and promote financial inclusion.

Community Development Loan Products

NCUA 5300 Call Reports include data on the provision of ten specialized community development loan products, such as credit builder, micro business and anti-predatory payday loans. CDFI credit unions provide all ten at higher rates than their LID or Mainstream peers; for the seven products listed in the table below, the differences are statistically significant at a confidence level of 99%.

Credit Union Community Development Loan Products Provided at Significantly Higher Frequency by CDFIs

Specialized Savings & Account Products	CDFI	LIDs	Mainstream
Credit Builder	59%	24%	18%
Share Secured Credit Cards	46%	31%	35%
Micro Business Loans	38%	12%	10%
Micro Consumer Loans	38%	18%	14%
Short-Term, Small Amount Loans (FCU Only)	25%	18%	8%
Pay Day Lending	23%	11%	8%
Refund Anticipation Loans	9%	3%	1%

⁸ The CDFI Fund currently identifies 34,167 census tracts – 46% of all census tracts -- as qualified Investment Areas based on data from the U.S. Census Bureau American Community Survey 2006-2010. Congress also requires the CDFI Fund to deploy at least 10% of their financial awards within "Persistent Poverty Counties", defined as 384 counties that have recorded poverty rates in excess of 20% in each of the last three decennial census reports.

⁹ Credit union locations based on NCUA 5300 Call Report as of December 31, 2013. CDFI Investment Area and Persistent Poverty County data from the CDFI Fund Information and Mapping System (CIMS3) (www.cdfifund.gov)

Community Development Savings and Account Services

NCUA 5300 Call Reports include data on the provision of twelve specialized community development savings and account services, such as Health Savings Accounts, Check Cashing and Prepaid Debit Cards. CDFI credit unions provide all twelve products at higher rates than their LID or Mainstream peers; for the nine products listed in the table below, the differences are statistically significant at a confidence level of 99%.

Credit Union Community Development Financial Services Provided at Significantly Higher Frequency by CDFIs

Savings & Account Products	CDFI	LIDs	Mainstream
No Cost Share Drafts	83%	71%	72%
Share Certs with Low Min Balance	82%	72%	71%
Low-cost wire transfers	80%	65%	67%
Money Orders	72%	54%	49%
Business Share Accounts	68%	40%	39%
Check Cashing	68%	56%	54%
No Surcharge ATMs	57%	44%	47%
International Remittances	29%	14%	16%
Individual Development Accounts	17%	5%	2%

Capacity-Building Services

Perhaps the most distinctive characteristic of CDFI credit unions is their commitment to building the capacity of their members to manage their personal finances and take advantage of the responsible products and services available from regulated depositories. NCUA 5300 Call Reports include data on the provision of nine specialized capacity-building services, such as financial education, financial counseling and free tax preparation services. CDFI credit unions provide all nine products at higher rates than their LID or Mainstream peers; for the six products listed in the table below, the differences are statistically significant at a confidence level of 99%.

Credit Union Capacity-Building Services Provided at Significantly Higher Frequency by CDFIs

Specialized Savings & Account Products	CDFI	LIDs	Mainstream
Financial Counseling	77%	34%	30%
Financial Education	72%	33%	31%
Financial Literacy Workshops	53%	20%	17%
Bilingual Services	42%	20%	19%
First Time Homebuyer Program	28%	10%	11%
No Cost Tax Prep. Services	23%	6%	2%

Changing Profile of CDFI Credit Unions

The number of CDFI credit unions has increased by 46% since 2009, but the simple increase in the number of institutions understates the magnitude of change. As shown in the table below, larger, high-capacity credit unions have brought unprecedented capacity and scale to the CDFI industry.

Comparison of CDFI Certified Credit Unions in 2009 and 2013

Measure	2009	2013	% Change
Number of Certified Credit Unions	118	173	147%
Median Asset Size	\$8,163,051	\$28,319,954	347%
Median Membership	2,375	5,255	221%
Total Assets	\$3,591,931,265	\$20,244,065,758	564%
Total Membership	605,212	2,638,903	436%

Significantly, data shows that the growth in the median scale of CDFI credit unions since 2009 has not diluted the community development mission, but rather has increased the provision of high-impact financial products and services most critical to building financial capability in low-income and underserved communities. In 2013, 173 CDFI certified credit unions were more likely to provide 25 of 28 key community development loan products, financial services, and capacity-building member services. For the twelve products and services listed in the table below, the increase is statistically significant at the 99% confidence level.

