PUTTING IT ALL TOGETHER:

THE BIRTH OF THE AUSTIN/WEST GARFIELD FEDERAL CREDIT UNION

BY

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I. INTRODUCTION

Starting a community development credit union is hard work. Keeping it going and growing is even harder.

Community development credit unions, squeezed by both the financial services and the community development aspects of their work, face enormous pressures and must overcome formidable barriers in carrying out their dual mission: the provision of financial services and support of community development initiatives.

On the financial services side, regulators are not eager to charter new community development credit unions. New regulations have substantially limited the level of deposits a credit union can seek from supportive institutions outside its membership base. Community development credit unions exist to provide services that meet their members' needs--but those are the services traditional financial institutions have most often abandoned because of their high costs. Finally, the financial services industry has become a highly competitive arena where even small banks and savings and loans associations have a difficult time surviving.

On the community development side, a credit union must operate within a strict regulatory framework which limits the types of loans it may make in the community and, therefore, its range as a development lender. Small or new credit unions are especially limited, as certain types of loans (for example mortgages) require a minimum level of deposits in the credit union. In addition, credit union examiners and regulators don't always recognize the particular needs and inherent conflicts that arise from the dual mission of a community development credit union.

Nevertheless, the community development credit union--a cooperative, member-controlled financial institution dedicated to sound investments in its members and its community--remains a compelling concept and has shown substantial results in communities across the country.

This is the story of the founding of one community development credit union--the Austin/West Garfield Federal Credit Union in Chicago. It is not a disinterested account--Woodstock Institute has been involved with the organizing process of this credit union from its earliest stages. This story is being written to inform those interested in understanding the nature of community development credit unions and the problems and issues they face, as well as to guide those who may be considering forming a credit union in their own community.

I. GETTING STARTED

On September 20, 1985, a dozen people meeting in an Austin community center took the first step in what was to become a 27-month process to create the Austin/West Garfield Federal Credit Union. Probably no one in the room on that date was certain that the credit union would ever come into existence, and no one expected that the process would take more than two years. But the credit union began its life at that meeting.

The meeting was convened by Woodstock Institute, which had been exploring alternative models for providing credit and financial services in communities underserved by traditional financial institutions. Initial conversations with leaders of two Austin organizations indicated strong interest in a credit union. They encouraged the Institute to explore the feasibility of such a project in their community. As a result, Woodstock Institute staff interviewed community leaders and surveyed the existing financial services in the community during the summer of 1985.

Those present at the meeting represented eight Austin organizations. Woodstock Institute had also invited the National Federation of Community Development Credit Unions (NFCDCU), which sent two staff members to the meeting. Together the participants discussed the need for and the feasibility of establishing a community credit union in Austin, they thought about how to involve the full community, and they began the organizing process to create a credit union.

The Community of Austin

Austin is the largest community area in Chicago. With 138,000 residents in 1980, it surpasses the second largest community area by more than 40,000 people. The community as a whole was approximately 73% Black and 18% white in 1980, with 66% of its housing stock located in 1-4 unit buildings and 34% in larger multifamily buildings. Its median income, $16,566, was 12% below the city's.

Austin has developed three distinct sub-neighborhoods, each with its own character and organizations. North Austin (north of Division Street) primarily contains two flats and single-family homes.

Mid-Austin (Lake Street to Division Street) primarily contains single-family and brick two and three flats with fewer multifamily buildings. It also includes a small historic area of large homes undergoing substantial renovation.

South Austin (south of Lake Street) contains the largest number of multifamily buildings, many of which have been abandoned or are being milked by absentee landlords, mixed with single family and small multifamily buildings. South Austin has the largest concentration of active community organizing, housing and economic development organizations.

Austin underwent rapid racial change in the 1960s and 1970s that progressed from south to north. The racial change was fueled by panic peddling and block busting carried out by realtors and by redlining practiced by traditional financial institutions. In response, the earliest and most extensive anti-redlining campaign in the country was launched in Austin during this time.

Because of the community's size and diversity as well as the dynamics of the community in flux, organizations which developed to serve South, Mid, or North Austin historically had little and, sometimes, antagonistic relations with other organizations. In the period immediately preceding creation of the credit union, however, many of the different Austin organizations had been exploring ways to work together on common issues.

The Feasibility Study

Woodstock Institute's initial research into the feasibility of a credit union in Austin had two components: interviews with community leaders and a survey of existing financial services offered in the community.

The interviews showed a surprising level of interest in a credit union for the community. Half of those interviewed had thought seriously about starting a credit union in the community or were currently discussing it in their organizations. The leaders felt strongly that there was a lack of affordable financial services in the community, particularly for low-income residents. The local banks were widely perceived as not making an effort to make loans within the community. Furthermore, experience had demonstrated that the local banks were also not interested in serving the deposit needs of local residents or of local organizations. Because local banks charged high fees for small accounts, lower income residents in the community did not have access to either banking services or credit from banks. Even middle income residents could not get small loans from local banks. Respondents cited consumer loans, home improvement loans, and loans for purchase or repair of used cars as particular needs they felt were unmet in the community.

Those interviewed felt that over the long run community residents would support a credit union, but cited two important concerns. First, there would need to be extensive education about the credit union, as Austin residents tend to be skeptical about many local efforts, and people are generally unfamiliar with credit unions. Second, the credit union would have to be a project organized from inside the community in order to sell it to the community.

The initial research also surveyed the fee structure of local banks as well as charges by currency exchanges. Fees and minimum deposits at the two local banks, though high enough to be a significant deterrent to smaller accounts, were found to be generally in line with those of downtown banks. Further evidence of the lack of banking services to meet community needs was the especially large number of currency exchanges within the area. A quick survey found 18 currency exchanges within Austin, with fees averaging $5.10 to cash a $350 check. (See chart, p.)

Through these interviews, Woodstock researchers became convinced that a credit union had the potential to add a missing piece to Austin's investment resources. "Austin had a range of community development resources--it had successful housing rehab groups, job development and training groups, and organizing groups," said Jean Pogge, then Executive Vice President and now President of Woodstock Institute. "It was about to get a new development lender (in South Shore Bank). If you wanted a holistic approach to community investment, then what was missing was a depository institution which could meet the community's needs for deposit accounts and consumer loans at reasonable prices."

Securing The Partners

The groups that came together on September 20 to learn the results of the Woodstock Institute research and to discuss the possibility of forming a credit union were excited by the meeting. They agreed to contact additional organizations in the community and involve them in the planning for the credit union. They also asked Woodstock Institute for technical assistance in developing a credit union for Austin.

Woodstock Institute was interested in exploring the role of credit unions in meeting the credit needs of low- and moderate-income communities, and agreed to work closely with the groups on the project. The Institute's Project Credit, funded by the Sylvia and Aaron Scheinfeld Foundation, provided the resources to identify, develop, and report on new neighborhood models for providing credit. The Institute agreed to provide ongoing staff support to the planning committee and the planning process, assist in researching options and key issues, and attend community meetings with members of the planning committee.

The National Federation of Community Development Credit Unions was experienced in the chartering of community development credit unions. It agreed to provide training sessions to the group, assist in packaging the charter application, and be available for ongoing consultation as needed during the process.

Soon after the original meeting, the Austin groups decided to expand the organizing effort into West Garfield Park, their neighboring community to the east. West Garfield had no traditional financial institution within the community, and its low income residents had no affordable source of credit. The collaboration was a natural extension of other joint efforts between the two communities.

