FINAL REPORT

"Combating Poverty with Assisted Self-Help:

Building Assets for Independence with America's Poor"

A study of 23 Community Development Credit Unions (CDCUs) in 16 states
to examine the feasibility and effective operations
of
CDCU-based "Individual Development Accounts" (IDAs)

final report to the
Michigan Family Independence Agency
and the
Michigan Legislature

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And in Michigan, we are grateful for the interest and support of the MI Family Independence Agency and the Michigan State Legislature which funded this exploratory project, and to Representative Hubert Price for his continuing leadership to bring the sustainable community benefits of the CDCU movement to Michigan.

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I. EXECUTIVE SUMMARY

CDCUs and IDAs: An Overview

Community Development Credit Unions (CDCUs) are regulated financial cooperatives that serve the financial needs of low-income populations and disinvested communities. Now chartered in more than 400 communities across the country, they represent a growing infrastructure for self-help initiatives to strengthen local economies and build wealth among the nation's least advantaged citizens.

Twenty-three (23) of these grassroots-owned and -governed financial institutions have embraced a new financial product: ***Individual Development Accounts*** (IDAs), which are legislatively authorized savings accounts for low-income persons, who agree to save for an approved wealth-building asset (such as downpayment on a home, starting a micro-business, or investing in education and training) and, upon reaching their savings goal, benefit from "match" funds to assist that purchase. These IDAs are an example of public incentives that have sometimes been called "assisted self-help." IDAs currently are federally-authorized through the Assets for Independence Act of 1999 (AFIA).

The Purpose of the Study

In 1998, Michigan legislation introduced Individual Development Accounts (IDAs) as a new strategy for poverty alleviation in Michigan. IDAs are matched savings accounts that aim to help low-income persons build savings and invest in durable assets toward greater economic stability and independence. The legislation also called for this study, to learn about CDCU-based IDA programs now in operation around the country and bring those insights back to Michigan practitioners. This study examined the twenty-three (23) CDCUs that are serving as the financial institution for IDA programs in sixteen (16) states, assessing the feasibility and effective operations of these programs, in order to inform existing and emerging CDCUs practice in Michigan. The twenty-three sites include rural, small town and inner-city communities; some are long-established CDCUs, while a few are very new; all serve low-income populations, but some are predominantly white, others largely Latino or African American, and some serve diverse racial, ethnic and immigrant populations; some service areas ("fields of membership") have transient populations, while others are fairly stable. In other words, the study sites represent a wide range of characteristics which parallel communities in Michigan.

Using telephone and face-to-face interviews, on-site observations, and documentary analysis, as well as baseline information collected by the National Federation of CDCUs, we developed case descriptions of seventeen programs and six longer profiles, and synthesized what we learned about those practices and how they might be used in Michigan.

Study Results

Individual Development Accounts (IDAs) are now being offered with considerable success by CDCUs in these twenty-three communities, with programs initiated in an additional ten CDCUs[1] this past summer. Although large-scale evaluations of these innovative programs are only now underway, many useful insights can be drawn from their experience to date.

One prominent finding is the ***INHERENT COMPATIBILITY/"MISSION FIT"*** between these credit unions embedded in low-income communities, and the IDA's purpose of building "assets for independence"[2] for impoverished individuals and families. For banks, the "unbanked" represent a low profit, hard-to-access, non-standard and therefore expensive group to serve. For CDCUs, on the other hand, these individuals are a specific market they were designed to serve; in fact, the evidence seems to show that IDA programs provide an attractive financial product for CDCUs to reach even more deeply into the underserved populations in their communities.

As a result of this "mission fit," IDA programs are being integrated into these CDCUs' ***LADDER OF SERVICES***, a continuum of developmental products and support services which are designed to help members gain economic competence and to build community wealth and economic resiliency. As self-supporting nonprofit financial institutions, CDCUs are designed to reinvest budget surpluses back into products and services for members and the community. In the areas they serve, their competitors are not banks nor other traditional financial institutions – which neither serve nor seek this market -- but rather are the pawn shops, rent-to-own stores, check cashing outlets and other so-called "predatory lenders" which otherwise fill the void with very high-cost financial services. CDCUs, in contrast, seek to provide affordable, accessible services which help members repair their credit, learn effective habits of saving and investing in productive assets, and stabilize their economic lives.

It is also clear from this study that CDCU-based IDA programs benefit from the ***COLLABORATIVE PARTNERSHIP-ORIENTED OPERATIONS*** of CDCUs: their linkages to neighborhood institutions such as churches and community networks, their member/stakeholder governance structure, and their working alliances with other organizations and resources to benefit their local communities. IDA programs also operate through relationships and partnerships, linking hard-to-reach populations with this accessible, embedded financial institution and with community-based organizations which provide training and social services and access to resources outside the area. While the exact pattern of these collaborations vary immensely across CDCU sites, they indicate opportunities for synergistic development which appear to generate local benefits far in excess of cost. Current evaluation studies should provide further evidence on these

[1] These 10 new sites were not included in this study.
[2] The federal legislation which authorizes and provides some matching funds for IDA Programs is called the Assets for Independence Act.

diverse impacts: What do IDAs do for the individual account holder? for the credit union's capacity to provide social return? for the partner CBOs? for the community as a whole, now and in its future?

It also appears that CDCU-based IDA programs create opportunities for ***SUSTAINABLE WEALTH-BUILDING INITIATIVES*** with low-income populations. CDCUs have proven to be self-supporting financial institutions, not dependent on the grants economy or public contracts for their survival. Although new products and services typically require a start-up subsidy, CDCUs are regulated institutions shaped by market discipline, with long experience in developing products that will be reasonably self-supporting. The evidence is not yet clear about how IDAs will fare in the long run, but these CDCUs are working hard to streamline the programs and clarify the cost structure in order to eliminate (or at least minimize) the need for outside subsidy of this new financial service. Through this developmental process, these programs also represent a valuable capacity-building opportunity for many credit unions.

CDCU-based IDA programs also represent an opportunity for CDCUs to ***PARTNER WITH MAINSTREAM CREDIT UNIONS*** which seek to provide greater service to these traditionally underserved populations. The Michigan Credit Union League has been an active partner in this study, in order to draw insights for MCUL members who have an active interest in the Michigan IDA initiative. Although IDA-programs for high-risk populations may raise the spectre of "safety and soundness" regulatory challenges for mainstream credit unions, the potential of partnering with CDCUs – which are designed to serve those populations – seems to hold real promise.

And lastly, CDCU-based IDA programs have been able to build on the CDCU capacity to ***LEVERAGE OUTSIDE RESOURCES INTO LOW-INCOME COMMUNITIES***. Not only are IDAs able to draw from federal, state and local "match" funds (public and private); but CDCUs have also been creative in tapping funds from the Federal Home Loan Bank and other sources not usually available to non-bank IDA programs. The total funds leveraged by CDCUs into their communities has not yet been calculated, but the potential appears to be impressive, based on the experience of these 23 sites.

Conclusion

This seven-month study draws from the insights of experienced practitioners and operating programs which demonstrate both the feasibility and the apparent effectiveness of CDCU-based IDA programs. Through these locally owned and governed financial institutions, IDA Programs are reaching and assisting IDA-eligible populations to save and invest in productive assets. Further, IDA programs based in CDCUs become part of a continuum of CDCU services to provide a ladder out of poverty and dependency, a goal which is at the heart of the CDCU mission. The following report summarizes those insights, which we believe will be useful for program development in Michigan.

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II. OVERVIEW OF PROJECT AND FINDINGS

A. Original "Problem Statement" for this study

The purpose of this study is to help lay the groundwork for effective management of Individual Development Accounts (IDAs) in low-wealth Michigan communities, by clarifying how they could be managed through nonprofit Community Development Credit Unions devoted to serving IDA-eligible populations.

IDA Programs around the country work with low-income individuals to help them save and invest in specific, targeted assets – typically including these three: the down payment on a home, further education or job training, or to start or expand a micro-business – and then add an incentive to the process: a financial "match" that, when the participant's savings goal is met, is paid directly to the vendor toward the planned purchase. The "match" is raised from public and private sources, and typically ranges from 1-to-1 to 3-to-1, although there are other variations.

The concept of IDAs is now supported by law and policy in Michigan: that is, the development of matched savings accounts as part of the overall strategy to help impoverished individuals and families move toward economic independence.[3] Already, several IDA programs are underway or starting up, and many other community-based groups are exploring how to start them. The MSU Center for Urban Affairs has conducted more that a dozen workshops on IDAs in Michigan, and has provided information and technical assistance to many of these emerging programs, drawing on a growing body of research and experience with IDAs across the country.

At the same time, a parallel development has been unfolding in service of the poor in Michigan: the re-emergence of Community Development Credit Unions with the mission of serving impoverished communities and building wealth among low-income persons and families. These mission-driven, nonprofit institutions have a long history of

[3] Currently, only IDAs for home ownership are authorized in Michigan.

committed service in low-income communities across the country.[4] As one recent study reports, CDCUs "have become a major force in reviving the local economies from the bottom up."[5] At base, they provide safe, sound and accessible financial services on a scale too small and expensive for most banks. But even more importantly, they also work to help "unbanked" populations become more effective savers and strategic spenders toward greater economic independence: for example, through education and counseling necessary for economic literacy and financial planning to help members get out of debt and move toward greater control of their economic lives. The MSU Center for Urban Affairs has been working to assist the development of these regulated and sustainable financial institutions in Michigan, which, though small in scale compared to banks, have shown real promise as permanent, viable tools for the poorest citizens to begin to connect with the mainstream economy and opportunities.

The purpose of this study is to explore the feasibility of bringing these two economic strategies together: to identify the strengths and barriers to operating IDA programs through the growing number of CDCUs in Michigan. For example, what kinds of operating challenges might Michigan CDCUs face by taking on IDA programs, and what are strategies that have proven useful in similar CDCUs across the country? What are the unique challenges related to IDA matching funds which must be anticipated? Are there regulatory or policy barriers that need to be addressed? This is a field in motion across the country as well as in Michigan, and the experience of credit unions with IDAs is still limited and scattered; however, by working through its relationships with national and Michigan practitioner networks, the MSU Center for Urban Affairs study will draw on "best practice" and cutting-edge insights of practitioners to guide this new work in Michigan.

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[4] Marva E. Williams (September 1997), Credit to the community: The role of CDCUs in community development. Chicago: Woodstock Institute. National Federation of Community Development Credit Unions (1996), "The poor do save, CDCU's 60 year history attests," Assets: A quarterly update for innovators**:** 4. K. Tholin, and J. Pogge (February 1991), Banking services for the poor: Community development credit unions, Chicago: Woodstock Institute. Lii, J. H. (1997), "Building a nest egg and a community: By gaining a credit union, Washington Heights hopes to lose its dependence on loan sharks," New York Times.

[5] Marva E. Williams and Marti Wiles (November 1998), On the move: An analysis of low-income credit unions 1990-1996, Chicago: Woodstock Institute.

B. Purpose and Scope of Work

This study, which was prompted by the state legislature, has focused on how Community Development Credit Unions (CDCUs) are serving as the financial institutional partner for Individual Development Account (IDA) Programs across the country, in order to draw insights that might be useful in Michigan. Both IDAs and CDCUs are fairly new to Michigan, yet there seemed to be evidence from other states that effective, sustainable partnerships could be built between these two not-for-profit initiatives which share a common mission: to cultivate the habits of savings and financial planning, the skills of economic literacy and informed consumer choice, and a pattern of self-help wealth and asset building for the benefit of low-income individuals and communities. This report summarizes what we have learned from the national experience about the feasibility and effective operations of IDAs through CDCUs in a range of communities which seem to have implications for Michigan.

Community Development Credit Unions, for the purpose of this study, are defined as regulated cooperative financial institutions which typically qualify for federal low-income designation[6] and which also serve a larger community mission to improve the economic well-being and quality of life of their membership area. Individual Development Accounts are a recent policy innovation which permits and creates financial incentives (in the form of matching grants) for low-income persons to build savings toward the purchase of a productive asset such as a home, small business assets, or further education/job training. Michigan recently passed legislation to support the

[6] "Low-income" is an official designation by the National Credit Union Administration (NCUA) granted to a federally or state-chartered credit union "that serves a membership of which more than half earn less than 80% of the average of all wage earners as established by the Bureau of Labor Statistics, or those members whose annual household income falls at or below 80% of the median household income for the nation as established by the Census Bureau, or those members otherwise defined as low-income as determined by order of the NCUA Board." These low-income CUs must operate under the same standards of financial soundness and operational professionalism as other credit unions, but they are also granted additional privileges under law: (1) greater authority to accept deposits from nonmembers – such as foundations, other credit unions, and socially-responsible investors – in order to build their pool of funds for local reinvestment and economic development; (2) access to low-interest loans, deposits and technical assistance from the Community Development Revolving Loan Fund under the NCUA and the Community Services Assn; (3) more flexibility in defining their fields-of-membership; and (4) exclusive authorization to offer secondary capital accounts. [Low-Income Credit Unions 1997 Yearend Report, NCUA, Alexandria VA.]

development of IDA programs for low-income residents,[7] and has seen the re-chartering or emergence of 13 CDCUs (plus several still in formation) in the past 18 months.[8] The intent of this study was to explore and inform the process of joining these two strategies for poverty alleviation in Michigan's most impoverished communities.

C. Methodology

As this study began in the spring of 1999,[9] there were 23 known CDCUs across the country with some experience operating IDAs. The National Federation of Community Development Credit Unions (NFCDCU) has been communicating with all of them as part of their national demonstration program, and generously shared their baseline data on each site as a starting point for this study.[10] *Compilation* of these and other materials on the 23 sites was followed by *telephone interviews* with key CDCU personnel, and then *site visits* to learn more detail about the operations, strengths and challenges, and other insights for Michigan. In addition, we benefited from *focused group discussions* at many of the sites and at the state and national level. As a result, we have prepared five (5) summary *Case Profiles* and an additional seventeen (17) *Case Briefs* which represent a wide range of types of communities, local conditions, and creative program development.

D. Summary of Findings

The question of *feasibility* of joining these two strategies toward poverty alleviation and asset-building in low-income populations can be answered simply: It is now being done with considerable success by 23 CDCUs across the country and appears

[7] Michigan House Bill 4786, passed on August 24, 1998.
[8] Several are still under development, with the assistance of the Michigan Credit Union League (MCUL).
[9] Since that time, another 10-15 CDCUs have initiated new IDA programs, but these sites have not been included here.
[10] Because the NFCDCU have recently surveyed these sites for baseline data, it was unnecessary for us to distribute the questionnaire as originally planned. This savings enabled us to gather detailed information from a larger number of sites and to explore a wider range of community types which have relevance in Michigan.

to be entirely feasible for Michigan communities. These cases are all fairly new IDA programs (mostly under 2 years), in a field that itself is quite new: IDAs first appeared on the public scene in 1994, and only now are the first comprehensive evaluations being conducted to document their impact on poverty alleviation and their effectiveness as an instrument for public policy. Nonetheless, from our findings, it is clear that there are inherent compatibilities between IDAs as an asset-building tool and CDCUs as mission-driven financial institutions serving primarily low-income populations.

INHERENT COMPATIBILITIES: (1) "Mission-governed" rather than primarily "profit-led" financial institutions: The reasons given by CDCU practitioners for adopting IDA programs generally focus on their values-based mission and the structural dynamics of their institutions. Consistently across all sites, for example, CDCU practitioners reported an early and continuing recognition that IDAs "fit" their mission and seemed to promise one more way they can serve their community – one more way to achieve their mission of economic betterment of their members and their community. Unlike for-profit banks, CDCUs have a "double bottom line"[11] that forces them to balance financial safety and soundness with the commitment to assist and develop members and to help create a resilient local economy. This "fit" translates into handling the IDA as a valued financial product offered to members. Where banks, by law, must minimize costs and maximize profits for stockholders, CDCUs must find ways to sustainably *recover costs* while expanding services and reinvesting to maximize impact on their low-income fields of membership.[12] While banks compete for profitable markets, a CDCU's competition is comprised of the local check cashers, pawn shops, rent-to-own stores, and other high-cost financial facilities which historically and increasingly serve poor people and disinvested communities; the CDCU challenge is to create a safe and trustworthy alternative to those

[11] This phrase is commonly used to characterize the nonprofit mission of Community Development Financial Institutions (CDFIs), which include CDCUs as well as CD loan funds, microenterprise development lending, CD venture capital funds, and other innovations in community reinvestment. It refers to a joint *economic* mission (to achieve stability and growth as a financial institution) and *social* mission: to have a positive impact on the economic well-being and resiliency of low-income populations and impoverished communities.

[12] It is important to note that the actual cost of providing comparable financial services is quite different between banks and CDCUs; one reason is that CDCUs have much lower personnel budgets and, because they are nonprofit, often have operating costs (such as rent) subsidized by host or partner agencies.

"predatory lenders" so that local residents can hold onto their small assets and grow them over time, while creating a pool of savings that can be reinvested in the local economy.

This contrast in mission between for-profit banks and CDCUs seems to have implications for the long-term viability of IDA programs. Among themselves, IDA practitioners discuss the many challenges of working with mainstream banks[13], including minimal and/or shifting commitment by banks to the program, particularly as banks are merged or acquired and staff members and institutional goals change over time. In addition, banks often view their participation as philanthropic or regulatory – part of fulfilling their Community Reinvestment Act mandate, for example – rather than as a business venture, which places a different kind of priority on the IDA program within the banking corporation and seems to contribute to program instability. In CDCUs, in contrast, the IDA becomes one of the standard products offered by the institution, serving as an attractive marketing tool for the populations they serve and typically integrated into their "ladder of services"[14] to develop individual members over time.

(2) Proximity: There are other structural reasons why there seems to be a better "fit" between IDAs and CDCUs in contrast to banks. One is *physical location*: CDCUs are, by definition, physically located in their communities[15], which also have few or, often, no traditional banks in close proximity. Another reason, in the language of social scientists, is "embeddedness": CDCUs are owned and governed by their low-income

[13] MSU/CUA staff attended several IDA conferences during the past 3 years, including one in Chicago in 1998 and in Oakland in 1999; we also participate in the national internet listserve among IDA practitioners, hosted by the nonprofit Corporation for Enterprise Development (CFED). Few of these IDA practitioners had access to a CDCU or other credit union to partner with their IDA program, so most depended on mainstream banks to serve as financial partners. Their comments on the problems working with banks are reflected here.

[14] The term "ladder of services" and similar phrases (such as "developmental services") are used by CDCU practitioners to describe the continuity of financial services, counseling and other assistance provided by these grassroots financial institutions. In contrast to traditional banks, CDCUs are nonprofit, mission-governed institutions, committed to encouraging and assisting their members to practice thrift; to move successfully through step-up loans to develop good credit histories; to build assets over time and gain access to mainstream financial opportunities; and to contribute to the stabilization and growth of the local economy.

[15] An exception is the Vermont Development Credit Union. VDCU is located within a local low-income community (federally designated as an Enterprise Community) but also serves low-income persons throughout this small, rural state, through a range of locally-based partner organizations such as Community Action Agencies across the state.

members, are often entirely staffed by indigenous persons who have their own personal networks in the community, and are strategically designed to gain access to local populations which are traditionally underserved by mainstream financial institutions. In Minneapolis, for example, the Wendell Phillips Community Development FCU[16] apparently experienced a significant gain in membership from the Native American community when it hired a native professional on staff; it is currently exploring strategies for inclusion of the large Hmong population within its field of membership. The Vermont Development CU had a similar experience with the Vietnamese community when a local Vietnamese restaurateur joined the board of directors.

(3) Familiarity, Trust & Cultural Congruence:[17] CDCUs are also typically located in facilities which are more within the "comfort zone" of their members than are banks. Several practitioners in this study, and in non-CDCU IDA programs, reported the discomfort, embarrassment and alienation their low-income members feel when entering banks, in addition to their inconvenient locations. CDCUs, on the other hand, are located in familiar and accessible settings, often in recycled buildings – such as an old bank branch in the heart of a disinvested community in Cleveland and in an historic house in Ithaca. Staff dress informally, and many details of the public space reflect community life: flyers about block parties, artwork by local children, ads for babysitters, brochures for credit counseling and trustworthy used car sales, and so on. In Newport News, VA, where the credit union had been located in an inconvenient facility on the upper floor of a city office building, the CDCU just achieved a long-time dream by moving into an historic building with great meaning to the largely African American membership: an old building which formerly housed the only hospital providing services to blacks and

[16] The abbreviation FCU is typically used in the credit union field for Federal Credit Unions – credit unions that received their charter from the federal government rather than the state. Both FCUs and state-chartered CUs are included in this study.

