

Taking the Predator Out of Lending: The Role Played by Community Development Credit Unions in Securing and Protecting Assets

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“The payday loan industry depicts itself as a financial crutch propping up struggling borrowers until their next paycheck. In truth, the loans are financial straightjackets that squeeze the working poor into a spiral of mounting debt” (Atlanta Journal-Constitution 2003:A12).

“Long a haven for cash-strapped workers, car buyers and Christmas-Club savers, the nation’s 8,000 credit unions are gaining new stature as reliable sources of lending in the tempest-tossed credit market” (Marte 2009:1)

“Given the rising (and increasingly visible) level of exploitation of the working poor by predatory vendors, payday lenders, and subprime mortgage brokers, it is perplexing that more credit unions have not seized the large and potentially lucrative opportunities to better serve the underserved through secure, safe, and affordable financial products” (Hart and Touesnard 2008: 60).

This is another period in U.S. history where more asset stripping is occurring than asset building.ⁱⁱ Housing foreclosures, periodic stock market declines, financial distress, and high (often still rising) unemployment in what is now a “jobless recovery” accelerate asset loss. This de-accumulation of assets was in many cases initiated by rampant predatory lending and subprime mortgage loans sold to and forced on borrowers in the 1990s and early 2000s.

In 2006 subprime loans as a percentage of all mortgages had grown from 10% in 1998 to 23%; and from \$35 billion in 1994 to a volume of \$665 billion in 2005 (Rivera, et. al, 2008). In 2009 the foreclosure rate increased by another 21% from 2008 and 120% from 2007 - to 2.8 million properties (Adler 2010:1). Levels would have been even higher without the new federal foreclosure prevention programs and loan processing delays (Adler; and Iley 2009). High levels of foreclosures will continue in 2010 however, but may be better than 2009 (although will probably not be any better than 2008 levels). Because unemployment levels remain high, banks are not helping working people to refinance, and new federal policies have not done enough (see Adler 2010 and Iley 2009).

Many people, particularly people of color, women, and workers who are now unemployed, are losing what few assets they had, particularly homes, because of sub-prime mortgages and other predatory lending practices that targeted women and people of color (see Rivera, et.al. 2008). These assets such as home equity, and even small business equity, are assets finally gained over the past decade or so by people who had often been left out of mortgage and credit markets. In addition, as banks fail, merge, and abandon certain neighborhoods (again), increasing numbers of people of color, women, and low-income people become or remain unbanked.

Credit unions (CUs), like all cooperatives, address market failure, market insufficiency, and asymmetric information. Credit unions are democratically-owned, community-based, not-for-profit financial institutions whose purpose is to provide affordable high quality financial

services to their members. Many are able to offer all the same financial services that commercial banks offer – often at lower prices. Community Development Credit Unions (CDCUs) are credit unions whose purpose is to serve underserved low-income communities, and are part of a larger group of community development financial institutions (CDFIs) with a similar purpose.

CUs, with a hundred year history, and CDCUs, with a thirty-forty year history of serving the underserved, have only recently begun to be recognized by some of the media and the progressive community as “safe havens” and fair lenders.ⁱⁱⁱ In addition, financial analysts have begun to suggest that banks need to return to their roots, become more locally focused and based. Morris (2010) notes that “a growing number of financial analysts believe that at the heart of the breakdown in global finance and the resulting breakdown in national economies was the growing distance between depositor, borrower and lender, and the end of relationship banking” (p. 2). Morris contends that “This growing chorus of high-level, expert dissent demonstrates that there is now an opening to advance a conversation and an agenda around fundamentally restructuring our financial system to be more community-rooted and responsive to local needs” (pp. 2-3). Credit unions are those community-rooted, responsive financial institutions.

There is little independent, academic research, however, that investigates and evaluates the ways that credit unions are community-rooted and responsive to local needs, and/or their achievements in this area. This paper reports on preliminary qualitative research this author has conducted to help us understand how credit unions in the U.S., especially community development credit unions, serve as non-predatory lenders, provide affordable financial services, help their clients/members to preserve assets, and act as community assets.^{iv} Credit unions have been claiming this for years.

This paper begins by providing some definitions and descriptions: of cooperatives, credit unions, Community Development Credit Unions, and predatory lending. I then describe my research project and methodology. Next I provide an overview of credit unions and CDCUs particularly in terms of how they differ from commercial banks and mortgage brokers, and the services they provide to their members, in addition to basic statistical information about their performance in the 21st century. I report my preliminary findings in that context. These findings derive from extensive interviews with managers at five CDCUs around the country, and other discussions with credit union employees and members. I conclude by combining what we learn from the interviews with other information about credit unions, to summarize this understanding of credit unions as asset preservers and builders.

1. Definitions and Descriptions

Cooperatives are companies jointly owned by their members - the people who use their services. They can be structured as consumer-owned, producer-owned, or worker-owned depending on which class of people join together to form the cooperative business; and as for-profit or not-for-profit enterprises. Cooperatives promote pooling of resources, sharing risks and profits, and the production, distribution and/or acquisition of affordable high quality goods and services for members (and sometimes also other customers). Cooperative businesses operate according to a set of principles about democratic governance, open membership, transparency, returns based on use, continuous education and concern for community (International Co-operative Alliance, No Date). With a long and dynamic history, cooperatively-owned businesses are one of the best examples of democratic community-based enterprises. Previous research

indicates that cooperatives fill gaps left by market failure; and that successful cooperatives have income and wealth benefits for their members that spill over into their communities (see Fairbairn, et. al., 1991/1995; and Gordon Nembhard 2000, 2002, 2004a, and 2004b, for example). Cooperative ownership also tends to promote increased civic engagement (see Gordon Nembhard and Blasingame, 2002). Cooperatives provide economic stability and protection: economic help for the dispossessed and landless, and services for the under-served; better prices for locally made products; and often higher wages and/or benefits for employees and producers (Gordon Nembhard 2004a).

Credit Unions (CUs) operate in the cooperative tradition. They are consumer cooperative financial organizations and community-based not-for-profit financial institutions. Credit Unions provide access to affordable financial services and loans, and opportunities for savings and investment to their members. The philosophy behind credit unions is that people should be able to pool their money and make loans to each other (Cerise, No Date (slide 3)).^v Membership in most credit unions costs the first \$5.00 of a deposit to open a savings account. In addition, credit unions were initially required to consist of people who share a “common bond,” such as a church, employer, or union affiliation; a neighborhood or zip code. They deliver low-cost financial services, affordable loans, financial literacy and home ownership education, particularly to under-served and marginalized communities. In mid 2010 there were 7,598 credit unions in the United States with almost 92 million member-owners (CUNA, 2010).

Credit Union Statistics (as of June 2010)

	<u>2010</u>	<u>2009</u>	<u>2008</u>
■ Number of CUs in USA	7,598	7,708	7,965
■ Member-Owners	91.7mil	91.2mil	89.9mil
■ Assets	\$916.1bil	\$896.8bil	\$823.6bil
■ Loans	\$576.3bil	\$582.8bil	\$575.8bil
■ Consumer Savings	\$788.6bil	\$763.3bil	\$691.8bil
■ Delinquencies	1.73%	1.82%	1.37%

Source: CUNA Economics and Statistics 2010 (CUNA, 2010b).

