

BUILDING THE SAVINGS AND ASSETS OF LOWER-INCOME CONSUMERS



EXAMPLES FROM COMMUNITY DEVELOPMENT CREDIT UNIONS



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PRE FACE

Efforts to alleviate poverty have traditionally concentrated on strategies to increase the income of lower-income households through employment and training, tax policy and income redistribution. Recently, policymakers, academics and practitioners have recognized the importance of enabling poor families to build assets if they are ever to reach self-sufficiency. Although obviously related to income, asset development has additional long-term financial and social benefits.

As a result of this recent emphasis on asset development, several new programs have been developed, most notably Individual Development Accounts (IDA) that match the savings of lower-income people for home ownership, business development, or education expenses. However, very little has been written about the long-term efforts of community development credit unions (CDCUs), which have a long history of formal and informal strategies to increase the financial literacy of their members, encourage thrift, support savings and enable the accumulation of personal assets.

A grant from the National Credit Union Foundation allowed us to examine the asset development programs and activities of five CDCUs. Central Appalachian Peoples Federal Credit Union, Quitman County Federal Credit Union, Northeast Community Federal Credit Union, Progressive Neighborhood Federal Credit Union, and Zion United Credit Union illustrate the wide diversity of strategies that empower lower-income people to develop assets. These efforts range from promoting home ownership, to supporting financial literacy among youth, to providing a 'last chance' for consumers who have damaged credit reports, to working with the special needs of immigrants and refugees. It is our hope that this report will encourage other community development finance institutions, banks, and community development corporations to develop similar programs that help to bring lower-income people into the financial mainstream.

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INTRODUCTION

Asset or wealth accumulation is a measure of an individual's or family's accumulated assets or resources. Simply put, it is anything of economic value, such as homes, automobiles, or savings, etc., that can be bought, sold, invested or set-aside for future financial return. Wealth accumulation has great potential to improve household financial well-being. It is a source of future income, and can leverage the accumulation of additional assets such as a retirement fund, a home or a small business. Further, the development of assets has other benefits for families and communities, such as increasing civic participation and improving household or marital stability (Figure 1). As Washington University Professor Michael Sherraden notes, income may feed people's stomachs, but assets change their heads.

It is widely known that the distribution of income is uneven. However, asset distribution is even more disproportionate. While the top 10 percent of Americans command 40 percent of national income, the top one percent controls a whopping 90 percent of assets. Further, one-third of American households have no or negative assets and more than half have negligible amounts. Asset development is also related to age. In 1993, median net worth of householders under age 35 was under \$6,000 compared to over \$90,000 for those 55 to 64 years of age¹.

¹ Eller/Fraser (1995) - Asset Ownership of Households: 1993

Figure 1: The Psychological and Social Effects of Assets

- Provide greater household stability
- Create long-term thinking and planning
- Lead to greater effort in maintaining assets
- Increase social status and social "connectedness"
- Increase community involvement and civic participation
- Enhance the well-being and life chances of offspring
- Lead to greater development of human capital
- Provide a foundation for risk-taking
- Increase personal efficacy and sense of well-being

Source: Sherraden Page-Adams, 1995

Why does this occur? Obstacles to asset development are a complex combination of income disparities, a strong consumer culture, social, public and corporate policies, limited access to the financial mainstream and poor financial literacy skills.

According to the Wall Street Journal, most Americans spend everything they earn and then some. In 1974, people saved 9.5 percent of their salaries. In the interim, although government incentives for savings proliferated, the household savings rate fell to -1.2 percent², due in part of the "American urge to splurge"³.

² This savings rate does not include the growth in the value of existing assets such as stocks.

³ Scheslinger (1999) - Less Than Zero: Few... Urging for Bigger Nest Eggs

In their 1995 analysis of wealth accumulation, Oliver and Shapiro posit that institutional and social policy and racially biased social structures play a role in asset development. These factors have caused historically low wages as well as limited access to capital for lower-income people, two major impediments to wealth accumulation⁴. After all, the antecedents to asset development are the ability to save and access to resources, such as reasonable loan products and investment vehicles that leverage savings or help savings to grow. Further, although there are a myriad of policies that support and encourage asset development and savings, these tools primarily target middle- to upper-income families. The home mortgage interest deduction, employer-matched retirement saving accounts, and automatic payroll deductions facilitate saving and developing assets. Comparable incentives should also be provided to low-income households.

In addition, as Figure 2 depicts, many lower-income people are not connected to mainstream financial institutions. According to the 1995 Survey of Consumer Finances, approximately 10 million households do not have savings or checking accounts with a financial institution⁵. Racial minorities, female-headed households, lower-income persons, young people, and families living in rural communities are disproportionately represented among the ‘unbanked’.

⁴ Oliver/Shapiro (1995) - Black Wealth/ White Wealth... on Racial Inequality

⁵ Doyle et al (1998) - How Effective is Lifeline... in Assisting the 'Unbanked'?

Figure 2: The Unbanked

Percent of Families Unbanked	12.90%
Income of unbanked families(1995 dollars)	
Less than \$10,000	38.90%
\$10,000-24,999	17.70%
\$25,000-49,999	5.30%
\$50,000-99,999	1.40%
\$100,000 and more	0.00%
Race or ethnicity of head of unbanked families	
White non-Hispanic	7.60%
Nonwhite or Hispanic	30.90%
Housing Status of unbanked families	
Owner	5.20%
Renter or other	27.00%

Source: 1995 Survey of Consumer Finances

People without deposit accounts face several disadvantages. Interest-bearing accounts with financial institutions are the most commonly held asset of consumers, with over 70 percent of all households owning such products⁶. People without accounts must manage their money on a cash basis, and therefore are susceptible to high transaction costs, inconvenience and lost or stolen funds. Holding a deposit account helps families manage their resources, however limited. Funds held in these accounts are convenient and safe because they are federally insured. Checking and savings accounts also help people maintain financial records and encourage savings habits. Managing an account also allows consumers to establish and build a financial history, qualifying them for mortgage loans and other credit products. Lower-income people with deposit accounts are more

⁶ Eller/Fraser (1995) - Asset Ownership of Households: 1993

likely to have a major credit card, a first mortgage or a car loan than those who do not have accounts⁷.

However, inadequate income and limited access to banking products are only part of the asset development landscape. Another component of the picture is financial literacy. Poor financial literacy can have a detrimental impact on consumer personal financial status— affecting the ability to own a home, find employment, buy a car to get to work, purchase life insurance, rent an apartment, or to pay tuition. As a result, it also impacts a consumer's family and entire community⁸.

Budgeting, cash management, the wise use of credit, and knowledge of consumer laws and investment vehicles are fundamental building blocks of savings. However, most people learn these skills on a 'trial and error' basis. Further, we are witnessing both an explosion of investment and lending options and a growing skills gap between consumers. A 1993 survey found that 21-23 percent of adults demonstrate Level I or basic literacy skills⁹. They can not perform even basic arithmetic operations beyond simple addition and would be unable, for instance, to calculate the difference between two differently priced show tickets (see Figure 3). Those with Level II literacy skills, which includes an additional 25-28 percent of the adult population, experience difficulty with rudimentary consumer tasks, such as writing a letter explaining an error on a credit card bill or using a calculator to determine the difference in prices for consumer goods. People with Levels I and II literacy are, in general, likely to be living in poverty and a substantial number are immigrants and people with physical, mental or health problems. When barraged by solicitations for credit cards,

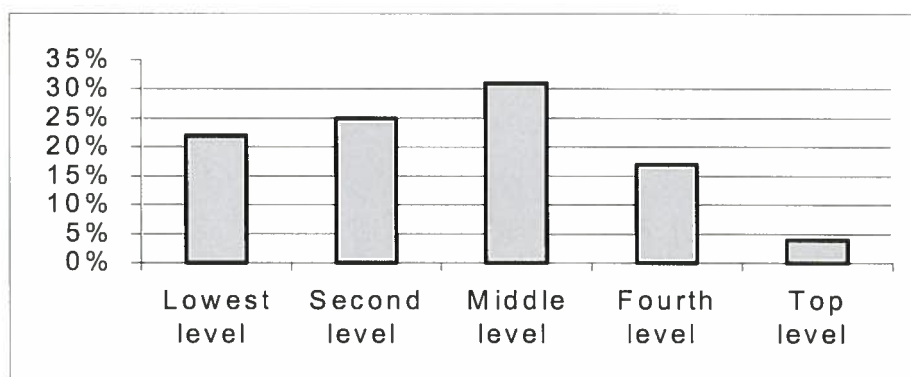
⁷ Hogarth/O'Donnell (1999) - Banking Relationships... Electronic Payment

⁸ A good credit history a condition by insurance companies, landlords, and perspective employers.