[17] These resources fit into the concept of "Social Capital": productive assets which reside within relationships (such as "trust" between persons or groups), which can be used to facilitate exchanges for achieving personal and/or group preferences. These dynamics seem to be especially complex in CDCUs, where *community cohesiveness* provides a basis for behavioral change and economic growth, and where *external bonds* provide access to non-local resources for community reinvestment – that is, aided self-help. We hope to explore these dynamics further, as part of our ongoing interest in CDCUs as instruments of poverty alleviation and community capacity-building.

other minorities. This nineteenth-century landmark is prominently located in the low-income neighborhood and is apparently a source of new pride and sense of ownership by members.

The CDCUs' proximity to their members – both physically and culturally – positions them quite differently from banks to gain access to populations that have been excluded from the economic mainstream. This means that CDCUs are better positioned to reach IDA-eligible populations within their field of membership – not only in recruitment, but also with the IDA financial servicing and additional support services typically needed by IDA holders.

<u>(4) Unique "Ladder of Services"</u>: Another source of the natural "fit" between IDAs and CDCUs is the credit union's commitment to the long-term development of its individual members and the community which is reflected in the "ladder of services" designed for members. IDAs represent a new financial product for the least-wealthy members in the CDCU's community, and in fact gives CDCUs a specially-designed product to attract an even larger proportion of this demographic group, and to explore the augmented service arrangements required to help these new members to succeed. In the estimates of IDA program managers during our interviews, about 60-80% of IDA holders were not previously members of the credit union – indicating that the CDCUs are using this opportunity to reach even more deeply into the disadvantaged populations they were created to serve.[18] But the IDA is really only one part of the ladder of services designed to help individuals gain control of their economic lives and move towards greater financial stability and self-reliance. The "ladder" also includes helping them to repair their credit and establish a good credit history; to manage their expenses, make good consumer choices and invest in their futures; and to master the discipline of balancing debt, credit, saving and investment to build assets toward a better future for themselves and their families.

For CDCUs, the education and development of IDA-eligible populations is a *primary target*, and the alignment of services for this purpose is a key element of CDCU

[18] We hope to explore this issue further in a more detailed follow-up study.

sustainability. In contrast, in for-profit banks and other financial institutions, IDAs for low-income persons represent a high-cost, minimal-profit market that serves few of stockholders' business interests. Low-income persons make small deposits and frequent withdrawals (often several times per week). They tend to keep minimal balances, make frequent use of teller services (in contrast to electronic banking or other low-transaction-cost services), and often need substantial additional help to fill out forms correctly[19] and follow procedures consistently. These are services built into the CDCU operations, which otherwise represent nonstandard and therefore costly services by traditional banks.

(5) IDA Program Sustainability: The strategy of linking IDAs into a CDCU's "continuity of services" is also a key to the long-term viability of the IDA program. As a financial service, IDAs are costly: that is, they generate little revenue for the CDCU while requiring disproportionate work by staff (frequent small deposits, monthly reports rather than the standard quarterly reports, etc.). Nonetheless, when viewed as part of a "ladder of services," IDAs become part of the long-term development of members, leading them to greater revenue-producing services later in their CU membership. So, although IDAs remain a cost-center in even the most experienced CDCU programs, they are beginning to show promise in the longer run as a developmental member service which -- when managed properly -- can be internally financed, to some extent.[20] The evidence is now beginning to emerge on this issue, and deserves further study.

CDCUs have historically been self-supporting financial institutions, subsidized only by their corporate income tax exemption (as with all credit unions) and their privileged access to outside deposits and certain public loan funds and technical assistance grants. For the most part, they have existed outside the "grants economy" of the charitable nonprofits, and have been constrained by market discipline and by close regulatory oversight. For this reason, considerable attention is now being paid by CDCU

[19] Consider, for example, the challenge of serving this nation's illiterate and innumerate population, which CDCUs accomplish on a daily basis.

[20] Some of the non-financial aspects of IDA programs may never be part of the day-to-day work of very small CDCUs, such as homeownership counseling or training of microentrepreneurs. In most cases, these services are provided by outside nonprofit partners who receive donor support and therefore do not represent an additional cost for the CU. We hope to explore this issue of internal vs. external subsidy of IDA Program costs in a more detailed follow-up study.

practitioners to how IDAs can be internalized – that is, how to manage them as standard financial products that can carry their own weight, or at least require only a manageable subsidy after the start-up period. In most cases, this means *sharing the costs* with partner agencies which have parallel missions, such as community colleges, affordable housing alliances, and consumer credit bureaus. Some larger CDCUs show promise of becoming entirely internally-supported: Alternatives FCU in Ithaca NY, for example, has been able to internally subsidize certain pieces of the IDA program, including contributing a portion of the match from its own surplus revenues; Vermont and Borinquen in Philadelphia are both exploring ways to redesign the program to be internally sustainable after start-up. These are important initiatives, and a systematic analysis could provide useful insights for Michigan. How will they raise the match if it is not provided through public funds? Will the CDCU's regular recruitment activities suffice for the IDA program, or will additional work be needed to reach more deeply into the low-income population, and how will this be supported? These are questions which will be addressed in the coming months at several of the sites in this study.

(6) Linkages with other partner agencies – Comprehensive Community Building: One of the ways that CDCUs have been able to minimize costs of IDA programs is through collaboration with other nonprofit and/or government organizations which have a related mission and complementary programs. Typically CDCUs have *always* worked through personal networks and organizations in their community. For the IDA programs, however, some new partnerships may need to be added, or existing relationships expanded. For example, CDCUs regularly provide one-on-one financial counseling to their members; however, some of them are not set up to give classes, such as the "economic literacy" classes which are a centerpiece of IDA programs. Some of the larger CDCUs, such as Alternatives FCU in Ithaca, are able to conduct these classes internally (partially staffed by a VISTA volunteer). Others have partnered with organizations such as the Cooperative Extension or the local community college to conduct classes; in many cases, the specialized training for IDA holders once they have advanced beyond basic "economic literacy" – training in homebuying and

homeownership, for example, or assistance in microenterprise development or expansion – is conducted by a local housing alliance or Small Business Development Center (SBDC). In all these cases, partnerships emerge out of a shared mission, and each partner takes responsibility for the piece that is consistent with its own work.

The long-term challenge of these collaborations, of course, is how to sustain those parts of the program that are not self-supporting, such as classes provided by grant-supported organizations. There have also been challenges, we were told, when the roles of partners are inadequately negotiated or spelled out, or where historic competition between some of the partners interferes with cooperation. There is also variation between urban programs – which often have many partnering organizations from a wide range of choices – and non-metro programs where the choice of partners is much more limited; nonetheless, in every case, partnering was accomplished as a way of minimizing and spreading the cost, increasing the program's capacity, and increasing a broad-based sense of local ownership.

E. Technical Assistance Insights: What kind of help do CDCUs need for this program, and where can they get it?

Several aspects of IDA programs were more problematic than others, and practitioners shared several insights with us about resources that might be especially helpful to Michigan start-up programs. Several are standard IDA program challenges, and many of the insights from the IDA practitioner community can be tailored for use in the CDCU context:

- How to recruit IDA-holders
- How to raise the match
- How to design or find an effective curriculum for "economic literacy"
- How to develop collaborative partnerships which last

In each of these areas, experience and written materials are available or could be compiled and synthesized into handouts or workbooks for CDCU/IDA practitioners in Michigan.

In other cases, the challenge is unique to credit unions and may require more specialized assistance, for example from the Michigan Credit Union League and/or the National Federation of CDCUs. Such assistance might include:

- How to upgrade existing systems and technologies to accommodate the special reporting and more intensive servicing of IDA accounts
- How to integrate IDAs with other services and products as part of a "step-up" strategy for member development
- How to build the CDCU's capacity to provide the follow-up financial products that can best "capture the margin" as IDA holders graduate to become asset-holders and wealth-builders; e.g., becoming mortgage-originators and small business lenders – which require greater institutional capacity and staff training – so that a core of assets can be held internally for local reinvestment, rather than being lost to banks outside the community which have little incentive to serve these less-profitable markets.[21]
- How to streamline services where possible, to maximize staff "face time" with needy members where it can be most effective; for example, how to automate some teller functions (e.g., a call-in recording for information on balances or check-clearing) to free up time for other teller functions which cannot be standardized
- How to continuously recognize and capture new service opportunities -- such as IDAs, and the new federal EFTs (Electronic Fund Transfers) for individuals receiving social security or other regular public payments -- to help low-income communities build savings and investments, while at the same time strengthening CDCUs as sound, well-managed, sustainable financial institutions.

[21] The dynamics between market-oriented banks/traditional lenders and the mission-oriented Community Development Financial Institutions (including CDCUs) are the focus of intense interest right now. New federal banking laws open new opportunities for traditional financial institutions, but those new laws also promise to erode the incentives for bank reinvestment in low-income areas. At the same time, regulatory changes for CUs threaten to reduce their flexibility to experiment with cross-subsidized new services for needy populations during a phase-in period. These transformations should be tracked over the coming months, to provide insights for Michigan practitioners.

F. Conclusions: Insights for Michigan feasibility

Implications for CDCU-based IDA Programs: Without a doubt, IDAs are consistent with the concept and practice of Community Development Credit Unions. Experience with IDA implementation in a wide range of community contexts across the 23 sites is producing insights to guide new programs, and the network of practitioners is keenly interested in sharing and learning from one another and with Michigan CDCUs.

IDA programs in CDCUs are operating successfully in rural, inner-city and metropolitan communities. They are serving African-American and Latino populations; immigrant, migrant[22] and Native American communities; in agricultural, service and small manufacturing economies; in long-established CDCUs and in brand new ones; in areas rich with potential partners and resources, as well as those which are socially and economically isolated; with leadership that includes dense networks within the community and outside to the political, social and economic powers that shape opportunities; and with leadership that has only part of this critical "social capital" but which is building on the IDA program to shape and strengthen important survival ties. IDA programs have proven to be *flexible* enough to accommodate this wide range of circumstances, and *adaptable* to the range of wealth-building needs in the community (beyond the standard IDA model of buying a home, starting a business, or going to school). Even now, for example, IDA-holders also save for structural home improvements, for their children's or grandchildren's education, and for computer equipment for students planning to go to college, and many other ways for low-income persons and families to surmount personal barriers to wealth-building in their local circumstances. The first step is their *commitment*; after that, the CDCU helps them find a way to get there, through new habits of savings and investment and gaining more control over their economic lives.

Adding IDA programs is "a natural" for all the CDCUs interviewed for this study. They consider it to be a "perfect match" with the mission and operations of a CDCU, despite the program's inherent challenges. Unlike banks, CDCUs have primarily a *social mission*, committed to creating a ladder of opportunity for members and the community they serve, and to having a longterm, positive impact on the local economy and quality of life. For this reason, the IDA fits comfortably within the framework of CDCU planning, and has even provided CDCUs with the opportunity to expand and strengthen their service to the neediest potential members; since, as noted earlier, between 60-80% of IDA participants at all sites (according to practitioner estimates) are new to these credit union, the IDA programs have enabled these CDCUs to extend their "ladder of services" even more deeply into the communities they were created to serve. From there, IDA holders begin to receive the counseling and assistance they need to continue on the path toward economic self-sufficiency.

Existing and Potential Partnerships: Michigan has also seen some promising developments in the recent past which encourage the idea of IDAs in CDCUs. For example, the Michigan Credit Union League (MCUL)[23] has made a major commitment to strengthening and building on credit union services to low-income and other underserved populations in the state. Nationally, this follows a push by the federal regulatory, the National Credit Union Administration (NCUA), and by national trade associations such as the Credit Union National Association (CUNA): to promote service to those populations which historically were the *raison d'être* of credit unions, but which are currently underrepresented. In Michigan, MCUL has been assisting its 476 credit union members to conduct a disaggregated analysis of their services (CUNA's program, Project Differentiation) in order to rethink their outreach programs. MCUL has also created a Membership Outreach Task Force to explore ways that CDCUs and traditional credit unions can provide access to financial services to all who need them.[24] The League has been instrumental in convincing the state CU regulator, the Financial Institutions Bureau

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[22] According to Gary Moody of the MCUL, several CUs in Southwest Michigan already serve migrant populations, so possibilities exist for creating collaborative programs (such as IDAs) with CUs in such destination states as Texas and Florida.
[23] The Michigan League has been a partner in this study and has provided invaluable information and guidance, as well as its much-appreciated encouragement and support.
[24] In its recent study of high-cost "payday lenders," MCUL learned that 30% of CU members in Michigan use them, indicating a gap in services that CUs could provide at greatly-reduced cost to consumers.

(FIB), to use federal guidelines in order to designate state-chartered CUs as "low-income," and has been working to modify policy positions which might constrain CDCU operations, particularly the holding of IDA match funds (which needs regulatory clarification). MCUL also advocated for the current IDA legislation and funding at the federal level.

MCUL now has a field staff devoted to strengthening small and low-income credit unions; now 15 state- and federally chartered CUs in Michigan have "low-income" designation, and mainstream credit unions are beginning to explore ways they can expand or partner to fulfill unmet needs. For example, Research Federal Credit Union is exploring how it can expand its field beyond the engineers and professionals it now serves, to include people in a nearby Empowerment Zone. Though these experiments are just beginning in Michigan, there appear to be many opportunities for creative linkages, and a distinct enthusiasm at MCUL to move forward on them.

With the guidance of experienced practitioners around the country, and the leadership and support of the MCUL, there is little doubt that a CDCU-linked IDA program will succeed in Michigan, with lasting benefit to individuals and communities.[25] In addition, there is another rich resource which will be available to Michigan CDCUs: the experience, training and technical assistance of the National Federation of Community Development Credit Unions (NFCDCU).[26] NFCDCU has worked since 1974 to strengthen CDCUs across the country, and to create a more supportive policy environment and targeted assistance -- including access to capital -- for these specialized financial institutions owned and governed by and for low-income memberships. It has specialized services for CDCU-linked IDA programs: a VISTA placement program, training, and small challenge grants to supplement the "matching funds." And recently it launched its CDCU Institute, to provide *for the first time* the specialized, intensive training to CDCU practitioners for start-ups, expansion, and such complex advanced

[25] Evaluations are currently underway; as part of this study, we also discussed "impact assessments" with several sites and, if possible, will continue to work with them to gain this longer-range insight on IDAs and CDCUs.

services as mortgages and significant business lending.[27] These are invaluable resources, along with the national network of practitioners which participate in NFCDCU, which are available to Michigan practitioners.

Policy implications: Although this is a *field in motion*, there is much reason to encourage CDCU-linked IDAs in Michigan. There also will be challenges, and some of theme can best be addressed at the state level. Most important, perhaps, is to keep IDA legislation *flexible* so that creativity and adaptation is encouraged at the local level. Every community with its residents, its array of potential partners, and its particular barriers will be different, as they are in the 23 sites included in this study. Further, since CDCUs maintain a *developmental commitment* to individuals and communities, there must be room and encouragement to adapt programs to changing local needs and successes over time. Learning will take place, with cross-fertilization between sites; this can only be a benefit to the goal of enabling low-income communities to achieve resilient local economies, and individuals and families to sustain a better quality of life.

There are also practical concerns which can be facilitated by supportive legislation/regulation. For example, the question of *cost-recovery alternatives* needs to be explored in more depth. These are relatively expensive programs for tiny CDCUs, and the dynamics of internal support have yet to be worked out completely. It may be best, for example, that the state match dollars be deposited at the CU for the duration of the program, with the interest accruing to the credit union to help cover administrative costs. It may be that incentives for partner agencies (community colleges, community action agencies, nonprofit credit counseling organizations) would encourage collaboration to keep CDCU costs to a minimum. Experiments with a range of match levels -- from 50¢ match for each $1.00 saved, all the way to up to $9.00 match for each $1.00 saved -- have not yet clarified "best practice," so flexibility in the state match should respond to evaluation data as it emerges. Creation of a permanent "revolving fund" for the challenge

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[26] The NFCDCU has also been a partner in this study, providing baseline information on all the sites, creative input into the study design, gracious introductions and entrée to the sites, and valued encouragement and support.

match will also reduce some of the uncertainty and, sometimes, program disruption which can occur with annual reauthorizations. Facilitation of CDCU access to existing funds, such as through the Federal Home Loan Bank and the Small Business Administration, for example, would also contribute to the institutional stability of these grassroots financial institutions.

Another form of partnership that holds real promise is between a large, established credit union and a CDCU. The MCUL warns that the growing regulatory constraints for "safety and soundness" may inhibit mainstream CUs from undertaking potentially costly new services (such as IDAs) for hard-to-reach populations; yet partnerships with CDCUs may provide a strategy to accomplish the same goal while minimizing risk. In some cases, for example, mainstream CUs contribute to the match for IDAs or to help cover program costs. Already in Michigan, CUs back each other up with emergency staffing and other supports, through the brokering of the MCUL. Extending these in-kind services with special attention to CDCUs could prove to be of great benefit.

Support for this type of partnership also may be a role for the state legislature. In a parallel initiative, bank partnerships with "community development financial institutions" (CDFIs) have been facilitated by federal (and some states') incentives and direct funding, such as through the CDFI Fund in the U.S. Department of Treasury. Banks are required by law to serve *all* the financial needs in their communities, including low-income persons who represent high-cost, low-profit services in the banking world; so banks have learned it can be to their benefit to *buy down their risk* by investing in CDFIs, which in turn make loans with the necessary support services to these nonstandard, harder-to-serve populations. Perhaps there are similar ways that Michigan legislation could encourage not only bank partnerships with CDCUs but also partnerships between traditional credit unions and their smaller, nonstandard cousins in low-income communities.

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[27] CDCUs have always made business loans, authorized as "personal loans for business purposes" for up to $25,000. Beyond that ceiling, however, there are additional requirements and oversight which take additional staff training and some organizational modifications.

There are now federal funds available on a matching basis for IDA programs, although the funds are restricted to of the IDA “match” pool and may not be used for program costs. Challenge grants are also available from the National Federation of CDCUs to help build the match for those federal funds, although these also require a local match. The opportunity here is clear. Modest state grants to help cover program costs (now available in some states) would enable CDCUs to mobilize these outside resources for the benefit of Michigan citizens.

Some public funds also are also available on a matching basis – from the federal CDFI Fund, for example – for the specialized training and technical assistance needs of the CDFIs. Other public funds are available in the form of low-cost capital to help CDCUs stabilize and grow their assets for community reinvestment. There are currently state legislative models for augmenting this kind of capacity-building assistance (in North Carolina and New York, for example) which should be explored further for Michigan.

Lastly, it has become clear that there is still much to be learned about these and other self-help strategies to create strong, resilient local economies in disinvested communities. Impact assessment tools and continuing information on "best practices" could feed the development of these grassroots financial institutions and encourage their continuing creative response to Michigan's low-income marketplaces.

III. IDA BACKGROUND INFORMATION

A. Individual Development Accounts and CDCUs: The Fusion of Place and Practice

B. Insights From the National IDA Demonstration Project

C. What are IDAs? An Introduction

III. IDA BACKGROUND INFORMATION

A. Individual Development Accounts (IDAs) and CDCUs: The Fusion of Place and Practice

> "Of all the partnerships your IDA program must forge, none is more central to the program's success than your cooperation with a financial institution or institutions."[28]

The above statement underscores the importance of a strong relationship between a financial institution and an Individual Development Account program. Insights gained from the cross-country CDCU site visits, however, add an important dimension to the above statement. One of the strengths associated with the CDCU as the IDA host organization is the role and function of the CDCU as a community-based financial institution and its partnership with the Individual Development Account ***holder*****.** By offering IDAs through CDCUs, a new and lasting partnership is created between the novice saver and the community-anchored institution, with its ladder of services and developmental support aimed toward building community wealth.

Information gleaned from CDCUs and their community-based IDA partners yields a similar message: the long steady climb out of poverty for CDCU members can be achieved through sound financial management education, and ongoing help to put that information into practice through continued savings and investment.