Credit Union Products and Services Provided at Significantly Higher Frequency by CDFIs in 2013

Product or Service	2009 CDFIs	2013 CDFIs	Increase Since 2009
Community Development Financial Services			
Business Share Accounts	49%	68%	19%
No Cost Share Drafts	51%	83%	32%
Share Certs with Low Min Balance	53%	82%	29%
Low-cost wire transfers	61%	80%	19%
No Surcharge ATMs	35%	57%	22%
Community Development Loan Products			
Credit Builder	44%	59%	15%
Share Secured Credit Cards	28%	46%	18%
Micro Business Loans	23%	38%	15%
Capacity-Building Services			
Financial Counseling	62%	77%	15%
Bilingual Services	29%	42%	13%
No Cost Bill Payer	28%	60%	32%

Eligibility Estimates for Credit Union Certification

CDFI credit unions are distinct from their peers in many ways, but they are not unique. Many credit unions share some or all of the characteristics that contribute to eligibility for CDFI certification. For example:

- » 48% of all credit union branches are located in CDFI Investment Areas¹⁰
- » 3,207 credit unions have at least 60% of their branches located in CDFI Investment Areas¹¹
- » 2,536 credit unions without CDFI certification have 100% of their branch locations in CDFI Investment Areas, including 953 with Low Income Designation¹²
- » More than 300 of these credit union could be immediately eligible for certification, as their data profiles are comparable to current CDFI credit unions in terms of community development loan products, financial services and capacity building services.

1. CERTIFICATION AS A GATEWAY TO GROWTH

CDFI Fund Capital Grants

The CDFI Fund is the largest single provider of grant capital to certified CDFIs. Each year, based on Congressional appropriations, the CDFI Fund releases a Notice of Funding Availability (NOFA) and accepts competitive applications for Financial Assistance (FA) and Technical Assistance (TA) awards. As shown in the table below, the CDFI Fund has deployed nearly \$1.5 billion in awards since the inception of the program.

**CDFI Fund Financial and Technical Assistance Awards
Since Inception by Type of CDFI**

Type of CDFI	Number of Awards	Total Dollar Amount Of Awards	% of Total Dollars
Unregulated CDFIs			
Loan Funds	2,098	\$1,245,059,018	84.0%
Venture Capital Funds	12	\$1,889,097	0.1%
Regulated CDFIs			
Credit Unions	337	\$157,869,618	10.7%
Banks and Thrifts	48	\$30,150,437	2.0%
Depository Holding Companies	56	\$46,444,819	3.1%
Total	2,551	\$1,481,412,989	100.0%

Just over \$31 million (2% of the total amount) was awarded as Technical Assistance grants, designed to build the capacity of CDFIs with a maximum grant size of \$100,000 per award; 98% of CDFI Fund awards are distributed as Financial Assistance, intended to build the permanent capital of CDFIs. The CDFI Fund has delivered Financial Assistance in four main categories:

- » \$1,267,047,177 (87%) as "Core" awards to established CDFIs
- » \$88,873,477 (6%) as Native American CDFI Assistance (NACA) awards to CDFIs that have been specifically certified to serve Native American communities
- » \$68,800,000 (5%) as grants under the Healthy Food Financing Initiative (HFFI)
- » \$25,408,501 (2%) as Small and Emerging CDFI Assistance (SECA) awards to younger and smaller CDFIs.

¹⁰ Of 21,966 total credit union branches, 10,633 (48%) are located in CDFI Investment Areas. Credit union locations for this section based on NCUA 5300 Call Report as of December 31, 2013. CDFI Investment Area and Persistent Poverty County data from the CDFI Fund Information and Mapping System (CIMS3) (www.cdfifund.gov)

¹¹ The 3,207 credit unions that are concentrated in CDFI Investment Areas operate 7,201 branches

¹² The 2,536 credit unions have a total of 3,437 branch locations, all of which are located in CDFI Investment Areas.

CDFI Fund Grants to Credit Unions

The CDFI Fund provides Financial Assistance grants to increase the equity of recipient CDFIs and support their overall business plan. Each year the CDFI Fund issues a Notice of Funding Availability (NOFA) that invites all certified CDFIs to apply for capital awards. Since inception, the CDFI Fund has awarded nearly \$1.5 billion in Financial and Technical Assistance to CDFIs of all types.

These grants are meant to help CDFIs leverage additional financing from other sources and multiply the impact of CDFI Fund capital in the designated target markets. In this regard, credit unions have a decided competitive advantage; a 2012 study commissioned and published by the CDFI Fund found that the median CDFI credit union leverage \$9.91 in total liabilities for every dollar of net assets.¹³ By comparison, the study showed that the median CDFI Bank leverages \$9.40, and the median CDFI Loan Fund leverages just \$1.10.