Community Development Credit Unions (CDCUs) are financial institutions with a special mission of serving low to moderate income individuals and their communities (NFCDCU, “What is a CDCU”). The primary objective of community development credit unions is to provide asset-preserving and asset-building opportunities to, and financial assistance needed by, low-income people to improve their wealth (see Isbister, 1994). CDCUs, like other credit unions, are cooperative financial institutions that are owned and controlled by the people that use their services. The major distinction between CUs and CDCUs is that a community development credit union has to be designated as a low-income credit union from the National Credit Union Administration (NCUA) or a state regulatory agency. This designation as a low-income credit union accords special status, such as the right to accept non-member deposits and secondary capital (NFCDCU, “What is a CDCU”). CDCUs partner with commercial banks and government agencies to serve low-income members. Through the Community Reinvestment Act and other programs, banks grant and lend money to community development credit unions so that they can build the net worth needed to lend in and to low-income communities, and expand community development services (Cerise, No Date (slide 4)). The term “community development credit union” was coined in the 1970s by the National Federation of Community Development Credit Unions (NFCDCU), the trade association for low-income credit unions.

Community Development Credit Unions in NFCDCU

Overview (as of June 2010)

Number	235
Members	>1.6 mil
Assets	> 10.7bil
Median Size	\$3.8 mil assets/ 1,597 members
Median Age	40 years

Source: National Federation of Community Development Credit Unions, “Our Members at-a-Glance” (NFCDCU, 2010b)

The goals of community development credit unions as presented by the NFCDCU (or the Federation), include: to provide fairly priced loans to its members including individuals with bad, limited or no credit history. Secondly, the community development credit unions provide members with a safe place to save. Thirdly, a CDCU provides a place to conduct transactions at a reasonable cost. Finally, a community development credit union provides financial education and counseling for its members, as well as, products, services and support that can help members free themselves from high-cost and predatory debt, gain control over their personal finances, and achieve economic independence (NFCDCU, “What is a CDCU”).

As of June 2010, there were 235 community development credit unions in the U.S. (that were members of the NFCDCU and most are members), with over 1.6 million member/owners (NFCDCU, 2010b).

Overview of Credit Union History: Credit Unions started in the early 1900's. The first credit union in the United States was established in 1909 in New Hampshire (CUNA, "History: Canada"), which was the same year that Massachusetts passed the first state credit union act (CUNA, "History: America"). Massachusetts, New York, Texas, Rhode Island, North Carolina, Oregon, and South Carolina then began to establish credit unions (Neifeld, 1930). Credit Unions were initially established under "common bond" - individuals had to share some type of bond to be eligible to be a member of a credit union (be a member of the group sponsoring and establishing the credit union). The common bond could be employment/employer, union membership, industry collaboration, religious institution, community organization, etc. The purpose of this bond is to restrict membership in order to identify and sustain a group that has a well defined relationship and/or common interest (Neifeld, 1930). This reduces investigation and collection expenses and often ensures that members are employed and/or in a stable relationship with the community and thus able to responsibly utilize the financial services.

From the early 1900's to the 1930's credit unions showed considerable growth. Between 1915 and 1930 twenty-five more states started credit unions. In 1929 there were 974 credit unions with a membership of 264,908 people (Neifled, 1930). According to the Credit Union National Association (No Date, "History: Post WWII Era"), in 1945 there were 8,683 credit unions, and by 1955 there were 16,201. The U.S. movement reached its peak in 1969 with 23,876 credit unions. The 1970s brought changes in legislation, growth, and expansion of CU services. In 1977, legislation expanded services to credit union members, including share certificates and mortgage lending (NCUA, No Date). The number of credit union members more than doubled and credit union assets tripled to over \$65 billion (NCUA). In the 1980s, deregulation and increased flexibility in merger and field of membership criteria expanded member services. High interest rates and unemployment in the early 1980s challenged credit union expansion, but by the 1990s credit unions had consolidated (so that there were fewer),but membership increased. Since the 1990s CUs have continued to be "healthy and growing" with low numbers of failures (NCUA, No Date).

Many different political and economical policies and the evolution of financial intermediaries were involved in the growth of credit unions over its history. In the 1990's the success of the majority of the community development credit unions was attributed to the establishment of the Community Development Financial Institution (CDFI) Fund, under the Clinton administration. In 1994 the CDFI Fund was established to expand the availability of credit, investment capital, and financial services in distressed urban and rural districts. The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative and is one of the largest sources of funding for community development credit unions. The CDFI Fund functions under the U.S. Department of the Treasury and operates three principal programs (Office of the General Inspector, February 2000). Since 1995, the CDFI Fund has awarded over \$84 million to credit unions serving low-income and under-served communities across the country, and 98% of these awards went to CDCUs in the NFCDCU (NFCDCU, No Date "Federation Experience with the CDFI Fund"). However, in the decade of the 2000s (under the Bush administration), the CDFI fund greatly diminished. The

administration consistently sought to decrease the CDFI funding through the Treasury Department, to change its focus, and proposed at one point to eliminate the program (moving its funding to a Commerce Department program). The degree of funding received from the administration is always important, particularly to credit unions because “when less money has been appropriated in the past, the amount that makes it to credit unions has shrunk even more” (Morrison, 2008). For example, in 2008, credit unions and credit union organizations were awarded roughly 10% of the \$54 million in overall distribution even though credit union CDFIs have among the most impact on their communities.^{vi}

Another piece of legislation that affects the success of community development credit unions is called the Credit Union Membership Access Act (HR 1151), which was passed in 1998 (Multinational Monitor, 2001, and D’Amours, 1998). In an interview with the *Multinational Monitor*, Cliff Rosenthal (Executive Director of NFCDCU) states that “the legislation is very important because it reasserted the ability of all types of credit unions to expand their membership rather broadly” (Multinational Monitor, 2001). However, the legislation, at the request of commercial banks, also levied mandatory minimum capital standards on the credit union industry for the first time. Rosenthal explains that the mandatory minimum capital standards requirement brought about extreme pressure both on fast-growing institutions that cannot grow their capital to keep up with their asset growth, as well as on struggling small institutions, that have troubles increasing their assets. The funding that community development credit unions receive from the US Treasury Department becomes all the more important to allow these institutions to focus on their mission (Multinational Monitor, 2001).

Predatory Lending is a credit market lending practice that manipulates low-income and unformed borrowers to borrow money under the worst conditions, with the highest interest rates and penalties, so that they become unsuccessful borrowers (default). Predatory lending practices include charging excessively high interest rates regardless of credit rating or ability to pay; pre-payment penalties; excessive late fees; adjustable rate mortgages (exploding); exclusion of taxes and insurance; steering; interest-only payment plans; and lack of stated income or ability to pay (see Rivera, et. al, 2008). These fees can reach up to 400 percent or higher (NFCDCU, No Date “Payday Lending Alternatives”) – similar to debt peonage. The practices of pay-day lenders are best described by the *Atlanta Journal Constitution*: “the payday loan industry depicts itself as a financial crutch propping up struggling borrowers until their next paycheck. In truth, the loans are financial straightjackets that squeeze the working poor into a spiral of mounting debt” (Atlanta (GA) Journal-Constitutional Editorial, 12/8/2003).