The individual's ability to sustain the effort to save earned income and build assets through continual investment behavior is directly linked to the community based organization whose practice is its mission: to create a community arena within which low-income individuals can access financial services to meet their long term financial savings and asset building needs. The CDCU serves both the community interest and the financial services needs of individuals by being a vehicle for the practice of saving and building assets. The extent to which it can either launch or partner with another similar-

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[28] "Selecting A Financial Institution for Your IDA Program," Corporation for Enterprise Development (CFED), *Assets*, Summer 1999, p. 10.

missioned community-based organization to provide an expanded asset building tool (Individual Development Accounts) is explored in this feasibility study.

IDAs represent a shift in the thinking and practice of both the traditional income maintenance political arena and among low-income individuals themselves. IDAs are a tool which add value to existing community-based efforts toward community revitalization through increasing community member's self-sufficiency capabilities. By focusing only on the IDA program as the determinant of increased asset building among low-income individuals, the importance of the relationships with other community resources is overlooked. The IDA holder's relationship with the community-based organization which hosts the IDA program may only last as long as the IDA program (or terminates when the IDA goal has been met). A person whose income is such that they are at or within HUD or HHS poverty guidelines indicates that an on-going relationship with a financial institution to maintain their savings behavior is critical. Several years of IDA development shows that lifting people out of poverty, the underlying goal of IDA development, is accomplished through steady saving, investing, and obtaining assets.

The process by which the Center for Urban Affairs gathered information about the feasibility of CDCUs to develop or host IDAs brought forward several significant insights. These insights can inform the process by which current policy is examined, enhanced, or even changed to support CDCUs as both financial institutions and as community development organizations, offering IDAs as a savings and investment model among the working and poorest of the poor:

1. Saving and investment is a long term individualized strategy which has the potential and track record to move people out of poverty.

2. Community development-oriented support organizations are key to making that happen.

3. IDAs are a tool which links hard-to-reach individuals with the community development network of organizations.

4. Connecting the individual to the community development mission of the support organization is done through partnerships among mission-similar organizations.

5. IDAs work when the individual is connected to both a financial institution and community-based organization who share mission and vision.

6. CDCUs highlight the significance of financial institutions and their link between IDAs as a savings and investment strategy and the individual toward which the tool of IDAs is intended to benefit.

7. Because of their mission, CDCUs distinguish themselves as either an IDA host organization or as the financial institution partner in the IDA program.

The Community Development Credit Union is perfectly suited to either host or to engage in a partnership with another community-based organization to offer Individual Development Accounts. This statement is borne out in practice, not only because the CDCU is a financial institution whose mission shares the same paradigm as that of the IDA tool – but because its very mission as a regulated financial institution within the credit union industry, is community development. All its services and products are created and delivered to accomplish this very mission.

B. Insights From the National IDA Demonstration Project: Downpayments on the American Dream Policy Demonstration

Feasibility of an IDA Program: The Corporation for Enterprise Development (CFED) in the second edition of their *Designing Your Own Individual Account Demonstration Handbook* (1996) recommends six elements of a feasibility assessment for IDA program development. The assessment helps any organization decide if an IDA program is right for them, and can be used either as an internal workplan or as a proposal for external funding. CFED recommends that any organization:

- first determine the need for asset building strategies and how IDAs can fill this need for the population they serve;
- establish reasons why the organization should pursue an IDA program;
- identify potential funders or subsidies;
- define the IDA program objectives;
- create a separate advisory board, and
- develop a workplan for implementing an IDA framework.

For CDCUs, creating a plan for incorporating IDAs while determining the feasibility is a process of organizing information that is already accessible to the CDCU.

Lessons Learned from the Design and Implementation of Thirteen IDA Programs: In September 1997, a national IDA demonstration program, the Downpayments on the American Dream Policy Demonstration (ADD), was launched. The ADD was launched as the first large test of the efficacy of IDAs as a route to economic independence for low income Americans. Thirteen diverse community based organizations across the country were selected to participate in this demonstration initiative. Two of the sites are CDCUs. Four of the sites use CDCUs to hold IDA savings accounts. Ten design lessons for IDA programs have arisen as a result of the first year of operations from those thirteen sites:

Lesson #1
Recruiting Participants is Tougher Than Expected

The first IDA programs thought that IDAs would sell themselves and that low-income families would line up to participate in an IDA program. On the contrary, our experience has been that recruitment is difficult, especially in a program's infancy. ADD programs recommend introducing IDAs first to your organization's current clients, who already know and trust you, and then using various other marketing strategies. Be patient. Recruitment will pick up when word-of-mouth spreads to the family and friends of the first IDA participants.

Lesson #2
Include Potential Participants in Program Design Process

Successful IDA programs fit the needs of their participants. Asset costs vary from area to area. The amount that families can save and the level of training that they need fluctuate among target populations and may differ substantially. Thus, it is impossible to develop a one-size-fits-all IDA program. To be clear on the expectations and requirements of each target group, include potential participants in the IDA design process.

Lesson #3
Choose Program Partners Carefully

Strong partnerships are important to IDA program success. Few, if any, community organizations have the capacity to run an IDA program without partnerships. Partners can hold accounts (financial institutions), offer training and counseling, refer participants, and even provide funding for your program. We have learned that the quality of partnerships is more important than their quantity. Look for partners that prioritize their IDA work by dedicating resources and staff time to it.

Lesson #4
Plan for a Least One Full-Time Staff Person in Mid-Sized Programs

To run their IDA programs effectively, programs with more than 50 accounts need at least one, and probably two, full-time staff. Programs often supplement their staff with Americorps*VISTA members and other community volunteers. Additional staff may be necessary during the initial program phases of design and recruitment.

Lesson #5
Find Financial Institutions to Support IDA Program

The first IDA programs had difficulty finding financial institutions to hold IDA accounts, but this is no longer the case. Financial institutions have begun to recognize the value of participating in an IDA program - access to an entirely new market (customer base) and possible Community Reinvestment Act credit. Ask financial institutions to provide

IDA participants benefits such as no-fee and no-minimum balance accounts with high interest rates. Financial institutions have also contributed matching and operating funds to IDA programs.

Lesson #6
Carefully Design Money Management Classes

Provide classes on personal finances, credit repair, budgeting, savings and investment. Require six to ten monthly classes and provide additional, optional classes. Hold classes during the time in the program when participants are saving. Schedule classes at multiple times and provide child care and transportation.

Lesson #7
Closely Track and Support Participants' Progress

Case management with and frequent interaction among IDA participants is crucial to success. IDA programs should closely monitor participants' deposits and withdrawals and attendance at training and counseling meetings. To monitor participant progress, use an effective management information system.

Lesson #8
Systematically Evaluate Your IDA Program

Build an evaluation component into your IDA program. Evaluation helps you improve program design and provides data to attract new funders and to push IDA policy forward. The Center for Social Development's MIS IDA software was created by researchers and IDA experts to provide data to successfully run and evaluate your program.

Lesson #9
Use Your IDA Program to Promote IDA Policy

Not coincidentally, the sponsors of the Assets for Independence Act hailed from states with IDA programs. In addition, IDA policy efforts have been most successful in states where community-based IDA programs are already in place. Invite legislators to your program site to meet account holders and hear their testimonials. Of course the most effective advocates for IDA programs are the IDA participants themselves.

Lesson #10
Communicate Regularly with Other IDA Programs

We are still in the early years of IDA program development. The field is growing exponentially and our knowledge of what works best is also rapidly increasing. Use IDA resources that share best practices, such as the *IDA Program Design Handbook* and the IDA list-serve. Community organizations should frequently us the IDA Learning Network (http://idanetwork.org) to find the latest information on state and federal IDA policy and share what they are learning.

In addition, in January 1999, the Center for Social Development (CSD) released the Start Up Evaluation Report for the Downpayments on the American Dream Policy Demonstration (ADD). The report was a review of the efforts of the thirteen ADD sites and the design, implementation and administration of the IDAs in the first year of the ADD. In addressing "best practice" of IDAs in this chapter of the study, the Center for Urban Affairs will cite the evaluation findings from CSD, who designed the evaluation of the ADD. The report on the start-up drew on two evaluation methods: implementation assessment and monitoring.

The participant groups targeted by these IDA programs are diverse. None of the participants in the national demonstration programs have household incomes greater than 200 percent of the federal poverty level, and several IDA programs in the demonstration have targeted welfare recipients.

At the beginning of the national demonstration, programs identified some common strengths, capacities, problems, and challenges in early IDA implementation efforts. Key strengths and capacities identified by the organizations were:

- Innovative program designs
- Pre-existing key components of the IDA program
- Strong community partnerships

The biggest problems in early implementation efforts were:

- Fundraising and other resource concerns
- Specifying IDA program design
- Managing organizational relationships with community partnerships

The CSD evaluation report cited the importance of a balance between the economic development and the social services approach to IDAs. One sponsoring organization, a community action agency, found that integrating IDAs into their economic development programs was more successful than attempts to integrate IDAs into their social services programs. At another site, one staff person was concerned about IDA participants having no contact with an organization once they reached their goals and left the IDA host organization. Finally, one IDA coordinator stated that just getting an IDA program up and running is an "inadequate" measure of success. Rather, success was measured more by having people staying and succeeding.

C. What are IDAs? An Introduction

What Are Individual Development Accounts? Individual Development Accounts (IDAs) is the name given to a recent savings and investment strategy aimed at low income individuals to assist them in gaining a foothold in the mainstream economy through asset building for themselves, their families, and for their future.

IDAs encourage savings and wise investment through education, counseling, financial incentives, which jump-start the novice saver toward his or her investment goal. Asset building through home ownership, equity in microenterprise development, and educational advancement appear to have the greatest likelihood of moving an individual out of financial poverty.

IDAs are targeted savings accounts that offer low-income individuals both the chance to save and the chance to have their savings matched at the end of the savings period. These targeted savings accounts and the matching funds must be invested in specific wealth generating assets, such as home ownership, education/vocational training, or business development.

IDAs are available to individuals who receive assistance through a community based organization offering IDAs to reach one of the above mentioned goals. The community-based organization, usually a community development corporation, raises the funds to match the individual's savings goal. These match dollars and the individual's savings are used to acquire the asset. The process, which also includes economic literacy, usually takes up to two years to achieve.

IDAs are proving to be an effective means by which low-income individuals can accumulate assets and buffer their economic security from downturns in their employment.

What Are Some Benefits of Individual Development Accounts? The matching mechanism built into IDA programs for low-income people makes wealth producing assets attainable for a population who may otherwise have savings wiped out by short-term needs, emergency spending, or an overwhelming feeling of hopelessness. Once high-value assets acquired, families stabilize and a foundation is in place to develop more assets. By participating in an Individual Development Account program, an account holder also benefits from specialized economic literacy including credit counseling, budgeting, personal financial development plan, financial institution relationship building, and investment-related opportunities/risk.

Other benefits are more difficult to quantify. The very nature of saving money through an IDA program requires an account holder to set goals for the future. In a welfare system that concentrates on day-to-day maintenance, the value of and taking steps toward planning a brighter future cannot be underestimated. Also, account holder's savings are housed in a local financial institution. For people who have never been in a bank or credit union, this may be a first connection with the opportunities of the economic mainstream. For the first time, account holders may establish a banking history and become familiar to the local financial community, making them more likely to access the commercial lending market for other loans, accounts, and services.

How Do Individual Development Accounts Support Self sufficiency Efforts?

In the same spirit and rational for subsidizing asset accumulation of the non-poor through Individual Retirement Accounts (IRAs), IDAs are investments the poor work toward and develop for themselves.

IDAs focus individual efforts on achieving sustainable well being through savings. Non-profit housing, self-employment, and education organizations, already helping individuals move toward improved quality of life, are hosting the IDA Demonstration Project. IDAs become the mechanism through which individuals save, become economically literate, and leverage their savings to build assets over a lifetime.

Are Individual Development Accounts Only For Low Income People?

According to Michigan Legislation, IDA holders' income must not exceed 185% of federal poverty guidelines. However, this is not necessarily the case in other states. In some instances, tax advantages of IDAs are extended to all account holders regardless of income. It is important to note, however, that in order to access match account funds or utilize individual tax credits, expenditures of dollars accumulated in IDAs are restricted in most IDA programs to obtaining a specific asset.

IDA programming may have the most significant effect on its lowest income participants, i.e., those for whom savings is a new notion and those for whom a match of savings is vital to accumulate any substantial sum for investment.

What Mechanisms May Be Used to Match Individual Development Account Deposits for Low Income Individuals? The majority of IDA match funds are raised through multiple sources. Relationship building plays a key role in bringing match funds into the organization, or in raising the match funds through intermediaries. Although most private philanthropic organizations resonate with the concept of IDAs garnering actual match dollars through these entities is challenging. Many IDA programs form partnerships with entities who have access to federal or state public dollars that can then be channeled into IDA programs (examples include members of the Federal Home Loan Bank; housing organization which access city community development block grants). [For an expanded list of possible match fund sources, please see the Appendix "50 Ways to Match Your IDA."]

As of September 1999, a total of twenty-eight states have passed IDA legislation; nine states provide matching funds; seven states have created IDA pilot programs and five states have pending legislation.

Mechanisms used to implement the match vary from state to state and include, but are not limited to: refundable individual tax credits; tax exemptions for account deposits; tax credits to contributors on behalf of low-income account holders; required employer match for employers who receive wage subsidies; earning income tax credit pass through; and direct match with a capped limit utilizing TANF and CDBG funds.

There are six IDA policy strategy models widely used by states:

- **Direct Appropriation-** In this approach states provide direct appropriation for matching funds and distributes those funds to nonprofits (Indiana, North Carolina, Pennsylvania, Minnesota).

- **Tax Credits for Contributions-** This model provides a state tax credit for private contributions to eligible community-based IDA programs. The total amount of credit is usually capped (Arkansas, Hawaii, Indiana, Missouri).

- **Welfare Reform-** In this approach IDAs may be established by individuals eligible for assistance under the state's TANF plan (Arkansas, Colorado, Kentucky, Missouri, Ohio, Oklahoma, Oregon, Tennessee, Texas, Utah, Vermont).

- **Allocation of CDBG-** Because the statute does not prohibit the use of CDBG funds for this purpose, many states utilize CDBG (North Carolina is working to include the use of small cities CDBG funds).

- **Refundable Tax Credits to Account holders-** Iowa is the only state using this method. It provides a 20% refundable tax credit on savings up to $2,000 annually.

- **Wage Subsidies Deposited into IDA-like accounts**- This method is an innovate approach to subsidizing employee wages and benefits, requiring employers to place $1 for every hour worked into a restricted savings account for the employee's future education or job training (Massachusetts, Mississippi, Oregon).

<u>What Insures that IDAs are Used for Specified Purposes?</u> Accounts can be structured to ensure that the utilization of funds are consumer driven. The Corporation for Enterprise Development, in Washington, DC, and the Center for Social Development at Washington University in St. Louis, MO recommend the following practices:

- Permissible uses are restricted to investments with significant proven public (as well as private) benefits.

- Checks are written only to third parties (e.g. mortgage companies, educational institutions). In the case of CDCUs, the match funds are deposited in the non profit financial institution with the interest accruing to its community development mission.

- Match funds/incentives are lost or unattainable by account holders if funds are not used as intended.

- Community organizations/parents may co-sign withdrawals.

- Economic and financial management education is built in through training and counseling.

Federal and State Support Mechanisms

★★★Federal Legislation:

- S1212 passed in 1998 (Assets for Independence Act), authorizing Health and Human Services to create a national IDA Demonstration Project.

- $840 million in IDA tax credits were included in the $792 billion tax bill approved by the Senate (S1429 – Taxpayer Relief Act of 1999) in July 1999. These provisions did not survive the House-Senate conference on the tax bill.

★★★In Michigan:

- H5786 (Price (D) Pontiac) passed in September 1998, allowing welfare recipients to save IDAs for home purchase without counting against their eligibility.

- HB5306 (Martinez (D) Lansing) and HB5307 (Schauer, (D) Battle Creek) both reintroduced IDA bills in the current session (September 1999). HB5306 would establish an Individual/Family Development Account Program. HB5307 would establish deductions from the Income Tax Account and the Small Business Tax for money contributed to the match fund of a community-based organization.

IV. 6 CASE PROFILES OF CDCU-BASED IDA PROGRAMS

A. Indianapolis, IN: Near Eastside Federal Credit Union

B. Cleveland, OH: Faith Community United Credit Union

C. Philadelphia, PA: Borinquen Federal Credit Union

D. Philadelphia, PA: New Horizons Federal Credit Union

E. Ithaca, NY: Alternatives Federal Credit Union

E. Burlington, VT: Vermont Development Credit Union

A. Indianapolis, IN: Near Eastside Federal Credit Union

After three years of holding accounts for an IDA program administered by the CDC, Eastside Community Investments, Near Eastside FCU assumed administrative responsibility for the project in late 1997 when the CDC faced serious organizational difficulties. In collaboration with a new partner, the John H. Boner Community Center, NECFCU has since opened more than 100 accounts and raised funds to cover administrative costs and provide match funds. East Indianapolis residents who earn up to 150% of the federal poverty income guidelines are eligible to have their savings matched 3-to-1 towards starting or expanding a business, purchasing a home or obtaining education or job training. Over half of the IDA participants are saving for homeownership and receive assistance from a partner organization, the Indianapolis Neighborhood Housing Partnership. Training in economic literacy is provided to participants by the Purdue University Cooperative Extension, and business training is provided by the Neighborhood Self-Employment Initiative. The State of Indiana also funds 60 of NECFCU's IDA accounts and recently passed legislation that exempts IDA accounts from asset limitations for public assistance recipients.

ORGANIZATIONAL PROFILE

The Near Eastside Federal Credit Union (NECFCU) serves an inner-city community directly east of downtown Indianapolis. This has historically been a fairly stable neighborhood where Appalachian, blue-collar and low-income white families settled and stayed over generations, mainly from Kentucky and Tennessee. In recent decades, however, there has been a dramatic shift to a highly transient population, now about 40% African American and 20% Hispanic.

NECFCU is housed within the John H. Boner Community Center and shares many of its facilities and an adjacent parking lot, though it has its own storefront lobby with service counter facing a main street. Since it was chartered in 1981, NECFCU has offered basic financial services, financial education, and affordable loans to low-income community residents, many of whom have never had access to a mainstream financial institution. It became a Certified CDFI (a federal designation) in 1996.

The credit union's focus has been on "bringing members into the bank mainstream," and to help residents move away from the high-cost options typically available to impoverished urban residents, such as pawn shops, check-cashing operations, rent-to-own stores, and other non-wealth-building, so-called "predatory" financial services. The area is no longer served by mainstream banks except via phone and computer access, which are typically not used by low-income populations. As a community-owned and controlled financial institution, NECFCU aims to "help individuals build personal wealth and move out of poverty. At the same time this increases community wealth through cooperative ownership and reinvestment in neighborhood assets such as homes and very small businesses."[29]

> <u>Mission Statement</u>: *"The purpose of NECFCU is to promote the concept of the credit union as a financial cooperative which uses the economic resources of the area for the betterment of Credit Union members and the community as a whole; to promote the concept of savings and thrift as a means for economic empowerment and financial security; to promote the establishment and maintenance of good credit for members; and to provide loans to members."*[30]

The geographic area served by NECFCU – its "field of membership" (FOM) – falls primarily within the HUD-designated Enterprise Community boundaries, and consists of the more than 27,000 current residents of 12 census tracts which fall below 70% of the County median income, 4 tracts which fall below 85%, and one which falls at 92%. The FOM also includes "potential" residents, a term which allows for the highly transient population of the area. The housing stock is about 60% rental, and the residents are disproportionately senior citizens or under 16, when compared to the Marion County population, with a high unemployment rate (12% versus 3% in the county).

NECFCU's community development mission commits it to "keeping economic resources in the community working for the benefit of our membership. We encourage members to save and to use credit responsibly for their personal financial betterment and for the resulting enhancement of the community as a whole."[31] By the end of 1998 with

[29] Quoted from the Executive Summary of the 1999 application for funding to the Community Development Financial Institution Fund (CDFI Fund) in the U.S. Department of Treasury.
[30] Mission Statement language is formally adopted by the Board of Directors and appears on many key documents.
[31] Quoted from an internal essay on the "History of NECFCU" prepared for grant proposals to such funders as the CDFI Fund.