The CDFI Fund study implies that the \$157 million granted to CDFI credit unions to date should, over time, leverage approximately \$1.5 billion in asset growth. A review of CDFI Fund award data and NCUA call report data from 2009 through 2013 shows that this estimate may understate the actual leverage provided by CDFI credit unions. From 2009 through 2013, 61 credit unions received a combined total of \$102.7 million in CDFI Financial Assistance grants. During that time, these CDFI credit unions increased total assets by \$2.44 billion, a leverage rate of \$23.70 for each equity grant dollar added by the CDFI Fund. Total loans outstanding increased by more than \$1.5 billion during this same period.

CDFI credit unions have not been immune from the consolidation that has shaped the financial services and credit union industries for more than a decade. But CDFI Financial Assistance grants to CDFI credit unions, intended to serve as permanent capital for community development finance, have proven remarkably permanent. Of the 130 credit unions that have received CDFI Financial Assistance grants since 1996, 44 have since merged or liquidated. Nevertheless, 99% of the dollars awarded to credit unions by the CDFI Fund are still at work in credit unions. As shown in the table below, 92% of award dollars have gone to credit unions that remain in operation as CDFIs; another 3% has gone to CDFI credit unions that merged with other CDFIs, another 4% has gone to credit unions that merged with non-CDFI credit unions; and 1% has gone to credit unions that have since been liquidated.

Impact of Credit Union Consolidation on Financial Assistance Grants to CDFI Credit Unions

Type of Credit Union Recipient	Total Financial Assistance Grants*	Percentage of Total Grants	Number of Credit Unions
Continuously Operating CDFIs	\$140,233,621	92%	81
Merged Entities			
CDFI Credit Unions	\$4,868,440	3%	11
Non-CDFI Credit Unions	\$6,089,682	4%	31
Liquidated Credit Unions	\$1,744,500	1%	7
Totals	\$152,936,243	100%	130

* Permanent capital grants only; does not include Technical Assistance grants

Other Government Programs and Resources for CDFIs

The value of CDFI certification continues to increase as a growing number of federal programs are specifically reserved for certified CDFIs. For example:

¹³ Michael Swack, Jack Northrup, Eric Hangen, "CDFI Industry Analysis Summary Report," Page 10, CDFI Fund Capacity Building Initiative and Carsey Institute, Spring 2012.

- » The 2010 **Community Development Capital Initiative** offered more than \$1 billion in long-term, low-interest secondary capital loans to credit unions that had both low-income designation and CDFI certification.
- » Since 2008, all CDFI credit unions have been eligible to join the **Federal Home Loan Bank**, including state-chartered credit unions without federal insurance.¹⁴
- » The **CDFI Bond Guarantee Program** increases access to long-term credit at below market rates by providing federal guarantees to bonds from qualified issuers. As the newest CDFI Fund program, specific policies and procedures that govern this new program are still under development, and advocates are hopeful that the program could prove to be a substantial source of low-cost secondary capital loans for CDFI credit unions.
- » The **CDFI Bank Enterprise Award (BEA)** program provides mainstream banks with capital that can only be reinvested in certified CDFIs; certified credit unions have received millions of dollars of BEA deposits at below-market rates.
- » Certified CDFIs are eligible to participate in the **Bureau of Indian Affairs Loan Guarantee Program**
- » The **CDFI Capacity Building Initiative** offers training, educational and free consultancy opportunities to CDFI credit unions in specialized areas such as small business lending, microfinance, and financing healthy foods options.

Other Sources of Support and Benefits for Certified CDFIs

Partnerships and Coalitions

CDFI certification serves as a bridge between the worlds of finance and community development. Coalitions of agencies devoted to responsible lending, fair housing, free tax preparation and financial inclusion are often wary of mainstream financial institutions, but welcome the participation of CDFI certified credit unions. For credit unions seeking to expand outreach to underserved communities, the partnerships formed through these coalitions provide a direct link to new communities, markets and members.

Resources from Banks and Foundations

As financially self-sufficient institutions, credit unions rarely see grant funding as a core business strategy; only 10% of all credit unions reported receiving any grant income in fiscal year 2013.¹⁵ Nevertheless, grant funding can be a critical building block for growth – particularly for credit unions that serve predominantly low-income communities. In FY 2013 CDFI credit unions reported \$95.6 million in total grant income, of which an estimated 82% came from sources *other* than the CDFI Fund.¹⁶

Non-governmental sources of grant funding come in many shapes and sizes, at the local, regional and national levels. Principle sources of funding for credit unions include:

- » **Banks**, which use targeted grants to fulfill their obligations under the Community Reinvestment Act (CRA);
- » **Community Foundations** that focus on asset-building, economic empowerment or financial inclusion and are often receptive to the approach of not-for-profit cooperatives;
- » **Corporate Foundations** with business links to the local community and may have employees represented among a credit union's membership;
- » **Regional and National Foundations** that look to support innovative products and services that can be replicated on a much larger scale in other communities;
- » **Non-Profit Intermediaries** that aggregate funding from multiple sources to support innovation and replication of successful products and services for low-income communities

¹⁴ "Federal Home Loan Bank Membership for Community Development Financial Institutions", Federal Housing Finance Board 12 CFR Parts 925, 944; Federal Housing Finance Agency 12 CFR Parts 1263, 1290.