The organizations continued to meet over the next few months to develop the organizational commitments necessary to launch the credit union. By December, eight organizations had signed on as sponsoring organizations and designated one staff person and one leader to participate in the planning and organizing process.

The organizations involved represented a range of different types of organizations in the community and were geographically spread throughout the area. Together they represented not only a broad membership and service base, but also strong experience and track records in community organizing and local development. The sponsors included:

Bethel New Life, Inc., a multi-faceted community development organization in West Garfield Park, and its affiliated community organization, Concerned Citizens of West Garfield;

Circle Urban Ministries, a social service and housing development agency serving approximately 6,000 persons per year through counseling, youth activities, health services, housing programs, and other efforts;

Mid-Austin Steering Committee, a multi-issue community organization serving central Austin;

Northeast Austin Organization, a multi-issue community organization serving the 6,000 families of Northeast Austin;

Peoples Reinvestment and Development Effort (PRIDE), a non-profit housing development corporation working in South Austin;

South Austin Coalition Community Council, a grassroots community organization serving the 75,000 residents of South Austin;

South Austin Economic Development Corporation, a community-based economic development corporation providing services and resource assistance to commercial and industrial businesses in South Austin;

West Side Business Improvement Association, a development corporation formed by business people in Austin and West Garfield Park to promote commercial and industrial growth in the area.

II. ORGANIZING TO GET THE CHARTER

"It was a huge undertaking. Everyone wasn't always sure we could do it."

Patricia Clay
President

Once the sponsoring committee was in place, it set about the serious work of moving the credit union from concept to reality. To organize the credit union, the sponsors had to move along two parallel tracks. They had to get a charter from the appropriate regulatory agency, which included making basic decisions about the nature of the credit union, developing and demonstrating broad-based community support, preparing and submitting a formal application to the regulatory agency, and demonstrating that the credit union organizers had the capacity to launch a successful credit union.

The second track involved securing the resources and expertise necessary to actually open the credit union, and determining the initial services to be offered by the new credit union. While to some extent the two tracks were occurring simultaneously, most of the work on the first preceded the work on the second. This chapter covers the charter-organizing process; the second track is covered in the next chapter.

Making The Hard Decisions

The local organizations that convened to develop the credit union were sophisticated community organizers and developers. Developing the credit union, however, meant becoming experts in a new area. Beginning in the fall of 1985, the sponsoring committee met regularly--at least once a month, often more--to learn the ins and outs of community development credit unions and to plan the process of creating a new one in Austin/West Garfield.

With the organizing help of Woodstock Institute and the technical assistance of the National Federation of Community Development Credit Unions (NFCDCU), presentations were made to the group, issues were researched, and a plan was developed. The group met with leaders of other community development credit unions in Chicago to learn about their history, their operations, and the problems they face. Cliff Rosenthal, Executive Director, and Annie Vamper, Associate Director of the NFCDCU came to Chicago for several meetings and workshops to train and consult with the sponsoring committee. The group also met with the Illinois Credit Union League.

Early in the development process, several major choices had to be considered by the organizers. These concerned who would be served by the credit union, how it would be organized, and which government agency would be asked to authorize and regulate the credit union. Much of the sponsoring committee's early work revolved around studying and discussing these decisions.

1. Finding a Common Bond

One of the most basic decisions facing the credit union organizing committee was to choose one of the types of credit union "common bond." A common bond is what links together members of the credit union and distinguishes them from the general public. All credit unions must be organized according to one of three types of common bond--geographic, associational, or employer-based. The choice facing the credit union organizers was between a geographic or an associational common bond.

A geographic credit union covers all of the people who live and sometimes those who work, in a specific area; all of these people are eligible to become members. An associational credit union covers the staff, members, and/or clients of an organization, or a set of organizations.

Several factors influenced which type of charter the Austin/West Garfield organizations chose to seek. A geographic charter is generally more difficult to obtain. One reason for this is that many geographic credit unions were formed as part of the anti-poverty programs of the 1960s. A large number of these failed because of the lack of a strong common bond, lack of grass-roots support for the credit union, and sometimes mismanagement. These problems left a bad taste in the mouths of both regulators and the mainstream credit union movement.

On the other hand, a geographic charter had a number of strong advantages. With a geographic credit union, the credit union would be able to attract members from a broad base, and to have a mission which included and addressed the needs of the whole community. A geographic credit union best addressed the reasons why the sponsoring organizations were seeking a credit union.

An associational credit union also had several potential advantages. It is generally easier to charter. In the case of the Austin Credit Union, however, it was unclear if this would be the case. The credit union would have to be chartered to serve the eight organizations who were organizing it, and without an existing umbrella organization, the separate groups might have a difficult time demonstrating a single common bond. An associational charter would create a stronger institutional connection to the sponsoring organizations. This could make the establishment of the credit union easier, help ensure that the credit union continued to meet their needs, and cause the organizations to feel continuing responsibility for the development of the credit union. The common bond would be stronger with an associational base, marketing would be more focused, and the credit union could be offered as a benefit of membership or involvement in one of the participating organizations.

Discussion of the most appropriate and the most feasible type of charter for the credit union continued over several months. In the end, it was decided that a geographic charter would give the credit union the most flexibility over the long run. Additional local organizations would have no trouble involving their members in the credit union, and the credit union would not be faced with the difficult job of amending its original charter to accommodate new groups.

2. Applying for a State or Federal Charter

Another key decision was whether to seek a federal or a state charter for the credit union. Credit unions must be chartered either by the National Credit Union Administration (NCUA) or by the designated credit union oversight agency in state government.

Members of the sponsoring committee along with the Woodstock Institute researched the options available to the credit union and spoke with existing credit unions, the NFCDCU and others to determine the requirements and benefits available to each type of charter.

Rights of and restrictions on credit unions chartered by states vary significantly from state to state. In a few states (e.g. North Carolina), state-chartered credit unions have more flexibility than federally-chartered credit unions in the types of services and lending allowed; in others, state credit unions are more restricted. In Illinois, most of the provisions governing the credit union's operations were parallel to federal law.

Because the NCUA had become more reluctant to grant charters for federal credit unions, particularly community credit unions, it appeared that obtaining a state charter was likely to be a less complicated process, and that the Department of Financial Institutions (the state agency regulating credit unions) might be more receptive to the application.

The critical difference between an Illinois and a federally-chartered credit union was that a federally chartered low-income credit union could accept deposits from "nonmembers"--those outside the field of membership who wanted to support the credit union.* Nonmember deposits are an important source of funds, especially for new credit unions with low levels of deposits from savings accounts. Nonmember deposits from banks, churches, or foundations can help the credit union make more loans and become better able to support its operations.

The sponsoring organizations agreed that the ability to get nonmember deposits was critical to the operations of the credit union, and would be essential in its early phases. On that basis, they decided to seek a federal credit union charter, despite the greater difficulty in obtaining approval.

3. Affiliated or Independent?

Early in the process of considering a credit union in Austin, Woodstock Institute was interested in exploring the opportunity for an innovative bank/credit union partnership. The South Shore Bank had recently announced its intention to expand its lending operation into Austin. The bank, a nationally recognized model of development banking, did not intend to open a deposit facility in Austin, however, and the credit union represented a complement to the bank's operation.

The Institute outlined several potential collaborative forms a bank/credit union relationship could take. These ranged from co-sponsorship of the credit union by the bank and the community to simply the sharing of facilities.