2200 members, credit union assets totaled over $3.5 million. Its goal for the next five years include expanding the membership base to 4800 and total assets to $7.3 million.[32]

In addition to the Individual Development Accounts (IDAs) which are the focus of this study, NECFCU currently offers a wide range of financial services including:

- Regular member savings accounts
- CDs (called “share certificates” in the credit union world)
- IRAs (Individual Retirement Accounts)
- Checking accounts (called “share drafts”)
- Direct deposit
- Home equity loans
- Car loans, both new and used
- Money orders
- Signature loans and deposit-secured loans
- A youth credit union program

The credit union also is currently developing its first home mortgage program, in response to a large community interest amounting to more than 100 inquiries in the past year.

NECFCU has worked closely with other community development and human service agencies in its geographic area, including a close working relationship with the John H. Boner Community Center and with the local community development corporation, Eastside Community Investments. Collaborations with the Indianapolis Neighborhood Housing Partnership and research linkages with the Indiana University Center for Urban Policy and Environment have also enhanced NECFCU’s ability to serve its community.

IDA PROGRAM PROFILE

The Individual Development Account program has changed dramatically since its inception in 1994 through ECI. Originally, the ECI executive launched the program – one of the first in the nation – in close cooperation with Michael Sherraden, who is credited with originating the IDA concept. In that early program, IDA holders were

[32] NECFCU 5-Year Business Plan, 1999.

promised (and funds secured) for a 9-to-1 match of their savings, including an initial $250 deposit in their names as an incentive; no additional services were provided, such as literacy training or financial counseling. NECFCU was invited in as the account holder, but the program itself was closely-held and not presented nor perceived as a collaborative partnership.

ECI went through a very difficult period after 1996 and eventually downsized significantly. That proved to be a very traumatic event for the community, with particular concern about the survival of the IDA program which was widely viewed as an important community asset. In response, the Credit Union and the Boner Community Center, two highly-respected organizations in the community, stepped up to the challenge and assumed full responsibility for the program's continuation.

The IDA program was significantly effected by the change, however. By this time, increasing experience with IDAs across the country had begun to clarify "best practices," and the importance of supportive services became clear: IDA-holders needed more than the match to enable them to restructure their lives for building assets and to gain the skills to do that. NECFCU became on of the sites for a national IDA Demonstration Project which provided more structure and guidance to program operators than in the past.

It also had become clear that the "free deposit" and high match rate were not only unrealistic in terms of ongoing fund-raising efforts, but also possibly a *disincentive* to participants' serious commitment to the hard work of saving and transforming their economic lives. As the current IDA manager, Leigh Tivol, put it, "it wasn't the same kind of blood, sweat and tears as it is with the current account holders." In fact, many of those initial account holders never began their savings after the initial deposit, and about one-third dropped out or disappeared from the neighborhood.

Currently, there are 106 IDA holders in the second year of the program, in addition to the 60 or so remaining account holders from the earlier program who continue to save. So far this year, 10 IDA holders have achieved their savings goal and purchased their asset – 8 purchased homes, and 2 purchased small business-related assets. The "match" for these accounts comes both from legislated state dollars and foundation funding, some of which was permitted to be rolled over from the first round when some original participants withdrew. Those early funds can be stretched further now, since subsequent IDA holders were offered a 3-to-1 match (much more common in current IDA practice) rather than the original 9-to-1 match. Part of the foundation funding is designated for IDA program administration – which covers the IDA staff, office space and related costs – but it does not reimburse the credit union for ongoing management of these low-balance, high-transaction, and therefore costly accounts.[33] Recently, however, the state's 1997 IDA legislation has been modified to provide donor tax credits for contributions to the match pool, and to allow IDA programs to use 20% of these raised funds to cover program and account management costs.[34]

The IDA program is currently housed off-site, a short drive away, within the ECI headquarters in an old school building. Although the IDA staff frequently move between the sites, the isolation is seen as a serious problem both for the IDA program and for the credit union. Future plans include relocating to space where the services can all be provided congruently and where a unified front is presented to the community.

The IDA program funds provide for contracting with other agencies for the training and technical assistance which goes beyond the typical support provided within NECFCU. This has proved to be critical at a time when the credit union is experiencing growth pains of understaffing and restructuring to reduce unit costs while increasing services.

Both the IDA manager and the credit union CEO believe that the IDA program has the potential to cover more of its costs internally, though it is far from that goal

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[33] The foundation funds for the match sit in a single reserve account at the credit union, strengthening its financial position. The state funds, however, are allocated once per fiscal year into individual "restricted subaccounts" for each IDA holder until they reach their contracted savings goal, and the interest during the program accrues to the IDA holder. These are important issues for program sustainability, which are handled differently by sites in this study: who holds the match? who gets what proportion of the interest earned on the match?

[34] IN Representative John Day championed these legislative changes. NECFCU is in his district, and he also lives in the neighborhood and serves on the IDA Advisory Committee. When the 1997 IDA legislation came up for renewal, he came to the credit union and sat down with the IDA coordinator Kathy Wallace and asked, "How can we make it work better?"

currently. New administrative costs include monthly reports to account-holders instead of NECFCU's regular quarterly reports to members (this is a requirement for the IDA Demonstration Project), as well as a separate series of monthly tracking items for the purpose of the national research. Although some of these tasks will decrease after the demonstration period, the very nature of the IDA account holders will continue to require greater assistance as they learn to negotiate the world of asset ownership.

The IDA program has proven to be a strong new product for the credit union and a program that is highly valued by the community. The management team looks forward to another two years as a national demonstration site for the Corporation for Enterprise Development, during which time they will continue to explore ways to sustain the program as a core financial service. The NECFCU board is fully committed to internalizing the program, and there will be much more to learn from them as they proceed.[35]

[35] We anticipate that Indianapolis will be one of several sites for more in-depth case study during the next year.

B. Cleveland, OH: Faith Community United Credit Union

> *Faith Community United CU is a 47-year-old community credit union which started out as a church credit union and now has 3000 members and $6 million in assets. This CDCU is one of two credit union partners in the Cleveland IDA Program, a four-year demonstration launched in 1998 and managed by the WECO Fund (Working for Empowerment through Community Organizing). The project offers a 2-to-1 match to assist individuals with incomes up to 200% of the federal poverty rate to achieve first-time home purchase, business start-up, post-secondary education or job training. Participants must save a minimum of $20 per month and may receive a maximum of $1500 in matching funds. FCUCU manages the accounts and provides one-on-one counseling and assistance to IDA participants. Additional partners include the Cleveland Housing Network, Youth Opportunities Unlimited, Consumer Credit Counseling, and the Urban League, which offer IDA participants various related programs and services such as economic literacy classes, peer support meetings, budgeting assistance, and training for homeownership, business development or higher education.*

"Empowering people who live, work or worship in Cuyahoga County."[36]

ORGANIZATIONAL PROFILE

Faith Community United CU (FCUCU) was chartered in 1952 as Mt. Sinai Baptist Church Credit Union, when it was housed within an African American church on the southeast side of Cleveland. An early mission statement reads:

> *The Faith Community United Credit Union, Inc. is a financial cooperative, owned by its members, who primarily live within Cleveland's inner city. It exists for the financial benefit of the membership.*
>
> *Our credit union, because of the basic fact that a majority of our members are in the lower strata of the economic ladder, has served a special educational purpose. Historic under achievement of educational and economic information on the part of a large number of our members has motivated us to expand our efforts to teach thrift and the wise use of credit. Just as a family is obligated to develop strong wholesome children, we maintain that it is our responsibility to develop a viable financial membership community.*
>
> *We seek to maintain the credit union's long-term financial stability. Fostering the credit union's philosophy of cooperation among inner city institutions, i.e., credit unions, businesses, and community agencies, is one of our goals.*

[36] FCUCU Annual Report, February 6, 1999.

Over the decades, FCUCU has grown beyond the church boundaries to serve a wider geographic area and a community-wide mission. The most recent charter revision after an extensive strategic planning process in 1995-96, for example, redefines the "field of membership" (FOM) as persons "who live/work/worship in Cuyahoga County. [The credit union] exists for the financial benefit of the membership and the community at large."

> *As a CDCU (community development credit union), we advocate revitalization, education, community development and rekindling of community pride and volunteerism. We seek to maintain the credit union's long-term financial stability and foster the credit union's philosophy of "people helping people" by initiating partnerships with other institutions, i.e., credit unions, churches, businesses and community agencies.*

Currently at 3500 members and $6.5 million in assets, FCUCU is the largest African American credit union in Ohio. Services have expanded considerably in the 1990s to include a wider range of savings options and credit plans, including CDs, IRAs, payroll deduction plans, direct deposits, checking accounts ("share draft accounts" in CU lingo), electronic fund transfers, ATM machines, direct utility bill payments, first and second mortgages and home improvement/home equity loans, student loans, auto and business loans, and two kinds of VISA cards, including a step-up VISA Credit Builders share-secured card to help members safely improve and establish their credit histories. A goal for 1999 is to "offer more credit counseling seminars" for members and the community, in order to increase their access to loans to meet their goals.[37] FCUCU receive its formal CDFI designation ("Community Development Financial Institution") from the U.S. Department of Treasury in 1996.

Current members are 99% African American, 60% female, 50% over 65 years of age, 40% receiving public assistance, and only 11% with household incomes above $30,000. But now with a countywide FOM – Cuyahoga County, which has seen a 46.5% increase in its poverty rate from 1980 to 1994 – FCUCU has the opportunity to broaden

[37] "Report of the Loan Officer," FCUCU 1999 Annual Report

its membership and increase its asset base toward becoming a more stable community institution to serve all the financial needs of low-income residents.

FCUCU is one of the first faith-based credit unions to formulate and begin to implement a "succession plan" for the board and organization. Like many (perhaps most) CDCUs, FCUCU has many devoted, long-time, even founding members who continue to serve in key leadership positions: as officers on the board, for example, and as manager of the credit union. Until fairly recently in its history, FCUCU was staffed entirely by volunteers, and volunteers continue to augment the organization in important functional areas. But volunteers are harder and harder to recruit, as in the nonprofit sector as a whole. Membership growth and diversification of services has made staff continuity and specialized training both necessary and possible through hiring and ongoing professional development for staff. By 1996, the credit union employed 6 full-time employees plus part-timers and volunteers. As for the board of directors, the credit union has already begun to take steps to move past this critical juncture by recruiting new members and beginning to rotate board membership on a systematic basis.

Like every CDCU in this study, FCUCU is a creature of its own unique history and context. While FCUCU is now recognized as a leading model for faith-based credit unions with a community development mission – indeed, one of its founding members and longtime Treasurer and manager, Mrs. Rita Haynes, helped to found and now chairs the national coalition of faith-based CUs as part of the National Federation of CDCUs – there were some controversial years when the separation of the credit union from Mt. Sinai Baptist Church had painfully to be worked out.[38] What emerged was an independent financial institution, in its own former bank building since 1991 (leased for $1.00/year), whose membership is no longer limited by church affiliation, but *whose mission and guiding principles continue to be firmly grounded in commitment to "spreading the word through service."*[39] In a geographic area which gradually lost every

[38] This is a common experience of faith-based credit unions and will not be recounted here. For further information on the challenging interrelationships between CUs and their founding faith-based institutions, see L. Levy. and C. Warden (1995), Faithful stewardship: A guide to and for faith-based credit unions, New York, National Federation of Community Development Credit Unions.
[39] This phrase was the theme of the 1999 Annual Meeting of Shareholders and the 1999 Annual Report.

one of its banks and saw the rapid increase of pawn shops, high-priced check cashers and rent-to-own agencies in its struggling business districts, FCUCU has grown rapidly in recent years as the single community-owned and governed financial institution serving its largely unbanked and disenfranchised population. In this setting, FCUCU serves a membership with a wide range of financial and literacy skills – from illiterate members who depend on the credit union to hold and write checks for their bills each month, to members who step-up through the ladder of services to become home-owners and small business entrepreneurs, and who may regularly access their accounts via computer and the new automated phone teller system.

The credit union had access to several unique resources to achieve this transformation, in addition to the talent and dedication of its energized leadership. In particular, a 1988 grant secured by FCUCU from the Lilly Endowment (an Indiana-based foundation) and channeled through a partner organization, WECO – Working for Empowerment through Community Organizing, directed by George Barany – supported the exploration of how faith-based CUs could serve their larger communities in inner-city neighborhoods, and how that might be done in Cleveland. Many years earlier, Mrs. Haynes and her board colleague, Elizabeth Ahart helped to launch the Inner-City Association of Minority Credit Unions in their city; for the Lilly project, the 49-member CUs formed a base to meet regularly with WECO to learn and explore options for a more community-oriented CU mission. This was WECO's first experience with credit unions, and the partnership with FCUCU developed into a lasting relationship which has benefited both organizations, including the joint IDA Project described below. A follow-up grant from Lilly supported a strategic planning process and implementation which formalized FCUCU's status and its enlarged mission as a CDCU, and reaffirmed its lasting collaboration with WECO, which owns the former bank building that houses the credit union.

The credit union also has an external network which is unrivaled among the credit unions in this study. Several longtime credit union leaders have been vocal and socially active on issues of institutional discrimination and racist public policy and practice, both locally and at the state and regional levels. As a result, though they have created some uneasy relationships in the public and business sectors, they also have built relationships of trust and mutual respect with several key public officials and civic leaders. One key ally moved up from being the city mayor to a state elected official, and is a continuing resource on policy issues such as the state's IDA legislation and the regulation of Ohio state-chartered credit unions such as FCUCU. The credit union maintains an uncommonly cordial working relationships with its state regulators, and the manager serves on boards or committees of several organizations which hold significance for the credit union, such as the Greater Cleveland Growth Association, the Urban League, WECO, and the Ohio Credit Union Foundation. She has also been instrumental in promoting the concept of faith-based credit unions nationally through her workshops for the annual Baptist convention since 1994, and less formally before that.

IDA PROGRAM PROFILE

FCUCU first learned about IDAs from the National Federation of CDCUs, which had been funded to provide VISTA volunteers to a limited number of CDCUs to start IDA programs, and also to help them with modest "savings match" grants. The manager presented the concept to the credit union board and to the WECO board, where she served as vice president. As a result, WECO sought and secured funding to launch an IDA demonstration project, with two credit union partners to hold the accounts, including FCUCU. (The other partner, Corey Methodist Church Credit Union, is a small faith-based CU which is in the process of expanding to become a CDCU.)

The IDA program was launched in May 1998 with orientation of participants at WECO, followed by economic literacy classes, credit counseling, and asset-specific training – in home ownership, small business development or planning and orientation for advanced education or job training – by partner organizations, including the Cleveland Housing Network, Youth Opportunities Unlimited, Consumer Credit Counseling, and the Urban League. At the orientation meeting, participants were given the choice of the two credit unions to hold their accounts, and while *most* participants chose Corey in both the first and second rounds, there are interesting differences among the two groups and also in the subtle changes that seem to be taking place as the program becomes better known and trusted by residents.

The Corey participants are required to make only a $5 initial deposit to open an account, plus a $1 fee and the required $20/month IDA deposit required by the IDA Program. At FCUCU, IDA holders are required to make their standard $50 initial deposit, plus the $1 fee and the required $20/month IDA deposit. At FCUCU, however, the IDA holders become *regular members*, with the same privileges as all other members, which is not the case at Corey. FCUCU's IDA holders, for example, are eligible for checking and other savings accounts, as well as use of the ATM machines (though not the VISA cards, since credit card abuse is one of the earliest and strongest lessons in the economic literacy program). IDA account holders who sign up for direct deposit are also eligible for a "Grace Loan" against their paycheck, with 2 months to pay it off. FCUCU also keeps regular, convenient business hours, unlike Corey which (like most small credit unions) is open infrequently, depending entirely on volunteers.

Possibly because of FCUCU's combination of the high initial deposit and the conveniences of full regular business hours and access to other financial services, all of its IDA holders work and most receive direct deposit of their paychecks; this is in contrast to Corey, which has a mixture of welfare recipients and working IDA holders. According to the current IDA manager at FCUCU, Ms. Bernice Lenix, another characteristic of her program participants is that 10 of 24 were already members of the credit union (who qualified under the stringent program requirements), and an increasing number are inquiring as a result of word-of-mouth through member and neighbor networks.

Recruitment directly from among FCUCU members may continue to snowball, since IDA informational materials are included in mailings and in the newsletter, and tellers and loan officers refer IDA-eligible members to Ms. Lenix when appropriate. In her early months as the program VISTA, Ms Lenix also made presentations about FCUCU and IDAs at community events and distributed information at community gathering sites, on local radio and in local newspapers. Although those efforts seemed at the time to result in few eligible inquiries, she now sees results in word-of-mouth referrals which clearly came from some of those early contacts. Now, however, her related work has grown to where she has little time to spend at sites like these.

Most of the direct recruitment, fortunately, is conducted by WECO, as part of their funded role in this project; they also are responsible for raising the match funds. These two major tasks are among the most difficult for CDCUs to undertake, since the tasks are not integral to the regular work of these heavily understaffed financial institutions, and the fundraising especially is not usually within the specialized skill set of CDCU staff members. With these two headaches handled elsewhere, FCUCU is freed up to focus on integral support services such as credit and financial counseling and step-up financial services which encourage and assist members to build assets and constructive habits toward longterm financial stability.

No outcome assessments have been completed yet on this program, though national evaluations are currently underway and new insights should be available within the next year or so. But anecdotal evidence seems to show that there is a wide range of potential benefits for IDA holders besides the eventual asset purchase. Program staff at the various partner agencies report, for example, that participants have demonstrated many significant lifestyle changes, such as choosing savings over cable TV, and “paying themselves first” (savings) before funds are allocated to other pressing costs; one mother reported that, by having her check direct-deposited and funds automatically transferred to her IDA account, she has been able to “say no” to her kids’ pleading for money for candy and other luxuries she knows they shouldn’t have anyway. Others believed they could NEVER save, yet now they’ve proven to themselves that they can. Several participants have gotten “better jobs” as a result of the program training and a “new outlook.” Although these anecdotal successes can’t prove the point, they give hope and optimism to participants, program staff and, it seems, to the community which carries the news to others.

There are always challenges in any innovative community program, especially one which requires the collaboration of such a wide range of organizations with different missions, histories and personalities. But the opportunities seem to outweigh any drawbacks for everyone interviewed for this study, and innovations and creative expansion seem to be the preferred goals. Right now, for example, FCUCU is exploring a similar collaboration with Habitat for Humanity to meet the growing interest in home-ownership within FCUCU's field of membership. Newly updated computer systems and technical improvements seem likely to free up more staff time for financial counseling and development of members at the entry levels. IDA holders are, by definition, unsophisticated consumers of financial services who will initially require extensive, and therefore costly support services. In the long run, however, FCUCU – as well as the other CDCUs in this study – sees IDA holders as the leading edge of their future stable membership, and part of a better future for their community.

C. <u>Philadelphia, PA</u>: Borinquen Federal Credit Union

Borinquen Federal Credit Union is located in a largely Hispanic area in Eastern North Philadelphia called the Latino Corridor. BFCU is one of two CDCUs [along with New Horizons CU, profiled separately] and 25 agencies collaborating in this IDA project through the Women's Opportunity Resource Center (WORC). WORC subcontracted with BFCU to manage additional accounts for participants in WORC's "Family Savings Account" (IDA) Program, as part of a state-approved program expansion to 650 IDA holders (contracted through the state for the City of Philadelphia). Participants receive a guaranteed 50¢ match from state funds for every $1 saved (a 50% match) in order to (a) purchase or repair a home, (b) finance a small business or other employment expenses, (c) pay for higher education for themselves or their children, or (d) save for retirement. The maximum match is $300 per year, and participants must commit to save at least $10 per week for 18-24 months. IDA savers also receive financial literacy training and assistance in developing personal savings strategies as part of the program.

At the moment, however, BFCU has no IDA holders and, in fact, had to cancel its IDA-VISTA volunteer because no one had signed up to participate in the IDA program. The manager explained, "We can't market it very well, it's something good but it's VERY COMPLICATED! People show up for the interview, then don't come back. It's too bad, because it's a real opportunity, they double it [with the savings match]. … WORC gave us the rules, you can't do it the way you want, there's no opportunity to change it" to fit local needs, cultural influences or personal circumstances.