¹⁵ NCUA 5300 Call report as of 12/31/2013 shows 690 credit unions received 1,438 grants for a combined total of \$117,972,628, of which 81% was granted to CDFI credit unions.

¹⁶ Estimate assumes that \$17.3 million in FY 2012 CDFI Fund grants to credit unions were disbursed in FY 2013.

CDFI certification is increasingly seen as an essential credential for public and private investors in community development finance. For example, Community Reinvestment Act (CRA) grant programs for from local and national banks often require that financial institutions have CDFI certification.

Regulatory benefits

Regulators recognize that CDFI credit unions are mission-driven institutions working to provide products and services that meet low-income communities' needs. One example of this recognition is CDFIs' exemption from the CFPB Ability-to-Repay and Qualified Mortgage requirements for mortgage lenders that took effect in January 2014. In the supplemental information provided with Regulation Z final rules, CFPB acknowledged that CDFIs "employ underwriting guidelines tailored to the needs of LMI consumers."¹⁷ In order to ensure the CDFI-certified credit unions are still able to offer appropriate mortgage loans suited for LMI borrowers, CFPB created this carve out for CDFIs from the Ability-to-Repay requirements.

CDFI certified credit unions also are exempt from the 12.5% portfolio cap on member business loans. Low-income designated credit unions already qualify this exemption, but NCUA regulations extend this benefit to CDFI credit unions even if they do not have a low-income designation.

1. GETTING CERTIFIED

Eligibility

Above all else, CDFI certification is a matter of choice; the result of strategic decisions and actions taken by credit union boards and managers to meet the financial needs across an entire field of membership. Of the seven tests for CDFI certification listed earlier in this paper, every credit union will automatically pass three.¹⁸ As chartered, regulated and insured depositories, all credit unions are *legal* entities, *financing* entities and *non-governmental* entities. As democratically governed cooperatives, credit unions also easily pass a fourth test for *accountability*, as long as they meet the other six requirements for certification.¹⁹

The keys to credit union eligibility for CDFI certification, then, largely depend on decisions and actions that relate to three remaining tests.

i. Primary Mission

The CDFI Fund requires that certified institutions have a primary mission of community development and deems any credit union with low-income designation from NCUA to have met this requirement. Yet regardless of designation, all community-focused credit unions can lay claim to this mission. Credit unions were established to serve people of modest means; the well-known motto, "not for profit, not for charity, but for service," describes a fundamental commitment to community development. Whether low-income designated or not, any credit union that decides to embrace this core value of the credit union movement can pass the Primary Mission test for CDFI certification.

¹⁷ "Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z), Final rule; official interpretations" Title 12 Code of Federal Regulations, Part 1026, http://files.consumerfinance.gov/f/201305_cfpb_final-rule_atr-concurrent-final-rule.pdf.

¹⁸ All application materials and instructions for CDFI Certification Application materials are available for download from the CDFI Fund website: http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9

¹⁹ Credit unions are the only type of CDFI wholly governed and controlled by the people they serve. Nevertheless, prior to 2013 credit unions were subjected to the same onerous tests of accountability as any other applicant for CDFI certification. After several years of advocacy by the Federation, in 2013 the CDFI Fund officially acknowledged that the democratic, cooperative governance structure of credit unions ensures accountability. As a result, credit unions automatically pass the accountability test for any designated CDFI target market that makes up a majority of their members.

ii. Target Market

The target market test for CDFI certification is the most precise and technically challenging for credit unions.²⁰ The CDFI Fund requires that certified institutions devote a minimum of 60% of lending activities to one or more of three eligible target markets.

- » **CDFI Investment Areas** are census tracts that are designated by the CDFI Fund, using data from the U.S. Census Bureau American Community Survey, based on the following criteria:
 - Poverty rate at least 20%; or,
 - Unemployment rate 1.5 times the national average; or,
 - For a metropolitan area, has a median family income (MFI) at or below 80% of the greater of either the metropolitan or national metropolitan MFI; or,
 - For a non-metropolitan area, has an MFI at or below 80% of the greater of either the statewide or national non-metropolitan MFI; or
 - Is wholly located within an Empowerment Zone or Enterprise Community.
- » **Low Income Targeted Population (LITP)** are defined by the CDFI Fund as individuals whose family income is:
 - For metropolitan areas, at or below 80% of the metropolitan MFI; or
 - For non-metropolitan areas, not more than the greater of 80% of either the area or statewide non-metropolitan MFI.
- » **Other Targeted Population (OTP)** are defined by the CDFI Fund as an identifiable group of individuals that lack adequate access to capital and have historically been denied credit, specifically including:
 - African Americans
 - Alaska Native residing in Alaska
 - Hispanics
 - Native Americans
 - Native Hawaiians residing in Hawaii
 - Other Pacific Islanders residing in Other Pacific Islands
 - Other populations, which must be reviewed and approved on a case-by-case basis.