As the credit union developed, however, no formal affiliation with the bank was sought. There were several reasons for this. The complexity of the community organizing process soon consumed the attention of organizers, putting off questions of affiliation. As the process developed, the credit union project quickly took on a strong life of its own, reducing the credit union's need for affiliation with another institution. Finally, close examination of the options showed there were few if any savings possible to the credit union from shared facilities.

"We began by thinking that an interested bank could contribute a great deal to a credit union," says Jean Pogge. "But without a direct subsidy of the credit union's operation,

* Since that discussion, Illinois law has been changed. In 1988, Illinois became one of the few states to create a low income designation for state-chartered credit unions and allow such credit unions to accept nonmember deposits.

there were few advantages and much potential confusion from physically linking the two institutions." The credit union sponsoring organizations decided to proceed to independently develop the credit union, while looking for ways in which the bank might be of assistance at a later stage.

4. Developing the Business Strategy

Credit union organizers and their technical assistance providers held several discussions on how to best initiate the credit union and position it within the community. Community development credit unions have pursued different paths for development and growth. Historically one pattern, perhaps the most typical, is to begin slowly and small, with volunteer labor, housed in donated space in a sponsoring organization. As deposits grew, the credit union could begin to make loans; as they grew further, the credit union could hire staff, increase hours and services, etc. A successful credit union in this pattern tends to grow very slowly in its early years, with accelerated growth as it builds its services and visibility. Chicago's two largest community development credit unions, North Side Community Federal Credit Union and Caballeros de San Juan Credit Union, developed in this pattern.

The Austin/West Garfield Credit Union organizers wanted a different growth pattern for their credit union. They felt that in order to have the community impact they desired, their credit union needed to begin as a visible, independent operation that could offer needed services at the outset. "We didn't want to wait 12 years to get to $1 million and begin to offer mortgages," says Michael Rohrbeck, Executive Director of PRIDE, and one of the key organizers of the credit union. "And we felt the credit union wouldn't grow without visibility and regular hours of operation."

This plan required starting with a full-time staff person. This in turn meant raising more up-front grant support and developing a faster growth formula to reduce long-term dependence on grants. It also meant convincing skeptical and cautious regulators who prefer a slower-growth approach that the credit union could pull it off. It was a higher risk strategy with more hurdles to jump at the beginning, but the organizers felt it would create the institution that would best meet the needs of the community.

Launching The Pledge Drive

Obtaining a charter requires demonstrating community support and economic feasibility of the proposed credit union. One of the primary ways this is done is by collecting pledges to open accounts from prospective members.

The sponsoring committee officially launched its pledge drive in March, 1986, with a goal of collecting 600 pledges before submitting the charter application. This was twice as many pledges as most community development credit unions had collected in the past. But given the large size of the credit union area and the difficulties everyone felt the credit union would have in obtaining a charter, the committee and its advisors felt a particular strong show of support through pledges was necessary.

The pledge drive marked the beginning of a serious public campaign to spread the word about the credit union organizing project. Each of the sponsoring organizations was charged with soliciting pledge forms from its constituents and employees. Pledge collecting methods consisted of large mailings, personal presentations at public meetings, and setting up tables after church services or outside of supermarkets.

In addition to asking respondents to state their intention to open an account, the pledge form asked for estimates of the person's initial deposit and monthly additional deposits. Sponsoring organizations were also asked to commit to opening an account with the credit union and to pledge an amount they anticipated maintaining in the account.

Pledge collections went slowly at first, and took more work than the organizers originally thought. Obtaining pledges was particularly difficult given many community residents' lack of experience with financial institutions. Many had never had a bank account. Most had never encountered a credit union. People were reluctant to sign any financial documents. "Each pledge took serious explaining," says Patricia Clay, Assistant Director of the Northeast Austin Organization, who later became President of the Credit Union. "No one would just sign a pledge form without understanding what we were doing and what it could do for them."

To liven up the process, the sponsoring committee established a competition between groups to see who could collect the most pledge forms. The pace of activity accelerated as groups integrated pledge collecting into their activities and did more outreach.

The halfway point of 300 pledges was announced with a press release in June 1986, sparking more publicity for the project. "We tried to get as much media publicity as we could," says Josh Hoyt, former Woodstock Institute Vice President and its credit union project manager in the spring of 1986. "That helped us get visibility and support in the community, and it also helped us when we sought funding and the support of regulators."

The pledge drive finally went over the top with pledges collected at the Taste of Austin festival in August, when all the sponsoring organizations participated in staffing a table.

The end of the pledge drive was announced in September. However, pledges continued to come in over the final months. By the time the application was filed, the group had 804 pledges, "more than any other community development credit union we are aware of," according to Cliff Rosenthal, Executive Director of the NFCDCU. The pledges totaled $59,700 in opening deposits from individuals, and $35,000 from the nine sponsoring organizations.

Recruiting And Selecting The Right Board

In the Fall of 1986, the sponsoring committee began recruiting the people who would serve as the initial board of directors of the credit union. This meant recruiting members for the three committees required by regulation in all credit unions: the board of directors itself, which oversees the operation of the credit union; the credit committee, which reviews and makes decisions on loan applications; and the supervisory committee, which is responsible primarily for directing the annual audit of the credit union.

The committee took this task very seriously, as once the Board was selected, it would inherit the process--and the credit union--from the sponsoring committee. "We knew this was one of the most important set of decisions we could make. We wanted to be sure we got the best people possible for the credit union," said Patricia Clay. "We asked people to show they really wanted to be on the Board, and as a result we got good people with real commitment."

The committee sought a mix of three types of individuals for these positions; 1) people with name recognition and credibility in the community; 2) people with technical expertise needed by the credit union--e.g. financial, legal, fundraising, marketing; and 3) people who were strong organizers.

Each sponsoring organization was asked to nominate three individuals to the Board. Each nominee was asked to complete an application form. Nominees were each interviewed by the sponsoring committee, which developed and approved the final nominations for each committee. These nominations were then presented for ratification at the Organizational Meeting (see below).

There were some controversies within the process, most notably whether public officials should be elected to the Board (the final decision was no), but the process focused the group on the needs of the credit union and on building a strong team. In the end, those selected to the governing committees and Board of the credit union included individuals with a broad range of skills and experience, from a former bank auditor and a financial planner, to a tenant leader and a local minister.

Organizational Meeting

The credit union's next show of strength was its charter organization meeting, which was held in January 1987. This meeting is mandated by the regulators and must be held before the charter application is submitted. At this meeting a series of legal steps are taken, including the formal election of the Board and the supervisory and credit committees; the signing of charter papers; and the selection of a name.

More than 200 people filled the chapel at Circle Urban Ministries for the meeting, which became a community celebration of the progress made so far to establish the credit union. The meeting included aldermen, representatives of the Mayor and Congresswoman Cardiss Collins, funders, representatives of other credit unions, and technical assistance providers. Subscribers to the credit union (the official signers of the charter documents) included the presidents or directors of the eight sponsoring organizations, along with Aldermen Danny Davis and Ed Smith.

Filing the Charter Application

Completing the charter application meant compiling a wide range of information and supporting documentation. This included the formal application forms; information on the community served, the Board members, and the sponsors; letters of support; a business plan; and other supporting material. Individual components of the application were compiled by the sponsoring organizations and Woodstock Institute. The NFCDCU assisted with the credit union business plan assembled and completed the application package.

Again, because the climate for chartering community-based credit unions had not been favorable, and even greater difficulties were anticipated with a geographic area so large, a great deal of effort was spent making the charter application as strong as possible. Letters of support were gathered from elected officials and government agencies, information was included on the backgrounds of the credit union leadership, and community support for the credit union was documented.