Borinquen leaders continue to explore ways to launch its own IDA program, building on what they learned in order to design a better program to serve the credit union's current and future members.

<u>ORGANIZATIONAL PROFILE</u>

Borinquen Federal Credit Union has served residents of the Latino Corridor in Eastern North Philadelphia since 1974. Philadelphia has nearly 200,000 Latino residents living in just 15 of the city's 364 census tracts. An estimated 85% of those residents are Puerto Rican, comprising the city's most impoverished ethnic or racial group: Puerto Ricans with comparable education levels earn, on average, only 82% of what African Americans earn, and only 66% of the salaries and wages of White workers in Philadelphia. The 96,000 residents of Borinquen's geographic "field of membership" are

52% Latino, 33% African American, 13% White, and 2% Asian, with 53% living at or below the poverty level. Part of this Corridor was designated as an Empowerment Zone in 1994.

Borinquen was initiated, housed and staffed by *Casa del Carmen,* a local Catholic social service organization, from 1974 to 1986, to serve the pressing financial needs of its impoverished clients and other low-income residents. In 1986, however, a substitute National Credit Union Administration (NCUA)[40] field agent came in to examine the CU while the longstanding regulator was recovering from an illness and, in his first visit, discovered serious irregularities in Casa del Carmen's management of the credit union, including poor recordkeeping, a high percentage of loan delinquencies (90% more than three years delinquent), and misappropriation of funds, or outright theft. As a result, the credit union was liquidated by NCUA in 1986.

The story of Borinquen's corrupt demise and it's subsequent rebirth is unique in the credit union movement, according to the National Federation of CDCUs,[41] and is retold almost as a badge of honor by surviving members interviewed for this study. Shortly after the credit union was liquidated (NCUA took the books and closed down the credit union), a new board was constituted by community residents -- including three untainted and widely respected members of the previous board – who fought long and hard to restore the credit union, and to protect it from bankruptcy a year later, all under close supervision from NCUA; and, perhaps most important, to reconstitute it as a truly member-owned and -governed, community-based financial institution.[42] Over the next 14 years, Borinquen would face several more serious challenges – including four years

[40] NCUA, the federal agency which regulates all credit unions.

[41] " 'It's damned impressive what Borinquen has accomplished,' said Clifford Rosenthal, executive director of the New York-based National Federation of Community Development Credit Unions, a trade group that represents members in 35 states. 'Nowhere else in the country has a struggling community development credit union been able to go to the brink and come back and make such positive strides to restore the confidence of the community, federal regulators, and the banking industry as well.' " The Philadelphia Inquirer, Philadelphia Business section, July 18, 1988, p. 8-D.

[42] The story of Borinquen's liquidation and renewal has been carefully documented and analyzed by two key participants in the rebirth, who later drew on their experience for a joint Masters Thesis in the Community Economic Development Program at New Hampshire College: Borinquen Federal Credit Union: An experiential view for survival, by Socorro Rivera Rosa & José A. Rivera Urrutia, Manchester NH, 1991.

without dividends to members – but it always survived and even grew during those years because, we are told, a bond of openness, trust and ownership has been established between the institution, its elected board, its experienced and dedicated manager, its members and the community at large. By 1999, Borinquen has grown to a remarkable membership of 3900, and with only a fulltime manager and two part-time tellers, has grown its assets to $4.5 million, up from a mere $325,000 in 1986.

The Latino Corridor is largely unserved by mainstream banks, except the occasional ATM machine which, in this area, requires that users have an account at the bank and, in any case, is typically out of service. The credit union's true competition comes from expensive check cashing services and "travel agencies" – unique inventions which will safekeep your savings for a fee and which provide a range of other shady financial services in Spanish. A rash of exposés slowed them down in the recent past, but they can still be found throughout the Corridor.

In contrast, Borinquen provides safe savings *which pay interest instead of charging you for the privilege*; also money orders, direct payment of bills, savings clubs of various kinds, direct deposit, share drafts (checking accounts), loans for cars/home repairs/consumer purchases, as well as credit counseling and social supports to help with language barriers, illiteracy, or disability.

Borinquen's mission statement is sparer than for most CDCUs in this study, reflecting the conservative stewardship of the reconstituted board:

> *Borinquen Federal Credit Union is a financial institution owned by its members, whose mission is to provide financial services to meet the needs of the community.*[43]

Yet the mission emerges with greater complexity in the planning documents from the late 1980s and early 1990s, and in recent interviews with members who took leadership during that transition period. For example, one BFCU funding proposal sought to "develop a mechanism that can provide Puerto Rican/Latinos in lower North Philadelphia ["as well as other minorities in the area"] access to the economic streams of the city, in an attempt to start reversing, within the next three years, the deplorable socio-economic conditions of this poor community, comprised of about 110,000 residents." The proposal goes on to lay out these 3 objectives for BFCU in this plan for social and economic change:

> Objective 1: [BFCU will become] an alternative banking system for the poor and moderate-income Puerto Rican/Latinos, who traditionally banking institutions have not been able to serve.
>
> Objective 2: [BFCU will] Serve as a mechanism to educate the community on financial aspects such as the importance of credit, saving and investment in a cooperative manner, to be able to improve their individual and collective (community) socio-economic conditions.
>
> Objective 3: [BFCU will] Promote and/or coordinate economic development ventures with other community development organizations [and] Serve as a link to other financial institutions and resources outside the community that can finance and/or support large projects.[44]

These statements reflect three of the primary objectives in the CDCU movement: (1) to provide tailored banking services to populations and communities which, for whatever reason, have been excluded from mainstream financial services; (2) to teach, motivate and reward responsible economic habits and behaviors, toward greater financial resiliency of individuals, families and the community at large; and (3) to serve as a conduit and catalyst for economic reinvestment by wealth-holders into impoverished communities in order to augment the local capital base for grounded economic development.

To achieve its mission, BFCU is working to expand its range of services, to include Certificates of Deposit, IRAs, mortgages, and other services preferred by members and otherwise unavailable to them. It also recently enlarged its FOM and will

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[43] Borinquen FCU's Participant's Handbook prepared for a Credit Union Planning Seminar by the PA Credit Union League, [2/22/97], n.p.

[44] This proposal was written in 1989, when the reconstituted board and staff began to look beyond their repair work toward a vision for the future of the credit union: "For the last three years we have been basically working in the reconstruction of this institution. After solving most of the problems of the past, we have now the tasks of developing this institution into a stable and sound financial institution for the

be expanding recruitment initiatives to promote greater stability and sustainability of the credit union. For example, the membership is currently 92% Latino, and only 5% African American and 3% White, despite the fact that the Corridor is 33% African American and 13% White. These figures also influence the high poverty rate of members (90% versus only 4% middle class and 6% businesses and organizations) compared with the Corridor as a whole (53%), since Latinos tend to be the most impoverished ethnic or racial group in the city. Although there is merit in targeting the "poorest of the poor," the current overrepresentation of the poorest has implications for the financial stability and reinvestment potential of the credit union. Similarly, such a large overrepresentation of Latinos in the credit union has implications for future membership patterns, since recruitment is largely through word-of-mouth and personal networks of trust and affiliation – what some scholars are calling "social capital".

There are certain characteristics of the largely Puerto Rican membership, though, which have had very positive impacts on BFCU. Most members have prior experience with credit unions, which are ubiquitous in Puerto Rico and Latin America; this shared tradition is often cited as one of the reasons for the community solidarity which enabled the credit union to survive the 1986 crisis and challenges thereafter. Members understand the role of cooperative enterprise in community building, and are often in the habit of a regular savings plan. In addition, many members have learned well the credit union's lesson about debt management, the dangers of credit, financial planning, and principles of basic consumer economics – to the extent, unfortunately, that the credit union has been unable to lend out a significant portion of its assets. Currently, its 5-year goal is to increase the loan-to-asset ratio from its current level of 24% to 54%.

Borinquen has developed strong working relationships with several partner organizations which continue to mutually benefit the organizations and the community. For example, BFCU helped to create an organization called The Filled Cup (PhilCUP, the Philadelphia Credit Union Partnership), "a coalition of low-income designated credit unions that serve Philadelphia's neighborhoods and churches....dedicated to:

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benefit of the community." Borinquen Federal Credit Union: An alternative financial institution for the

- strengthening member credit unions
- serving low-income communities, and
- promoting the credit union movement."[45]

BFCU also works closely with traditional banking institutions, which have proven to be strong partners with BFCU, particularly through their Community Reinvestment Act (CRA) commitments. During it's darkest days, BFCU benefited from the progressive leadership of some of Philadelphia's largest banks. In 1988, the Vice President of Public Responsibility for Philadelphia National Bank, Mr. Tom Patterson, spoke about that relationship on a panel discussion with other bankers:

> [In recent years] the major banking institutions have been closing neighborhood branches for very legitimate reasons: overhead costs, inability to provide return to the bottom line, problems with staffing, etc. ... Well, there's only so much of this that can occur. The folks that live in these neighborhoods – everyone – needs some kind of access to the financial-services delivery system. ... [I]t just seems to me that there is a logical [relationship between] the primary banking institutions and the neighborhood credit unions. There ought to be a *mentor relationship* between the two industries. The primary banking institutions have "overheaded" themselves out of the neighborhood banking market. They can't afford to make $300 loans; they can't afford to maintain $50 savings accounts; they can't afford in some cases to keep a branch in the neighborhood. But we ought to be able to develop a process whereby primary banking institutions ... do not try to smother [neighborhood credit unions], but develop a true mentor relationship with them. And that's what we are trying to do in Philadelphia.

While Philadelphia National does not claim sole responsibility for saving BFCU after the 1986 crisis, Mr. Patterson reported that they found the regulatory agency –(NCUA) to be unsympathetic to CDCUs in general: "what we found out at that time was that the NCUA frankly would just as soon have seen you all go away. The neighborhood CDCU was *not* something they wanted to spend a whole lot of time on. And you can understand that, because you have particular needs, you CDCUs need more attention, you need your concerns addressed. But once we spent a little time with [NCUA], and I think once they

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Puerto Rican/Latino population, December 1989, p. 2.
[45] From the brochure of The Filled Cup

began to see that the local banks in Philadelphia were serious about this, their answers, I think, changed."[46]

BFCU also has formed strong partnerships with other community development organizations, to "increase the access to overall financial services for our target community."[47] For example, BFCU was a founding partner in "Ceiba," a consortium of five Latino community development organizations serving the Latino Corridor (four CDCs plus BFCU). These were not chance encounters but are part of a principled commitment by BFCU leadership to the idea that, "improvement of the social and financial conditions of our members will only result from a great deal of effort being done to promote strategic partnerships." Collaborations are also seen as a way to *diversify risk* and *distribute the expense* – an insight which is shared by many in the nonprofit sector as a whole.

IDA PROGRAM PROFILE

The IDA Program – or the Family Savings Program, as it is called in Pennsylvania statutes – was fully developed and funded to expand to 650 additional participants when Borinquen was approached by the lead agency to participate as an additional financial institution for the program. BFCU had no previous working relationship with WORC (the Women's Opportunity Resource Center), so board members and staff were surprised to learn that Borinquen's name had been used in WORC's initial grant proposal, without discussing it with them.

Nonetheless, the program appeared to have merit and seemed to be a useful product for Borinquen's membership. So the invitation was accepted, and the credit union manager, Ignacio Morales, began working with the new VISTA volunteer to launch the program. Soon, however, there appeared to be some hitches. Members didn't seem to understand the details of the program; it was "too complicated" and they quickly lost interest before actually joining the program. Members and residents would attend the

[46] CDCU Report: Resources for Community Development Through Credit Unions, National Federation of CDCUs, Spring/Summer 1988, pp. S-8 and S-9.

orientation sessions but would withdraw; in fact, only one person signed up for the program at Borinquen but then withdrew after the first session.

The manager identifies several possible factors which might have limited the program's attractiveness in the Latino Corridor. First, the VISTA volunteer is clearly the key point person, and "must be able to present the program *convincingly* so that people think this is the *best* program for you. Nobody understood what he was talking about; you have to be good at that." Second, the program was handed to Borinquen without its input or any flexibility to adapt the program in any way. Members complained that there was "too much paperwork" and, at two years, "too long to get the money." The manager suggested that a one-year program might be more attractive to his members, many of whom are skilled savers already and should be allowed to save at their own, faster pace than the current program allows. He also suggested that greater flexibility in the "required minimum monthly deposit" might allow the program to evolve to fit local circumstances, rather than a "one-size-fits-all" approach. Mr. Morales has not heard from WORC, so he isn't sure where the program stands at this point.

From the board perspective, the Family Savings Program had other limitations. All the funding went to WORC, which invested the "match" and appropriated the interest earned. This is in contrast to programs such as the one in Cleveland, where the "match" is deposited in the CDCU which reinvests it, and part or all of the spread goes to support the credit union. Further, there was no planned transfer of funds from WORC to the credit union to cover its added administrative costs for managing the IDA accounts.

In the end, Borinquen's leadership is left with the expectation that they will continue to explore IDA options, anticipating that they will design their own program in collaboration with existing and potentially new partners. The IDA Program is seen as an ideal product for their current membership, and also an attractive product for attracting new members from their FOM.

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[47] This and much of the data cited in this report come from various versions of BFCU's application to the CDFI Fund for certification and financial support.

D. Philadelphia, PA: New Horizons Federal Credit Union

The New Horizons Community Federal Credit Union (NHCFCU) is finishing its two-year partnership in a statewide Individual Development Account demonstration initiative in Pennsylvania (the Family Savings Accounts/FSA Program). The Women's Opportunities Resource Center (WORC) FSA Program -- part of Pennsylvania Act 23 passed in 1997 — allows income-qualifying families to set aside money for program-approved asset purchases. The WORC is the administrator for the FSA Program. New Horizons offers financial services to twenty FSA holders within the credit union's field of membership.

ORGANIZATIONAL PROFILE

New Horizons Community Federal Credit Union, chartered in 1983 to serve the New Kensington and Fishtown neighborhoods of Philadelphia, currently has 709 member accounts. New Horizons' mission is to "provide affordable services to improve economic conditions in our community, by encouraging savings, promoting our philosophy of members helping members." New Horizons was founded by the leadership of the Kensington Neighborhood Advisory Committee. The Committee also founded the New Kensington Community Development Corporation (CDC). Together, these organizations have made important contributions to the development of New Horizons through leadership development and community outreach. New Kensington develops affordable housing and community gardens, and administers first mortgage counseling and employment network counseling. New Kensington offered housing and financial budgeting counseling for the New Horizons IDA members. The Neighborhood Action Committee coordinates block captains, town watch, and an after school child care program.

With more than 700 members, New Horizons represents only three percent (3%) of the population or the Kensington/Fishtown neighborhood area, whose 1990 population was 24,521. According to the 1990 census data, the population of the membership area is predominantly white (89%), and is also home to a 7% Hispanic population. Median household income is under $26,000. Youth comprise 32% of the population, and the median age of persons in the community is 32 years.

Unemployment is a severe problem in the Kensington area. According to a survey conducted in Eastern North Philadelphia by the National Partnership for Social Enterprise (NPSE), less than half of respondents earned income through employment; twenty-one percent (21%) received social security, and eight percent (8%) received public assistance. The low educational attainments of adults limit their employment opportunities: only thirty one percent (31%) had some trade school or college experience following high school graduation. Although seventy-four percent (74%) of survey respondents held checking or savings accounts at a financial institution, according to a 1994 study by the National Partnership for Social Enterprise, there are no banks located within the Kensington study area.[48]

New Horizons offers its members savings accounts, vacation and Christmas club accounts, family savings accounts (FSAs/IDAs) with match funds through the Women's Opportunities Resource Center (WORC) in Philadelphia, escrow accounts, direct deposit, unsecured loans, credit development loans, check cashing, money orders, and electronic bill payment.

Throughout its early development New Horizons has benefited from many collaborative organizational relationships. New Kensington CDC sponsored the credit union for thirteen years, providing free office space and use of office machines and receptionist services until 1996, when the credit union moved into its own facility. In 1992, New Horizons participated in the founding of the Philadelphia Credit Union Partnership ("The Filled CUP") with three other community credit unions. By 1993 the credit union was participating in The Filled CUP's self-sufficiency collaborative program.

New Horizons has established the following member service goals for the next five years:

1. double the amount of current loans (unsecured and auto secured) provided to members, in order to return assets through lending to the community
2. develop mortgage loan products
3. recruit an additional 190 members;

[48] Community Development Financial Institutions Fund Application, prepared by The Filled CUP, Philadelphia, PA. 1999.

4. diversify savings services to meet needs of full time employed, and long term savers;
5. reduce and maintain delinquency to 4% of loan value.

Brief History. New Horizons' first incarnation as the "New Kensington Federal Credit Union" was borne out of the New Kensington Neighborhood Action Council in 1983. With the flight of local banks, the 28,000 residents who call the Kensington neighborhood area home needed financial services.

The ease with which the major financial institutions could leave neighborhoods fueled the commitment of the volunteer staff of the New Kensington FCU to become more than just a desk in the New Kensington CDC offices. After all, the credit union was created to improve the economic conditions of its community by providing affordable financial services to residents of its field of membership. The credit union was providing the financial services in the form of savings accounts and check cashing. But what about improving the conditions of its community? In order to accomplish that larger goal, the credit union had to expand its member services. As Lynette Smart, New Horizons' Manager/Treasurer, stated, "Foreclosure on homes is high for those who do not understand how to work out their credit issues and acquire the habit of saving and paying back consistently."

"Changing the name from New Kensington FCU to *New Horizons* Community FCU in1992 was a big deal," says Lynette. So was the move out of the New Kensington CDC offices to their own space. Renting first and then purchasing down the block, Lynette and the Board eventually were able to hire an additional staff position, expand credit ceilings, offer direct deposit, and partner with WORC to offer Family Savings Accounts to their membership.

In 1995, New Horizons physically separated from the New Kensington CDC, in order to focus on the financial services to the low-income and nearly destitute residents that make up nearly 47% of the 19125 zip code area they serve. In 1990, only 11.3% of the entire neighborhood area's household income was over $50,000. The more affluent residents became mobile, leaving the neighborhood behind, taking their money and purchasing power. Yet, those staying behind still had income, still could save, still could use their money to stay stable, to build some wealth, to buy a home.

Stability and continued growth have marked the last three years of financial operations at New Horizons. Loans grew by 29% and shares grew by 30%. Delinquency, which had been a major impediment to the further development of lending, has been well-managed for the last four years through methodical and persistent collections work. While further progress is needed, the credit union has established a solid base of operations for the future.

New Horizons' goal in the coming five years is to increase member loan volume, size, and diversity. By working with its fundamental strengths -- sound and consistent management, methodical loan origination and collections, and aggressive marketing -- New Horizons works to build a sound and diverse loan portfolio.

Assets and saving services development are the primary challenges facing New Horizons. Strategies include longterm deposits that match mortgage liquidity needs and more flexible savings services which meet the needs of a broader range of New Horizons members.

Improving access to affordable credit is essential to improving the quality of life in the Fishtown neighborhood, where 59% of residents live under the poverty line. New Horizons' lending practices provide unique benefits for first time borrowers. The credit union currently provides 38% of its loans in amount under $1000, and all loans for amounts less that $5000. In contrast, few banks located in or near New Horizons' service area make loans for less that $5000, except through high-interest credit cards.

New Horizons has close relationships with organizations such as the New Kensington CDC, the Credit Union Service Center, and The Filled CUP, a non-profit member organization whose members include New Horizons, Borinquen, Triumph Baptist and Zion Baptist Federal Credit Unions. Through these collaborations, New Horizons has been able to improve educational and development services while reducing costs associated with these benefits. Other specific current practices include:

- *Membership Ownership:* New Horizons is owned and controlled by all of the members. Each adult member of the credit union must hold a minimum of a $5.00 share in deposit. As members, they may attend the annual membership meeting and nominate and vote for members of the Board of Directors. The meetings include reports and discussion about the financial condition and goals of the credit union.

