Low-Income Communities and the Great Recession

Financial Trends in Community Development Credit Unions, 2009

National Federation of
Community Development Credit Unions

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About the Federation

The National Federation of Community Development Credit Unions was established in 1974 as the nonprofit, 501(c)(3) organization representing and serving the credit unions that serve low-and moderate-income consumers.

The Federation's primary membership includes more than 200 community development credit unions (CDCUs) in low-income urban, rural, and reservation-based communities in 42 states and the District of Columbia. At the close of 2009, our member credit unions were serving more than 1 million people, with aggregate assets of more than $5 billion.

The Federation is a federally certified Community Development Financial Institution (CDFI) and has invested nearly $100 million in local CDCUs through our Community Development Investment Program (CDIP). We co-founded and serve on the board of the Coalition of Community Development Financial Institutions. In addition, the Federation is a co-founder and primary data collector for the CDFI Data Project.

To learn more about the Federation and our community investment, mortgage, consulting, and research, and other programs, please visit our web site, www.cdcu.coop.

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National Federation of Community Development Credit Unions

Federation

Credit Unions United to Serve the Underserved

About the Cover

Communicating Arts Credit Union (CACU) serves Detroit, Michigan, one of the hardest hit cities in one of the states hardest hit by the recession. In the face of great obstacles, this community development credit union has not merely sustained its service to the community, but expanded it. In April of 2008 the credit union opened a new branch in Highland Park, a separately-incorporated city within the boundaries of Detroit, and one which has suffered extensively from foreclosure and unemployment. The sparkling new credit union branch serves 2,000 members. According to CACU President, Hank Hubbard, "this branch has been the credit union's largest source of new members, and is offering the community a great alternative to financial predators, which are prevalent in the neighborhood."

Communicating Arts CU has received numerous awards and national recognition from the credit union industry, including as Michigan's Credit Union of the Year in 2009. In 2010 CACU earned the Dora Maxwell award, the Louise Herring award, and was named the Trailblazer of the Year for outstanding service to the underserved by the Credit Union Times. In June 2009, it received a $2-million award from the federal Community Development Financial Institutions (CDFI) Fund, for use in providing affordable consumer loans to vulnerable people in the Detroit community.

For further information about Federation member CACU, please visit its website, CACUonline.org or contact Hank Hubbard at 313-965-8640.

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Introduction: The Financial Crisis and the Credit Union Movement

Throughout 2009 and beyond, the United States and much of the world suffered through an unprecedented financial crisis. Credit unions, although not the cause of the crisis, experienced great stress, as their communities suffered from the massive wave of foreclosures and skyrocketing unemployment. The effects of the crisis were uneven: the so-called “sand states” – California, Arizona, Nevada, and Florida – were especially hard hit. But few states escaped unharmed.

For the credit union movement, the general economic damage was compounded by the failure of the largest wholesale, or “corporate,” credit unions, which provided investment, payment system, and other services for local or “natural-person” credit unions. In the first quarter of 2009, U.S. Central Credit Union and Western Corporate Federal Credit Union suffered multi-billion dollar losses as a result of the deterioration of their investments in AAA-rated mortgage-backed securities. Because these institutions were federally insured, the National Credit Union Share Insurance Fund (NCUSIF), suffered major losses. These losses cascaded down to all of the more than 7,000 credit unions in the federal insurance system, which is cooperatively funded by participating credit unions. Consequently, many federally insured credit unions of all profiles suffered a decline in net worth in 2009. Moreover, many natural-person credit unions had to write off investments they had made directly in various corporate credit unions.

Community development credit unions (CDCUs) were hurt by the broader forces that affected all credit unions. But as institutions that serve low-income, low-wealth communities, many suffered disproportionately, because they had a smaller cushion of net worth to fall back on. No year in recent history has been harder for the CDCU movement.

Yet there is another, brighter side to the picture, both for the credit union movement in general, and CDCUs in particular.