⁹ Flack et al (1999) - Individual Development Account... an IDA Program

payday loans, or home equity loans, these consumers may not have the skills needed to make an informed decision.

Figure 3: Consumer Levels of Quantitative Literacy



Source: 1999 Individual Development Account Program Design Handbook

The motivations to commit to developing financial literacy skills include both carrots and sticks. On the one hand, people who want to take a dream vacation, go back to school, purchase a home, or retire with a substantial nest egg are often eager to engage in financial planning. However, once they have attained their goal, they often stop developing or practicing these skills. On the other hand, those who are suffering a financial crisis often seek help to pay or consolidate debts and negotiate disputes with creditors. Unfortunately, those people usually obtain assistance too late. If they had developed a budget and payment plan earlier they could have avoided going deeper in debt or having to take extreme measures, such as filing bankruptcy. In other words, most people must have an incentive to engage in financial planning—those who do not may avoid serious debt but often fail to build savings or assets.

CDCUS AND ASSET DEVELOPMENT

Credit unions are not-for-profit financial cooperatives owned and controlled by their membership. First organized in the United States in 1908, credit unions are truly self-reliant—they pool the savings of members to provide services and to make loans. Credit unions are organized among people with a common bond: an association such as church membership; an occupational/employment link; or residence or business in a community. In addition, some credit unions have multi-group fields of membership (FOM); they are comprised of several groups with a common bond. The assets of credit unions exceed \$300 billion and their total membership is currently 70 million¹⁰.

There are several terms for credit unions whose primary purpose is to serve lower-income people. Members of the National Federation of Community Development Credit Unions (NFCDCU) are known as community development credit unions (CDCU). Low-income credit union (LICU) is a designation made by the National Credit Union Administration (NCUA), a federal agency that regulates and insures credit unions. To qualify for this designation, at least half of a low-income credit union's members must earn less than 80 percent of the median household income of the community that the credit union serves. In most parts of the country, an annual income at or below \$24,000-\$25,000 will qualify members as low-income. LICUs have several advantages over “mainstream” credit unions. They have greater flexibility in determining their membership base and they can expand their capital base by accepting deposits from non-members or by establishing secondary capital accounts.

¹⁰ Gilpin (1997) - Credit Unions are Thriving to the Chagrin of Banks

CDCUs have the formal purpose of providing basic financial services to lower-income people¹¹. For many reasons, financial institutions, banks, savings and loans, and larger credit unions do not reach people with modest incomes. As a consequence, 13 percent of American families do not have a relationship with a financial institution¹². People without bank relationships often resort to check-cashing outlets that charge higher fees and do not provide critical retail banking services such as checking and savings accounts. Further, being unbanked means that individuals lack access to personal management tools and programs that improve financial literacy and lead to asset development.

CDCUs help address the challenges of meeting the financial service needs of low-income households. They are an alternative to predatory lenders¹³ by offering their members loans at affordable rates to buy used cars to get to work, rehab their homes, provide for family emergencies, purchase computers and other household appliances, and consolidate debts. In communities that have been abandoned by mainstream financial institutions, CDCUs are the primary providers of basic financial services such as money orders, check cashing, and savings and checking accounts. Providing such services also makes good business sense. According to a study conducted by the Federal Reserve Bank, once the unbanked obtain accounts, they are more likely to use other savings and credit products and services, generating greater fee income for the institution. Many of these households are already paying up to \$500 a year to cash checks and pay bills¹⁴.

¹¹ For more information, see *Credit to the Community: The Role of CDCUs in Community Development* (1997); *Credit Unions and Communities: Breaking New Ground in Affordable Mortgage Lending* (1996); and *Banking Services for the Poor: Community Development Credit Unions* (1991).

¹² Stegman (1998) - Electronic Benefit Transfer's Potential to Help the Poor

¹³ Predatory lenders charge usurious rates for loans or goods, often to people who can least afford them. They include 'payday' lenders, rent-to-own stores and financial service companies.

¹⁴ Hogarth/O'Donnell (1998) - If You Build It, Will They Come? Income Households

CDCUs are also uniquely positioned to demonstrate how to develop savings and budgeting tools that assist families with even the most modest means in enhancing their financial skills, engaging in financial planning, and developing good credit and building assets. Thrift--the ability and desire to save-- is a major tenet of the credit union movement. CDCUs provide two fundamental building blocks of asset developing. First, they provide financial services, such as savings and checking accounts to communities and households that are not likely to be served by banks and mainstream credit unions—allowing these consumers to become part of the financial mainstream. Second, CDCU members benefit from financial education programs, most of which are informal in nature. CDCUs, which have regular contact with members, are able to reinforce new financial behavior through regular mailings, meetings and counseling sessions.

The CDCUs profiled here have developed a diverse set of approaches to asset development. Central Appalachian Peoples' Federal Credit Union has devised a program that helps very low-income families realize their dream of home ownership. Zion United Credit Union provides a last chance for members with poor credit histories to rebuild their credit records.

Many proponents of financial literacy training contend that good financial management habits must be established early—that it is important to work with children and youth. Two CDCUs have developed such programs. Quitman County FCU manages a youth credit union program that not only helps young people save but also encourages them to serve their poverty-stricken community in rural Mississippi. Individual development accounts (IDA) are savings accounts established by lower-income people for restricted purposes, such as purchasing a home, continuing education or starting a business. Member savings are generally matched by funds from foundations, government sources, banks, religious groups, and others. Several CDCUs have developed IDA accounts. In this report we

examine a program sponsored by Progressive Neighborhood FCU to help high school students save for college.

Last, immigrants often experience great difficulty developing savings. Many have poor literacy skills, distrust financial institutions or may have concerns about their legal status that keep them isolated. Northeast Community FCU, located in the Chinatown and Tenderloin communities of San Francisco, has emerged as a vehicle for asset development for recent immigrants, refugees and other lower-income people.

The following case studies first provide background information on each credit union and its community. A description of the asset development program, as well as its impacts follows. We then describe program partnerships and collaborations that helped establish the programs as well as the resources generated from mainstream credit unions, state credit union leagues, foundations, religious organizations, government agencies, and individuals. Last, the case studies describe other asset development programs of the credit unions and their future program plans.

‘WELCOME HOME’ AFFORDABLE HOUSING PROGRAM OF CENTRAL APPALACHIAN PEOPLES FCU

CENTRAL APPALACHIAN PEOPLES FCU COMMUNITY PROFILE

Central Appalachian Peoples Federal Credit Union (Central Appalachian Peoples FCU) operates in 23 rural counties that are among the poorest and least educated in the nation (see Figure 4). Isolated from larger cities, the community is poorly served by traditional financial institutions and unemployment is high. Access to home mortgages, small business and consumer loans, and deposit services is limited. Major industries include logging, mining, and tobacco production, but public assistance is one of the most important sources of income.

**Figure 4: Central Appalachian Peoples Community Facts
1990¹⁵**

Population	31,794
Median Household Income Range	\$8,595 - \$14,448
Residents Below Poverty Line	30-51%
Racial Composition:	
White	100%
Unemployed	12-17%
On Public Assistance	20%
Less Than 9 th Grade Education	65%
Percent Dwelling Units Renter Occupied	27%
Percent Dwelling Units Lacking Plumbing	5%

Source: 1990 U.S. Census

¹⁵Due to the nature of field of memberships, the demographic data here is representative of, but does not accurately depict the credit union membership. This analysis includes Rockcastle, Jackson, and Owsley counties, Kentucky.