The charter application was filed with the NCUA on July 2, 1987. The application represents the first official communication from a prospective credit union to the NCUA. The review process is established by regulation. NCUA guidelines call for review of the charter application within 45 days. Applications are first reviewed at the Regional office level. Requests for charters to serve a geographic area of more than 50,000 potential members must also receive approval from the national Board of the NCUA.

When the application is reviewed in the regional office, a representative is sent out to make an on-site visit. The credit union organizers became concerned when they didn't hear from the NCUA. After almost two months of waiting and calls to the regional office, as well as replacement of a lost application package, the NCUA sent an examiner to meet with the credit union. Despite getting only a one-day notice of a mid-day meeting, the credit union Board members attended, many taking off work to be present.

The purpose of the NCUA visit was to talk with credit union organizers, verify information in the application and determine whether the leadership understands the rules and operation of a credit union. "They always approach it from the negative side -- why organize a new credit union? An applicant really has to prove its case," notes Annie Vamper, who came in from New York to attend the meeting. "Then they zero in on the treasurer. Since she had credit union experience, she was able to answer all their questions."

After the site visit, the group continued to wait and to push the NCUA to act by contacting Congresswoman Cardiss Collins for assistance in getting a decision. Jean Sample and Pat Clay got their first indication the charter would be approved when they had an opportunity to meet in late September with Elizabeth Burkhardt, one of the three members of the NCUA National Board, at a regional meeting of the NFCDCU in Chicago. "She really grilled me about the credit union," says Jean Sample. "She just tested me with all sorts of questions." Then she told Jean she wanted to come to their ribbon-cutting ceremony if they were approved. "I knew then we'd passed the test," said Jean, who says she and Pat just "jumped around for days" after that.

The credit union received official word of its approval on October 6. The only substantive restriction on the credit union in its early operations was a $15,000 loan limit. After two years of organizing, the credit union was finally a reality.

IV. ORGANIZING TO OPEN

"Learning about how a credit union operates was really exciting to me. The more I learned, the more excited I got about the credit union."

Jessie Stinson
Vice President

Once a credit union receives final approval of its charter, it has 60 days to open for operations. Planning and action towards the opening and operation of the credit union, therefore, had to begin long before the charter application was approved, or even filed. The new Board needed training in the operation and oversight of a credit union, staff had to be secured and trained, financial support and deposits had to be obtained, decisions had to be made as to what initial services the credit union would be able to offer, and office space had to be located.

Hiring Staff With "The Right Stuff"

The credit union Board knew they wanted a manager who understood both credit unions and the Austin-West Garfield communities. Fortunately, they had both in Jean Sample, then the newly-elected credit union treasurer.

Jean had been brought into the credit union organizing process in early 1986, when she was a volunteer with the North-east Austin Organization. At that time she had just left a position with a large employee credit union, and had 10 years of experience working for credit unions.

Jean quickly became involved in working with the credit union, joined the sponsoring committee, and became one of its most active volunteers. Her understanding of credit union operations provided additional expertise to the group.

Shortly after the Organization Meeting in January 1987, the Board hired Jean to work one day a week to begin setting up the credit union. Once the charter was approved and additional funds were available, she began working full time as the credit union's Treasurer/Manager.

Building The Board's Capacity

The newly-elected board of directors included members of the original sponsoring committee as well as new members. Together they were about to become responsible for a community financial institution. While the Board had a range of important expertise, only the treasurer, Jean Sample, had previous credit union experience, and her experience had been solely with employee credit unions. All the members needed training on how to operate and oversee a community credit union.

Most of the training on general credit union operations came from the Illinois Credit Union League. Jim Ousley, then a credit union consultant for the League, ran several training sessions for the new Board and its committees. Sessions were held on the work of the Board (how to set policy, run meetings, manage the credit union), the credit committee (how to make loans, evaluate applications, collect loans), and the supervisory committee (how to do the audit, spot checks, identify signs of poor management, embezzlement). "There was really a lot to learn," says Pat Clay. "But we just soaked it all up."

Once again, the enthusiasm of the group impressed those working with them. "They had extraordinary enthusiasm, "says Jim Ousley. "People really wanted to learn the technical information." Training people new to credit unions is no problem, he said. "Training people with no previous knowledge is often easier than training people who have a little knowledge. What's important is not the expertise people come with, but whether they're willing to do the necessary work."

The Illinois Credit Union League provided materials on the Board's responsibilities. They also had manuals and audio-visual materials available. League training films on a variety of topics were shown at twice-monthly board meetings, with Jim Ousley and Jean Sample answering questions afterwards.

Further orientation and training on the community development aspects of the credit union came through training sessions by the National Federation of Community Development Credit Unions and Woodstock Institute, attending NDCDCU's Annual conference, and consultations with other community development credit unions in Chicago.

Deciding Which Services to Offer

Next, the Board considered what set of services the credit union would be able to offer from the outset. The initial survey of potential members (see p.________) had demonstrated that the greatest interest was in savings and checking accounts, check cashing and money orders. Yet the credit union knew it would not be able to be all things to everybody from its inception.

The biggest dilemma was that one of the most needed and popular services--check cashing--was also the most difficult to provide. Cash services required a high level of security to protect the credit union and the safety of its employees and members. This meant, among other things, that an alarm system with a direct hook-up to the police would be necessary. Paperwork would be much more extensive with a larger number of transactions, and would require computerization. A teller would have to be hired to handle transactions during credit union hours. At the same time, check cashing provided the most concrete alternative to currency exchanges, and perhaps the strongest reason for lower-income residents to join the credit union.

The question of services therefore raised larger questions of membership: who would be attracted to the services of the credit union; how could low income members use the credit union; how could middle income members be attracted to the credit union? Who would join the credit union when it opened its doors?

It took several meetings of the sponsoring committee to decide on the initial mix of services. The group determined that at its initial temporary location, check cashing was not possible. Check cashing would have to await the permanent location, and the physical and accounting systems would have to be in place first to handle it. While everyone agreed that the credit union should make this move as soon as feasible, it seemed that it would take at least a year to achieve.

It was a difficult decision and a hard set of limitations to accept. "We had to take the long-term view," says Jean Sample. And the credit union needed to structure its planning to the types of membership it could best attract and serve. "We knew that in the beginning, our membership would be based mostly in the sponsoring organizations, their employees and those they serve," she notes. "We also knew that eventually the heaviest users of the credit union would be low income members. And we knew we needed to attract middle and moderate income members to help offset the high costs that would come with that."

The group decided that it would open with a basic range of services. On the deposit side, that included savings accounts for both individuals and organizations, certificates of deposit, and Christmas club accounts. The credit union would also offer payroll deduction arrangements with employers as well as money orders, and it would seek a relationship with a local bank to allow cashing of credit union checks. Loans would begin to be offered three months after opening, with an initial maximum amount of $500.

Raising The Cash

Fundraising for the credit union began early in the process of the organizing effort. It was clear to the organizers that the credit union would need resources to support both the organizing and the startup of credit union operations.

In the earliest portions of the organizing process, the credit union relied solely on in-kind contributions in the form of staff time, office space and administrative assistance from the eight sponsoring organizations, Woodstock Institute, and the NFCDCU.

In planning for the funding needs, four phases were identified: Phase I, the organizing phase; Phase II, startup and first year expenses; Phase III, consolidation (second and third years); and Phase IV, independence, in which the credit union would be self-sufficient.