2. Description of Research Project: Measuring Community Benefits and Wealth Accumulation from Cooperatives

For the past ten years I have been researching and designing ways to measure asset building and wealth accumulation through cooperative business ownership (co-ops) and community-based financial services, particularly in low-income communities and communities of color. A major focus will be on both individual/household-level and community-level asset development through credit unions. Phase one began with the identification of mechanisms and indicators to understand and measure cooperative and community wealth. How we measure

wealth through cooperative ownership is a complex problem. There is not a strong body of scholarly data or analysis on wealth accumulation from co-op business ownership in general, particularly in the United States. I make distinctions between individual wealth, cooperative corporate wealth, and community wealth for understanding the wealth impacts of cooperative ownership (see Gordon Nembhard 2008).

As an extension of that broader study, this research focuses on individual/household wealth and community wealth building through community development credit unions (CDCUs). The purpose of this study is to understand and measure the impacts particularly of community development credit unions in low-income and communities of color: to assess their effectiveness in bringing financial services and financial education to under-served communities, in counteracting or combating “predatory lending” in low-income communities, and in designing innovative asset-building instruments for their client-members. One reason to start with CDCUs is that they are one of the few community-based, democratically owned institutions that already report a battery of information in the same format to a national organization, with data that is accessible to the public, and are the only cooperative enterprises that do so. In addition, community development credit unions have a mission to provide quality and affordable financial services to under-served populations and to use the institution’s assets for community development.

While I continue to study how to measure, and what are the proper indicators of, wealth through cooperative ownership, as well as to design instruments for data collection in that area, I also study the effectiveness and asset building successes of CDCUs using existing data, and testing a qualitative questionnaire. This study of asset building through participation in and ownership of credit unions, particularly community development credit unions, will contribute to both defining and identifying indicators of community-based asset building for individuals and communities, and exploring mechanisms and instruments through which credit unions in particular facilitate asset building and wealth creation in low-income communities of color, both at the individual/household level and the community level.

Findings about the activities of community development credit unions and the financial instruments they make available to their members-customers could help identify strategies and tactics for leveraging community and credit union assets to more effectively build overall community institutional capacity and develop new ways to leverage public and private resources to maximize community impact. Moreover, with the rise of (and fall of some) “payday” loan agencies, check cashing services, pawn shops, and sub-prime lending that undermine asset building among low-income people, credit unions often have a remedy. They provide the access to and management of capital that is needed. This study documents ways that credit unions have been challenging and competing with “predatory” and sub-prime lenders, often counteracting the negative effects, and increasing the financial stability and protection of members (community residents and local citizens). I will also explore the assumption that credit unions benefit their communities as well as their members. It is hoped that the findings will help financial policy makers to propose strategies for how to strengthen credit union’s ability to replace the predatory institutions. I also explore and begin to measure asset building opportunities offered by CDCUs for low-income communities, through an examination of the asset instruments offered by and designed by innovative CDCUs.

Methodology: This is a mixed methods study synthesizing existing research and data on credit unions with participatory research, and telephone interviews with credit union managers. By participatory research I mean observations and discussions with credit union staff, managers, members, and credit union trade organizations, at conferences and credit union meetings. Over the past several years I have been researching credit unions in the U.S. and Canada, attending conferences about cooperatives and giving presentations to credit union organizations, observing credit union practices and talking with credit union employees and members. I devised an extensive set of questions for credit union managers, staff and members about credit union services and achievements,^{vii} and tested the questions in New Hampshire (with the School of Community Development at the University of Southern New Hampshire^{viii}), and in Saskatchewan Canada (with the Center for the Study of Co-operatives at the University of Saskatchewan). I revised the questions for CDCUs, and then worked with a research assistant^{ix} to conduct interviews with managers at five community development credit unions. [See appendix for a copy of the questionnaire.]

Below I report the information gleaned from this research with a focus on the responses to the questionnaire. I organize the discussion around claims made by the industry and existing findings. I compare responses to the questionnaire with the existing research about uniqueness and innovations of credit unions, types of members, types of loans, and contribution to community. I end by offering some conclusions about credit unions as non predatory lenders and community asset builders.

3. Accomplishments of Credit Unions and Community Development Credit Unions

Overview of Current status of CDCUs

Community Development Credit Unions in the USA serve low-income populations with “fairly priced loans,” financial savings and transaction services at a “reasonable cost” (NFCDCU, “What is a CDCU”). Memberships, assets, shares and net worth of CDCUs grew, expanding at rates greater than those of most mainstream credit unions over the past several years (Gemerer, 2008). While delinquency rates started to increase, they are still below industry average (though higher than all federally insured credit union rates). In FY 2006 the 1.4 million members of CDCUs held an average deposit of \$3,789 (CDFI Data Project, 2006). That same year CDCUs opened an estimated 78,774 new accounts to people who were previously unbanked. As of the end of 2006, an estimated 1,889 members accumulated \$1.8 million toward specific wealth-building savings goals through CDCU IDA (Individual Development Account) programs (CDFI Data Project). These numbers have continued to increase, although some types of lending through CDCUs have decreased.

Community development credit unions have been affected by the recent financial crisis since their members have borne a disproportionate share of the burden of higher unemployment, loss of businesses and foreclosures, and the communities they serve have been hardest hit by the crisis. The NFCDCU however, finds the economic impact on CDCUs to be mixed. The statistical data provided by the Federation for 209 community development credit unions (CDCUs) nationwide for 2008, shows that while there were overall increases in total assets and members

served, as well as modest growth in real estate, commercial and industrial, and member business lending, as many as 18 CDCUs were lost (9% of the Federation's total membership) due to mergers and liquidations (NFCDCU, 2009 "Financial Trends"). CDCUs continued to suffer stress and losses in 2009. In addition, failures in the wholesale "Corporate" credit unions (U.S. Central Credit Union and Western Corporate Federal Credit Union suffered multi-billion dollar losses in 2009) depleted the National Credit Union Share Insurance Fund (NCUSIF) - the federal insurance cooperatively funded by all participating credit unions. Credit unions and CDCUs had to make contributions to the Fund and thus loss net worth in 2009 (Rosenthal and Kim 2009). These consequences from the "Great Recession" have been a serious loss for community development credit unions, however by the end of 2009 the number of members in CDCUs continued to grow (by 4%) to 1.06 million. In addition, assets increased by 15.2% (to \$5.25 billion), deposits/shares increased by 16.2% (to \$4.62 billion), and loans outstanding increased 4.43% - all by higher percentages than federal credit unions (Rosenthal and Kim, 2009). Many CDCUs have been able to hold lending steady and some to even increase lending, although automobile loans have decreased while home mortgages and other real estate lending have had modest growth (Rosenthal and Kim).

Rosenthal and Kim (2009:1) summarize the mostly optimistic view:

The credit union movement benefitted from its long-established reputation for financial stability, its pro-consumer orientation, and its nonprofit, member-owned structure. ... In 2009, the credit union movement as a whole recorded increased membership, assets and deposits. On a number of these indicators, CDCUs equaled or even surpassed the performance than even the credit union movement as a whole. In the area of lending, though, the picture was less encouraging, for credit unions in general, and even more for CDCUs, whose members are especially vulnerable to layoffs.