The credit union movement benefitted from its long-established reputation for financial stability, its pro-consumer orientation, and its nonprofit, member-owned structure. Increasingly, print, electronic, and social media (the Huffington Post and consumer advocate Suze Orman, to name only two) urged consumers to “move their money” to credit unions from the banks that were cutting back on credit and raising fees in the midst of the financial crisis. In 2009, the credit union movement as a whole recorded increased membership, assets and deposits. On a number of these indicators, CDCUs equaled or even surpassed the performance than even the credit union movement as a whole. In the area of lending, though, the picture was less encouraging, for credit unions in general, and even more for CDCUs, whose members are especially vulnerable to layoffs.

About This Report

This report summarizes financial trends for CDCUs based on official published data for the years ending December 31, 2009 and 2008 respectively.[1] Our year-over-year comparison looks at the 208 member institutions of the National Federation of Community Development Credit Unions that were active at

[1] See Notes on Methodology, Appendix 1.

both points in time. These institutions, located in 42 states and the District of Columbia, serve more than one-million members in urban, rural, and reservation-based communities. They range widely in size, from less than $1 million in assets to well more than a billion dollars. Many are designated "community development financial institutions" (CDFIs) by the federal CDFI Fund, and the great majority have been officially designated by their regulators as "low-income." While the financial profiles of CDCUs vary, their common denominator is their commitment to promoting and delivering savings products, affordable credit, basic transaction services, and trusted financial information to low-income people, typically with special outreach to minority communities.

The Outlook for Recovery

As of mid-2010, while most economists agree that the recession has ended, there are few signs that a pronounced recovery is at hand. CDCUs, whose members often have been victims of the "last hired, first fired" syndrome, are likely to lag behind the rest of the financial industry in returning to pre-2008 levels of profitability.

However, there are important signs of federal recognition and support for CDCUs and other community development financial institutions (CDFIs). On February 3, 2010, Secretary of the Treasury Geithner announced the Community Development Capital Initiative (CDCI), under authority of the TARP law. Credit unions that are both designated by their regulator as low-income and certified as CDFIs were made eligible to apply for up to 3.5% of their assets as low-cost, long-term secondary capita, which serves as regulatory net worth. The Federation worked closely with the Treasury Department, the CDFI Fund, and NCUA to fashion a program that would work effectively for CDCUs. By the close of the CDCI program on September 30, 2010, as much as $100 million could be invested in as many as 100 CDCUs. These investments will greatly assist low-income credit unions in healing from the crisis and recovering their momentum.

CDCUs have been part of the financial landscape for low-income communities for decades – on average, more than 30 years. They have demonstrated their resilience through many business cycles. Although 2008-09 brought major setbacks, CDCUs ended 2009 serving more members, with more deposits, and greater community-owned net worth than ever before. Their strength and commitment will be essential to the recovery of the nation's low-income communities.

Executive Summary

Overview

The credit union movement is the largest nonprofit, cooperative movement in the United States, with some 90 million members and collective assets of nearly $900 billion. CDCUs are that segment of the credit union movement which focuses on serving predominantly low-income consumers and communities. Table 1 summarizes the aggregate numbers for the 208 members of the National Federation of CDCUs at year-end 2009

Table 1. The CDCU Movement at a Glance			
	2009	**2008**	**Change**
Membership	1.06 million	1.02 million	+41,000
	$5.25 billion	$4.55 billion	+$692 million
Loans Outstanding	$3.69 billion	$3.52 billion	+$170.3 million
Loans Originated	$1.51 billion	$1.56 billion	-$50 million
Net Worth	$500.1 million	$447.4 million	+52.7 million
Net-worth Ratio (NWR)	9.53%	9.82%	-29 b.p.
Return on Avg. Assets (ROA) (aggregate)	.09%	0.0%	+9 b.p.
ROA (median)	-.09%	.36%	-45 b.p.

Despite unprecedented stress, the credit union movement on the whole survived 2008-09 and showed strong vital signs. Furthermore, by several indicators, the performance of the CDCU movement matched or exceeded that of all federally insured credit unions (FICUs) in 2009: CDCU membership, assets, deposits, and loans outstanding all grew faster than industry averages. However, CDCUs did not equal the performance of credit unions that serve more prosperous members: return on average assets (ROA) lagged; loan delinquency, charge-offs, and operating expenses were higher than industry averages; and loan origination declined slightly. The “underperformance” of CDCUs on these measures is neither new nor surprising, given the nature of the CDCU market: CDCU members are the most economically vulnerable; their savings, loan, and transaction balances tend to be small, making CDCU operations more labor-intensive; and the preponderance of small CDCUs means that relatively few enjoy economies of scale.