HISTORY AND BACKGROUND OF CENTRAL APPALACHIAN PEOPLES FCU

The Central Appalachian Peoples FCU began as an offshoot of Human/Economic Appalachian Development Corporation (HEAD). HEAD is a coalition of forty-two non-profit and seven for-profit organizations, representing affordable housing, childcare, human service providers, churches, and small employer groups. The coalition was established in 1977. The credit union is a part of Appalbanc. Appalbanc is a community development consortium that includes the Federation of Appalachian Housing Enterprises, Inc. (FAHE), which is a coalition of twenty-eight non-profit housing organizations, and the HEAD community loan fund. Central Appalachian Peoples FCU was founded in 1980 with a focus on providing low-cost financial services and economic development opportunities in its community (see Figure 5). Central Appalachian Peoples FCU has a broad field of membership that includes residents of a large geographic area, as well as all employees and clients of organizational members of HEAD and FAHE. In 1996, the credit union expanded into Jackson County when it opened its first branch office outside of Berea, Kentucky. The credit union also has a branch in Owsley County.

Central Appalachian Peoples FCU has raised a significant amount of its resources from other credit unions and others. The Kentucky Credit Union League has helped the credit union by waiving membership dues and providing grants to enable credit union staff to attend educational workshops and seminars. The National Credit Union Foundation (NCUF) has assisted the credit union since 1980 with grants for general operations and educational seminars. The most recent grant from NCUF helped the credit union establish its Boone County credit union branch. Central Appalachian Peoples FCU has also raised over \$3 million in non-member deposits. The largest contributors are religious institutions, which currently have over \$1.2 million in deposits. Deposits from other credit

unions account for over \$600,000 in non-member deposits. Other non-member depositors include community non-profits, government, foundations, banks and individuals. NFCDCU has also supported Central Appalachian Peoples FCU's efforts. It provided the credit union with a Vista volunteer who was responsible for developing and managing the credit union's IDA program.

**Figure 5: Central Appalachian Peoples FCU Facts
1998**

Summary	
Type of CDCU Charter	Community
Year Established	1980
Charter	Federal
Full-Time Staff	6
Field of Membership (FOM):	Persons who live, work or worship in Jackson County, Kentucky; members, clients, board directors and staff of various non-profit organizations throughout Kentucky, Tennessee, West Virginia; and Select Employee Groups.
December 1998 Finances	
Total Assets	\$ 6,793,975
Regular Shares	\$ 1,230,148
All Other Shares And Deposits	\$ 4,602,025
Total Shares And Deposits	\$ 5,832,173
Total Loans	\$ 3,922,610
Percent Delinquent Loans	10.7%
Total Gross Income	\$ 541,860
Total Operating Expenses	\$ 455,152
Income (Loss) From Operations	\$ 86,708
Membership	
Number of current members: (not number of accounts)	1,289
Number of potential members:	5,000

Source: National Credit Union Administration

WELCOME HOME PROGRAM

The Central Appalachian Peoples FCU Welcome Home Program was established to help thirty-three low-income family or individual members purchase homes. The target group is low-income families living in eastern Kentucky with incomes of 50 percent to 80 percent of the area median-income, especially first time homebuyers. The program targets ten units for previously homeless families and 15 units for families with income below 50 percent of the area median.

Figure 6: Central Appalachian Peoples FCU Welcome Home Program

Summary	
Program Type/Purpose	Down payment savings, home purchase, and homeownership counseling.
Established	1998
Number of Homes Purchased	6
Number of Home Purchases in Progress	3
Community Partners	Federal Home Loan Bank of Cincinnati -- mortgage financing Federation of Appalachian Housing Enterprises (FAHE) Home Loan Fund -- Additional funding, and homeownership counseling; Appalachian Regional Commission

Figure 6 describes the achievements of the Welcome Home Program. Participants must save their own down payment for a home. Once the participants save enough for the down payment, special mortgage terms are available: a two percent mortgage over 20 years with a loan to value ratio (LTV) of 80 percent. A second mortgage, funded by the Home program, finances 10 percent of costs and the borrower must provide a 10 percent down payment. Central Appalachian Peoples FCU has one staff member that coordinates all aspects of the program, including applications, financial literacy training, and consultation.

The goal of the program is to help 33 households become homeowners. Borrowers must obtain a homeowner training certificate from one of several non-profit community organizations in the region. The credit union also holds pre-closing settlement sessions with buyers and helps them clean up any credit problems.

The primary funding for the program is a \$755,000 loan from the Federal Home Loan Bank of Cincinnati with a 20 year term at one percent interest. These terms are available through the Affordable Housing Program of the Federal Home Loan Bank. Additional financial support for the Welcome Home Program is provided by the Federation of Appalachian Housing Enterprises (FAHE) Home Loan Fund, the Appalachian Regional Commission's Section 302 Program, and the Rural Development Section 502 Program. Total project costs are estimated at \$1.9 million for thirty-three units, including program marketing.

Participants in the program are pre-qualified for loans. Those who do not pre-qualify are encouraged to enroll in Central Appalachian Peoples FCU's Individual Development Account (IDA) program.

Retaining the affordability of the homes is a major goal of the Welcome Home Program. Each mortgage includes a restrictive covenant that requires homeowners to pay back all subsidies they received from the credit union if they sell their home to a buyer with an income exceeding the area's moderate-income cap.

The Welcome Home Program is an integral part of the credit union's mission to help members acquire affordable housing. Management at Central Appalachian Peoples FCU anticipate that once

current funds are spent, that they will re-apply to the Federal Home Loan Bank for additional funding.

Impacts

As of spring 1999, the program has closed six mortgages. The first loan was for a family with a modest monthly income of \$1,300 per month, derived from salary, child support, food stamps, and social security sources. Despite having filed bankruptcy two years ago, they were able to purchase a \$63,000 house. In no case are any of the families that participate in the program paying over \$200 a month in mortgage payments and property taxes.

Partnerships

This program involves cooperation not only with funding sources, but also the Federal Home Loan Board, HUD's HOME Program, the Appalachian Regional Commission, and several local non-profit housing developers and community organizations. The saving and mortgage aspects of the program would not be possible without affordable housing development, home counseling, and marketing of the program through non-profit members of Central Appalachian Peoples FCU.

Lessons Learned

Central Appalachian Peoples FCU management has learned that providing affordable home ownership services is very time consuming and costly. They credit their community partners for facilitating the marketing of the programs and providing home ownership counseling. The credit union has found that financing is their strength and the greatest 'added-value' they can bring to the partnerships. Marcus Bordelon, the credit union President, stresses that outside funding is

what makes this program work, particularly because they are working with very low-income families. In addition, Bordelon stresses the need for:

- Stringent underwriting: in the interest of decreasing delinquencies and avoiding customer dissatisfaction, strict underwriting standards are essential.
- Counseling: the credit union works intensively with borrowers to repair credit and to prepare them for the added financial responsibility that home ownership requires.

ADDITIONAL SAVING INCENTIVES OF CENTRAL APPALACHIAN PEOPLES FCU

Members come to understand that savings are a crucial part of the home buying and ownership process. The credit union ties loan rates to the family's savings history as well as their home ownership history, the size of down payment needed, their history with the credit union, and their debt ratio.

Central Appalachian Peoples FCU, in partnership with the Mountain Association for Community Economic Development (a local non-profit community development corporation) and the Owsley County Action Team participate in the Individual Development Account (IDA) pilot program Pathways to Prosperity. The 30 participants of the program must save at least \$15 per month for a total of \$2,500. Their savings, are matched six to one with funds from the Kellogg Foundation, and the Corporation for Enterprise Development. The funds can be used for job training or education expenses, home repair or acquisition, or micro-enterprise development. The National Federation of Community Development Credit Unions provided a VISTA volunteer to support the effort. Other partners include Habitat for Humanity, the Kentucky Housing Corporation, and the New Opportunity School for Women.

All members of the credit union are encouraged to use automatic payroll deductions and to participate in Education IRAs or ROTH savings accounts and must have \$100 in savings to obtain a loan. Central Appalachian Peoples FCU also has a Christmas Club that helps families save for holiday expenses and a Homebuyers Club, in which members are encouraged to save up for one-time annual bills such as escrow, insurance, or taxes.