In comparison to commercial banks, according to Stock (2009), the number of credit union failures is still comparatively less than those of banks which have reached around 120 (of approximately 8,100). Credit unions outperformed banks in 2008 in new mortgages and loans and increases in deposits. Membership in CU's continues to increase. "In the 12 months ended in June, 1.6 million Americans joined a credit union, boosting the industry's assets by 8.2%, according to the Credit Union National Association" (Stock, 2009). Consumers are looking for safe places to deposit their savings and safe loans (Rosenthal and Kim, 2009; Stock 2009). "We're always looking for new opportunities," said Family First CEO Kent Moore. "And the whole economic crisis has made people educate themselves a little bit better about all of the options out there" (Stock, 2009: 2). John Peden, chief operating officer of the Navy Federal Credit Union (the world's largest credit union) notes that "There's been kind of a flight to safety with consumers, the crisis was an opportunity for us to say: 'We're strong, we're reserved and we're looking out for your best interests.' With the troubles going on out there right now, that message resonates" (Stock, 2009: 2).

Credit unions remain basically over capitalized, are relatively conservative bankers (safe), show concern for the communities in which they are located, and are slated to continue to

grow in the coming years. Ellen Seidman told the *Multinational Monitor* (2009) that credit unions “turn a profit, but they are double bottom line or triple bottom line entities - meaning they measure and value social, and sometimes environmental, achievements as well as financial success.” Many of the comments from those interviewed for this study confirm the reality of this CDCU and CU “triple bottom line.”

Credit Unions Current Status: Strong balance sheets; profitability increasing; often overcapitalized; no typical subprime lending; highest consumer satisfaction; delinquencies low (currently rising but still much lower than banks); increase in lending to individuals and small businesses. Mergers increasing, for all CUs especially CDCUs – but CU membership and activities continue to grow (mergers can provide more services and more cost effective services). CDCUs real estate lending is greater than banks and general credit union rates. CDCUs utilize strong federations and coalitions to initiate community programs and social investing, member and public education; to provide insurance and engage in policy advocacy.

Overview of Interview Responses

Members: The majority of credit unions in this study were community development credit unions and serve members who are low income – in one case as high as 93% are low income -; and often women (in one case 60%). The service area of these community development credit unions are poverty-rural communities and inner-city communities. Most of the credit unions in this study serve predominantly African American members (as high as 97%), although one serves predominantly low-income white members, and many are experiencing an increase in the number of Latina/o members and customers, and some Asian Americans. One credit union actually targets and services non-profit organizations in their community that bring in their members and clients to access credit union services.

Uniqueness of Credit Unions and Comparison with Commercial Banks: Rosenberg (1950) gives a brief summary on the differences and advantages of credit unions to commercial banks and government bonds. The first advantage of credit unions to commercial banks and other financial intermediaries is the opportunity to receive installment loans at lower cost to the borrower. [See below for a discussion of this in the interviews conducted.] Credit unions can achieve this in part because they are non-profit financial institutions owned by their members, receive tax exemption, and sometimes donations. These reduce their operating expenses. Another advantage is the liquidity of shares. Shares are more liquid in comparison to US government bonds and also can be used as collateral for loans which cannot be done with government bonds. Since Rosenberg’s article, another advantage has developed, particularly for community development credit unions: they receive grants from commercial banks that need to fulfill their

Community Reinvestment Act (CRA) obligations, and from the federal Community Development Financial Institutions Fund (CDFI Fund).

A major recurring theme from the interviews is the uniqueness of credit unions, that they are people-focused and mission-driven. One interviewee articulates the “mission to create and protect the ownership and economic opportunity for people of color, women, rural residents and low-income families and communities.” Others reiterate that their credit union stresses service for members and the community – personalized, tailored services; being people focused. “We are local. We tend to look at people in the face.” “We know them and they know us.” “If we make them [customers] stronger, then we make the community stronger.” Credit union staff help their members to personalize the services and to make decisions about what kind of loan they need and even if they need a loan. As community-owned financial institutions that encourage democratic participation, credit union members feel comfortable making requests, asking questions, and looking for alternatives through the credit union.

Credit union managers elaborate on their strengths: lower cost, stable loans and services, higher rates on deposits (savings) and overall stability of rates leading to economic stability (especially for those who have retired), the focus on members, the convenience of branch locations, doing all investment within the community, reinvestment in the community, tailored services for members, and conservative lending practices.

Respondents were able to discuss how their credit unions differ from commercial banks. The number one difference asserted by just about every credit union staff member interviewed, was cost for customer/members - the low rates and fees. As cooperatives, credit unions can and try to give back to their members. Often instead of an annual dividend on their deposits (savings), the credit union will lower the costs of services and increase the interest rate earned on savings (share) accounts. Jackson’s (2006) research empirically confirms credit union pro-consumer behaviors. Credit unions exhibit a pricing asymmetry that lowers the interest expense associated with deposits but also lowers the interest revenue associated with loans over the interest rate cycle, “consistent with a strategy of maintaining constant margins between average deposit rates and average loan rates” (Jackson 2006). Keeping loans affordable and providing as high a return on savings as possible is important at any period of time and for every demographic, but is particularly important during economic downturns and financial crises, and for low-income households.

Some of the credit unions also offer innovative services and instruments designed to be flexible in helping their members, or specifically designed to start them saving, to help improve their credit or increase their savings. Members can open and maintain accounts with low balances. Wiring to other banks, sending remittances abroad, all cost less than at commercial banks. Some of the credit unions actually do compete with check cashing outlets. One credit union provided a payday loan rate of 18% while the outlet down the street charged 124%.^x Starting in 2005 the NFCDCU has encouraged community development credit unions to include services that discourage members from going to predatory lenders like pay-day loans and pawn shops to get loans which are heavily located in low-income communities.^{xi} Borrowers of short-term pay day loans find themselves falling deeper and deeper into debt as they usually end up taking out more loans to pay the high interest fees of their previous loan. Providing an alternative to predatory loans helps low income families reduce their debt and save more. This increases their economic stability and theoretically increases the amount of money that can be used for

other things - and may be reinvested in the community. As of December 2005, 27% of CDCUs were providing payday loan alternative programs, with an estimated 11,401 payday substitute loans worth about \$7.4 million (NFCDCU, No Date, "Payday Lending Alternatives"). While this may be just a small amount of total payday use, it is significant support for CDCU's low-income and financially vulnerable clients/members. In addition, this percentage shows how seriously many CDCUs are taking their mission to provide quality affordable financial services and to help their clients build and maintain assets.

Examples of Credit Union Member Services: ATM/ debit card program; check cashing; money orders; no surcharge ATMs; business share accounts; no-cost share drafts; share certificates with low minimum balance requirements; bilingual services; insurance/ investment sales; student scholarship; credit builder; overdraft lines of credit; real estate loans; risk-based loans; share draft credit cards; financial education; financial counseling; financial literacy workshops; first-time home buyer program; international remittances; low-cost wire transfers; money orders; business share accounts; interest only or payment option first mortgage loans; micro business loans; micro consumer loans; overdraft protection/ courtesy pay; participation loans; real estate loans; risk-based loans; stage of life specific services; character lending; flexible loan extensions; personal services and personal relationships.

Many community development credit unions find ways to help their members totally avoid a pay day loan (even a less risky one that the CDCU might offer). According to some of the managers we interviewed, some provide a low-cost microloan (consumer loan) and help a client work out a budget and financial plan. In most credit unions every loan is reviewed by the staff to determine if the member has the ability to repay. If loan officers determine that the loan would over extend the member, then they offer counseling. As one manager tells us, his credit union "does more advising than lending." Even the smallest credit unions offer financial education, financial counseling, and financial literacy workshops. Also community development credit union loan managers try to guide clients/members to a better financial position. Another explains:

"You always need to ask the reason why they are borrowing the money. If someone needs a \$100-\$200, we make these loans but we want to know why so that we can help them save money for next time so they don't have to borrow anymore."