Grants

Fundraising for the credit union became a major effort in the spring of 1986. Needed grant resources were calculated at $10,000 (beyond in-kind contributions) to complete the organizing phase, and approximately $50,000 for startup and first year operation. An overall proposal was developed, and individual proposals were submitted to a number of foundations in the spring and summer of 1986. Teams from the sponsoring committee met with foundations, and followed up on their questions.

Selling the credit union to local funding sources was a challenging job. Community development credit unions cross the lines of many foundations' traditional funding categories. As financial institutions, credit unions may appear to funders as though they should be self-supporting. As community development institutions, their purpose and activities fit many of the priorities of foundations funding development groups, and the establishment of a credit union requires serious community organizing efforts. Further complicating the situation is the fact that credit unions are not 501(c)(3) tax exempt organizations, but 501(c)(4) organizations under the Internal Revenue Service code, and, in most cases, must channel foundation grants through a tax-exempt fiscal agent.

In this case, the sponsorship and strong support of well-regarded community organizations, as well as strong technical assistance relationships, was essential to the fundraising successes of the project. Foundations approached were familiar with and supportive of existing efforts in Austin, and as a result were willing to give consideration to the credit union.

"We were extremely impressed with the project when we saw it," says Jackie Schad, Executive Director of the Crossroads Foundation, one of the first funders of the project. "The number of groups working together in Austin was totally unprecedented, the credit union was an intriguing solution to the clear needs of the area, and the project used each sponsoring organization's strengths to put the project together. In addition, it was obvious that the leaders of this project had really done their homework to learn the technical knowledge necessary to pull the project off."

By the fall of 1986, two foundations, the Crossroads Fund and the MacArthur Foundation, had together committed $9,500 to the organizing phase of the project. This allowed the sponsoring committee to begin paying a staff person one day a week in early 1987, develop and print information for the community on the credit union, and cover the out-of-pocket expenses of obtaining the charter.

Obtaining first year startup and operations funding was an even more formidable task than funding the organizing phase. The sponsors had to demonstrate the viability of the credit union to make the case for funding its operations of the credit union. This included developing financial projections and demonstrating community support through the pledge drive and the strength of credit union leadership.

Work began on this task at the same time as the fundraising for the organizing process. In addition to seeking private foundation support, the sponsoring committee applied for Community Development Block Grant (CDBG) funding through the City's Department of Economic Development. The sponsoring committee obtained strong support for the project from the community's three aldermen, Danny Davis, Percy Giles, and Ed Smith. The CDBG grant was approved in March, 1987. The balance of the funding necessary for the first year came from a grant by the Chicago Community Trust. Funding for the first year of operations was contingent on the credit union obtaining its charter.

Deposits

Almost as important as securing grant dollars was identifying sources of large deposits to provide initial assets to the credit union. Large, stable deposits do several things for community development credit unions: they provide capital for loans, they provide income for the credit union, and they help counterbalance the high servicing costs of the credit union's more typical low-balance, high transaction accounts.

While such deposits are important for all community development credit unions, they are essential for the operation of new credit unions.

As noted in the discussion of federal charters, above (p.) credit unions chartered as low-income credit unions may seek such deposits not only from within their membership base, but from any willing depositor. To receive federal or state designation as a low-income credit union, more than 50% of a credit union's potential membership must have a household income equal to or less than the "Lower Level Standard of Living" established by the Bureau of Labor Statistics, U.S. Department of Labor. In 1989, that standard is set at $20,410. "Nonmember" deposits carry no borrowing or voting privileges, but have the same insurance protection as member deposits. Nonmember deposits are most typically sought from institutional investors such as church organizations, foundations, and banks.

The credit union was able to creatively utilize two particular opportunities to attract large deposits from financial institutions within the community. First, because of South Shore Bank's early participation in the project and their decision not to open a deposit facility in the Austin community, they were asked by the sponsoring organizations to make a deposit in the credit union. The bank saw the credit union as a complement to its own development lending in Austin and agreed to establish a $100,000 certificate of deposit, and an interest rate was negotiated.

The second opportunity arose in April, 1987, when the Greater Chicago Financial Corporation announced its intention to purchase Austin Bank. The purchase application meant that community groups could challenge the purchase on the basis of the bank's record of reinvestment in the community. Woodstock Institute, which had assisted groups in several Chicago communities to negotiate community reinvestment agreements with local banks and federal regulators, notified Austin organizations that the purchase was pending. Several groups--South Austin Coalition Community Council, South Austin Economic Development Corporation, Northwest Austin Council, and PRIDE organized as the Austin Reinvestment Alliance to challenge the application and to seek new community investment commitments from the bank.

"One of the first things we thought of was how could we ask the bank to help our efforts for the credit union," said Caliph Daley, of the South Austin Economic Development Corporation. "We felt a deposit in the credit union was a natural for us, and would be easy for the bank to do."

That "easy thing" took quite a bit of explaining and negotiating, as the bank and its legal advisors knew very little about credit unions. Eventually a $100,000 deposit in the credit union became one of the components of a comprehensive reinvestment agreement with the bank, marking the first time that support of a local credit union had ever been part of a Community Reinvestment Agreement.

In addition to the deposit, the negotiators raised the possibility of the bank making an arrangement for free cashing of checks issued by the credit union. While this was not made a part of the CRA settlement, an agreement for this service was later developed with the bank.

Finding an Office

Finding office space was a six-month process for the credit union, beginning when it received word of charter approval. Since the credit union was required to open its doors within 60 days of receiving its charter, the Board accepted an offer from PRIDE to provide temporary office space.

Image was one, perhaps the most, important factor the credit union sought in its office space. "People can be very skeptical," says Jean Sample. "We had to look like a legitimate financial institution." In addition, the Board was looking for security, a central location in the community, parking, and accessibility to public transportation.

After several months of looking, primarily on and around Madison Street, with no success, the credit union found space at St. Anne's Hospital Professional Building. The professional building had available commercial space, including the former office of the hospital credit union, which had recently merged with another credit union and vacated the building. Seeing the credit union as a way to increase visibility and traffic into its building, the hospital offered a below-market rental for the space.

Taking the hospital space meant some tradeoffs for the credit union, primarily a move farther away from its central constituency, and to an area of much reduced street traffic. Yet the location was well-served by bus lines, and had all the other qualities the credit union was looking for. Again taking the long-term view, the credit union leaders thought that while they would have to work harder at the outset of the credit union's operations to market the credit union at this location, in the long run it provided the security and stability that the credit union needed to establish itself in the community.

V. SETTING UP SHOP - THE CREDIT UNION IN OPERATION

"I love seeing things start from nothing and then grow--like a garden that starts from dirt and seeds and grows into beautiful plants. I think for the credit union, the sky's the limit. And I'm in on the ground floor."

Reagan Gilbert-Sulton
Chair, Credit Committee

"It's like the process of a baby being born and growing up. You learn so much you didn't know; and you're so proud and excited at every new step. But it's a lot of work; and running the credit union is very different than starting it."

Jean Sample
Credit Union Manager

In December of 1987, the credit union organizers became the directors of a community-based financial institution. With that change, they faced a new set of challenges. They had to begin making loans, bringing in member deposits, satisfying regulators, and establishing office operations.

Setting up the operation of the credit union was another area which proved more difficult than expected. Jean Sample readily admits that while she had extensive experience working within a credit union, setting up systems from scratch and managing the whole package was a new challenge. For example, "I had to understand everything behind the accounting system, not just one part of it," she says. Accounting systems, other record keeping systems, and procedures had to be established. To be convenient to its members, the credit union established office hours 5 days a week, including Saturday mornings and one evening a week.