Credit union programs are supported, in part, by a \$425,000 equity grant and \$100,000 low interest long term loan from the Department of the Treasury's Community Development Financial Institutions (CDFI) fund. The award, which was matched by member and non-member deposits, enables the credit union to continue its lending program, increase membership and provide additional services.

FUTURE ASSET DEVELOPMENT PLANS OF CENTRAL APPALACHIAN PEOPLES FCU

Bordelon observes that one of the challenges of helping lower-income people with home ownership is that long-term counseling is often required. Credit union members who own their own homes are being bombarded with offers from predatory lenders to refinance their homes. Most of these loans are at very high rates and other unsuitable terms, and have become known as 'equity-strippers.' As an alternative, Bordelon would like to develop a home equity loan program that would function like a line of credit, so that home owners could draw down money as needed for emergencies or other expenses.

CREDIT BUILDER SAVINGS PLAN AND LOAN OF ZION UNITED CU

ZION UNITED COMMUNITY PROFILE CU

The Park Hill and Stapleton neighborhoods are low- to moderate-income communities in northeastern Denver, Colorado. Figure 7 provides some basic facts on the community. Park Hill is a relatively stable community, while Stapleton is sparsely populated due to relocation of the airport to another part of the region. The loss of the airport caused a general decline in investment in the area and the departure of many businesses and banks.

Figure 7: Zion United CU Community Facts
1990¹⁶

Population	35,716
Median Household Income	\$29,236
Residents Below Poverty Line	10%
Racial Composition:	
White	79%
Black	15%
Other	6%
Unemployed	5%
On Public Assistance	4%
Less Than 9 th Grade Education	3%
Percent Dwelling Units Renter Occupied	49%
Percent Dwelling Units Lacking Plumbing	0%

Source: 1990 U.S. Census

¹⁶ Analysis of Park Hill and Stapleton communities-the 80220 zip code.

HISTORY AND BACKGROUND OF ZION UNITED CU

Zion Baptist Brotherhood Church, founded in Park Hill in 1863, established the Zion Baptist Brotherhood Credit Union in 1959. The credit union was converted from a church to a community field of membership in October of 1997, and its name was changed to Zion United Credit Union (Zion United CU). Zion United CU moved its offices from the church basement at that time in the interest of serving its new community membership. Since its re-organization, the credit union is experiencing an explosion of membership, adding an average of 20-30 new members per month. Their main office, a renovated former bank branch building on a central avenue, has become a community anchor. Figure 8 provides a summary of data on the credit union.

Raising additional funding is always a challenge for CDCUs. Zion United CU has raised over \$500,000 in non-member deposits from mainstream credit unions in Colorado, including the U.S. Consolidated FCU, SUNCORP CU, Gates CU and the Public Service CU. In addition, the NFCDCU has made a \$100,000 non-member deposit. Further, the state credit union league has been very supportive of Zion United CU's programs. The Colorado League has a certificate of deposit of \$100,000 and has donated a range of technical support, including lending personnel and advising on the purchase of equipment and computers.

**Figure 8: Zion United CU Facts
1998**

Summary	
Type of CDCU Charter	Community
Year Established	1959
Charter	State, Federally-insured
Full-Time Staff	3
Field of Membership (FOM):	Residents of the northeastern Denver communities of Park Hill and Stapleton.
December 1998 Finances	
Total Assets	\$ 2,594,304
Regular Shares	\$ 638,588
All Other Shares And Deposits	\$ 1,460,687
Total Shares And Deposits	\$ 2,099,275
Total Loans	\$ 2,060,976
Percent Delinquent Loans	2.6%
Total Gross Income	\$ 236,514
Total Operating Expenses	\$ 105,073
Income (Loss) From Operations	\$ 131,441
Membership	
Number of Current Members: (not number of accounts)	1,022
Number of Potential Members:	20,000

Source: National Credit Union Administration

CREDIT BUILDER SAVINGS PLAN AND LOAN PROGRAM

In April of 1998, Zion United CU began a program to help low- and moderate-income members repair past credit problems that prevent them from meeting their financial needs (Figure 9). The target audience is members who view the loan as the “last chance” to build a good credit rating. The typical participant is in his or her thirties and has balances of several thousand dollars on multiple

credit cards. Other participants, such as two young college-educated women in their late twenties, needed funds to pay off college debts.

**Figure 9: Zion United CU
Credit Builder Savings Plan and Loan Program**

Summary	
Program Type/Purpose	Debt repayment, credit repair, and savings program.
Established	1998
Number of Participants	28
Community Partners	Denver Municipal Credit Union -- shared office space Local Churches--member recruitment

In order to be eligible for the program, applicants must be a member of the credit union for at least 6 months, employed, and have a salary of at least \$1,000 per month. No credit check is conducted. Most importantly, applicants must show determination to work with the credit union to improve their credit by repaying loans and contributing to savings.

Once accepted into the program, the credit union provides a personal loan consolidating outstanding debts at 17 percent interest—a rate comparable or better than that on most credit cards. Participants may not have any other loans with the credit union, and \$50 in savings is frozen until the loan is paid back in full.

Each month, participants make payments on their loan. Ten dollars of each monthly loan payment goes into savings account that earns 1 percent higher interest than other credit union accounts. There is a penalty for withdrawing before the savings goal is met. Participants are

encouraged to use payroll deduction for their monthly payments, which simplifies payments and decreases delinquencies.

Borrowers work with the credit union manager and volunteers to develop a budget and keep current on new bills as well as their credit union loan. Although the credit union does not provide formal counseling sessions, the manager and office manager meet informally with borrowers as needed. The credit union also has a credit committee of volunteers who provide additional assistance, such as assisting members with managing their checking accounts. Zion helps each borrower obtain a copy of their credit report so they understand what it includes and have the opportunity to address any errors.

An important part of the program is that the credit union regularly reports participant progress to credit agencies. The program is marketed through brochures available at the credit union and at presentations at local churches.

Impacts

A total of \$14,000 has been loaned to 28 credit union members thus far--11 of which have been paid in full. Five of the loans are in jeopardy of default, representing about eight- percent of the portfolio. Participants in the program have saved over \$1,800.

Partnerships

The credit union shares office space with the Denver Municipal FCU. Denver Municipal FCU operates a credit union service outlet (COSO) in the building, which was formerly a bank branch that had been vacant for some time. The relocation from the church basement into this visible

office on a commercial main street was an important step in expanding the credit union's membership. In addition, the number of teller transactions has doubled since the move because of the new location and more convenient hours.

Lessons Learned

Zion United CU has a very small staff of only three full-time employees. Sally Edwards, the Treasurer/Manger of the credit union, attributes the success of Credit Builder and other programs to the volunteer members of the credit committee. Although Edwards can approve small loans, the committee meets to review five-to-ten loan requests per week. In addition, they work with credit union members who need one-on-one assistance with personal finance management, helping them to balance their accounts, write checks and develop budgets.

ADDITIONAL SAVINGS PROGRAMS OF ZION UNITED CU

At the same time that the Credit builder program was established, Zion also introduced the Goals Fund. The purpose of this product is to help people save for a goal— such as purchasing a bicycle, saving for a downpayment on a house, vacations, or Christmas expenses. Regular deposits to the fund are required and early withdrawals are penalized by a 60 percent reduction in interest. The advantage of the account is that funds earn one percentage of interest higher than regular credit union share savings accounts.

FUTURE ASSET DEVELOPMENT PROGRAM PLANS OF ZION UNITED CU

Credit union management has been disappointed by the participation in the Goals Fund. People enrolled primarily to save for Christmas expenses, and withdrew their funds at that time. The credit union plans to more aggressively market the Fund in the future.

YOUTH CREDIT UNION PROJECT OF QUITMAN COUNTY FCU

QUITMAN COUNTY COMMUNITY PROFILE

Located deep in the Mississippi Delta, Quitman County is a rural, predominantly African-American community. Many families have very low-incomes and unemployment is high. A recent plant closing has added to the general lack of community opportunity; many young people want to leave to live in the big cities. The Quitman County Development Organization (QCDO) was founded in the 1960s to promote economic and human development in the region.