A few of the credit unions offer Individual Development Accounts (IDAs) that match members' savings (a federal program in which commercial banks cannot participate), to encourage and reward saving behavior.^{xii} A few of the credit unions also offer investment sales.

One manager notes that community lending is not what the commercial banks are doing – “we target our lending to what will help the community and to a community – not all over the place.” Credit union services are often place-based, and credit unions with this mission are increasing. Many of the newer credit union missions are to serve people in a certain neighborhood or zip code. “The most important benefit is the loans we make in the community that helps support families, businesses and non-profit organizations to reach their aspirations.” These credit unions are often the ones who remained in an area when other financial institutions have gone or changed.

Examples of Credit Union Actions/Activity: Public education; conference sponsorships; branches in ethnic communities; establish affiliate or group structures to reduce risk and to gain access to resources otherwise unavailable; expand flexibility in lending and investment; provide non-transaction services such as financial counseling; facilitate membership expansion; partnering to find best services and products for members.

The community development credit unions interviewed are also proud of their role in providing financial services and financial education and counseling from cradle to grave – for all ages. Most of these credit unions provide children and youth accounts, as well as financial literacy workshops and programs for youth – and occasionally a youth-run branch. They all have first time home buying programs and home ownership training programs. Many of the credit unions also provide retirement programs for their members and/or partner with local businesses and non-profits to host their retirement plans. Most managers agree that their credit union does provide its members with opportunities to create assets and build wealth.

In addition, credit unions have mechanisms, programs and staff for grievances and resolution, particularly to work with members who are experiencing financial hardship. Because they do not sell their mortgages to outside companies (use their in-house credit union mortgage center if they need a secondary market) they are not under pressure to foreclose, and tend/try to avoid foreclosures.

Flexibility in provision and variety of loans, are also what make credit unions unique. One interviewee remarks:

“We look beyond credit scores when deciding on which members get a loan. We don’t have a computerized machine - so people make the decisions. We also offer uncollateralized business loans. We also offer a wide range of products for people that do not qualify for commercial banks and that’s what sets us apart.”

Conservative investment and responsible lending practices make the credit union a safe and stable financial institution. Managers believe that members (and non member customers) understand and appreciate this. Our interviewees report that members provide “a lot of good, positive feedback.” “Most of our members would definitely not receive financial services from a

commercial bank”; and many credit unions are getting new members who were dissatisfied with their experiences with a commercial bank or mortgage broker. Also research done by the industry as well as outside the industry shows a high level of customer (member) satisfaction with and sometimes preference for, credit unions.^{xiii}

Lending Practices: One of the tools used by some community development credit unions in achieving their goals to low-income families is through their lending practices. Community development credit unions use lending practices that are different from the policies of commercial banks and other credit unions that do not have the low-income designation. CDCUs regulator, National Credit Union Association, explains the uniqueness of CDCU lending (NCUA, 2010: 4):

“LICUs [low-income credit unions] and CDCUs generally make credit available to their members by offering non-traditional lending products. These credit unions adapt their operations to fit the unique needs of their membership. Non-traditional products, procedures, and services that some credit unions use to better serve low income members include:

- Non-traditional loan underwriting, such as:
 - ❖ Explaining limited, negative, or no credit history;
 - ❖ Requiring payroll deduction for loan payments;
 - ❖ Documenting history of making timely rent and utility payments; and,
 - ❖ Using a qualified co-signor who sufficiently offsets credit risk;
- Loan restructuring; and,
- Financial literacy programs.

When offering non-traditional lending products, it is essential credit unions maintain strong collection programs to mitigate increased credit risk. A strong collection program should be in place before the credit union begins to make loans with a higher risk.”

The interviews in this study illustrate how seriously the CDCUs take this mission and responsibility. The practices of CDCU’s are to provide short and long-term loans at affordable interest rates. Community development credit unions, for example, offer low cost services like auto loans, mortgages, small business and personal loans at low interest rates to low-income families using alternative criteria that are different from commercial banks. Most low-income families as stated earlier, have limited or no credit, even poor credit scores, therefore in order to provide such services, CDCU’s rely less on credit reports and more on employment status and the ability of members to pay bills like rent and utilities. In using such alternatives to decide to provide loans to low-income families, community development credit unions help low-income families build credit. In addition, CDCUs also reinvest in their communities by providing lending for community building activities such as small business and micro-enterprise loans, education, youth development, community development, and transportation, as well as home ownership.

Responsible Lending was also an important objective of the community development credit unions interviewed. They achieve this by providing an extensive variety of loan types,

while applying flexibility to criteria for lending. Mortgage loans are often the smallest in percentage of type of loan but largest in amount of money. Types of loans include: consumer loans, personal loans, mortgage loans, business loans, small business loans, auto loans, and mobile home loans. Many of the credit unions also partner to provide members with services not available in-house (sometimes mortgages and insurance for example). The loans from community development credit unions used for commercial development have to be invested in low-wealth communities.

Loans are specialized. “The products available and loans are affordable to the type of risk-based consumer being served.” Another manager explains that

“We have a careful way to underwrite loans so as to increase the likelihood that members that borrow are able to pay back the loans. We have broader underwriting criteria; that is we put less emphasis on credit scores and spend more time with members to educate them and make sure that they are not over stretched financially so that they would be able to pay back the loans.”

CDCU’s also provide a two step system for the marginal and risk-based borrower through character or employment based loans. A couple of the CDCUs offer loans that compete with payday or check cashing outlets. While the credit unions find that they cannot afford to provide loans with “no questions asked” and no credit check, some are able to offer short term loans at a high interest rate for the credit union but significantly lower than what the pay day loaners charge. Many do offer non-credit based loans, but “with questions asked,” lots of education, and progressive products (steps) that allow the borrower to build up a stable borrowing record. Credit unions have “credit builder” programs and products. One service called the “Stretch Plan” is non-credit based and comes with a 25% discount on any loans, free travelers check, discount money orders and weekly fees. “The plan is to help people establish credit; and it has an initial \$500 credit line.” The same credit union also has a “rent to own loan” which is a secured loan for the purchase of household products, appliances, electronics or furniture. It is an alternative to rent-to-own shops. One manager notes that “The credit union performs risk-based lending so as not to lose better members to other commercial banks or credit unions.”

Many of the community development credit unions lend to small businesses, stores, restaurants, service companies, auto repair shops, and “any other businesses that create opportunities where they're most needed.” However most CDCUs have a percentage cap on the amount of business loans they can make. A couple of the credit unions also lend to non-profit organizations and churches; and to support community services such as child care, public charter schools, and health care, “that stabilize neighborhoods.” Some provide commercial real estate loans that “revitalize low-income communities,” as well as support environmentally sustainable enterprises.