iii. Development Services

The CDFI Fund defines Development Services as activities that “prepare or assist current or potential borrowers or investees to utilize the financial products of the organization,” such as financial education, credit counseling and other capacity-building services.²¹ According to NCUA 5300 call reports as of December 2013, more than two-thirds of all credit unions directly provide at least one capacity-building service, and many more provide these services through community partners.

²⁰ CDFI Fund sources for this section include “CDFI Certification Application: Supplemental Guidance and Tips (Updated through February 2014)” and “Designating a Target Market in myCDFI Fund”, both available from the CDFI Fund website, www.cdfifund.gov/docs/certification

²¹ CDFI Fund “FY 2012 CIIS Glossary”, www.cdfifund.gov

CDFI Certification process

The CDFI Fund accepts and processes applications on a year-round basis through an online portal. Prospective applicants must first create a “myCDFI” account on the CDFI Fund website (www.cdfifund.gov) and download the application templates and instructions. The certification application has six main components:

- i. An organizational profile, established with the creation of the credit union myCDFI account
- ii. Documentation of legal status, charter, by-laws, tax identification number, financial statements and any relevant grant or service agreements
- iii. One or more target market maps, created through the online CDFI Fund Information and Mapping System (CIMS)
- iv. Narrative responses to questions in the CDFI certification template
- v. Completed charts in the CDFI Fund certification workbook with detailed data on target market activities, board composition, loan products and development services.
- vi. Signed confirmation from the credit union’s authorized representative

The CDFI Fund has committed to processing certification applications within ninety days of submission. In practice, the launch of new application, recertification and mapping systems in 2013 have led to significant delays. In 2014 the CDFI Fund has recommitted to meeting the ninety-day target for certification decisions.

As noted earlier in this paper, the most technically demanding components of the application are the analysis of target market activities and mapping of one or more eligible target markets. In 2010 the Federation developed a special methodology to efficiently determine target market eligibility for credit unions of all sizes. The Federation’s methodology was accepted by the CDFI Fund and has been the standard for most credit union certifications and recertifications since that time.

CDFI certifications are valid for three years, at which point CDFIs are required to submit a new application for certification. The CDFI Fund has promised to develop a streamlined process for recertification.

2014 CDFI Certification Challenge

The increasing value and importance of CDFI certification has recently been recognized by NCUA. In January 2014 NCUA’s Office of Small Credit Union Initiatives issued a “CDFI Certification Challenge”, inviting credit unions to apply for 40 grants of \$2,500 each with the specific purpose of obtaining CDFI certification. Eligible credit unions were required to be low-income designated, with no current or past CDFI certification, and the funds grants were to be used to obtain help with the certification application itself. Credit unions responded in record numbers; 175 eligible credit unions applied for these special grants, encouraging NCUA to consider a second round of grants for this purpose. The Federation has matched the NCUA challenge with an offer to provide technical to any credit union seeking new CDFI certification for the value of the grant, regardless of whether or not the credit union has been awarded a grant from NCUA.

1. CONCLUSION

In the aftermath of the financial crisis, millions of Americans sought to move their money out of major banks and into local, community-based financial institutions. For credit unions that faced capital depletion from corporate stabilization payments, share insurance premiums and the economic recession, this potential flood of new members and new deposits was not altogether welcome. But CDFI credit unions weathered the storm; they capitalized on their experience serving low income markets and pursued alternative sources of capital, including grants from the CDFI Fund, grants from banks and foundations, and secondary capital loans from the Treasury Department's Community Development Capital Initiative and other sources. By the end of 2013, CDFI credit unions had achieved unprecedented scale and impact, yet much more growth is possible.

A pile of bricks does not make a house. A box of tools does not make a carpenter. And CDFI certification alone will not make a credit union succeed. But certification can be used as both a building block and a tool to achieve growth and impact in underserved markets. The data analyzed for this paper, summarized in the tables included in Appendix B, show that CDFI credit unions are most clearly defined by what they do, not where they live. These tables can also serve as a reference point for all credit unions that serve low-income communities; a tool to identify products and services that can cement member loyalty and build a stronger credit union.