- *Governance:* The seven-member Board of Directors meets monthly to conduct the business of the credit union, and oversees the work of the Manager. Every Board member serves on a committee. The Credit Committee meets weekly to review and approve loan applications. The Supervisory Committee meets a few times a year to review financial, membership, and loan audits. The Membership Committee meets a few times a year to provide oversight for the marketing campaign. For the last three years, the Board of Directors has held an annual strategic planning retreat, with the assistance of consultants from Pennsylvania Credit Union League. A revised business plan and financial policies and procedures-oriented workshops have highlighted additional Board member involvement.

IDA PROGRAM PROFILE

In April 1997, New Horizons participated in the Family Savings Account Program through a partnership with the Women's Opportunities Resource Center (WORC) in Philadelphia and the New Kensington CDC to bring the Family Savings Account (FSA – identical to an IDA) Program to its membership. The program, administered by the Commonwealth of Pennsylvania/Department of Community and Economic Development, was designed to assist 100 low-income families to attain self-sufficiency through savings and asset accumulation.

Under the program, individuals or families regularly deposit an approved dollar amount into a designated account at an accredited financial institution for a two-year period. Each account-holder may save up to $2000 per year and, at the end of the 24-month period, would be eligible to receive matching state funds in an amount equal to 50 percent of the amount deposited, not to exceed $600 per year.

WORC is the administrator of the FSA/IDA Program. In order to have proper financial account management, WORC partnered with financial institutions to house and maintain participants' savings accounts. The pilot program encompassed the southeastern section of the state. Six organizations partnered with the WORC to run the FSA program. Three of the organizations were community-based organizations committed to screening, interviewing, and enrolling qualified candidates. The New Kensington CDC performed this role. Three other partner organizations were lending institutions committed to maintaining accounts for the program. New Horizons served in that role for the New Kensington CDC.

New Horizons, according to its Manager and Board, was a natural to provide this service to its members. Although only open to those members whose income limits were approximately 200% or less of the federal poverty level, New Horizons initially enrolled twenty eligible members. Savings would be used to achieve home purchase or home repairs, to finance a small business or higher education for the participant or his/her child, or to fund a retirement account.

How did the FSA pilot program fit into New Horizons' service delivery? The Manager and Board considered Individual Development Accounts because the tool of IDAs shared the primary goal of New Horizons: personal financial strategy development among low-income individuals. However, IDAs require not only the commitment of the IDA-holder to meet his or her financial goals, but they also need substantial subsidy.

Summary information about the FSA project include:

- Eighteen New Horizons members finished the FSA pilot program within the two-year period.
- WORC and New Horizons worked jointly to offer nine financial management classes.
- To date, two members have made asset purchases in home ownership and home repair.
- As of July, 1999, a total of $10,327 had been saved among the 18 participants.

The inaugural year of the IDA partnership between the WORC and New Horizons gave much insight into the role a credit union like New Horizons can play in an asset-building strategy such as IDAs. The following are a few of those insights:

- Both IDAs and community development credit unions are driven by their mission: savings, financial savvy, and asset acquisition.

- IDAs cost money to deliver; credit unions must make money to deliver needed member services and other products to their members. The extent to which IDA-holders utilize credit union financial services determines how cost-effective IDAs are to the credit union.

- Long time savers are important to credit unions. IDAs savings goals are generally finite. The extent to which IDA-holders save consistently and do not exhaust their entire savings accounts when purchasing their asset allows the credit union to maintain close on-going relationships with the IDA-holder. The longer-term savings and responsible credit behavior of the IDA-holder is part of the overall IDA goal.

- As a general rule, IDA purchases are limited to small business enhancement, education, and home ownership. Offering the IDA-holder a service beyond the scope of saving is a goal of the credit union. Lending, bill-paying, salary direct deposit… these are examples of services and products that allow the credit union to service its field of membership, where 59% live under the poverty line and 38% of its loan amounts are under $1000.

- The match dollars works for the IDA-holder and for the credit union if the match funds are large enough to truly act as an incentive. In other words,
  - It is most beneficial to the credit union to hold the match funds in-house
  - The match money must be substantive enough to lessen the borrower mortgage needs, and, therefore, potential foreclosure down the road.

- The low-income credit union membership and IDA-holder profile resemble each other: they are young, poorly educated, and have jobs that pay less than 60% of the median income; or they are senior citizens receiving some form of social security assistance. According to the credit union manager, many of the credit union volunteers and paid staff are themselves income-eligible for IDA participation.

- Financial counseling and good consumer information is an inherent part of moving toward financial security. Subsidies are needed to pay for this type of organized educational support, whether the IDA program is offered through a

> CDC or as a service that the credit union offers. Financial management counseling and support are critical; however, unless subsidized, these cannot be offered as a general part of the credit union's financial service delivery.

Early into the IDA program with the WORC, Lynette recognized that New Horizons would have to try to offer small business loans, IRAs, and home equity loans to follow up on the program. These services are costly, and require both a huge learning curve for staff and volunteers, and high maintenance for a small credit union. Offering these financial services could not come to fruition during the course of the IDA demonstration program and, therefore, limited New Horizons' ability to keep the funds in-house.

Lynette states that New Horizons will continue to work toward offering financial strategies created to truly aid in the community's improvement. Offering IDAs in-house, with counseling support through the New Kensington CDC, is a distinct possibility, given the proper financial tools to enhance financial services to those most new to the world of saving and asset procurement for economic security.

The following are specific services New Horizons already provides which can enhance offering FSAs to its membership:

- **Checking and Savings Accounts:** Minimum balance requirements pose a hardship upon low-income persons who wish to maintain accounts. Minimum required balances for savings account charged by the twelve outlying financial institutions ranged from $1 to $250 and averaged $100. All but one bank located in the outlying areas of the neighborhood charge fees on low balance saving accounts. NPSE data also demonstrates that New Horizons provides some of the most affordable deposit services in the New Kensington and Fishtown neighborhoods. New Horizons maintains savings accounts for as little as $5 with low service fees for inactive and below-minimum accounts.

- **Lending Services:** New Horizons' lending practices also provide unique benefits for its members. Over 37% of the credit union's loans are under $1000, and minimum loans are $500. In contrast, banks near the area seldom make loans for less than $1000, unless provided through VISA-insured credit cards. New Horizons' lending policies and products provide unique access to credit for those who have no previous credit history, or who have prior credit problems. At New Horizons, saving deposits can be used as collateral for 10% to 20% of the value of the loan. In addition, 100% share-secured loans are available to anyone who wishes to build their credit record. Unsecured loan interest rates are competitive with banks, ranging from 10% to 16% based upon the scoring on a customer profile, which assesses risk factors.

- **Counseling Services:** New Horizons cannot meet many of the credit needs of its members without developing more extensive counseling services. At New Horizons, 33% of applicants were turned down in 1997 compared to 12% in 1996.

- **Links to Workers in the Community:** What is the primary difference in credit union membership among large employee credit unions and small associations and community ones? The employment rate and wage level among its membership. To attract long-term deposits, community credit unions must attract full-time workers with their savings products.

- **Research and Develop Micro-Enterprise Lending:** New Horizons will also explore community partnerships to provide micro-enterprise loans to the community.

- **Train Staff and Credit Committee:** Training will develop staff and credit committee for carrying out three stages of loan program development: product development through policy and procedure; implementation through application intake, documentation, and loan estimates; implementation through origination

- **Develop partnerships:** New Horizons will continue to work with The Filled CUP, the Pennsylvania Credit Union League, the State Financial Network, and the National Federation of Community Development Credit Unions, particularly their new Mortgage Institute.

- **Match Funds Acquisition:** New Horizons will maintain its relationship with WORC in servicing twenty additional accounts each year. To do so, New Horizons will need to acquire and hold match funds.

- **Provide Counseling:** As necessary, New Horizons will assist FSA holders to develop a budget strategy and reduce household expenses to meet their savings goal.

In October 1997, the WORC conducted an evaluation of its FSA Program at the end of the first phase of the program. The evaluation, a survey conducted over the phone during various times of the day and evening, documented the number of participants in the program, the goals they set for themselves, and the steps accomplished to date. The evaluation also reflected the satisfaction of the participants and their recommendations for improving the program. In total, 94 individuals participated in the FSA, with 73 completing the evaluation survey. The majority of participants were saving for home ownership, rated overall satisfaction with the program, and found the financial management counseling very informative. Eighty-four percent (84%) of the participants had opened savings accounts. Their suggested improvements included:

- Offer financial management classes more often and at different times
- Be clear about costs (such as parking, credit check charges, any program fees)
- Have a single contact person responsible for all information about the FSA program
- Clarify responsibilities of all partnering organizations
- Involve a local, prominent university that can assist in refining the economic literacy program

Results of the Program Evaluation are summarized in the Appendix.

E. Ithaca, NY: Alternatives Federal Credit Union (AFCU)

"We are not a bank that uses capital to gather profit.
We use capital to create community."[49]

Alternatives Federal Credit Union (AFCU) was established and chartered as a low-income credit union in 1979 by area coops and small businesses to overcome credit barriers to mainstream financial institutions. The city of Ithaca (pop. 30,000) is located in the lovely Finger Lakes District in western New York State, and is home to Cornell University -- which brings both advantages and disadvantages to the community. The city's population is, on average, highly educated, progressive, with access to the resources of a world-class university, attractive amenities and human-scale business and industry. At the same time, however, the city has pockets of poverty and is surrounded by impoverished agricultural counties with high unemployment, low average incomes, and deteriorated housing stocks. Although the city itself has a low unemployment rate, it has a high poverty rate, due mainly to underemployment, the proliferation of low paying jobs, and the worst housing-affordability index in the state, outside of New York City.

AFCU grew out of somewhat different circumstances than the other CDCUs in this study, and has built on its unique history and local opportunities to become a leader in new product development and organizational innovation in the CDCU movement. AFCU does not face the same deeply-concentrated and geographically isolated large pockets of poverty found in major cities, nor the history of institutional discrimination underlying several sites in this study. Instead, poverty in Ithaca, as in many Michigan communities, is largely hidden from view and, to some extent at least, unacknowledged by local institutions.

Ithaca also does not face the complete abandonment by banks characteristic of most other sites in this study. Instead, AFCU is viewed by banks – which are largely inaccessible to AFCU's low-income membership – as a "friendly competitor." This

[49] "Manager's Report," 1999 Annual Report, p. 3.

creates its own unique challenges (most other sites are 'off the grid' for banks), but it also may represent the future for any successful: As the CDCU grows and becomes more sustainable, it also encroaches more robustly into an increasingly contested market, where its nonprofit mission may become increasingly suspect by banks coveting the top echelon of customers on the "Credit Path."

AFCU is now at $27.9 million in total assets and comprised of 7000 members – by far the largest in this study – while still maintaining its low-income charter. This rapid growth has earned AFCU the capacity to experiment with developmental member services and perfect new products and procedures, many of which have served as sustainable models for other CDCUs. For example, because of its relatively large membership and asset scale, AFCU is one of the rare CDCUs which can contribute, at least partially, to the developmental costs of start-up products and services such as their microenterprise development program (CEO-Community Enterprise Opportunities) and the IDA program, now in its third year. Historically, credit unions have been excluded from the philanthropic "grants economy;" instead, they created ways to reach (indeed, are required by regulators to achieve) program self-sufficiency within a limited start-up phase. Although this scene is changing somewhat as the developmental needs of CDCUs are clarified – and now with limited public funds available for poverty-alleviation strategies through CDCUs, such as IDA programs – nonetheless, the market discipline applied within CDCUs is unique in the nonprofit sector.[50]

AFCU's extensive self-funded member education, staff development programs, and national engagement in field innovation, also help this CDCU to stay at the cutting edge, even sometimes to create it. AFCU's model of functional costs analysis, developed internally, has been adopted and replicated by other CDCUs, including Self Help in North Carolina. With this tool, AFCU has been working to specify the real costs of their IDA program as part of the process of internalizing it in the long run. (Along with the

[50] Other nonprofit organizations across the country have responded to growing fiscal pressures by generating their own revenue streams through dues, fees and "social entrepreneurship" (sale of products and/or services). The CDCU model will undoubtedly inform that process, although CDCUs likely have much to learn about the dangers and limitations of the "grants economy" as well. This transformative but

Vermont Development Credit Union, AFCU is likely to produce important insights for CDCU-based IDA programs in the coming year.)

As with all CDCUs, the goal at AFCU is to develop sustainable financial products and services which meet the needs of members as they mature from novice "transactors" to advanced savers and investors. In practice, this has meant that 80% of home mortgages are held by low-income members, as well as 65-75% of consumer credit; business lending is also weighted toward low-income members, though this accounting is more complex and not yet easily available.

While this developmental process is at the core of the CDCU mission and the legislative justification for the federal "low-income designation," AFCU has gone further to articulate this goal as an explicit "Theory of Business" – "Opportunities for Empowerment Along the Credit Path" – which aims to help members take steps along a path toward economic independence:

- Step 1 - Transactors: "our poorest members who need access to the financial system," including check cashing, money orders, official checks, getting change, sending wires; "we price them to be affordable to customers, but also to make money for the Credit Union so that we can continue to deliver services at this level."

- Step 2 – Savers: "We encourage savings. We give members incentives by paying interest on accounts with a $5 minimum balance and charging no monthly fees. IDAs significantly expand the ability to those who qualify to succeed at this stage."

- Step 3 – Borrowers: "We try to help our members develop a good credit record. Most of the lending in this area is consumer lending: cars, personal loans, Visa cards, and lines of credit. The idea is to give members familiarity with credit and a record that goes into the national credit bureau reports. We offer several "starter" loans, like the Entry [credit] card and credit builder loan. As members handle these loans successfully, they can build up to larger amounts."

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potentially danger-filled transition appears to be receiving the agonized reflection it deserves in the CDCU field.

- <u>Step 4 – Owners</u>: "Learning to save and developing a good credit record builds ultimately towards what many consider the American Dream: owning a home or owning a business. ... We've made a measurable impact. In "ownership" lending, more than half of our borrowers are from low-income households."

Since February 1998, AFCU has opened 77 adult IDAs (51 of them for homeownership) and 13 youth IDAs (for youth ages 13-18). Participants must save at least $20/month for a minimum of 1 year and a maximum of 4 years for a match of up to $500 per person, per year, at a rate of 3-to-1 -- although the CU is considering lowering the match to 2-to-1 because raising the match is such a challenge.[51]

AFCU provides money management training for IDA holders and monthly peer group meetings, as well as social gatherings to encourage interaction among participants, their families and friends. Through partnerships with the Ithaca Housing Authority, Community Enterprise Opportunities (CEO) and the Neighborhood Housing Service, IDA savers also received homeownership and small business training. AFCU coordinates an IDA Steering Committee and publishes an IDA newsletter.

AFCU receives IDA financial support from the national IDA demonstration project, administered by the Corporation for Enterprise Development (CFED), as well as from local churches, business women's associations and other local groups, and from individual CU members; the CU board has also chosen to contribute to the match pool from the CU's annual surplus.

COMMENT: This is one of the most fully-developed CDCUs, located in a city comparable to several Michigan communities. There is much to be learned here.

[51] UPDATE: After debating this difficult decision for many weeks, AFCU choose to maintain it's 3-to-1 match and has been able to raise it from new funding sources. However, the process is indicative of the difficulty credit unions face in raising philanthropic funding for the IDA match.

F. **Burlington, VT: Vermont Development Credit Union**

VDCU is unique among these CDCUs in that it has a statewide mission, albeit in a small rural state with a high percentage of IDA-eligible (i.e., low-income) residents. VDCU has two IDA Programs: Tangible Assets and the Business Savings and Investment Program (BSIP)

"A social mission with a bottom line to meet"

ORGANIZATIONAL PROFILE

Vermont Development Credit Union was chartered in 1989 by the Burlington Ecumenical Action Ministry (BEAM) under the leadership of Caryl Stewart. As she retells the story, Ms. Stewart had moved to the financial industry as an investment broker after a first career in human services, and always wanted to find a way to "wed the two" somehow. As a board member of BEAM, she recalls how they discovered the potential for creating a "financial institution with a social mission," such as South Shore Bank (now Shorebank) in Chicago, and a growing number of community development loan funds which were beginning to proliferate in the late 1980s. So BEAM took on the task of creating a Community Development Credit Union for the state of Vermont, with Ms. Stewart serving in leadership roles at both BEAM, as the director, and at VDCU as President. After 4 years and two unsuccessful CU managers, the BEAM board created a "team management" system for VDCU with a Treasurer/Manager, which enabled Ms Stewart to go back to development – "raising the capital."

The vision for VDCU is to identify those low-income members who are currently "unbankable," – too risky for traditional lenders – but who are *motivated* to make change in their economic lives, and then to work with them step-by-step to accomplish those goals. Ms. Stewart coined the term "counseling-based lending" to describe this process, which combines financial counseling, targeted planning and then assistance to help members carry out their action plan with "individual development loans." This is a labor-intensive process, Ms. Stewart agrees, but it results in "removing the risk" to a great extent: "The whole process of making someone bankable is to bring the risk down to where it's legitimate" through counseling, step-up loans (such as their "tracker loan") and tailored financial services.[52]

Because this process is labor-intensive, and therefore costly, VDCU's leadership currently sees a future of continuous philanthropic subsidy for start-up programs and teller stations; non-member deposits, for example, now surpass 80% of assets (a figure which must be justified for a waiver every year for surpassing the 20% maximum for CDCUs). The aim is to leverage those outside funds to reach for sustainability of any new product within a year; nonetheless, as Ms. Stewart points out, the key to survival as a financial institution is *growth*, and "you can't subsidize your own growth, it can't be done."

VDCU's mission states that:

> *"Our mission is to create wealth and promote economic development by bringing affordable capital and financial services to low-income and other traditionally underserved populations."*

Their "field of membership" includes (a) residents and business owners of a Burlington neighborhood called the Old North End (ONE), which was designated as an Enterprise Community in 1994; and (b) anyone affiliated with a religious or nonprofit organization that helps low-income Vermonters (and, as the director puts it, virtually all nonprofits serve low-income Vermonters, even if they also serve others). In addition, VDCU's mission is statewide, which it serves both "directly and through partnerships with nonprofit, public and private institutions who share an interest in the markets we serve."[53] Through partnerships with Community Action Agencies and other service programs, VDCU has a presence in 180 Vermont towns – served primarily by mail and phone – and a "satellite office" in West Rutland [recently closed]. At the end of 1998, VDCU had 4,214 members across the state, and $8.04 million in assets. VDCU was certified as a CDFI in 1996.

VDCU offers a range of savings and investment products and a growing number of loan products, including "super-micro loans" of less than $50, up to affordable

[52] Interview in Credit Union Magazine, May 1998, pp. 2A-3A.
[53] Executive Summary, 1999 application to the CDFI Fund.

mortgages. They include personal loans (medical, emergency), auto loans (purchase & repair, new & used, at fair not "risk-based" rates), targeted programs like Working Wheels (a welfare-to-work program); Home Energy Improvement Loans (direct loans and partnership loans with utility companies); education and computer loans; HUD Title 1 Home Improvement Loans; loans for home appliances & furnishings (critical when dealing with the recently homeless and the growing immigrant community); and Assistive Technology Loans for the disabled. Mortgage products include VHFA mortgage programs targeted to first-time home buyers, as well as adjustable rate mortgages and access to a wide range of more "traditional" mortgages through the secondary markets. All of its lending is supported by VDCU's "targeted counseling" services, which distinguish the CU's programs from superficially-similar products offered through traditional banks. VDCU's goal is to help every member move toward being qualified for products that meet their needs, even if they initially have credit problems or other obstacles to overcome. ("We don't say no, we say when.") In addition, checking accounts ("share drafts") began being offered in September 1999.

As early as 1991, the board and staff were already beginning to define the principles of what would become "counseling-based lending." BEAM reviewed all loan applications in the first year (1989-90), including a 50% denial rate (!), and supplemented that information by focus groups with low-income residents. Using those insights and early experience with personal lending (Individual Development Loans), VDCU developed its Financial Self-Help Manual in September 1991 and developed procedures for loan processing with those principles in mind: for example, that every loan denial is accompanied by offers of corrective assistance.