**Figure 10: Quitman County Community Facts
1990**

Population	10,490
Median Household Income Range	\$13,730
Residents Below Poverty Line	41%
Racial Composition:	
White	41%
Black	58%
Other	1%
Unemployed	12%
On Public Assistance	28%
Less Than 9 th Grade Education	41%
Percent Dwelling Units Renter Occupied	32%
Percent Dwelling Units Lacking Plumbing	6%

Source: 1990 U.S. Census

HISTORY AND BACKGROUND OF QUITMAN COUNTY FCU

Quitman County Federal Credit Union (Quitman County FCU) was created by QCDO in 1981 with a start-up grant of \$10,000 from the National Federation of Community Development Credit Unions (NFCDCU). The credit union operates out of the same building as QCDO, which also serves as a meeting hall for other community groups. Quitman County FCU has an elected board consisting of eleven members—parents, teachers, QCDO staff, and business people—who help raise funds, drive kids to volunteer assignments, and operate the credit union. Figure 11 provides basic information on the credit union.

The Mississippi Credit Union System, a trade association of 134 credit unions in Mississippi, has been very supportive of Quitman County FCU. In addition to non-member deposits, it has provided technical assistance on technological developments, guidance on the development of new Quitman County FCU products and funding for equipment and supply purchases. The Mississippi Credit Union System also helps the credit union write proposals to foundations and others for grant funding.

Quitman County FCU has raised over \$1 million in non-member deposits. The bulk of these deposits have been collected from mainstream credit unions, NFCDCU, and NCUA. The credit union has also received deposits from religious groups, individuals, foundations and government agencies.

**Figure 11: Quitman County FCU Facts
1998**

Summary	
Type of CDCU Charter	Church, Community, Multi-Group
Year Established	1994
Charter	Federal
Full-Time Staff	2
Field of Membership (FOM):	Residents of Quitman County; members of various local churches and employer groups.
March 1999 Finances	
Total Assets	\$ 3,021,572
Regular Shares	\$ 1,238,414
All Other Shares And Deposits	\$ 1,235,379
Total Shares And Deposits	\$ 2,473,793
Total Loans	\$ 1,562,044
Percent Delinquent Loans	2.3%
Total Gross Income	\$ 251,850
Total Operating Expenses	\$ 113,014
Income (Loss) From Operations	\$ 138,836
Membership	
Number of current members: (not number of accounts)	1,210 (475 youth ages 7 to 17)
Number of potential members:	10,490

Source: National Credit Union Administration

YOUTH CREDIT UNION PROJECT

Since its founding in 1981, Quitman County FCU has focused on reaching its African-American, low-income community base. The membership is largely made up of single women, minorities, and public aid recipients. Inspired by the belief that community change is rooted in the next generation, Quitman County FCU has made strong efforts to work with local youth.

Figure 12: Quitman County FCU Youth Project

Summary	
Program Type/Purpose	A variety of saving incentives and financial education programs aimed at local school-aged children.
Established	1993
Number of Participants	100
Community Partners	Quitman County Development Organization

In June of 1993, Quitman County FCU began the Youth Credit Union Project (Figure 12), which was designed to teach young people about saving, investing, and service learning through community leadership and volunteerism. The Youth Credit Union is run by its members. They elect their own Board, hold monthly meetings, and operate various committees to manage the credit union's affairs.

The Youth credit union manager Pearl Watts supervises the Board volunteers who operate a Savings Day once a week at the local elementary and middle schools. On Savings Days, students can make deposits and receive help updating their passbooks at their local schools. Deposits typically range from \$0.50 to \$25. A few days prior to Savings Day, teachers and students make announcements that deposits can be taken. Ms Watts also occasionally visits classes and distributes flyers. Students can open an account with as little as \$3. Participants are given a piggy bank that they can bring to school on Savings Days. Watts hopes to expand the program to the local high school soon.

Providing school-based programs has been vital to reaching the target audience. On average, five new students join the Youth Credit Union Program every week. Savings Days make saving

convenient for the many Quitman County children who live far from town and cannot get to the credit union. Further, the board members are required to recruit at least three new members per year. The program helps students to save by setting savings goals, rewarding students when they reach these goals, and urging kids to cut spending on frivolous purchases like candy bars. No members of the Youth Credit Union program have closed their accounts or ended their membership, although several have moved to the adult credit union. Ms. Watts encourages kids to continue to participate in the Program and to regularly make deposits, even if they can afford only \$1 per week.

The Youth Credit Union program also offers financial workshops for youth that explain the hazards of using sub-prime lenders, manual and computer bookkeeping and accounting techniques, and checkbook balancing among other financial topics. One group of youth operates a sweet shop three days a week at the credit union office. Students maintain the books, manage the operations, and attend workshops on running a business.

Another project of the Youth Credit Union is a summer day camp for kids, a low cost (\$25), six-week educational programs. Many Board members work at the summer camp and receive a stipend. Teen leaders plan camp activities such as arts and crafts, sports activities, and weekly field trips. They also plan and lead workshops on numerous topics, such as financial planning, personal hygiene, public speaking, gangs, drugs, crime in the community, getting a job, and preparing for higher education. Local business leaders are frequently invited to make presentations. The summer camp culminates with a community trip for up to 35 kids. In 1998, the group traveled to Atlanta. Youth leaders also went to New York City to attend the 25th anniversary of NFCDCU and met with

other youth credit union programs from across the country. A trip to Orlando is planned for the year 2000.

Youth Credit union members plan social events for themselves and the community as a way of raising money and having fun. Recent events have included retreats, a “teens night out” semi-formal party, summer block parties, and a raffle which helped credit union members attend the NFCDCU conference in New York. Another initiative of the Youth Credit Union focuses on inspiring members to volunteer in the community. Various groups have delivered food baskets, visited with senior citizens, and washed dishes. The credit union at large also participates in the Adopt-a-Highway program.

The Youth Credit Union is marketed through its many community activities such as school Savings Days, monthly newsletters, T-shirts, flyers and brochures, visits to schools, church presentations, and joint projects with other youth groups.

The manager of the Youth Credit Union is planning to expand it to other impoverished communities adjacent to Quitman County. Ms. Watts plans to work with other school districts to find a site in a church, community center or school to establish regular Savings Days. In addition, she has considered conducting fundraising that would allow the Youth Credit Union to expand its candy store space.

Partnerships

The Quitman Youth Credit Union Project has received financial assistance for its youth programs from the Kellogg Foundation, NFCDCU, and the Foundation of the Mid-South. They

have also conducted joint activities with Save the Children's after school tutoring program in four communities in Quitman County.

Lessons Learned

Operating the Youth Credit Union Project has given Quitman County FCU staff some valuable insight. Encouraging youth to practice thrift requires a great deal of relationship building and continuous reinforcement. The participation of adult members of the credit union members is invaluable, as is the participation of local schools that integrate projects such as Savings Day into classroom activities.

ADDITIONAL SAVINGS INCENTIVES OF QUITMAN COUNTY FCU

In partnership with QCDO, Quitman County FCU provides micro-enterprise development, home ownership financing and technical assistance. The credit union also offers extensive one-on-one financial literacy counseling.

FUTURE ASSET DEVELOPMENT PROGRAM PLANS OF QUITMAN COUNTY FCU

The Youth Credit Union Board is currently developing a loan program. The application and eligibility criteria are in the development stage. Youth members will be able to borrow against their savings with a parent's signature. In the future, Youth Credit Union would also like to offer checking accounts.

YOUTH INDIVIDUAL DEVELOPMENT EDUCATION ACCOUNT PROGRAM OF PROGRESSIVE NEIGHBORHOOD FCU

PROGRESSIVE NEIGHBORHOOD FCU COMMUNITY PROFILE

Rochester, NY is a diverse, working class city of about 232,000 on the south shore of Lake Ontario. The city suffered from industry changes in the 1980s and the early 1990s following a recession that affected large local employers such as Kodak and IBM. The credit union serves a primarily low-income and minority communities. (Figure 13).