Credit unions historically have had low loan delinquency rates. Since this last recession (starting in 2007), delinquency rates have, however, been increasing - as they have at all financial institutions in the U.S. CDCUs have delinquency higher rates than traditional credit unions, but still lower than commercial bank rates (NFCDCU 2010a). This is in great part because of their education, counseling and credit builder programs, as well as the flexibility in

the types of loans and loan extensions they offer; and their personalized services in general. Many of the managers have been frustrated by their members' high unemployment and suggest that this accounts for their rising (though still manageable) delinquency rates. Delinquency rates among the credit unions we interviewed are as high as 10 or 13% and as low as 4.7% in 2006. Another credit union said its rates were about 2% higher than the commercial banks in their area. However one of the credit unions reports a delinquency rate of just above 3%, and another only states that "we have a very low delinquency rate." CUNA (2009b: Table 1)) reports a credit union loan delinquency ratio (% of loans and leases) at 1.37% (60 days plus), compared with 2.9% (90 days plus and nonaccrual) for commercial banks in 2008 – up from 0.68% and 0.79% respectively in 2006. In April 2010 credit union average delinquency rates held relatively steady at 1.83% (CUNA 2010a). NFCDCU (2010a) reports that at the end of 2009 CDCU delinquency rates averaged 3.38% (higher for very small and the largest CDCUs, and lower for mid level to large CDCUs).

Financial Literacy and Advice: Many of those interviewed believe that the most important services credit unions provide to members are financial literacy and advice. Interviewees note that most small credit unions spend time educating the community about the benefits of the credit union since most residents do not know what is different or special about a credit union. Large credit unions have more stable deposits, whereas the CDCUs seem to make many small loans that are paid off if only so the member can take out another. Loan advisors try to help members not need loans, use loans wisely, postpone taking out a loan, and/or save as much as possible ("start saving systematically").

"We do more advice than loans. Also, we offer the opportunity to combat predatory lending. We have to know how our members are using the loans. The reason is that many times, we talk people out of taking out a loan. We look at the needs of the members, and many times, the members don't need the item they want to get with the loan because they can't afford it."

Credit Unions and Asset Building: Credit Unions provide many paths to asset building and wealth accumulation. They provide access to financial services and loans, and opportunities for savings and investment. In 2008 credit union membership increased to almost 90 million up from 85 million in 2004 (Marte 2009). Loans increased from \$539 billion in 2007 to over \$575 billion in 2008, at a time when loans outstanding in U.S. banks decreased by \$31 billion (Marte 2009). In the past 4 years both loan and savings growth of credit unions has increased while delinquencies remained low and relatively flat, until 2008 when they increased from 0.93 to 1.37 – still substantially lower than bank norms (CUNA 2009).^{xiv} Credit Union National Association (CUNA) reports that in the twelve months ending June 2008, U.S. credit unions provided an estimated \$7,890,267,139 in direct financial benefits to the nation's 88,105,469 members – "equivalent to \$90 per member or \$170 per member household" (CUNA 2008b) – down slightly from its benefits in 2007. Credit union members hold an average member deposit of \$6,897 (CDFI Data Project 2006). In CUNA's document, "Benefits of Credit Union Membership," the trade organization also calculates that credit unions provide an average saving of \$194 per year in interest expense on a \$25,000 new automobile loan, and that "those who use the credit union extensively – often receive total financial benefits that are much greater than the average." In addition, CUNA concludes that:

“Credit Unions excel in providing member benefits on many loan and saving products. In particular, credit unions offer lower average loan rates on the following accounts: new car loans, used car loans, personal unsecured loans, first mortgage-fixed rate, home equity loans, credit cards loans. Credit unions also pay members higher average dividends on the following accounts: regular savings, share draft checking, money market accounts, certificate accounts, IRAs” (CUNA 2008b).

Add up these savings and credit unions not only provide a safe place to bank but also lower cost banking services. This provides members with more disposable income that they can save or use to buy less risky assets.

Because some CDCUs also provide individual development accounts (IDAs), members have additional products that encourage them to save and contribute to their savings. These enable low-income members to save toward homeownership, self-employment and higher education (NFCDCU, No Date “IDA’s and Asset Building”) by giving matching funds, normally ranging from \$1 to \$3 for each dollar they deposit into their account. This is a well popularized program used by many community development organizations as well as credit unions. NFCDCU encourages member credit unions to use IDA programs:

The promotion of thrift continues to be central to the mission of CDCUs. Individual Development Accounts, or IDAs, provide an ideal vehicle for encouraging low-income credit union members to save toward homeownership, self-employment and higher education. Currently, 44 CDCUs around the country participate in the Federation’s IDA program, with more than 400 open accounts.

The IDA programs generally include support services like budget counseling, homeownership and entrepreneurial training to help participants achieve their goals. When members have reached their goal, they can withdraw all of the money in the account to spend on that aspiration, including the matching funds granted by the CDCU or an outside organization. Some CDCUs partner with other community organizations to offer IDA programs. In one case the CDCU is partnering with a neighborhood cooperative to provide boosts to savings for neighborhood participants.^{xv}

Thus we find that credit unions provide a variety of savings instruments and asset-building programs, often at less cost and with higher return than commercial financial institutions. These services offered by CDCU’s contribute to asset-building among low-income families within the community. However, little research is available as to the extent of such services and its impact on community development. The NFCDCU itself provides some research on these activities and accomplishments and the credit union trade organizations and regulators provide some statistics about credit union services and programs, however there has been little independent research conducted in this area. This may be in part because the range of products offered by CDCU’s can change from one neighborhood to the next, so that we do not have standardized products to measure or study.

Community Development and Benefits to Community: The success of improving the assets of low-income families in a community depends greatly on the achievements of the community development credit union within the neighborhood.

One credit union calculates that “We provide a strong economic multiplier” through our loans to low-income businesses in the area. Keeping the small local businesses in business - and stable - allows them to buy products locally, so keep other people in business, and provide needed goods and services to the community. One community development credit union boasts at having 807 community lending projects, valued at \$213 million; with 9,017 jobs created or maintained and 50,054 childcare, charter school, and housing spaces created or maintained. Several told us specifically that they support affordable housing. “There was a lack of affordable financial services for people in the area and the goal was to develop affordable housing which is why the credit union was started in the first place.”

Credit unions also re-circulate money throughout and around the community, creating a economic multiplier by hiring local people, buying local products, and using local service providers as much as possible. Dollars spent by the credit unions as part of their daily operations therefore also support, stabilize and develop their surrounding communities. In addition, credit unions often open offices/branches in strategic locations, anchoring commercial areas, and providing meeting space for community organizations and to plan special community events. Some credit unions support and provide for socially responsible investing.

Credit unions also finance sustainability projects and engage in recycling. To save paper, one credit union, for example, offers the new government dollar coin which has a 20-year life span compared to a paper dollar bill that has a 3-year life span. Another credit union does not offer paper checks. Similarly New Resource Bank finances customers’ solar installations based on the savings realized from clients’ monthly electricity bills – profitable for the credit union, good for the environment, and generates consumer surplus for the customer/member (Hart and Touesnard 2008: 58). Hart and Touesnard (2008: 59) suggest that there is a role for Credit Union Leagues to stimulate credit union investment in green/clean technologies and to provide expertise on sustainability and stewardship strategies.

In addition, credit unions give donations to non-profit organizational members and/or neighbor organizations, and engage in partnership loans with other community development and financial institutions. Many of the credit unions sponsor various sports teams and school programs, and make donations to community service groups and charter schools. One interviewee remarks: “We had a health forum some months ago and were able to do preventive care. We also have a back to school event where we give out free school supplies.” Credit unions allow or encourage their staff to volunteer in the community. “Everyone in the office volunteers.”

Credit unions are also good employers, providing salaried jobs with benefits and often with job ladder opportunities. For those credit unions that did have full time staff (all except for two very small credit unions in the study), interviewees are proud of their “robust benefits package.”