This kind of close examination led to other insights about the economics of low-income populations. For example, a grant-funded project to study counseling needs in the Affordable Mortgage Program revealed what they called a "counseling gap." "We discovered that most of our applicants required more counseling assistance than we could give without grant support. The research helped us identify and document a 'counseling gap' that keeps many applicants from becoming home owners." This research helped in the creation of three nonprofit Homeownership Centers in Vermont.

This kind of close tracking and analysis promises to clarify the real costs of VDCU services and to identify the likely break-even points as new services mature beyond their subsidized infancy – or to clarify which services are simply not sustainable without subsidy.

The financial climate in Vermont is somewhat different from the other case profiles. Burlington is a small city which houses several colleges and universities and a healthy tourist industry. The Enterprise Community holds the largest concentration of poverty, as well as the greatest diversity in this New England state. The rest of the state is largely rural, dotted with small hamlets and farms, with pockets of poverty through all but a small handful of counties. Burlington continues to be served by several mainstream banks, but rural areas, as elsewhere in the country, have little access to walk-in banking services.

For this reason, VDCU's lateral relationships with agencies throughout the state represent an intriguing model for other largely rural states such as Michigan. VDCU also has strong working partnerships with several state agencies, including the Vermont Division of Aging and Disability and the Vermont Department of Social Welfare, both partners in the IDA Programs.

IDA PROGRAM PROFILE

VDCU currently supports two IDA Programs: "Tangible Assets" and "Business Savings and Investment Program" (BSIP).

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1. The Tangible Assets program began in January, 1998 in partnership with the Central Vermont Community Action Agency. Of the 85 IDA participants with CVCAA , 63 chose to make their deposits at VDCU for homeownership, home repair, small business, and education. During the first four months, participants save $25/month and attend workshops on budgeting, credit repair and related topics. After the first $100 is
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saved, individuals receive a match of 1-to-1 for the first year and as high as 2-to-1 or 3-to-1 during the second and third years, up to a maximum of $500 per year. Participants also earn 5.1% interest on their accounts. The CU manages the accounts, and also provides one-on-one budget counseling to participants through a money management program. The Vermont Department of Social Welfare has now waived the asset limits for IDA participants, which is expected to increase the number who choose to sign up.

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2. The <u>Business Savings and Investment Program</u> (BSIP) is a pilot program with the Vermont Division of Aging and Disabilities, to test the use of IDAs to promote self-employment for disabled persons. The program has opened 12 accounts since August 1998 and will provide a 1-to-1 match to participants. The third program partner, the Champlain Valley Office of Economic Opportunity, offers economic literacy courses through their MicroBusiness Development Program, which includes presentations by VDCU staff on account management and financial institutions. This program is unique in that it is targeted exclusively to disabled microentrepreneurs, and is the only VocRehab program exploring IDAs as an alternative or supplement to direct grants. Program participants are required to participate in both economic literacy and entrepreneurship training.

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VDCU only manages the accounts for these two IDA programs, both of which operate primarily through the mail. The original VISTA volunteer has moved up to a fulltime staff position in VDCU, and a new VISTA volunteer has moved in smoothly to continue the program. There have been challenges, particularly those related to long-distance banking with novice savers who have little experience with financial transactions; others just reinforce the insights from other sites, such as the administrative costs of managing these specialized accounts, and the question of covering those costs internally/sustainably without outside subsidy.[54]

[54] We anticipate exploring these key questions in more depth in a follow-up study.

One long-distance problem is the transfer of account information from the credit union to the IDA program management in the distant Community Action Agency. The CAA has sophisticated software to produce reports for IDA account holders (the software is called "Miss Ida," or MIS for IDAs). However, the numbers transmitted each month from the credit union to the CAA do not transfer easily and have contained some errors, while accounting procedures evolved to accommodate the specialized needs of the program. Because it isn't possible to simply walk over and ask a question, or punch up the data on the LAN, these miscommunications have been the source of some tension. Other data quirks have been perhaps more serious, but the process has been improved and many of the technical bugs worked out. Although this particular administrative challenge seems to be unique to Vermont and its widely-dispersed IDA management design, it reflects the more general challenge facing many programs: to negotiate clear and discrete roles which every partner embraces fully, and to maintain a constructive flow of communication despite the boundaries of geography or organizational charters.

This site has the potential to produce other useful insights for Michigan as the program progresses. For example, in addition to the credit union, there are two bank partners serving the accounts of IDA holders who chose them over VDCU. (VDCU offers a better rate of interest and a wider range of services, so most participants chose VDCU as their financial institution.) This site also has the potential to produce clearer figures on the actual costs and needed subsidy, if any, for institutionalizing IDAs as standard financial products offered by CDCUs.

V. 17 BRIEFS OF CDCU-BASED IDA PROGRAMS

A. Rochester, NY: Progressive Neighborhood Federal Credit Union

B. Rochester, NY: Genesee Co-op Federal Credit Union

C. Bronx, NYC: Bethex Federal Credit Union

D. Newark, NJ: New Community Federal Credit Union

E. Columbus, OH: Capital City Federal Credit Union

F. Chillocothe, OH: HYS Federal Credit Union

G. The Plains, OH: Appalachia Development Federal Credit Union

H. Minneapolis, MN: Wendell Phillips Community Federal Credit Union

I. Leon, IA: So. Central Iowa Community Action Agency Program CU—SCICAP Credit Union

J. Newport News, VA: Newport News Neighborhood Federal Credit Union

K. Berea, KY: Central Appalachia People's Federal Credit Union

L. Shelby, MS: Shelby/Boliver County Federal Credit Union

M. Demopolis, AL: Demopolis Federal Credit Union

N. Birmingham, AL: NRS Community Development Federal Credit Union

O. College Station, AR: College Station Community Federal Credit Union

P. Los Angeles, CA: Episcopal Community Federal Credit Union

Q. Santa Cruz, CA: Santa Cruz Community Credit Union

BRIEFS:

17 additional CDCUs
which offer
"Individual Development Accounts" (IDAs)

A. Rochester, NY: Progressive Neighborhood Federal Credit Union (PNFCU)

PNFCU, four years old in October 1999, now has 1450 members and $1.8 million in assets (including $1 million in nonmember deposits). The CU has two youth credit union programs, one in a Catholic elementary school and the other in a public high school.

The mission of PNFCU's IDA program (IDEA: Individual Development Education Account) is to encourage youth from low-income neighborhoods in Rochester to attend area colleges and proprietary schools. With assistance from multiple partners, including the Rochester City School District, PNFCU has launched a youth credit assistance program at a local high school and opened its first 15 IDEAs for seniors (11 graduated from the program this summer and have gone on to school). The CU matches the students' savings 1-to-1 up to $500, and area trade schools and colleges have also pledged a second match. Funds to support the IDEA program have been raised from various sources, including $3000 from NFCDCU's IDA Match Program.

The CU has 20 slots for students this fall, but beginning in January 2000, they will begin recruiting high school juniors: since students usually raise most of their money in the summertime, this change will give them 2 productive summers before starting college. The new program will also involve school counselors as partners, since success in college depends as much on academic achievement as on saving for tuition and books.

PNFCU has also recently developed homeownership IDAs with the Neighborhood Housing Services, which provides economic literacy training. The CU is also exploring the possibility of auto IDAs as part of a welfare-to-work project.

COMMENT: Progressive & Genesee Co-op CU(brief follows) may be useful models of urban CDCUs collaborating to cover a large impoverished inner-city area.

B. Rochester, NY: Genesee Co-op Federal Credit Union

Genesee Co-op FCU opened its first three IDAs in December 1998, after initiating the planning in April 1997 with the help of a VISTA volunteer, Rachel Foran. She conducted a membership survey, which indicated a strong interest in IDAs toward homeownership; since match funds were available for this category of IDAs, the program began with this focus. They receive primary program funding from the New York State Department of Housing and Community Renewal. This CDCU invited a second CDCU ("across the river") to join the initiative, and their focus has been on IDAs for higher education [Progressive Neighborhood Federal Credit Union]. This CDCU offers a 3-to-1 match to assist participants.

Genesee Co-op created an IDA Task Force of community partner organizations, including Rural Opportunities Inc. (no longer a partner), the Neighborhood Housing Service (the lead organization, serving as the 501(c)(3) grant recipient), the South East Area Coalition, and recently the Home Store operated by the City of Rochester. These partners provide a range of support services, such as referring participants and providing training in homeownership or microenterprise development. The CU developed a Money Management Mentor program with the Cornell Cooperative Extension, recruiting and training nearly 30 community volunteers for one-on-one counseling and to facilitate workshops with IDA participants. They are currently working with the Federal Home Loan Bank to enable the CU to originate subsidized mortgage lending for IDA holders when they are ready to purchase.

The CU is currently seeking to expand its field of membership to include four largely minority, low-income neighborhoods. GCFCU is also in the process of developing a collaborative IDA program to support microenterprise development among the growing refugee population, mainly Yugoslavians, Bosnians, Kossovarans and Russians. For this program, the CU will hold the accounts, the Worker Opportunity Resource Center will conduct the training, and the planned match is 3-to-1.

C. Bronx, NY: Bethex Federal Credit Union

Bethex FCU is now 28 years old and has over 5000 members and $4.1 million in assets. This CU has operated an IDA program since August 1998 which was designed to serve its members' needs, rather than using the more standard 3-part model (education, home-ownership, small business). Offering a match of 1-to-1, the program now has 6 South Bronx participants who are saving for uses as varied as starting a microenterprise to the purchasing of their household's first computer. Participants are required to save at least $25 per month and receive match funds up to $300 per year. The CU also plans to offer IDAs to assist women living in transitional housing to secure and furnish an apartment (through their partner CDC), and to help them prepare to regain custody of their children. An innovative partnership with two local dental schools allows the CU to offer IDAs for restorative dental surgery, in which participants receive a "match" that is partly money and partly discounted dental work. The IDA program receives support from the New York Women's Foundation for an in-house economic literacy program and matching funds through the NFCDCU's Match Grant Program. The CU's ongoing partner is the Mount Hope Housing CDC, and many of their programs are closely integrated.

> *COMMENT: This is a very grassroots operation with a great deal of trust within its very low-income community. Yet the IDA Program is as new as all the others – there is a great deal to be learned here from a mature institution taking on this innovative financial product.*

D. <u>Newark, NJ</u>: New Community Federal Credit Union

This IDA program is jointly administered by the New Community FCU and the New Community Corporation (NCC), a nonprofit community development corporation. With policies, procedures and infrastructure developed over the past 18 months, the CU began working with participants in early 1999 and now has 20 participants in the first class. NCC will provide a match of 2-to-1 to assist low-income individuals to gain self-employment, purchase a home or obtain post-secondary education or vocational training. Participants will save a minimum of $25 per month and be matched up to $50 per month. NCC offers many related programs and services, including incubation of microenterprises and job skills training. As a result, most of the support services vital to an IDA program were in place long before the first accounts were opened, which may help to make this a sustainable program.

NCFCU was created in 1984 and is closely affiliated with the New Community CDC -- they are legally independent but symbiotic, sharing space and resources such as legal services. "Everyone knows New Community [CDC]," which has been both a blessing and a hurdle. There is a certain amount of distrust in low-income communities which has had to be overcome for the IDA program to get off the ground, but now word-of-mouth helps get information out into the community.

The credit union now has 2500 members and $3.1 million in assets. According to the manager, 80% of members are African American, and the rest are Hispanic, except for a small group of Whites who are primarily employees of NCC. A large percentage is single mothers, perhaps 30%.

Initially, the CDC contracted out for development of an IDA curriculum, but this was apparently not very useful; "I thought we should develop it internally – we know our constituents" -- but time pressures from funders drove the decision. Later a college intern helped out, and they found a curriculum on the Purdue University/Cooperative Extension website which seems to work much better. The problem, according to the manager, Sydney Wayman, is that there needs to be greater challenge to the participants to actually do it: to change their behaviors – "behavior modification" – so that they can become savers and asset builders. "I would change the economic literacy part – they didn't leave with the skills to really assess where they are" and make real change.

The biggest challenge, according to the CU manager, was just getting the IDA program launched: design and organizational issues and "getting it off the ground." Fortunately, a grant from the Surdna Foundation covered the development costs.

COMMENT: This will be an important site for tracking start-up issues for an urban, largely self-contained program (with collaborators).

E. Columbus, OH: Capital City Federal Credit Union

[IDA PROGRAM CLOSED] This CDCU was originally a partner with their sponsoring Community Action Agency, the Columbus Metropolitan Area Community Action Organization (CMACAO), which was the lead agency. The CU had a VISTA volunteer for seven months, who is no longer part of the IDA program.

COMMENT: May be useful to study for challenges facing IDA start-ups. [Contact Matt Baldwin at CMACAO, 614-324-5119]

F. Chillicothe, OH: HYS Federal Credit Union

This non-metro community of 26,000 is 53 miles from Columbus OH, the nearest urban center. HYS FCU is sponsored by and housed in Ross County Community Action, and opened its first IDA in May 1998. However, it hasn't expanded since then. Publicity has consisted of newspaper advertisements and some radio spots. The CU manager believes the lack of growth may be an issue of trust: "It's hard to convince people that this is for real; they don't trust the government, and they've never saved before because it wasn't allowed [if you were on public assistance]. One couple originally signed up, one other lady moved out of our apartment complex so she was no longer eligible, and one lady signed up but I can't reach her." The community action agency has funds to advertise the program, and the plan is to announce it on cable and advertise it in the local paper. The CU manager believes there could be more to the program than they have now: "What I was thinking, I'd like to institute some kind of financial training, how to balance your check-book, that kind of thing."

As per state law, the CU provides a 25% match and offers IDAs for education, down payment on a home, and starting a business. Individuals also will receive a bonus of up to $150 if they save at least $480 over 12 months. The CU has partnered with the

County Department of Human Services, which has funds to establish IDAs for eligible clients.

> *COMMENT: This may be an excellent site for exploring the real start-up challenges facing a CDCU in non-urban areas.*

G. <u>The Plains, OH</u>: Appalachia Development Federal Credit Union (ADFCU)

The Plains is a small community near Ohio University in Athens County (county population just below 60,000). The setting is very rural, with a long-term depressed economy, low average education, high unemployment rate and a large proportion of low-paying service jobs. Columbus OH is 80 miles away, and many people commute there for work.

The Appalachian Development Federal Credit Union (ADFCU) is the result of a collaborative effort by The Appalachian Peoples Action Coalition (APAC), a grassroots organization of low-income people; Tri-County Community Action, an area social service agency; and two community development organizations, the Enterprise Development Corporation (EDC) and Rural Action. With EDC taking the lead, this group focused on the special needs of the limited income population that had not been adequately served by mainstream financial institutions.

The ADFCU was born in 1996, chartered in June, and opened in a small office in EDC in August. The opening of this credit union marked the first federal, non-student credit union to be chartered in Ohio in ten years, and one of only a handful of federal credit unions that were granted the federal "low-income" designation upon charter. In August 1999, the CU had grown to over 700 members and moved into its own facilities to better serve its members. According to the board president, Ms. Michelle Greenfield (also CEO of APAC), "It has been the experience of the credit union that membership growth comes mainly through word-of-mouth, which is the way news travels in this community."

In May 1998, EDC launched an IDA program with ADFCU as the depository. Since then 26 IDA accounts have been opened. These IDAs are for persons who are at or below 80% of the area median income, and can be used for home purchase or structural repairs, for small business development, for education (but not for paying off student loans), or for job training. Individuals must commit to saving for at least two years and must deposit a minimum of $20 per month. The IDA program matches the first $500 of savings per year at a rate of 2-to-1. Participants attend mandatory budget counseling courses as well as courses specific to their savings goal. Funds have been raised by EDC from private and public sources for the IDA program. Partnerships have been formed with adult vocational schools, local colleges, and Three Rivers Housing Corporation to provide classes and one-to-one counseling on finance, home ownership and college preparation. Each of these partners refers clients into the program and has representatives on the IDA Advisory Board, which designed and implemented the program.

ADFCU holds the accounts for the program but is not the primary agency in this IDA national demonstration site. The IDA VISTA, Ms. Brenda Kim, was born and raised in the area and found that she had to change a lot of the program materials so that they would be more understandable – "connect better" – with her program participants. She emphasized that the biggest job is "lots and lots of marketing!" in order to find and attract program participants. She made presentations and flyers for Headstart programs, food kitchens, homeless shelters, churches, the mental health clinic and welfare department programs, HUD housing programs, apartment complexes, service clubs like the VFW and Legions, literacy programs, "ANYPLACE where low-income people gather." "Laundromats are a GREAT place for brochures, once you get a clear picture on who you want to reach and how to say it." The first brochures were aimed more at funders, and they really had to be simplified, she said. The new location will be better, she believes, because they will be next to the post office – "We don't have any home delivery, so everybody has to go there!"

Since this information was gathered, the EDC – which has served as the lead agency – has had a leadership change and decided to drop the IDA program. Because of broad community commitment to the program, there was a need for another organization to take up IDA development for the future. At a recent gathering of the remaining IDA partners, it was agreed that APAC would assume that role, since APAC has an established capacity to reach and mobilize the low-income population targeted by the IDA program. Together with the credit union and other partners, APAC has taken steps to secure the accounts of existing program participants and to reestablish an independent program.

COMMENT: We need to follow up these developments in several months, to learn about their strategies for a sustainable and resilient program. This will be an excellent example of a rural start-up, both for the IDA and the CDCU itself – and good insights about marketing and partnering in resource-poor areas.

H. <u>Minneapolis, MN</u>: Wendell Phillips Community Development Federal Credit Union

Wendell Phillips CD FCU has completed a successful fundraising campaign for their IDA program and plans to open their first accounts in June 1999; at the time of this interview, 58 persons had signed up, some of whom were already CU members. The CU anticipates opening 75 accounts in the program's first year, with a 4-to-1 match-to-deposit ratio. Along with accounts for homeownership, small business and education, the CU will also open IDA accounts for home repair and design. An IDA Advisory Committee includes representatives from a variety of community-based organizations, which will sponsor training programs in financial management, microenterprise development, and homeownership. For example, the South Side Neighborhood Housing organization will sponsor training in credit repair, budgeting and planning, and asset financing. The CU was a key participant in the successful campaign to pass supportive IDA legislation in Minnesota, and its IDA program will be included in the gubernatorial budget. This credit union also serves 11 Native American tribes in the region, and has experienced a significant increase in native memberships since diversifying the staff to include a Native American, Ms. Charla Medrano, who oversees the IDA program. According to a board member, Mr. Sam Grant, they are now seeking ways to attract the area's large Hmong immigrant population to become CU members.

> *COMMENT: This CDCU could provide useful insights for Michigan both as an inner-city site and because of its unique experience with serving native and immigrant populations.*

I. Leon, IA: So. Central Iowa Community Action Program CU--SCICAP Credit Union

SCICAP Credit Union was initiated by the locally-based Community Action Program in 1967 as the Emergency Family Loan program, headed by Bob Mumma, who continues as credit union manager today. The EFL was one of 16 pilots in the nation, most of which ended when the federal support dried up. Only this CU and two others survived. The credit union currently has nearly 600 members, with $1.2 million in assets. Mr. Mumma receives secretarial and bookkeeping support from the CAP agency, which houses the credit union for a small rent and provides other in-kind support. Mr. Mumma is employed part-time at the CAP and part-time at the CU. At one time, he also had the assistance of a VISTA volunteer for the IDA program, but currently operates all CU programs without additional staff.

Leon IA has a population of about 1500, similar to the other scattered towns in rural Southern Iowa. Mr. Mumma estimates that perhaps 25-30% of the population in his service area are on public assistance, another 30% are retired, and 40-50% are working in agriculture-related employment or small manufacturing; for example, a small garment industry, assembly and wiring, a window factory (which closed), craftshops such as fishing lures, a small denominational college nearby, and a large outlet mall down the highway. Like many farmers in depressed agricultural areas such as this, Mr. Mumma and many of his neighbors run their farms only part-time, supplementing the family income with other work. Women in particular have moved into non-farm work as bank credit has tightened over the years and high interest rates consumed a increasingly large part of farm income.

The credit union has focused on *savings* rather than lending. Although 75% of loans go to low-income borrowers (mainly for consumer and real estate loans), most of the CU assets are invested in CDs. This has allowed the CU to keep expenses to a minimum, so that it can pay high dividends (6% currently) to attract and keep members. This made the CU more attractive than banks, though in the 1980s most banks in the region closed because of the depressed agricultural economy.