**Figure 13: Progressive Neighborhood Community Facts
1990¹⁷**

Population	132,389
Median Household Income Range	\$8,473 - \$36,550
Residents Below Poverty Line	30%
Racial Composition:	
White	44%
Black	47%
Asian	2%
Other	5%
Unemployed	12%
On Public Assistance	23%
Less Than 9 th Grade Education	17%
Percent Dwelling Units Renter Occupied	54%
Percent Dwelling Units Lacking Plumbing	1%

Source: 1990 U.S. Census

¹⁷ Analysis of northeast and southwest Rochester communities includes census tracts 36-63, 2, 7, 13-17, 23-24, 27, 33, 39-41, 43, 46.02, 47.02, 48, 50-59, 62-71, 75, 79-82, 84, 87.01, 87.02, 88, 91-92, 93.01, 95, and 96.01-96.04.

HISTORY AND BACKGROUND OF PROGRESSIVE NEIGHBORHOOD FCU

The Greater Rochester Community of Churches founded Progressive Neighborhood FCU in 1995. Their goal was to establish a financial institution for under-served lower-income communities of Rochester. Board members include leaders and members of church and community organizations.

Progressive Neighborhood FCU has an excellent record of raising funds and developing sources of support from other credit unions, the state credit union league, CUNA Mutual, individuals, religious organizations and others. Mainstream credit unions provide over \$200,000 in non-member deposits, provide conferences and travel funding and conduct credit and budget workshops for Progressive Neighborhood FCU members. They also make in-kind donations of office equipment, computers and fixtures and provide lending analysis and financial auditing technical assistance.

The New York State Credit Union League (NYSCUL) made a scholarship to a member of the credit union and provides training for the Board of Directors and the Supervisory Committee of the credit union. The League also help Progressive Neighborhood FCU learn and implement new NCUA policies and procedures, answer questions about accounting procedures, and provide the credit union with tools to analyze product costs.

Progressive Neighborhood FCU has raised almost \$1.3 million in non-member deposits. In addition to credit unions, the credit union has received deposits from individuals, religious institutions, public agencies, and local banks.

**Figure 14: Progressive Neighborhood FCU Facts
1998**

Summary	
Type of CDCU Charter	Community
Year Established	1995
Charter	Federal
Full-Time Staff	2
Field of Membership (FOM):	Residents of specified areas of Rochester, NY.
December 1998 Finances	
Total Assets	\$1,566,226
Regular Shares	\$ 236,542
All Other Shares And Deposits	\$1,256,186
Total Shares And Deposits	\$1,492,728
Total Loans	\$ 466,933
Percent Delinquent Loans	1%
Total Gross Income	\$ 104,415
Total Operating Expenses	\$ 134,135
Income (Loss) From Operations	\$ (29,720)
Membership	
Number of current members: (not number of accounts)	1,214
Number of potential members:	132,000

Source: National Credit Union Administration

YOUTH INDIVIDUAL DEVELOPMENT EDUCATION ACCOUNT PROGRAM

Progressive Neighborhood FCU has been helping youth since its inception through a youth credit union, a scholarship fund, and community involvement in local schools. In March of 1998, the credit union expanded this effort with a new program--the Individual Development Education Account (IDEA). Figure 15 describes some of the achievements of the program.

Figure 15: Progressive Neighborhood FCU Youth IDEA Program

Summary	
Program Type/Purpose	IDA program matching youth savings for higher education.
Established	Spring 1998
Number of Youth Graduated from Program	13
Number of Youth Currently Participating	11
Community Partners	CCCS -- Financial Literacy Local High Schools -- on-site facilities Local colleges -- matching funds NFCDCU -- Vista Volunteer, IDEA materials

The program targets African-American and Hispanic youth in their junior or senior year of high school. Rochester's public high schools graduate about 900 students each year, about 30 percent of whom go on to higher education, primarily at Monroe Community College. By stressing the philosophy that youth credit union involvement builds tomorrow's community leaders, Progressive Neighborhood FCU has convinced local colleges to participate in matching student savings because they too have a stake in the human development of Rochester youth. The IDEA program seeks to encourage first-time savers and support their efforts at money management. A youth coordinator staff member and volunteers operate the program.

Participating students are encouraged to save money in an IDEA. Savings are matched 1:1 or 1:2 for up to \$500 with money from the Progressive Scholars Fund and/or area colleges. Students can transfer money from current savings into their IDEAs and can make deposits as often as they like. To be eligible for matching funds, students must graduate from high school and save at least \$100. Students also must establish and meet monthly savings goals. When the time comes to use their savings for funds are paid directly to the school.

Students are supported in their savings efforts through monthly financial literacy and personal budgeting training. They are assigned volunteer mentors who work with the students for a minimum of two years and meet with them twice a month. The program attempts to match students with mentors who have related career interests.

The program is marketed through presentations to classrooms in local schools and the distribution of brochures. Word-of-mouth has proved to be the most effective marketing technique. Since April 1998, Progressive Neighborhood FCU has operated a satellite credit union office at Edison Technical and Occupational High School. At this satellite, students can open accounts and make deposits to savings accounts and IDEAs. Volunteer student tellers perform much of the work.

Impacts

Fourteen students participated on the first round of the program, which ended June 1999. Thirteen of the students graduated from high school--one plans to graduate in December 1999. Each has or will enter a local college and saved \$250 to \$500. Most of the students are African-American and Hispanic youth from lower-income families, although there is no income criteria to participate in IDEA. The IDEA program is now focusing on its second round of 11 participants who will graduate in 2000.

Partnerships

One of the primary community partnerships to come out of Progressive Neighborhood FCU's youth asset initiatives was the satellite credit union office at Edison Technical and Occupational High School. Established in April of 1998. The school committed to help train four volunteer tellers, recruit a minimum of 50 members, and provide local administrative supervision and

leadership as well as computer equipment. Area colleges also participate by providing matching funds for student IDEAs. Another ongoing collaboration between Progressive Neighborhood FCU and Consumer Credit Counseling Services of Rochester provides credit education to youth members.

Since 1998, the credit union has operated the Progressive Scholars Fund, which uses money raised from community residents to provide match money for student savings. Additionally, the National Federation of Community Development Credit Unions has provided Progressive Neighborhood FCU with a Vista volunteer as well as match money for the IDEA program.

Lessons Learned

Neighborhood FCU staff asserts that the major challenges and issues of managing the program are relationships with partners. For instance, one local community group had agreed help market the program and provide financial literacy training. However, they were unable to meet this commitment and Neighborhood FCU had to conduct its own marketing and identify another source for literacy training. Credit union manager Melinda Marquez also suggests that when developing new programs it is best to start small, keep the program relatively simple and work extensively to identify reliable partners.

ADDITIONAL SAVINGS INCENTIVES OF PROGRESSIVE NEIGHBORHOOD FCU

Progressive Neighborhood FCU is involved in several other IDA initiatives. It provides financing and savings accounts to participants in the Neighborhood Housing Services of Rochester

Homeownership Individual Development Account program. Participating first-time homeowners in the City of Rochester will receive a 3:1 match for up to \$5,700.

The Community Microenterprise Loan Program is a partnership of the credit union and several other community groups. It provides funding for small business development. In addition, Progressive Neighborhood FCU sponsors financial workshops on the first Saturday of every month and provides extensive individual financing counseling.

FUTURE ASSET DEVELOPMENT PROGRAM PLANS OF PROGRESSIVE NEIGHBORHOOD FCU

The credit union is committed to IDEA and would like to have at least 15 participants per year for the next five years. In order to do this, Progressive Neighborhood FCU management would like to create an endowment for the Progressive Scholar's Fund so that there is a stable source to match savings. The credit union is in the process of marketing the Fund and raising money from individuals and others. In addition, credit union management would like to improve the mentoring program by providing training to mentors and collaborating with other community mentoring programs. As IDEA grows, membership maybe determined by a lottery, or by income or grade criteria.

The credit union is also developing a partnership with the Genesee Transportation Council that is aimed at helping welfare recipients gain access to transportation that will help them find and keep jobs. The program will help fund the purchase of cars through Welfare Independence through Transportation Services (WITS) IDAs. The credit union will maintain accounts and provide loans.

PROMOTING SAVINGS OF IMMIGRANTS AND REFUGEES: NORTHEAST COMMUNITY FCU

COMMUNITY PROFILE

San Francisco has long been known as a welcoming home to immigrants from around the world. Located to the north and west of San Francisco's financial district are the busy, crowded neighborhoods of Chinatown and Tenderloin. These communities are the densely populated homes of many recent immigrants, refugees and other low-income people with limited access to financial services.