Attracting Customers

Once open, the credit union began the hard work of turning pledges into real deposits. Unfortunately, the long time required to start the credit union worked against them. By the time the credit union was fully operational, many of the pledge forms were close to two years old. Many of the pledgers had no telephones and others had simply lost interest over time. Bringing in members from the pledge forms turned out to be a slow process.

The credit union then went back to the sponsoring organizations to renew efforts to attract members from their employees, members and constituents. Over the first year, the credit union's marketing efforts were primarily targeted to pledge signers and employees and clients of sponsoring organizations. At the end of the first year, the credit union had 210 members--a significant number, though short of their original goal.

The credit union's board of directors is active in governing and directing the credit union. The Board meets monthly. With the credit union on its feet administratively, much of its work is now focused on outreach and marketing. In addition to the credit and supervisory committees, the Board has a marketing committee and Patricia Clay hopes to establish a volunteer committee. Through these committees the credit union will also be able to involve non-Board members in these areas.

All those involved in the credit union agree that marketing needs to be the major push for the future. But marketing is a multi-faceted process. "I've learned that marketing is more than just telling people about the credit union," say Pat Clay. "We have to do serious education, through block clubs, schools churches, and other groups, on what this effort is all about, what it can do for them and the community."

Jean Sample believes that many people take a wait and see attitude. "If they're going to give us their money, they want to make sure we're really going to stay around," she says. She hopes that many of those who have been watching the credit union will join, and believes that it is now beginning to happen.

The credit union is also hoping to establish check cashing services and sees that as a way to attract new members. Though the credit union today issues checks which can be cashed free at Austin Bank, the process requires two steps and discourages some people from using the credit union.

Making Loans

The Credit Committee manages one of the most important functions of the credit union--making loans. The Austin/West Garfield Credit Union Credit Committee of three members began accepting loan applications from credit union members in March, 1988. Their first loan, a share secured loan, was made in April.

Reagan Gilbert-Sulton chairs the Credit Committee. Her previous employment by the Federal Reserve Bank gave her useful background for the committee, but she says she still had a lot to learn. Early training sessions and reading "mountains of manuals" helped, but in the early days, we "relied on the experience of Jean (Sample) to show us what we needed to do," she says.

Two of the three members of the committee must sign off on every loan the credit union makes. All loan applications are processed by the credit union manager, and when they are complete, they go to the credit committee. Jean answers questions, based on her direct contact with the applicant, but she doesn't make a recommendation.

A new credit union generally starts slowly in the loan-making business, building its experience in smaller, lower-risk loans. The Austin Credit Union began with a loan limit of $500 for non-share secured loans. In addition, 20% of the loan total had to be on deposit in the borrower's savings account. Later, that limit was raised to $2,000.

In its first year of operation, the credit union made 28 loans totaling $40,000, an impressive total for a new credit union. Loans have been made for a variety of purposes, ranging from used car purchase and repairs to medical costs and home repair. One owner of a construction business was able to obtain a cash flow loan, and PRIDE was able to obtain a short term cash flow loan critical to one of its projects. The credit union also recently made its first debt consolidation and new car loans.

The committee is justifiably proud of the record of its portfolio, which has so far seen no delinquencies. Reagan Gilbert-Sulton credits vigilance and early reaction for their repayment record. One borrower, who lost his job immediately after receiving a loan, got a personal visit from the credit union even before his first payment was due.

The credit committee rejected only four loan applications in its first year of lending--all of them because applicants submitted incomplete or false information. A number of other applicants were approved for less than they had applied for. "That's the hardest part of the job," says Reagan. "But we make sure that the person gets a complete explanation of why we made our decision."

The opportunity to make a loan to one of the sponsoring organizations came as a pleasant surprise to Michael Rohrbeck of PRIDE. "When we got into this project, we did it because of the benefits it could bring to our tenants and to our employees," he says. But the $20,000 share-secured loan based on receivables, "really helped us out quickly when we needed it." The credit union's contractor loan also helped PRIDE by building the credit record of one of its contractors and avoiding the need for a cash advance to the contractor.

As the credit union develops, Reagan would like to see the credit committee play a bigger role in interacting with borrowers. "When we suggest ideas for how to structure a loan differently, we help our members understand how to budget and plan. That's an important role we play."

Future Challenges

One of the difficulties in reaching many of the people who could use the credit union is the need for financial education. "Many Austin residents have never had a bank account, and have never thought about how to save some money for future needs," says Jean Sample. She believes the credit union needs to provide more financial education in order to show people how they can use the credit union. Yet that is a time-intensive process which the credit union has not yet been able to develop and fund.

Jean Sample and the Credit Union Board see a number of directions they need to move to build the institution. They want to strengthen ties between the Credit Union and its sponsoring organizations, in particular finding ways for credit union marketing to be integrated into other organizations' activities. To date, most of the members of the Credit Union signed up by sponsors came from a few of the organizations.

The Credit Union is working to prepare for future growth by purchasing and setting up an in-house computer system. At this point, books are done manually. A computer will save considerable time now, as well as set them up for the long term. Computerizing accounts is also necessary prior to initiating any check-cashing services.

The Credit Committee wants to promote its lending more vigorously. Loan income will be an increasingly important source of credit union income.

The Credit Union estimates it will take at least 3 years and deposits of $750,000 - $1,000,000 for it to become self-sufficient from operating income.

VI. LESSONS LEARNED

The experiences of the Austin/West Garfield Credit Union demonstrate what's needed to start a new community development credit union and highlight the difficulties faced in the process. Much of what was learned or applied in Austin/West Garfield is relevant to any community development credit union organizing effort. In addition, the operational challenges faced by the Austin/West Garfield credit union are the same challenges faced by all community development credit unions.

Below is a summary of these lessons and challenges: first, factors which are key to the successful organizing of a community development credit union; second, the challenges and dilemmas faced in successfully operating the credit union.

Keys to Organizing Success

1. Know What You're Getting Into

Starting a credit union is a major undertaking. Before embarking on such an effort, a group should have a clear understanding of all the steps necessary to establish a viable credit union. It is also essential to know the regulatory requirements for chartering a credit union, how they apply to your situation, and the current attitude of regulatory agencies in regard to the chartering of new credit unions.

State credit union leagues, the National Federation of Community Development Credit Unions, other organizations that work with credit unions, and other community development credit unions in your area are good sources of information.

2. Understand Your Community's Needs

A community development credit union can only be successful if it can meet the needs of large numbers of people in its community. Credit union organizers must understand the financial services needs of their community before deciding whether a credit union is an appropriate way to meet those needs. Questions that should be answered include: What financial services (deposit services and lending services) do the residents and organizations of your community feel they need? Which of those services do they already get and where? What kinds of services are they unable to obtain? What does the available data tell you about which institutions are lending for what purposes in the community?

3. Make Use of All Available Technical Assistance

Organizing a successful credit union requires making use of the expertise of credit union assistance organizations wherever possible. Technical assistance is important to help analyze the feasibility of a credit union in your community, to understand regulations and the chartering process, to set out the range of structural options available to the credit union, and to provide training in the development and operation of a credit union.

The Austin/West Garfield organizers were able to attract an unusual level of assistance from outside organizations, partly due to their specific circumstances and the opportunities they offered for exploring new ways of organizing a credit union.

Sources of technical assistance need to be researched well and relationships developed before fully launching the project. It is important that the credit union organizers know from the outset that they will have access to necessary assistance as they need it.