4. Conclusions and Lessons Learned from the Interviews

Size and mission matter. While democratic participation is important, democratic ownership and fulfillment of mission, i.e. service to members (clients, depositors and borrowers),

matters most. All CDCUs noted that they charge lower rates for their products, and that they work closely with their members to personalize services, to help them avoid loans they cannot afford, and to educate them enough to make sound financial decisions. Most CDCUs are deeply involved in their communities, and the bigger ones actually provide donations, encourage their employees to volunteer in the community and are generous employees (creating good jobs, with benefits and job ladder opportunities). Some are able to help finance affordable housing and other community economic development projects. Many give some direct options to their members to avoid “payday loans” with check cashing and other predatory lenders.

One important difference between small and large credit unions is that very small ones do not have full time employees, and some are only volunteers. That means they cannot offer or support staff to use work hours to be involved in community projects, but their volunteer staff usually are involved in the community.

Different credit unions provide a variety of services to help members protect their home as an asset. Some credit unions provided their members with direct lending for home equity or repairs. Others provide access to financial planning advisors at no cost or have special programs to help members keep their property during difficult times. Almost all report having worked with members to help them keep possession of their property.

“We work with them. There are some members that are having a tough time, you know they have lost their job. We’re not making as much money. Still, as much as we can we try to work with them. The last thing we want is a car that we have to repossess or house that we have to foreclose on because that doesn’t help anybody.”

Credit unions can act this way because this is part of their mission. Their board of directors are members and community members whose purpose is to facilitate financial services and education for members (they want to make this happen). They are not-for-profit community organizations who do not financially compensate or reimburse their boards of directors. They also are allowed to use Community Reinvestment Act financing and grants. In addition, they are conservative bankers – they do not speculate or invest in high risk markets, or sell mortgages to the highest bidder. They often take direct payroll deductions for loan payments (which can be a condition of the loan, to have direct deposit) to increase the likelihood that the loan will be repaid. Sometimes the business/employer is also a member of the credit union so will participate in payroll deductions.

Credit union data and the findings from the interviews conducted as part of this research suggest that credit unions, particularly community development credit unions are important community-based institutions that provide fair, low cost credit and financial services to the under-banked and the unbanked, as well as to low wealth communities. This suggests that at a time when the commercial financial system is in crisis and low-wealth and low-income people are suffering most, and losing assets, one important strategy is to strengthen and increase credit unions.

Recently in the U.S., the media have begun to recognize and tout credit unions as safe havens and community-friendly financial institutions that are reliable sources of lending. *The*

Wall Street Journal, for example, published an article entitled: “Safe Havens: Credit Unions Earn Some Interest” in March 2009 (Marte, 2009). Marte reports data on the increased growth in credit union membership and credit union lending (“loan growth has been robust”). She notes that loan delinquencies are rising, “but they are still far from the levels seen at most banks.” She challenges readers to compare credit unions with banks for themselves. Gross (2008) praises credit unions in *Newsweek* for managing risk properly and being focused on the impact on community:

“Participants in this ‘opportunity finance’ field, as it is called, aren’t a bunch of squishy social workers. In order to keep their doors open, they have to charge appropriate rates—slightly higher than those on prime, conforming loans—and manage risk properly. They judge their results on financial performance and on the impact they have on the communities they serve” (Gross, 2008).

Tansey (2010) concludes a little less optimistically, but still praises CDCUs: “Although Community Development Credit Unions may be the best replicable model for providing affordable capital and financial services in low-income and very low-income areas, there are still major challenges that these financial institutions need to overcome.” The industry understands many of the challenges and has been working to overcome them. More research about and more government support for credit unions would increase their successes even more. Their track record is very good.

Hart and Touesnard (2008: 59) contend that “By returning to their roots – serving the underserved – and incorporating environmental concerns into new product offerings, credit unions may be able to carve out a unique position in the financial services market attractive to the younger demographic.” Hart and Touesnard (2008: 60) recommend the “REAL Solutions Initiative,” by the National Credit Union Foundation. This is an outreach plan that promotes new partnerships with leagues, state credit union associations and individual credit unions; and field visits to low-wealth communities to identify and develop products and services customized for these emerging customers. A Learning Center will document and share new research, provide national workshops and payday lending alternatives.

These are all important activities that can strengthen credit unions and increase their outreach and benefits to their members and communities. In addition, more public support and money should be put into supporting and developing financial services that work – such as those developed and promoted by community development credit unions. Increasing the CDFI Fund which finances many CDCUs and/or their programs would be an important step. Fining the commercial banks and commercial mortgage companies for predatory lending and unlawful foreclosures; and using the money to help communities establish more credit unions is another strategy. This could be done at the municipal and state levels if not at the federal level, to create state credit unions.

It is clear from this research that credit unions are important asset builders for low-income and low-wealth families and communities. It is also clear that credit unions are providing both the loans and education that their members need, as well as creating innovative products to serve the needs of their member-customers. They could do this for more people if given the supports needed to increase their net worth, and if states and the Federal government supported existing as well as the establishment of new credit unions. In addition credit unions, particularly

community development credit unions are good employers, they help to re-circulate money and resources within a community, and to stabilize and energize their local economies. Finally they are community-based and democratically owned so decisions as well as any value-added are broadly distributed. Therefore supporting and promoting the growth and development of credit unions would trigger many multiplier effects that increase community economic development, and positively impact low-wealth families and their communities.

Appendix

Community Development Credit Union Questions for Managers

A.General Information

A1. Please provide background information and statistics about your CDCU, public financial information (from annual reports, website and brochures, etc.).

A2. Please name and describe the kind of charter or “bond” that your community development credit union is organized under. What domain must your members come from – what specific characteristics or geographic boundaries.

A3. Please describe the demographics of your members – such as % low-income, African American, Latino, women -; and the community where your main office and branch are located.

A4. Number of employees, full time, part time. Are the wages and salaries competitive, living wages, with benefits packages (health insurance, vacation and sick leave, retirement plans)?

A5. Types range of jobs? Are there job ladder opportunities? Does the community development credit union hire local residents?

B. General Observations of Community development credit union Benefits and Impacts

B1. What kind of presence does this community development credit union have in the neighborhood surrounding it? Sponsor sports teams, parades, give donations, supply loans for community development, etc.?

B2. What do you think are the most important services your CDCU provides to its members? To employees? To the community?

B3. What kinds of products and services does your CDCU offer to its members? What products and services to non members? How do they differ from what a commercial bank offers?

B4. List all the benefits members of your CDCU receive {if need a prompt ask competitive salary, living wage, what benefits (vacation, health insurance, preventive health programs, retirement plan, education credits or tuition assistance, Child care facilities or child care benefits, etc.); direct deposit; financial counseling, financial planning or financial literacy; mortgage counseling, home or auto ownership training; estate planning; services targeted for women; youth and student services; disability services; free tax preparation; foreign language and immigrant services; micro-lending program, peer lending;}

B5. List all the benefits employees of your CDCU receive {if need a prompt ask competitive salary, living wage, what benefits (vacation, health insurance, preventive health programs, retirement plan, education credits or tuition assistance, Child care facilities or child care benefits, etc.); direct deposit; financial counseling, financial planning or financial literacy; mortgage counseling, home or auto ownership training; estate planning; services targeted for women; youth and student services; disability services; free tax preparation; foreign language and immigrant services; micro-lending program, peer lending; }

B6. Does your CDCU give out dividends to members? How often (frequency) and how much (size). Do staff receive bonuses (how often, how much)?