**Figure 16: Northeast Community FCU Community Facts
1990¹⁸**

Population	87,311
Median Household Income Range	\$9,000 - \$40,000
Residents Below Poverty Line	18%
Racial Composition:	
White	44%
Asian	50%
Other	6%
Unemployed	7%
On Public Assistance	13%
Less Than 9 th Grade Education	27%
Percent Dwelling Units Renter Occupied	90%
Percent Dwelling Units Lacking Plumbing	5%

Source: 1990 U.S. Census

¹⁸ Analysis of Chinatown and Tenderloin census tracts: 6-7-101, 103-4, 106-114, 117-24

HISTORY AND BACKGROUND OF NORTHEAST COMMUNITY FCU

Northeast Community FCU evolved out of the philosophy that people within Chinatown share a common desire to work cooperatively to improve their working and living conditions (see Figure 17). Organized in 1981, the credit union is committed to serving the unmet financial needs of low-income community residents. It provides deposit accounts as well as residential and small business loans. The credit union has made over 2,200 loans totaling over \$13.6 million to hundreds of member households. In 1999, Northeast Community FCU opened a second branch office in the Tenderloin neighborhood to expand its membership and its ability to serve the lower-income community.

Non-member deposits and assistance from credit unions, the state credit union league and NFCDCU leverage the credit union's resources. Northeast Community FCU has raised over \$2 million in nonmember deposits from mainstream credit unions and churches in the community. The credit union has also developed strategic partnerships with Patelco credit union (see section on partnerships). In addition, Northeast Community FCU received \$740,000 in non-member deposits and grants from the CDFI program to establish the Tenderloin branch. The California Credit Union League is an important resource for Northeast Community FCU. The League is particularly helpful in providing information on new federal credit union regulations and procedures. NFCDCU also assisted the credit union's expansion. It provided a long-term, below market interest rate loan of \$250,000.

Figure 17: Northeast Community FCU Facts

Summary	
Type of CDCU Charter	Community
Year Established	1981
Charter	Federal
Full-Time Staff	2
Field of Membership (FOM):	People who live, work or have an association tie to Chinatown and Tenderloin in San Francisco, CA.
December 1998 Finances	
Total Assets	4,120,040
Regular Shares	2,202,553
All Other Shares And Deposits	1,339,779
Total Shares And Deposits	3,542,332
Total Loans	2,013,220
Percent Delinquent Loans	1.3%
Total Gross Income	298,608
Total Operating Expenses	141,738
Income (Loss) From Operations	156,870
Membership	
Number of current members: (not number of accounts)	832
Number of potential members:	70,000

Source: National Credit Union Administration

PROMOTING SAVINGS OF IMMIGRANTS AND REFUGEES

Northeast Community FCU provides a safe place to save for people who may have concerns about using a financial institution. Many of the members are recent immigrants or refugees who come from cultures where financial institutions are not accessible or trustworthy. Many of the members are also concerned that maintaining a deposit account will violate citizenship or immigration regulations.

In addition, credit union members are vulnerable to predatory lenders due to limited financial or language literacy. The credit union engages in financial literacy to teach people about the disadvantages of taking out sub-prime loans and offers loans to consolidate debt and lower payments and interest.

Small business lending is also a major part of the credit union's efforts. Applicants, who may have experienced denials by a bank, are eligible for a minimum \$5,000 business loan. Further, unlike banks, the credit union does finance start-ups as long as owners provide matching funds, have business experience, and provide suitable collateral.

Impacts

The credit union made four business loans in 1998 for \$230,000. It has assisted in the start-up or expansion of restaurants, a printing company, garment manufacturers, a paper recycling firm, a plastics factory, nail and beauty salons, and a clothing designer.

Tin Shing Printing is an example of the business development efforts of the credit union. The business was started in the early 1980s, when Ming Lok, a recent immigrant, approached Northeast Community FCU for financing. The credit union provided a small loan for the business, which has grown from annual sales of \$100,000 to sales exceeding \$500,000. The business employs ten people, including four of Mr. Lok's children.

Partnerships

Northeast Community FCU has developed several collaborations with other organizations. Chinese for Affirmative Action (CAA), a local non-profit, is a sponsor of the credit union. CAA,

which owns the building where the Chinatown branch of the credit union is located, provides low-income housing development, drug rehab and employment and training for local residents. Consumer Action, a consumer advocacy group that engages in extensive financial literacy education efforts (see resources), has also been instrumental to the credit union's efforts.

In addition to providing financial literacy education to credit union members, CAA introduced the credit union to officials of Patelco, the credit union for employees of Pacific Bell (operates in California, Washington and Oregon). Patelco assisted Northeast Community FCU with the remodeling costs of its second branch in Tenderloin. It also made a \$425,000 non-member deposit to the credit union at 0 percent interest. As part of its efforts to market its services in the Tenderloin community, the credit union works with local property managers who refer tenants with financial issues to the credit union for counseling or services. Last, NFCDCU has provided extensive assistance to the credit union. It helped the credit union hire a VISTA volunteer to assist with the opening of the second branch in Tenderloin. NFCDCU also provided a \$250,000 secondary capital loan. The loan improves the capital position of the credit union, thus increasing liquidity.

Each Tuesday when the credit union is closed, Lily Lo, the credit union manager, engages in community outreach. Ms. Lo attends meetings with local groups, churches, and small business owners to encourage membership in the credit union and provide information on financial literacy.

Lessons Learned

The Board of Northeast Community FCU has learned the limits of relying on volunteers and the need for experienced, full-time employees. In its early years, the credit union relied on volunteer staff. Although growth and development was very slow, by 1994, the credit union was a

substantial lender, with a loan to assets ratio over 80 percent. However, this tremendous growth strained the resources and energies of the Credit Committee, and the credit union experienced high delinquencies and loan losses. Therefore, the Board hired an experienced financial manager, who helped them revise their lending policies. The credit union also implemented an aggressive collection program and began extending loan terms if borrowers reduced their delinquent balances. As a result of these proactive steps, the credit union has reduced its delinquencies from almost 13 percent in 1995 to 1.3 percent in 1998.

FUTURE ASSET DEVELOPMENT PLANS OF NORTHEAST COMMUNITY FCU

Northeast Community FCU has received approval for a \$280,000 capital grant and a \$400,000 grant from the Community Development Investment Fund. The money, which will be matched by non-member and member deposits, will be used to expand deposit and lending services. The credit union is interested in an on-site ATM and plans to offer a checking account as well as a direct deposit option. Northeast Community FCU intends to hire additional staff to provide credit counseling for members. This person would also be responsible for packaging home mortgages for first-time homebuyers through a program developed by the City that provides a subordinated second mortgage.

LESSONS-LEARNED AND SUGGESTIONS FOR ESTABLISHING NEW ASSET DEVELOPMENT PROGRAMS

Enabling lower-income people to save and develop assets can take a variety of approaches. It might involve working with youth to help them build good habits that will serve them through adulthood. It can also mean helping lower-income families realize their dream of home ownership by helping them manage their budgets, save for a downpayment, and qualify for a mortgage. Helping lower-income people develop assets can include helping them obtain a college education or improve their credit rating. It also means teaching recent immigrants about the U.S. financial system so that they feel comfortable using financial institutions.

It is our hope that this report will encourage other credit unions, community development finance institutions (CDFIs), banks and others to develop programs that fit their communities. We also hope that others can benefit from the lessons learned and advice of the staff of the credit unions responsible for designing, managing and assessing these asset development programs.

LESSONS-LEARNED

Mutual Responsibility

There is an implied contract between credit union members and those running asset and savings development programs. Although the role of the credit union is to empower and facilitate savings, members are aware that they have responsibilities too. They must meet their savings goals, pay bills promptly, complete training, etc. This may be particularly important for youth. The Quitman County FCU and Progressive Neighborhood FCU programs held youth

participants accountable for meeting savings goals, attending classes, and participating in programs.

Flexibility

These programs work because they are adapted to the needs of the CDCUs membership. A 'one size fits all' approach may not address the lending and service needs of diverse communities, such as recent immigrants with little or no experience with formal financial institutions.