The IDA program is focused on saving for post-secondary education and for home purchase or renovation. SCICAP has opened 39 IDAs since its inception in 1997 – "but we should have 390!" says Mr. Mumma, who believes this program is much more than a band-aid. "You have to help people plan for the future, believe in some long-range goals and that they can really reach them." This includes extensive counseling with each member, which he believes is perhaps the most important contribution the CU makes in people's lives.

Although budget cutbacks have forced him to reduce his time in the credit union, he believes that this program is critical: "The first thing is to promote thrift, not to make loans but to promote thrift." One innovation which has received much interest from other communities is the involvement of grandparents and other relatives to provide the match to high school students saving for higher education or training. A recent IDA match grant from NFCDCU will be used to leverage funds from the State of Iowa. The Department of Social Services provides funding through its state IDA program and has been working with the CU to increase the match dollars from $.50 to 1-to-1. Local organizations such as the Lions and Rotary Clubs refer participants and donate funds. And the CU will conduct program seminars on "Home Buying," "How Can I Send My Child to College?" and "Individual Budget Counseling." However, Mr. Mumma cautioned that IDAs can be a "very hard, time-consuming" program. It would be helpful, he suggests, if the Small Business Administration could provide some consulting help to supervise the small businesses, and if funders such as the Federal Home Loan Bank could provide technical assistance funding in addition to their low-interest Nonmember Deposits.

COMMENT: This will be a useful site for learning about rural/non-metro IDA development.

J. Newport News, VA: Newport News Neighborhood Federal Credit Union

This CDCU is closely linked with its sponsoring agency, the Office of Human Affairs (a community action agency). In fact, the CDCU manager is also an employee of the OHA, as the director of finance and personnel. The CDCU is actually one of the old OEO credit unions, started in the 1960s under the Great Society Program, but it languished. In 1993, the CU had only $40,000 and "a bookkeeper who had been stealing," the manager related; now the membership is up to 250 in its East End community and assets have grown to $350,000. "The only bank in our community just pulled out," so the CU is a critical financial institution for residents. The location is clearly a problem -- the 7th floor of a high rise office downtown -- "we're not in the community we serve." So they recently renovated a building – historically the only hospital that served African Americans -- to house the CU within the low-income East End neighborhood.

This fall, Newport News FCU was honored with the Louise Herring Award for Philosophy in Action, for its continuing "commitment to helping members achieve their dreams through sound financial planning and through education."

Newport News Neighborhood FCU opened its first IDA account in October 1998. The credit union currently offers education IDAs only, to participants in Project Discovery, a program of the Office of Human Affairs which targets middle and high school students who will be the first in their families to attend college. Youth participants are encouraged to save at least $20 per month; in turn, they receive a 1:1 match for their savings, up to $240 per year, as well as financial counseling and advisement on how to set and achieve educational goals. The CU will expand the IDA program into homeownership, linking IDAs with a program operated by the Newport News Redevelopment and Housing Authority to assist low-income families to purchase rehabilitated homes from the city.

> *COMMENT: This might be an excellent model of a CAA-sponsored CDCU operating an IDA program. It is also unique in its special focus on youth and educational IDAs, paralleling the development of Michigan's IDA program at Holt High School.*

K. Berea, KY: Central Appalachia People's Federal Credit Union (CAPFCU)

In collaboration with their nonprofit sponsor, Mountain Assistance Community Economic Development (MACED), CAPFCU has opened 32 IDAs since the program's inception in July 1997. Twenty-one have already finished one year of the financial curriculum and are starting into their small groups: those saving for home repair (the largest group), for microenterprise development, for education, and for home ownership (the smallest group). Most participants were not previously members of the credit union but were recruited from the community. Recruitment has been suspended for the moment, since all match funds have been committed. Toward a 6-to-1 match, participants save $15 per month over a two-year period. CAPFCU's program is unique in that a steering committee comprised of future IDA holders (called Pathways to Prosperity) designed the program and created the policies. CAPFCU provides in-house training programs on budgeting and home ownership counseling, since there are no community colleges or other higher education resources in the county. The CU would like to start a teen program, perhaps at the high school, and is looking for funding now and a person to do it.

[UPDATE: As this report goes to press, we have learned that additional match funds have been secured for another 40 accounts on a $1-to-$1 basis. In addition, the program's VISTA volunteer, Ms. Daisy Faye Gray, is now developing another IDA program for the CAPFCU branch in Jackson County.]

COMMENT: Very thoughtful staff, might be an especially useful model for rural areas, but their outside funding is very high, may not be a realistic model for resource-poor communities in Michigan.

L. <u>College Station, Ark</u>: College Station Community Federal Credit Union

The College Station Community FCU was organized in early 1968 in this largely African-American community in the Little Rock metro area. The CU currently has 425 members and holds assets of $650,000. The earlier population of about 5000 has declined to less than 2000, according to the long-time manager and founding member, Woodward Keown. In the late 1960s, the OEO came into the area and helped the community conduct a survey of local financial service, revealing mainly loan sharks charging 40-50% interest. According to Mr. Keown, the OEO helped to start two other credit unions in the region, but both of them failed when OEO funding for staff dried up. Since this CU received no funding but only a part-time person from OEO, it was able to weather the cutbacks better: "It was upsetting then, but it was a blessing."

The population decline began in the early 1970s, when a new highway was built, cutting College Station off from the city and other commercial centers. "It did terrible things to the community," according to Mr. Keown.

Focusing on educational savings and computer purchases, College Station Community FCU plans to open 10 IDAs in 1999. The current VISTA volunteer, Ms. Stephanie Williams, has been marketing the program mainly within the CU, which draws from all over the community because nonmembers can pay there bills there, and also because the post office is right next door. Individual and group counseling will be provided by the CU and a local family service agency. The CU will also enlist the expertise of the Urban League, United Way and ACORN to help IDA participants repair poor credit histories and qualify for first-time homebuyer's assistance. The VISTA volunteer doesn't believe that homeownership is a big draw in the community, however: "Most of the parents stay with the grandparents; they're not interested in a house. When they move they look for Section 8, they don't have any dreams." She has had the most success with the grandparents, she thinks, and believes the program will grow through their example. The CU will offer a 3-to-1 match-to-deposit ratio.

COMMENT: This fringe city CU could be an especially useful example for those Metro-Detroit fringe cities that have experienced disinvestment and economic hardship.

M. Shelby, MS: Shelby/Boliver County Federal Credit Union

This small-town credit union was started in 1955 by a minister and teacher at Alcorn State University. The university had a credit union, which is "how he got the idea to start one here." It has a storefront on the main thoroughfare. The current manager, Ms. Gloria Woodley, has been there since 1991. It has 1200 members and $1.1 million in assets.

Most of the members don't save, Ms Woodley says; they joined because they need a loan, because the banks are inaccessible. "The check cashers are moving in from the city," she reports, and high-cost funds are increasingly available to unsuspecting residents. "So the IDA really sounded good to me," when she learned about them from the National Federation of CDCUs.

The current IDA coordinator, Ms. Mary Dotts-Martin, believes they face some unique challenges in Shelby, compared, for example, to her home in Chicago's westside. "This is the south, honey," she said, and the "good ole boys" present unique challenges to efforts to help the African-American poor. For that reason, the credit union hasn't really had a history of local "partners" in any formal sense, though several are now under development for the IDA program (see below). Their primary focus for IDAs has been home purchases, though the CU is unable yet to offer mortgages of its own. There is a "new breed of homelessness here" created by the Welfare-to-Work policies: "Kids moving back home to mom and dad, grandparents – because of the hospitality we have here past the Mason Dixon line. You take people in, especially if they go to the same church. Many people are living with non-family members." She believes that this may be a prime factor behind why most of the people in their survey want to achieve home ownership. Another high priority for this impoverished, rural county is buying a car: "Those people in New York City, they don't understand, they have public transportation!" There is little interest in using IDAs to purchase computers, everyone is afraid of "Y2K!" and say that "computers are no good!"

Because of these particular interests of residents, revealed by a survey of over 250 local residents, they designed a program focused primarily on IDAs for homeownership, then small business and secondary education. Individuals with household incomes of $25,000 or less are targeted to open IDA accounts. Participants will be required to complete budget counseling and training in homeownership or microenterprise development. The CU is developing partnerships with a realtor, a mortgage company, a loan banker, and a HUD-approved housing counselor to prepare and deliver homeownership workshops, including financial counseling. The CU is now in the process of submitting grant proposals for match funds.

> *COMMENT: This small-town CU could provide useful insights for Michigan out-state communities, particularly those in agricultural settings.*

N. <u>Demopolis, AL</u>: Demopolis Federal Credit Union

Demopolis is a small community (pop. 7500) which is more than 2 hours from Birmingham and Montgomery, 1 hour to Tuscaloosa. The surrounding community is agricultural, mainly beef and dairy, cotton, soy and corn. The long-time manager, Mr. Eddie Ayers, said that "diversified farms do ok" and he himself has 40-50 acres where he keeps cattle. His father was a share-cropper, and Mr. Ayers has been there most of his life.

The credit union -- now with 668 members and $609,000 in assets – was inspired by Dr. Martin Luther King during the early Civil Rights struggle, and was initiated by Louis Black of Morning Star Church. Many returning residents had already been introduced to the credit union concept in the northern steel mills, so the idea was both familiar and valued by a solid core membership. Nonetheless, the CU has faced many challenges common to small, rural CUs serving resource-poor populations, and growth has been slow. Mr. Ayers was not among the founders – he was too busy in the movement , he recalls, registering people to vote – but he was elected CU President in 1966 "and I've been twisting and turning ever since to keep it from failing. I've been disgusted, but never gave it up, though there have been some sleepless nights!"

Although a bank in a nearby community closed, Demopolis still has two longtime banks and a new one coming to town; yet minority residents perceive them to be unresponsive to their financial needs. Even the named CRA officers have expressed little interest in supporting the community development work of the credit union. "I can't get them interested," Mr. Ayers reports. "Bankers here probably don't know it's to their advantage to give CRA non-member deposits to us –we're working against their attitude of 'Don't even let them out of the chute!'"

The VISTA volunteer, Ms. Lytonia Wingfield, has laid the foundation for an IDA program and expects to open the first accounts soon. She grew up here and knows the community very well, and even worked part-time for the CU in the past. The CU is working to establish partnerships with small business centers, real estate organizations, local colleges, and larger credit unions to provide the IDA training components. The majority of IDA applicants are interested in saving for homeownership, with a smaller number interested in starting a small business or paying for education for themselves or their children. Demopolis FCU also offers the services of a realtor and Fannie Mae workbooks, videos and other materials to encourage accessible and reasonable home investment. The CU will match up to $500 per year at a ratio of 1-to-1.

COMMENT: This small-town CU could provide useful insights for Michigan out-state communities, particularly those in agricultural settings.

O. Birmingham, AL: NRS Community Development Federal Credit Union

This CDCU is young, launched in September 1996 with help from the Demopolis FCU and the Federation of Southern Cooperatives. Currently under the leadership of Mrs. Eunice Rogers, NRS now has 472 members and $650,000 in assets. NRS serves its entire geographic community: 23 of Birmingham's 99 neighborhoods all in the northeast part of the city. It is housed within the New Rising Star (NRS) Mission Baptist Church, and the bulk of members currently belong to the church.

The was apparently the first IDA program in Alabama. IDAs were brought into the NRS program in 1997, when their first Vista volunteer surveyed the CU's members to guide the development of policies and procedures. NRS staff members have not attended any of the national training programs on IDAs by the Corporation for Enterprise Development (CFED) because of the great expense. NRS opened its first IDA accounts in early 1999, now totaling 6 from its field of membership in 6 communities in northeast Birmingham.

The challenge was to secure the match – "I was reluctant to bring people in, actually start IDA accounts until I had the *match*," said the current VISTA volunteer, Nanzetta Washington. According to Ms. Washington, who designed and manages the program, "the surprising element to this whole thing is that you don't know where your help will come from. I found two individuals [elected officials] who would match a person to buy a house, out of their own pockets." NRS will offer a 4-to-1 match as an incentive to help impoverished participants to save for a home or small business, education or job training. Individuals will be encouraged to save at least $20 per month over two years. Participants must be at or below 200% of the federal poverty level and must attend budget counseling and training provided by the Neighborhood Housing Service, local colleges and business advisement centers. The Urban League has a strong homebuyer's' program and will enroll all the IDA holders. In this first year, the CU will focus on homeownership, then expand into education and microenterprise in the second year.

THIS IS AN EXCELLENT MODEL OF A CDCU START-UP OFFERING IDAs AS ONE OF ITS FIRST FINANCIAL PRODUCTS. THE STAFF HAVE BEEN ESPECIALLY CREATIVE IN MARKETING AND IN PARTNERSHIP DEVELOPMENT.

P. Los Angeles, CA: Episcopal Community Federal Credit Union

Episcopal Community FCU was founded in 1994 after the Los Angeles riots, with a $300,000 gift from the national Episcopal Church to the local diocese to help rebuild the city. The local church already had a food and clothing bank and a homeless shelter, but nowhere were affordable, secure financial services provided for residents. Since 1994, the CU has grown rapidly, and now has 2300 members and $3.3 million in assets. It offers a wide range of services for such a new credit union, but they are proceeding cautiously. According to CEO Urla Gomes-Price, "When you're a young credit union, you must add services incrementally because they're expensive. You have to add them as you go along because it takes a while to build up capital."[55]

Episcopal Community FCU anticipates open its first 15 IDA accounts in early 1999. Low-income individuals will receive a 2-to-1 match for small business development, homeownership, or education. Budget counseling, financial literacy, homeownership services, and microenterprise training will be provided by partner agencies, the Consumer Credit Counseling Service of Los Angeles and the Los Angeles Housing Authority. Community colleges, adult schools and skills centers will also provide support services to participants with relevant savings goals. The CU has organized a community-based IDA Evaluation Committee to review applications, monitor current participants, and explore opportunities for expansion.

> *COMMENT: Since the time of this interview, the VISTA volunteer responsible for the program had to leave for paid work, so the program is currently suspended. But, according to the manager, Ms. Urla Gomes-Price, the CU remains committed and is seeking ways to continue the program and eventually sustain it with internal resources.*

Q. Santa Cruz, CA: Santa Cruz Community Credit Union (SCCCU)

This CU was established in 1977 to support the social and economic development of low-income persons in Santa Cruz County. It currently has 7000 members and $34 million in assets.

SCCCU began the process of developing an IDA program in July 1998 and now has the program fully designed, with all the logistics in place. It is still fundraising for the match and plans to open the first accounts in the first quarter of 2000. SCCCU's IDA program will provide a 2-to-1 match to assist families at or below 150% of the federal poverty level to save towards first-time home purchase, business capitalization, continuing education or vocational training. In addition, partner organizations have agreed to provide IDA participants with budget counseling, homeownership training, and

[55] Quoted in Credit Union Magazine, May 1999, p. 13A.

preparation for college or job training. A key partner is the county human resources agency, which is expected to refer the largest number of eligible IDA applicants.

The CU manager, Bill Leland, believes that "IDAs are absolutely consistent with the CDCU mission: it enables us to continue to expand our reach into low-income populations – it's an excellent mechanism for us to serve and actualize our mission. The CDCU offers the *infrastructure* for IDAs, while the community partners play a support role" by referring their clients into the program and providing support services once their clients are in the program.

> *COMMENT: SCCCU has the largest business-lending program of any CDCU, so it may be a valuable site for exploring how IDA holders (microentrepreneurs in particular) segue into these other financial products and services – whether there is a "ladder effect," helping people to move out of poverty through linked support services.*

VI. APPENDICES

A. Internet Sources on Individual Development Accounts (IDAs)

B. "20 Promising Ideas to Promote Savings in Low-Income Communities"
by the Corporation for Enterprise Development (CFED)

C. "Fifty Ways to Match Your IDA" by Robert Friedman, CFED

D. New Horizons FCU -- program evaluation summary

VI. APPENDICES

A. Internet Sources on Individual Development Accounts(IDAs)

Individual Development Accounts triple your money
Near Eastside Community Federal Credit Union. Near Eastside IDA Program. Individual Development Accounts triple your money.
URL: www.enn.org/ennweb2/2f8e_19a.htm

Individual Development Accounts--Self-sufficiency through Asset Accumulation
Individual Development Accounts: Self-sufficiency through Asset Accumulation. Moderator: Carl Rist, Corporation for Enterprise Development, Durham County..
URL: www.ncwre.org/calendar/conf3h.htm

Individual Development Accounts
Individual Development Accounts. (IDA) What are Individual Development Accounts? An Alternatives Individual Development Account (IDA) is a savings account.
URL: www.alternatives.org/serv_ida.html

Individual Development Accounts
Individual Development Accounts: Affirmative Steps to Improve Welfare May 23, 1997. Background. In our many discussions of welfare over the years...
URL: thecity.sfsu.edu/~homebase/accounts.htm

Individual Development Accounts (IDAs)
Center for Social Development. Washington University in St. Louis. Individual Development Accounts (IDAs) What are IDAs? Administration of IDAs.
URL: gwbweb.wustl.edu/Users/csd/ida/ida.html

Individual Development Accounts
Features. Individual Development Accounts Downpayments on the American Dream. By Tom Riley. The problem is, by now, well known. Amid all the hoopla over...
URL: www.philanthropyroundtable.org/1.10/riley.html

CFED - Individual Development Accounts

CFED HOME. INDIVIDUAL ASSETS. Individual Development Accounts (IDAs) IDA Learning Network. COMMUNITY ASSETS. Development Finance. -Counting on Local.

URL: www.cfed.org/main/indivAssets/main.htm

Savings: Individual Development Accounts would help poor save money

In an effort to help the poor attain college degrees, home ownership and start businesses, Congress is proposing a new savings plan that matches...

URL: www.bankrate.com/brm/news/bank/19990615.asp

IDA: Individual Development Accounts.

Individual Development Accounts are dedicated savings accounts, similar in structure to Individual Retirement Accounts...

URL:www.alliance.unh.edu/aauntitled.folder.1/aaida.html

What are IDAs?

Center for Social Development. Washington University in St. Louis. What are IDAs? Individual Development Accounts (IDAs) are matched savings accounts set..

URL: gwbweb.wustl.edu/Users/csd/ida/whatareidas.html

Model State Legislation

Center for Social Development. Washington University in St. Louis. Model State Legislation for Individual Development Accounts. Based on State Tax Credits.

URL: gwbweb.wustl.edu/users/csd/ida/molegis.html

Administration of IDA: Opportunities & Constraints

Center for Social Development. Washington University in St. Louis. Administration of Individual Development Accounts: Opportunities and Constraints. By...

URL:gwbweb.wustl.edu/Users/csd/evaluation/admin.html

IDAs in Welfare Reform

Center for Social Development. Washington University in St. Louis. IDAs In Welfare Reform. Excerpt from the Personal Responsibility and Work Opportunity...

URL: gwbweb.wustl.edu/Users/csd/ida/idabill.html

B. "20 Promising Ideas to Promote Savings in Low-Income Communities" by the Corporation for Enterprise Development (CFED)

[20 promising ideas]

C. "Fifty Ways to Match Your IDA" by Robert Friedman, CFED

[50 Ways p. 1]

[50 ways, p. 2]

[50 ways – p. 3]

D. New Horizons FCU -- program evaluation summary

"Women's Opportunity Resource Center (WORC) Family Savings Account (FSA) Program Evaluation Summary – 9/30/97"

[NOT INCLUDED HERE]

VII. FURTHER READING ON CDCUs

VII. FURTHER READING ON CDCUs

A. Overview

Possibly because they are grassroots owned and governed, and fundamentally self-sufficient (that is, "below the radar" of the grants economy), CDCUs do not have an extensive scholarly literature. Nonetheless, they have received some attention within the credit union field, and of course within their own professional associations and institutions. There have also been occasional studies produced by policy institutes in the last 25 years, mainly in the context of larger economic or policy crises such as the "savings and loan debacle."

More recently, CDCUs have received attention within the growing Community Capital field – now formally designated "Community Development Financial Institutions" (CDFIs) by the U.S. Department of Treasury -- including two significant reports from the Woodstock Institute in Chicago and university studies funded by the Ford Foundation within the past 3 years.

B. Readings

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