CDFI certification is within reach for hundreds or perhaps thousands of additional credit unions, but credit unions must take action to make that reach. For most credit unions, the first step is a strategic decision and commitment to provide products and services that can compete and win in low-income communities. Today's CDFI credit unions illustrate many different models of success, four of which are summarized in Appendix A. Evidence suggests that credit union models and innovations will continue to multiply in the coming years. If these efforts continue, the benefits will be shared by credit unions and low-income communities alike.

1. APPENDIX A: BEST PRACTICE CDFI CREDIT UNIONS

Lauren Hudson, Program Assistant, Federation

CoVantage Credit Union

Antigo, Wisconsin

Total Assets as of 12/31/2013: \$1,091,201,777

For CoVantage Credit Union in Wisconsin, providing innovative programs to their nearly 80,000 members is par for the course. The credit union was established in 1952 to make commercial and agricultural loans, and ever since has continuously expanded programs, products and services to meet the needs of members. CoVantage's twelve branches serve a diverse membership that encompasses urban and rural areas as well as four indigenous tribes. The credit union's main branch in Antigo holds 80% of the government insured deposits in that area and is the only certified CDFI in that region outside of Milwaukee. CoVantage has both an expansive reach and high-impact programs.

In 2011, CDFI certification and a subsequent \$1.5 million CDFI Financial Assistance grant helped CoVantage to both expand its ongoing community work and create a new initiative to help families at risk of foreclosure to keep their homes; the Real Estate Rescue Refinance program. The credit union had identified foreclosure as the major issue facing their members and used the CDFI funds to alleviate that burden on homeowners and mitigate the risk to the credit union. CoVantage found that many members were losing their homes to foreclosure by other lenders. Even members with positive repayment histories faced rejection by their lenders as the values of their homes decreased. The Real Estate Rescue Refinance program targeted members who made consistent repayments on their mortgage loans. Through the program, CoVantage offered Rescue Refinance Loans at up to 90% Loan-To-Value on members' homes, while CDFI grant funds financed a second mortgage.

CoVantage also disbursed \$25,000 of its CDFI grant to the Forest County Revolving Loan Fund, a project overseen in partnership by the Forest County Economic Development Partnership and Central Wisconsin Economic Development. These funds provide working capital to small businesses to diversify and strengthen the local economy in the county.

Since receiving the \$1.5 million CDFI grant in 2011, CoVantage has increased total assets by \$147 million and total loans by \$99.3 million, with more than 70% of loans deployed in its CDFI target market. Over this same period the credit union's net worth ratio increased from 9.83% to 10.65%.

CoVantage's Community Development Director Paul Grinde stresses that CDFI certification has meant a lot to the credit union's members, "[certification] has validated our commitment to serve our population." As for facilitating the certification process, Grinde notes that it's "helpful to have a strong partner who's knowledgeable about grant writing and the application process."

Fairfax County Federal Credit Union

Fairfax, Virginia

Total Assets as of 12/31/2013: \$280,078,583

CDFI certification brings well deserved recognition and support to the community finance work that Fairfax County FCU has done in its fifty plus year history. The credit union was originally intended to serve employees in Fairfax County and has since expanded its membership. Today, Fairfax County FCU is situated in a demographic paradox; the county is one of the wealthiest in the nation, yet 70% of the credit union's nearly 15,000 members qualify as low income. The credit union's evolution into a CDFI began with a decision to respond to significant changes in membership by tailoring services to meet the needs of the rapidly growing number of Hispanic members. In 2009, the credit union decided to apply for CDFI certification to further these programs.

In 2011 the credit union received a \$1.5 million CDFI Financial Assistance grant to support their First Mortgage Program, which gave the credit union a cushion to take on more risk. Under the program, mortgages were made accessible to members by allowing more flexibility in the application process. For example, the credit union accepted lower down payments, offered lower interest than typically dictated by the LTV, allowed more flexible employment requirements, and in some cases waived closing fees. Since receiving the CDFI grant, total assets have grown by \$33.7 million and loans have increased by \$50.7 million, with 77% of their loans held by low-income members.

Fairfax also increased its accessibility to Hispanic members with additional support from the National Credit Union Foundation. The credit union partnered with local Spanish speaking media outlets to both promote their existing products (like discounted international wire services) and to lead small financial education shows. Fairfax also increased its accessibility by hiring bilingual staff and incorporating bilingual technology in its branch. For credit union CEO Joe Thomas, the key to brand recognition is being ready to meet the needs of members for specific services, such as auto loans. "You have to be there when the need is created," says Thomas. Fairfax County FCU also participates in the Federation's Better Directions program and received a grant to increase the outreach and financial literacy to low-income older adults.