Collaboration

A tactic several credit unions use to implement their programs is the use of other relevant services of other institutions. Collaborations and partnerships are essential factors of success. The partners outlined in this study gave the CDCUs technical knowledge and expertise in credit repair, home counseling or job development, and helped increase services to credit union members at little or no cost. Community partners have the added advantage of increasing the outreach of the CDCU.

For instance, Central Appalachian Peoples FCU attributes the success of the Welcome Home Program to the home counseling services of local community organizations. Progressive Neighborhood FCU was able to integrate its savings programs with the curriculum of local schools, thus easing participation for students. The youth credit union members of Quitman County have the opportunity to meet local leaders and employers, and Progressive Neighborhood FCU facilitates a mentor relationship between the youth and the local consumer

credit counseling service. Northeast Community FCU has also been successful in coordinating financial literacy counseling with Consumer Action.

Staff And Board Involvement And Commitment

In order to succeed, the credit union Board of Directors must be committed to these programs. In addition, much of the success of Zion United Credit Union and Quitman County FCU is due to assistance from volunteers. Experienced staff is also important, particularly with developing stringent loan policies, engaging in loan collections and providing financial literacy training.

SUGGESTIONS ON STARTING AN ASSET DEVELOPMENT PROGRAM

Start With The Basics

Many lower-income people do not have access to basic financial services, such as checking and savings accounts, or lack the skills to manage their finances effectively. Offering appropriate products and financial counseling is a good first step to addressing the needs of this population.

Learn About Your Membership

Lower-income people are a diverse group. Seniors have different financial service and credit needs than young families or new immigrants. Make no assumptions about your audience -- do not presume that they are familiar with financial terms or have financial skills. Be basic in your communication and avoid technical jargon. Conduct a survey or research on consumer needs, or work with collaborators with knowledge of your targeted community.

Market The Program

Effective marketing of the program is key. CDCUs have the advantage of a membership and board to spread the word. Consider developing workshops or counseling services to prospective home or small business owners.

Relationship Building

Provide opportunities for people to meet with counselors on a one-to-one basis. These sessions can reinforce information learned in workshops and increase a member's comfort with the credit union.

Community Building

Stress your credit union's commitment to the community and its welfare, as well as the members of the credit union. Make people feel a part of a larger community building effort.

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APPENDIX A: RESOURCES FOR ASSET DEVELOPMENT PROGRAMS

Coalition of Community Development Financial Institutions 924 Cherry St., Second Floor Philadelphia, PA 19107 (215)923-4754 www.cdfi.org	The Coalition's mission is to increase public and financial support for CDFIs through advocacy, outreach, public education and training. It prepares information on individual CDFIs, publishes a newsletter, sponsors public educational briefings and conferences, and works with community based advocates at the national, state and local levels.
Community Development Financial Institutions Fund (CDFI Fund) 1500 Pennsylvania Avenue, NW Room 5116 Washington DC 20220 (202)622-8662 www.treas.gov/cdfi	Administered by the US Treasury Department, the CDFI Fund provides seed and expansion capital to community-based banks, credit unions, loan funds and micro-lenders.
Consumer Action's National Consumer Resource Center 717 Market Street, Suite 330 San Francisco, CA 94103 (415) 777-9635 or (213) 624-8327 www.consumer-action.org	Has developed several multi-lingual publications on banking and finance, insurance and other consumer issues.
Consumer Credit Counseling Services of America (CCCS) 601 Pennsylvania Avenue, NW Suite 900, South Building Washington, D.C. 20004 (202) 637-4851 www.consumercounseling.org	A network of 1,450 non-profit agencies that provide financial and consumer counseling and help consumers negotiate and manage debt repayment plans.
Consumer Information Center Dept. WWW Pueblo, CO 81009 1-888-8-PUEBLO www.pueblo.gsa.gov	CIC provides free and low-cost booklets and offers a free catalog.
Cooperative Extension Services Department of Agriculture Washington, D.C. 20250 (202) 720-2810 www.reeusda.gov	Land-grant universities in rural and urban areas offer a financial literacy curricula that help people develop personal assets. Money 2000, offered in eight states, aims to help citizens save \$2,000 by the year 2000.
Corporation for Enterprise Development (CFED) 777 North Capitol Street, NE Suite 410 Washington, D.C. 20002	Provides technical assistance on Individual Development Account (IDA) programs.

(202) 408-9788 www.cfed.org	
Credit Union National Association (CUNA) CUNA, Inc. P.O. Box 431 Madison, WI 53701-0431 1-800-356-9655 www.cuna.org	The Community Outreach and Restoration Effort (CORE) program collaborates with credit unions in under-served communities to provide financial literacy programs.
National Credit Union Foundation, Inc. POB 431 Madison, WI 53701 (608)231-5766 www.cuna.org	Provides grants to credit unions for special projects, operations or lending programs. Funds cannot be used for organizing efforts.
Federal Deposit Insurance Corporation (FDIC) 550 17 th Street, NW Washington, D.C. 20429 1-800-934-3342 www.fdic.gov	Publishes materials suitable for children on the basics of money management.
Federal Reserve Board of Governors 20 th and C Streets, NW, Stop 198 Washington, DC 20551 (202) 452-3693 www.bog.frb.fed.us	Publishes consumer education materials on choosing the best credit card, shopping for a mortgage, fair lending, etc.
Financial Literacy 2001 Eastern Michigan University 559 Gary M. Owen Building 300 W. Michigan Avenue Ypsilanti, MI 48197 (734) 487-2292 www.financial-literacy.org	Strives to increase and improve the teaching of financial literacy in schools.
Jumpstart Coalition for Personal Financial Literacy 919 18 th Street, NW Suite 300 Washington, DC 20006 1-888-45-EDUCATE www.jumpstartcoalition.org	A Washington-based partnership of educators, government agencies, and business leaders that promotes the teaching of personal financial literacy in schools.
Local government offices	Departments of community/economic development or housing often offer support for lower-income families interested in small business or home ownership.
National Center for Financial Education 10 Box 34070 San Diego, CA 92163-4070 (619) 232-8811 www.ncfe.org	A non-profit association of financial planners that works to educate, motivate, and empower the public to do a better job of spending, saving, investing, insuring and planning.

National Congress of Community Economic Development (NCCED) 1030 15th Street, NW, Suite 325 Washington, DC 20005 1-877-44-NCCED www.ncced.org	An association of community organizations that engage in small business, affordable housing and community development.
National Endowment for Financial Education (NEFE) 5299 DTC Boulevard, Suite 1300 Englewood, CO 80111-3334 www.nefe.org	Created the High School Financial Planning Program (HSFPP) program in 1986 to increase and facilitate the teaching of financial education in high schools.
National Federation of Community Development Credit Unions (NFCDCU) 120 Wall Street, 10th Floor New York, New York 10005 (212) 809-1850 www.natfed.org	A coalition of 150 CDCUs, NFCDCU was formed to provide technical and financial assistance and to advocate on the behalf of CDCUs. It provides training and management and investments from banks and foundations. It also has a regulatory and policy advocacy program to assure access to credit for low-income communities and helps to organize new CDCUs.
National Credit Union Administration Office of Community Development 1775 Duke Street Alexandria, VA 22314 (703)518-6610 www.ncua.gov	Provides assistance to new and existing CDCUs. Low-interest loans and technical assistance grants are provided through the Community Development Revolving Loan Program.
Neighborhood Reinvestment Corporation (NRC) 1325 G Street NW Suite 800 Washington DC 20005-3100 (202)376-2400 www.nw.org/nrc	The parent corporation of Neighborhood Housing Services (NHS), a national network of local non-profit organizations that work to revitalize older, distressed communities.
National Foundation for Teaching Entrepreneurship 120 Wall Street, 29th Floor New York, NY 10005 1-800-FOR-NFTE www.NFTEBIZ.com	An international nonprofit organization that introduces low-income teens from local communities to the world of business and entrepreneurship by teaching them how to develop and operate their own legitimate small business.
Woodstock Institute 407 S. Dearborn Suite 550 Chicago, IL 60605 (312) 427-8070	Provides information to CDCUs about the industry, documents best practice, and provides some technical assistance particularly in measuring CDCUs impact.