B7. How have the benefits you personally receive from this job improved your life? Have they made you wealthier? For example, how much are you able to save out of your salary? Do you save more than you used to before you worked for the CDCU? Have you been able to buy an asset that you could not have afforded before?

B8. Do know or get feedback from depositors/members about how the services from the community development credit union helped a member and their family, and/or changed their life in some way, or positioned them to improve their finances?

B9. Have you yourself benefitted similarly to members, from working for the credit union?

B10. What are the most important benefits to your community from the CDCU? {prompt: hire local residents, donations and sponsorships, economic or financial stability – use local dollars locally- , provide loans to people who wouldn't receive one from a commercial bank, support for community organizations, invest in community businesses, provide community development accounts and loans, buy local art or promote local culture, sponsor educational events, youth services, informational brochures }

B11. Can you think of other ways that the CDCU benefits, impacts or helps your community? A simple list is OK. Please indicate if this was just one incident or something that happens regularly.

B12. Does your CDCU participate in environmental sustainability programs such as recycling, carbon neutral goals, green building programs?

C. Savings Accounts, Investments and Loans

C1. Do you think the savings and investment products your community development credit union offers help your members to save more or to acquire/build assets? {prompt: explain what an asset is – it is money or an investment that you have saved for the future and that increases in

value over time – a house, CD account, retirement account, savings bond, stock, business equity, real estate, even a car}

C2. What kinds of loans does your CDCU offer its members? Please describe each type. Do you have restrictions on loans for small business ownership and/or commercial development?

C3. Do you know how your members use their loans? Discuss what your members have told you about the usefulness of the loans and what they do with their loans.

C4. How do your loans differ from a loan from a commercial bank? Please explain any differences in the treatment, terms and uses of the loans between the commercial bank loan and the CDCU loan you received.

C5. What is your loan delinquency rate? How does it compare with commercial banks?

C6. Does your CDCU compete with check cashing or payday loan companies? How do those loans differ from your CDCU loans? What are some strengths and weaknesses of each kind of loan?

D. Staff Volunteering and Community Involvement

D1. Do you or do you know of CDCU staff who volunteer in the community or are involved in community activities? Please name the types of community activities you and your colleagues are involved in. Provide details about how often, how much time, what kind of activity.

D2. Does your community development credit union sponsor those activities and/or give staff time off for volunteer work? How does this program work?

D3. Has your community development credit union been involved in policy advocacy through your trade organization – such as supporting financial policies or regulations, or other legislation at the provincial or federal level that would help your members or your community, or some subset of your members/community? What kind of policies or legislation?

D4. How does your community development credit union invest in its local community? Does it lend money to community organizations? does it invest in buildings and community programs? Does it collaborate with the municipal government? Please provide details.

D5. How do your CDCU express cultural appreciation? Does it buy and/or display local art, support cultural programs in the community? Does it address language issues?

D6. What local services does your community development credit union utilize? Does it use local suppliers? What percentage of suppliers and contracts come from or are conducted with local businesses, regional businesses; and other cooperatives? Can you calculate how many times

a dollar spent by the community development credit union circulates around the community? {Help calculate if needed, does the payment to a local paper supplier then get used by the paper company for salary to a neighborhood resident who uses it to buy from a locally owned grocery store or health food co-op? then it circulates 3 times.} Do the dollars also return to the credit union? {In the above example does the health food co-op then deposit it in the credit union?}

D7. Do you provide loans to community organizations (types and conditions), and/or invest in other community organizations?

D8. What state and federal programs are your community development credit union involved in? Like Individual Development Accounts. Do they allow the credit union, or how do they allow the community development credit union to leverage public resources?

E. Democratic Participation

E1. Are employee represented on the board of directors and other committees (grievance, etc.)?

E2. How much member participation is there at the community development credit union annual meetings, in board elections, committee work?

E3. Do you have programs or policies to increase membership involvement?

E4. Do and how do community stakeholders have input into the CDCU and involvement with the Board of Directors or in other ways have representation in the CDCU or participation with CDCU decision making and/or activities?

E5. Please indicate which skill development programs/services your CDCU offers:

- financial literacy – information about check writing, household budgeting, compound interest
- benefits training
- accounting, financial spread sheets
- home ownership course – about the home ownership process (mortgage options, closing costs, credit scores and good credit, etc.)
- home buying advice
- home repairs
- financial counseling or planning – retirement, stock ownership, wealth building goals or wealth portfolio options
- estate planning
- meeting facilitation
- board training
- community investment
- co-op information or education
- entrepreneurial/business development

- socially responsible investing
- environmental sustainability – environmental protection, recycling
- Other _____.

E6. Does the community development credit union conduct a social audit? Or corporate social responsibility or sustainability report

Process, individual input questions:

* Do you have anything to add? Is there anything I should have asked or that you wanted to answer but I did not ask?

* Did you learn anything from this interview, or find yourself thinking differently about your CDCU than you had before the interview? Will you do anything different now that you have done this interview with us?

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ⁱⁱ For more on asset stripping see Adamson 2003, Gordon Nembhard and Chiteji 2006, Henson, Lee and Nathan 2005, Darity and Nicholson 2005, Winbush 2003, and Browne 1973.

ⁱⁱⁱ They produce reports which provide some evidence of this (to be discussed below).

^{iv} See Oliver and Shapiro, 2006, for example, on the importance of using qualitative data to understand differing experiences with wealth accumulation and effects of wealth policy.

^v According to Cerise (No Date, slide 3), among the principles guiding credit unions are: loans are made for "prudent and productive" purposes; a person's desire to repay (character) is considered as important as the ability (income) to repay.

^{vi} Morrison, 2008, quotes NFCDCU Executive Director Cliff Rosenthal.

^{vii} With Lou Hammond Ketilson, and with assistance from Dwayne Patterson, at the Centre for the Study of Co-operatives at the University of Saskatchewan, Canada.

^{viii} At the University of Southern New Hampshire I worked with Chris Clamp's graduate research class in the fall of 2008.

^{ix} Charlotte Otabor a graduate student at Howard University's Center on Race and Wealth.

^x On the other hand, however, many of the credit unions do not provide any kind of payday lending because they have found it does not help their members in the long term, but rather ties them up in more debt; and it is not prudent for lender or borrower to lend “with no questions asked.”

^{xi} The National Federation of Community Development Credit Unions began to offer a special grant program and training seminar to promote the development and expansion of affordable anti-predatory lending programs to its members.

^{xii} One CDCU is even piloting an IDA program that would be in part supported by the local worker cooperative - a health food grocery store located next door.

^{xiii} For example, the Canadian Credit Union Central 2009 study.

^{xiv} National delinquency rates for U.S. banks were 2.93% January 2009 (Marte 2009).

^{xv} Mandela Food Cooperative in Oakland California is establishing such a program with its neighbor People’s Federal Credit Union, and plans to make donations to the IDA program from its profits. Mandela Food Cooperative brochure (No Date) describes this program. Also the author discussed this initiative and its potential during interviews with employee-owners and a site visit at Mandela Food Cooperative (August 2009, and August 2010 respectively) and with a Manager at People’s Federal Credit Union during a site visit (August 2010).