For Thomas, one of the biggest benefits of CDFI certification was the acknowledgement of their existing community work from the Department of Treasury. According to Thomas, CDFI certification is something "members can grasp" and realize that their credit union "passed a hurdle that's recognized". Both the financial and symbolic support casts Fairfax in a new light, while also formalizing Fairfax's ongoing commitment to its community. "Every credit union that qualifies as low-income should go for CDFI," says Thomas. "It's not an exhaustive process, and it opens doors".

Lower East Side People's Federal Credit Union

New York, New York

Total Assets as of 3/31/2014: \$37,859,140

Lower East Side People's FCU (LESPFCU) has been the epitome of a community institution since its founding in 1986. The credit union's expansive field of membership has grown from its original branch in the Lower East Side neighborhood of Manhattan to include Central and East Harlem and low-income individuals and families in all five boroughs of New York City. The credit union serves a highly diverse, predominantly low-income membership; 70% of the credit union's membership is low income. The credit union has responded to the diverse needs of their members with an expansive menu of products and services. From credit builder loans, micro business loans and anti-predatory loans to financial counseling, multi-lingual services and no-cost tax preparation, LESPFCU has provided the accessible products and capacity-building services that cement the loyalty of 6,000 current members and draws new members to the credit union every month.

In 1998, LESPFCU became one of the first credit unions to receive CDFI certification. Since then, the credit union has received \$4.4 million in CDFI Financial and Technical assistance awards, increased assets by \$33 million, loans by \$26 million and membership by 663%. CDFI technical assistance grants enabled the credit union to better serve their members through upgrades of computer systems, the introduction of new credit and debit products and the addition of ATM services, making it easier for their members to access the same services outside of their branch. Grants also provided the capital foundation for the credit union's rapid growth. The awards allowed LESPFCU to make more loans to individuals who are under banked, especially to members living in Housing Development Finance Corporation buildings (low income housing cooperatives) located throughout the city.

For Lower East Side People's FCU, CDFI certification has made both financial and symbolic contributions to their success; certification recognizes the credit union's original and ongoing commitment to their community—the core motivation for all community credit unions. For credit union CEO Linda Levy, credit unions that consider CDFI certification must deliver the products and services their members need. "It's not enough to say you want to serve an underserved community, or have a branch in an underserved community," says Levy, "you have to actually serve them – through lending, primarily, but also by designing products and services that fit the needs of the community." Lower East Side People's FCU does exactly that, and provides a proud example of how CDFI certification and funding can support expansion of products, services and benefits for the members and communities they serve.

Mendo Lake Credit Union

Ukiah, California

Total Assets as of 3/31/2014: \$177,933,986

For Mendo Lake Credit Union, knowing their members' needs was at the heart of their certification process. The credit union, which currently includes four branches serving 25,000 members in two counties of Northern California, pursued certification in 2005 because of the growth they were experiencing.

Mendo Lake operates in Lake and Mendocino counties, extremely rural areas where many members regularly commute to other counties like Napa, Sonoma, and Humboldt. While many of the long-term members are educators, a significant proportion of the members are lower income individuals including seasonal agricultural workers. Mendo Lake has used their CDFI grants to develop and expand products and services for these lower-income members, with free checking accounts and low cost auto loans among the credit union's most popular products.

Mendo Lake became certified in 2005, was awarded the first of three Financial Assistance grants in 2006, and has received a total of \$4.9 million in CDFI grants since certification. These grants helped Mendo Lake to nearly triple in size, adding more than \$100 million in total assets and increasing loans by \$42.4 million. According to Richard Cooper, the CEO of Mendo Lake, CDFI certification facilitated their ability to "[find] a niche with little competition." The CDFI awards have strengthened Mendo Lake's capital base and allowed the credit union to offer loans for new and used cars to members with greater flexibility. Underwriting for these loans focuses less on an applicant's credit score or proof of income, forgoes the application fee, and is often tailored to first-time buyers, as well as buyers of less expensive older used cars.

Mendo Lake's commitment to community development finance is also recognized by a 2012 California State Governor's Award for Volunteering and Service as well as the California/Nevada League's Desjardins Youth Financial Education Awards program, which in 2013 recognized the credit union for their financial literacy classes created for elementary, high school and college students.

The leaders of Mendo Lake Credit Union believe that CDFI certification is an obvious choice for all credit unions that serve low- and moderate-income people. Certification provides an opportunity to obtain grant funding that increases net capital so the credit union is better able to serve as many members with as much flexibility as possible. CDFI awards have provided Mendo Lake with a necessary capital cushion. In the words of CEO Cooper, "we wouldn't be here without CDFI funds".