There are several sources of technical assistance. State credit union leagues, which are the associations of all credit unions in each state, can be important resources. Credit union leagues also provide extensive training to credit union leadership. The National Federation of Community Development Credit Unions specifically represents community development credit unions and understands the regulatory and operational issues facing these credit unions.

These organizations can also tell you if there are other organizations in your area with experience working with or helping to start community development credit unions. Finally, the leadership and staff of existing community development credit unions may be an important resource. In four areas (Chicago, New York City, Philadelphia, and North Carolina) community development credit unions have formed, networks to share expertise and develop joint programs and a fifth is in formation in Cleveland (see Resources p.   ). The National Federation can provide names of credit unions or networks in a particular area.

4. Identify A Committed Core Of Leadership

Organizing a credit union takes both dedication and stamina. A committed core--at least six people--willing to make a substantial commitment of time for at least a year is needed to create the credit union. A larger group which will make the credit union an important priority is also essential. "Without that core," says Mike Rohrbeck of PRIDE, "you shouldn't even start, because you probably won't make it."

That committed core can include both volunteer leadership and staff of sponsoring organizations. In Austin it included some staff whose organizations allowed them to allocate a portion of their time to the project.

5. Ensure Strong Coordination

Consistent coordination of the process and the organizations involved is particularly critical. Whether provided by a sponsoring organization or another group, this coordination requires a staff person who will be available on a day-to-day basis. In Austin/West Garfield, that role was played by Josh Hoyt and Maria Ayala of the Woodstock Institute.

Jean Sample believes that coordination made the credit union possible. "It's a long process, "she says. "Without Josh Hoyt and Woodstock Institute making sure we stayed on the right track, reminding us of how far we'd come, we would have lost the momentum. Somebody needs to make sure the work is being done and done right, and keep up the excitement."

6. Obtain Strong Support From Organized Constituencies In Community

A new credit union needs strong and diverse support from organizations in the community. Not only are those organizations the source of volunteers and credibility necessary to organize and charter the credit union, but perhaps most importantly, they are the base from which the credit union will draw its membership. With few marketing resources, and probably lower visibility in the early part of its operation, the credit union needs to rely on the credibility and the efforts of other organizations in the community to sell the credit union to their members.

The Austin/West Garfield credit union organizers, chose to organize with eight co-sponsoring organizations. Another community in another situation might choose a structure with a single organizational sponsor. In that case, unless the sponsoring organization itself represents a very large organization with diverse constituents, it is still very important that the credit union have the strong support and the participation of other groups within the community.

7. **Identify High Quality Management**

Quality management is one of the most important keys to success in the operation of a credit union. A credit union manager must be multi-talented: able to handle the financial management of the credit union, deal with regulators, and work with the board and leadership. Regulators look closely at the quality and experience of management when they consider a new charter, and it is the manager who will interact regularly with the regulators once the credit union is in operation.

In Austin/West Garfield, the organizers were able to bring in a manager with considerable credit union as well as community experience. In some cases, community development credit unions have brought on managers with related skills who have then been trained in credit union operation.

8. **Be Willing to Sell To The Community**

No matter how needed a credit union is in a community, or how many opportunities it offers, credit union organizers and the core group of believers will need to 'sell' the credit union to the community. A credit union is not just a membership organization. It asks people to deposit their money into an institution with which most are unfamiliar. No one opens an account in a credit union without being convinced of its safety and of the benefits it offers.

Austin·West Garfield Credit Union leaders became salespeople for the credit union. They spoke at meetings and churches. They talked to their neighbors. They advertised and put out marketing materials. And when their efforts slow down, new accounts stop coming in.

To be successful, a credit union needs volunteers and staff who will aggressively promote it, before and after it opens.

9. **Take Needs Of Credit Union Into Account In Other Community Organizing Activities**

One of the reasons for broad involvement and commitment to the credit union from all areas of the community is that promotion of the credit union can be built into other organizational efforts. In Austin, when several groups took the opportunity provided by a pending sale to develop a reinvestment agreement with Austin Bank, their involvement with the credit union led them to consider how the bank could support the credit union. The result was a $100,000 certificate of deposit.

On a more modest scale, membership recruitment for the credit union can be integrated with membership drives for a sponsoring organization, effectively multiplying the credit union's efforts.

10. **Find Relevant Resources Within The Community**

A credit union provides new opportunities for leadership recruitment and development. It represents an opportunity to teach community residents and leaders without financial or marketing experience how to operate their own financial institution. In addition, it offers a chance to recruit new leadership who may have particular skills to offer the credit union. These may be people who are not now involved in community organizations, or their financial or other relevant skills may not be apparent in their current volunteer activity.

11. **Identify Financial And In-Kind Resources**

Identifying resources for the organizing phase and early operation is essential for the success of the credit union. While it is possible for most of the organizing resources to come from in-kind donations, few organizations have the capacity to donate that much time to the effort. It is more likely that additional funds will have to be raised specifically for credit union organizing. Development of a business plan for the credit union will determine the resources required for its operation.

In the case of Austin/West Garfield, grant fundraising was successful due to the high level of credibility of its sponsoring organizations, the clear need for the credit union, and the strong support of community leaders.

Operational Challenges and Dilemmas

1. **It's Easy To Let Marketing Efforts Take Too Low A Priority, Especially In A New Credit Union.**

Selling the credit union is a difficult and time-consuming job. Attracting new members requires constant and consistent marketing efforts, geared to the specific structure and opportunities of the community.

At the same time, a new credit union's staff and leadership can easily become totally consumed with setting up and sustaining the internal workings of the credit union--policies, procedures, bookkeeping, office operations, regulatory issues, etc. A new credit union, however, even one as well publicized as the Austin/West Garfield credit union, doesn't have enough visibility or momentum to generate new business rapidly without serious marketing efforts. Despite the many different pulls on the time and energy of the credit union's board and manager, a credit union that wants to grow quickly must find ways to devote a substantial amount of its efforts on marketing.

2. **Organizing The Credit Union Is Different Than Running It.**

Organizing a credit union requires a one to two year 'burst' of focused effort, centered on jumping a set of specific hurdles. Operating a credit union requires sustained effort to build and manage a community institution. The organizing process can be an exhausting one, but the key to success is sustaining the energy once the credit union is established. This means holding on to the energy of leadership from the organizing phase, as well as attracting new leadership and new energy into the organization.

Regardless of enthusiasm, a new institution like a credit union takes time to build. Members have to be sought one at a time. Potential members may wait to see some credit union success and staying power before joining. At the same time, a community development credit union needs to prove itself in a relatively short period of time in order to sustain the community momentum and outside support that it needs.

3. **A New Credit Union Must Depend On One Staff Person To Manage A Wide Range Of Aspects Of The Credit Union.**

As is clear from the Austin/West Garfield credit union story or the story of any new credit union, a credit union requires financial management, organizing of volunteers and leaders, servicing of members, and marketing. A new credit union, however, generally can begin with only a single staff person. Not only is it difficult to find staff with skills in the variety of credit union needs, it is difficult for that manager to balance the conflicting demands on his or her time.

4. The Need For Education Is Tremendous

In Austin, the credit union hopes to attract as members people currently unserved by traditional financial institutions. Many of these potential members have never had a bank account, and may spend a significant portion of their income to cash checks and pay bills at currency exchanges.

To do this, credit union leaders see the need not only for credit union services to be accessible, but for financial education and counseling to help people use financial services wisely, budget and plan, and establish savings accounts. Yet such services are time consuming, they can't be supported by operational income, and the need for them far outstrips the ability of the credit union to offer them.