Key Indicators, 2009

Membership

- **Membership at CDCUs grew by 4.0%, or 41,000, to 1.06 million.** This was more than twice the rate of membership growth for all federally insured credit unions (FICUs), which grew by 1.52%).

Table 2: CDCU Growth Compared to all Federally Insured CUs		
	CDCUs	**FICUs**
Membership Growth	4%	+1.52%
Loan Portfolio Growth	4.83%	+1.14%
Total Loans/Total Shares	80.1%	76.1%
Loans Originated (#)	1.1%	+3.6%
Loans Originated ($)	-3.43%	+7.1%
Total Asset Growth	+15.21%	+9.1%
Total Share (Deposit) Growth	+16.2%	+10.5%
Return on Average Assets (aggregate)	.09%	.20%
Delinquency	3.39%	1.82%
Net Loan Charge-offs	1.43%	1.21%
Operating Expenses	4.90%	3.54%
Net worth/Total Assets	9.53%	9.91%
Change in Net-Worth Ratio	-29 b.p.	-70 b.p.

Assets

- **CDCU assets rose strongly, to $5.25 billion.** This increase of 15.2% was even sharper than the robust 9.1% asset growth of all FICUs.

Deposits

- **Deposits increased by 16.2% ($642.5 million).** Deposits, or "shares" as they are known by most credit unions, fuel most of the increase in assets. CDCUs ended 2009 with $4.61 billion in shares, up from $3.97 billion. FICUs also experienced strong growth: 10.5%.

CDCU Lending

- **Loans outstanding increased by $170.3 million.** The 4.83% increase in the CDCU portfolio was more than four times the increase for all FICUs (1.14%).
- **Loans originated totaled 178,244 ($1.51 billion).** The number of loans originated by CDCUs in the year increased only slightly from the previous year: 1.1%, a rate slower than the 3.6% for FICUs. However, the dollar volume of origination by CDCUs declined by 3.43%, compared to an increase of 7.1% for FICUs.
- **Credit Union Loan-to-Deposit Ratios Decreased.** For CDCUs and FICUs alike, portfolio utilization -- the ratio of loans to shares and deposits – declined in 2009. The CDCU ratio ended the year at 80.0%, down from 88.7%, while FICUs declined to 76.1% from 83.1%. The decline for both CDCUs and FICUs reflected the rapid increase in deposits, which grew faster than the loan portfolio. Given acute economic distress, declining credit scores, regulatory pressures, and the "flight to safety" that fueled deposit growth, these results should not be surprising.
- **CDCUs granted $93.5 million in Member Business Loans in 2009.** For credit unions, "member business loans" are loans in excess of $50,000 for business purposes.[2]

[2] Credit unions make a large volume of small- and micro-business loans below the $50,000 threshold, which are not required to be reported as "Member Business Loans" (MBLs). Thus, it can be assumed that the small-business lending impact of credit unions is substantially understated.

- **CDCUs originated $265.5 million in first mortgages in 2009.**

CDCU Portfolio Performance

The population served by CDCUs is, on average, lower income and more economically vulnerable to downturns than the general population served by the credit union movement. Typically, CDCUs show higher delinquency and charge-off rates than other credit unions; however, historically, CDCU delinquency results in loan charge-offs at a smaller rate than for FICUs.

In 2009, delinquency and charge-off rates for both categories rose, but the gap between CDCUs and FICUs narrowed.