1. APPENDIX B: COMPARATIVE DATA ON CREDIT UNION PRODUCTS AND SERVICES

The tables below show the frequency with which 173 CDFI-certified credit unions, 1,992 Low-Income Designated (LID) credit unions and 4,672 Mainstream credit unions (without either designation) offer specific products and services within five separate categories. The frequency is calculated as the percentage of credit unions in each category that indicated they offered the product or service on the NCUA 5300 Call Report as of December 31, 2013. Statistically significant differences are indicated by shading according to the key provided at the top of each table.

Member Service Technology

Difference from CDFIs statistically significant at 99% confidence level:



Difference from CDFIs statistically significant at 95% confidence level:



Product or Service	CDFI	LID	Mainstream
Home Banking Via Internet Website	80%	70%	74%
Audio Response/Phone Based	75%	55%	60%
Automatic Teller Machine (ATM)	82%	69%	73%
Kiosk	9%	4%	6%
Member Application	38%	27%	33%
New Loan	57%	39%	46%
Account Balance Inquiry	83%	73%	76%
Share Draft Orders	62%	55%	60%
New Share Account	23%	17%	22%
Loan Payments	73%	63%	69%
View Account History	82%	71%	74%
Merchandise Purchase	8%	5%	6%
Share Account Transfers	80%	69%	73%
Bill Payment	70%	53%	61%
Download Account History	74%	59%	65%
Electronic Cash	7%	3%	4%
Account Aggregation	16%	9%	11%
Internet Access Services	21%	15%	15%
Electronic Sign Authentication/Certification	10%	7%	9%
ATM/Debit Card Program	84%	73%	76%
e-Statements	77%	57%	64%
Mobile Banking	50%	32%	38%

Specialized Loan Products

Difference from CDFIs statistically significant at 99% confidence level:



Difference from CDFIs statistically significant at 95% confidence level:



Product or Service	CDFI	LID	Mainstream
Indirect Lending	31%	27%	29%
Participation Loans	41%	20%	25%
Real Estate Loans	78%	64%	73%
Member Business Loans	51%	27%	31%
Risk Based Loans	75%	66%	64%
Direct Financing Leases	1%	0%	1%
Mortgage Processing	29%	19%	24%
Approved Mortgage Seller	24%	14%	18%
Debt Cancellation/Suspension Program	10%	5%	7%
Overdraft Protection/Courtesy Pay	55%	44%	46%
Overdraft Lines of Credit	53%	40%	47%

Community Development Loan Products

Difference from CDFIs statistically significant at 99% confidence level:



Difference from CDFIs statistically significant at 95% confidence level:



Product or Service	CDFI	LID	Mainstream
Business Share Accounts	68%	40%	39%
Health Savings Accounts	17%	10%	13%
Individual Development Accounts	17%	5%	2%
No Cost Share Drafts	83%	71%	72%
Share Certs with Low Min Balance	82%	72%	71%
Check Cashing	68%	56%	54%
International Remittances	29%	14%	16%
Low-cost wire transfers	80%	65%	67%
Money Orders	72%	54%	49%
No Surcharge ATMs	57%	44%	47%
MobilePmts	9%	4%	6%
PrepaidDebit	12%	8%	7%

Community Development Financial Services

Difference from CDFIs statistically significant at 99% confidence level:



Difference from CDFIs statistically significant at 95% confidence level:



Product or Service	CDFI	LID	Mainstream
Credit Builder	59%	24%	18%
Share Secured Credit Cards	46%	31%	35%
Indirect Business Loans	3%	2%	3%
Indirect Mortgage Loans	5%	2%	4%
Micro Business Loans	38%	12%	10%
Micro Consumer Loans	38%	18%	14%
Pay Day Lending	23%	11%	8%
Refund Anticipation Loans	9%	3%	1%
Used Car Loans	97%	93%	97%
Short-Term, Small Amount Loans (FCU Only)	25%	18%	8%

Capacity-Building Services

Difference from CDFIs statistically significant at 99% confidence level:



Difference from CDFIs statistically significant at 95% confidence level:



Product or Service	CDFI	LID	Mainstream
Financial Counseling	77%	34%	30%
Financial Education	72%	33%	31%
Financial Literacy Workshops	53%	20%	17%
First Time Homebuyer Program	28%	10%	11%
In-School Branches	9%	5%	6%
Bilingual Services	42%	20%	19%
No Cost Bill Payer	60%	48%	57%
No Cost Tax Prep. Services	23%	6%	2%

(Footnotes)

¹ Throughout this paper, the LID peer group is defined as 1,992 credit unions with NCUA low-income designations as of December 31, 2013. This peer group includes the 173 credit unions with CDFI certification as of that date.

² Throughout this paper, the Mainstream peer group is defined as the 4,672 credit unions that had neither NCUA low-income designation nor CDFI certification as of December 31, 2013.