5. Conflicts Between Community Development And Financial Needs

The dual mission of a community development credit union--financial services to its members as well as impact on its community--always makes its operation more difficult than a conventional credit union. Operating costs are high due to small balance accounts and services needed by the community, and the community's unmet credit needs pose greater challenges to fulfill. Out of the mainstream of credit unions, community development credit unions often have particular difficulty with regulatory constraints, which they feel do not fully take into account one or the other the unique purposes and challenges of community development credit unions.

Regulators, particularly in the increasingly competitive financial services market, may push for competitive interest rates and fees comparable to conventional institutions; press for higher net revenues; become nervous about loans to low-income people; or restrict nonmember deposits, even at low interest rates. All of these can work against the interests of community development credit unions. Reserve requirements place a burden on growing young credit unions, restricting their ability to offer higher dividends or increase operating expenses.

New credit unions, as well as most older community development credit unions, also lack 'risk capital'. This gives them less flexibility in early years to make some kinds of needed loans in the community. To make a larger community development impact, new credit unions may need grants to fund reserves and provide additional capital.

Conclusion

The several years of hard work by Austin and West Garfield residents, organizations, and others paid off as community residents became the managers of a financial institution designed for the community.

As this story should make clear, there is no one set of directions for the creation of a community development credit union. Austin/West Garfield organizers had a road map, but they had to constantly make choices of direction that made sense to them and addressed their goals. Each community is different--and both the process of organizing a credit union and the credit union itself must fit the nature of the community and the opportunities it offers.

Making a community development credit union work is a challenging endeavor. The organizers and now leaders of the Austin/West Garfield Credit Union know their struggles are far from over. Their story to date provides important lessons for those involved in and interested in community-based economic development. If the spirit and determination credit union leaders have shown so far continues, they'll be able to demonstrate their success over the long run and continue to be a model for others.

FEES CHARGED BY CURRENCY EXCHANGES

According to the Department of Financial Institutions, there are 18 currency exchanges in the Austin community. The majority of these are located in South Austin. Service charges were surveyed in July, 1986, as part of the feasibility research for the credit union. Average service charges found at that time were:

Check Cashing

A fee of 90 cents plus 1.2% of the amount of the check is charged. For example:

Amount	Fee
$125	$ 2.40
$160	$ 2.82
$275	$ 4.20
$350	$ 5.10

Money Orders

A fee of 75 cents plus 1% of the amount of the money is charged. For example:

Amount	Fee
$ 25	$ .75
$120	$ 1.40
$225	$ 2.20
$350	$ 3.20
$500	$ 4.40

Other Services

Service	Fee
Utility bills	$ .50
State plates	$ 3.50
City stickers	$ 3.50
Other licenses	$ 3.20
Title	$ 2.50
Envelope	$ .05
Book of Stamps	$ .75
CTA Tokens	$ .15
Notary	$ .50
Western Union	$12.95 for $50.00
Stop payment	$ 5.00
Return Check	$ 5.00
Photocopy	$ .50
Income taxes	$ 5.00 +

Coins (rolled)	Fee
Quarters	$ .15
Dimes	$ .10
Nickels	$ .10
Pennies	$ .10

CREDIT UNION PLEDGE FORM

Sponsoring Organization: ____

A credit union is a place where community people can pool their savings together and make loans to each other. all your deposits are insured by the federal government, and you earn interest on them. They loans cost you less than at a bank or finance company. The community owns the credit union and makes all itsk policies. All the profits would go back to credit union members. Eigh community organization in the Austin-West Garfield Park area are sponsoring the formation of a community credit union. We need community residents and workers to show support for this community project. If you are interested in joining the credit union, fill out the following pledge form and questionnaire.

___ Yes, I would be interestdded in joining a credit union opening in Austin/West Garfield Park.

___ I would open a savings account with about:

__$5 __$25 __$50 __$100 __$500 __$1,000 __$10,000 __Other

I would expect to save about $ ______ a month in the credit union.

I wold be interested in volunteering my services to support the credit union. ___Yes ___No ___Unsure

NAME ____

ADDRESS ____

TELEPHONE ____

___ Please send me more information and another form on how I can participate.

NOTE: THIS FORM IS NOT LEGALLY BINDING
ALL ACCOUNTS IN THE CREDIT UNION WOULD BE INSURED
UP TO $100,000 PER DEPOSITOR

Sponsoring Organizations:
Circle Urban Ministeries, Telephone: 921-1446
Concerned Citizens of West Garfield, Telephone: 826-5544
Mid-Austin Steering Committee, Telephone: 287-5717
Northeast Austin Organization, Telephone: 745-0294
People's Reinvestment and Development Effort, Telephone: 379-4412
South Austin Coalition Community Council, Telephone: 287-0206
South Austin Economic Development, Telephone: 378-2400
West Side Business Improvement Association, Telephone: 261-1888

PLEDGE FORM QUESTIONNAIRE

Please take a minute to complete the following questionnaire. The information will be used to decide what services the credit union would offer.

1. Do you live or work in this neighborhood? __Yes __No

2. Do you belong to a credit union at this time? __Yes __No

   If "Yes" name of credit union ______________________________

3. What services you would be interested in using, if we had a credit union in Austin? (Here are some posible services.)

(Y = Yes, N = No, ? = Maybe)

274	Savings Account	178	Loans (if "yes", for what)
169	Christmas Club	98	Medical Bills
178	Checking Account	124	Fix up house/apart
156	Money Orders	84	Buy co-op apartment/house
208	Check-cashing	79	For a business
51	Food Stamps	142	To buy a car
93	Safe Deposit Boxes	132	For education
61	Direct (automatic) deposits of a social security check	171	For emergencies
		69	Business financial counseling
64	Personal budget/financial counseling	65	Payroll deduction
17	Others		

4. We may also be able to bring incertain other kinds of businesses and services into the neighborhood. Would you use these services? Do you think it would be a good idea to have these services, even if you personally don't use them?

	Would use	Would not use	Good idea to have
Check-cashing company	163	28	95
Locked mailboxes for rent	95	70	89
Tax preparation services	110	37	91
Small business assistance	102	50	108
Job Information	126	23	85
Insurance agent	83	44	91
Budget counseling services	87	35	90

Others: 1

5. What hours do you think it would be most important for the credit union and other businesses to be open?

6. Where should the credit union be located? ________________

CREDIT UNION RESOURCE ORGANIZATIONS

Resource organizations mentioned in this report include:

National Federation of Community Development Credit Unions
59 John Street, 8th Floor
New York, NY 10038
212/513-7191

Cliff Rosenthal, Executive Director
Annie Vamper, Associate Director

For a list of state credit union leagues, contact:

Credit Union National Association (CUNA)
P.O. Box 431
Madison, WI 53701
608/231-4000

Local community credit union networks:

Chicago

Chicago Credit Union Network
c/o Woodstock Institute
53 W. Jackson, Room 304
Chicago, IL 60604
312/427-8070

Karl Perteet, Coordinator

New York City

New York Community Financial Network
c/o NFCDCU
59 John Street
New York, NY 10038
212/513-7191

Ann Yeomans, Coordinator

North Carolina

Community Development Credit Union Network
c/o Chowan County Credit Union
405 S. Broad Street
Edenton, NC 27932
919/482-3126

John Bond, Chairperson

Philadelphia

Philadephia Credit Union Task Force
c/o SGA Federal Credit Union
5004 Wayne Aenue
Philadephia, PA 19144
215/843-4151

Terry Trudeau, Coordinator