- **CDCU delinquency: 3.39%.** Delinquent loans as a percentage of total loans increased from 2.77% in 2008, to 3.39% in 2009. FICUs showed an increase from 1.38% to 1.82%. Thus, there was a slight convergence in delinquency rates between CDCUs and FICUs: In 2009, the CDCU delinquency was 1.86 times that of FICUs, down from 2.01 a year earlier.
- **CDCU Charge-Offs: 1.43%.** The net charge-off rate of CDCUs increased from 1.09% to 1.43% in 2009 (34 b.p.), while the FICU increase was from 0.85% to 1.21% (36 b.p.). Here, too, there was a slight convergence between CDCUs and FICUs: The 2009 ratio of CDCU losses to FICU losses was 1.18, down from 1.28.
- **CDCUs modified $32.6 million in first mortgages in 2009.** Modifications were nearly six times higher than in 2008 ($4.8 million).

CDCU Operations and Profitability

CDCUs rarely achieve the operating efficiencies or profitability of "mainstream" credit unions. Given their smaller average size, they lack the economies of scale of the larger credit unions. Their business is more labor intensive, because of a high volume and proportion of small-dollar savings, loan, and payment transactions. As noted above, loan losses and delinquency tend to be higher than at credit unions serving more economically substantial members. Consequently, CDCUs were hit especially hard by the compound effects of recession, deposit insurance charges, and losses of investments in corporate credit unions.

- **Minimal ROA in 2009: -.09%.** For the CDCU movement as a whole, profitability (return on average assets) was a slim .09% in 2009, a 9 basis point increase from the aggregate return of 0% in 2008. However, the *median* ROA was -.09%, a drop of 45 basis points from the 2008 figure of .36%. FICUs overall were slightly more profitable than CDCUs in 2009, with an ROA of 0.20%. [3]

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[3] Of the various comparative statistics, ROA is likely to be the least definitive over 2008-09. In early 2009, the National Credit Union Administration changed course on the deposit insurance expense levied on all federally insured credit unions. Some credit unions included the "stabilization expense" in 2008, some in the first quarter of 2009, and later reversed those charges in the second quarter of 2009. Please see Appendix 1: Notes on Methodology.

- **Operating Expenses** were 4.90% of average assets for CDCUs, decreasing from 5.35% in 2008, a drop of 45 basis points. FICUs decreased by 5 basis points, from 3.59% to 3.54%.

Net Worth

Net worth, or equity, for credit unions consists primarily of the earnings retained from operations. Low-income credit unions have the unique privilege in the credit union movement of raising secondary capital – deeply subordinated, long-term (five years or more) debt that counts as regulatory net worth. As noted previously, net worth is crucial to the continuation of credit unions: to be "well capitalized" requires net worth to be at least 7% of assets; credit unions with 6% to 7% net worth are categorized as "adequately capitalized," while those with lower ratios are "undercapitalized" and are subject to regulatory constraints and sanctions.

As noted above, CDCUs are typically less profitable than other credit unions because of the nature of the low-income market (although there are notable exceptions). Consequently, their net-worth ratios are typically below industry averages. This makes them especially vulnerable in economic downturns. Secondary capital can be an important tool in helping CDCUs ride out these storms.

- **Total Net Worth of CDCUs increased in 2009.** In aggregate, the net worth of CDCUs increased by $52.7 million (11.8%), **from $447.4 million to $500.1 million.** Slightly less than half of CDCUs–some 44.7%–increased the absolute amount of their net worth. However, the increase in aggregate CDCU net worth did not necessarily reflect strong earnings: rather, it was made possible by an increase in secondary capital of $47.2 million and CDFI Fund awards. Without this increase, aggregate net worth of CDCUs would have increased by a scant $5.5 million. FICUs in the aggregate increased their net worth by 1.86%.
- **Net-worth Ratios Declined for CDCUs as well as for FICUs.** Although the dollar amount of net worth increased for a significant minority of CDCUs, the aggregate net worth ratio declined from 9.82% to 9.53% (29 basis points). In fact, the decline was sharper for the majority of CDCUs: the median net worth of CDCUs declined from 10.77% of assets to 9.79%, or 98 basis points. Of the 208 CDCUs in this study, 137 (65.9%) showed a declining ratio. FICUs in general also showed a significant decline in their net-worth ratio: from 10.61% to 9.91% (70 basis points). For CDCUs and FICUs alike, not all the decline in the net-worth ratio was attributable to economic reverses. As noted previously, assets–the denominator in the ratio–grew significantly both for CDCUs and FICUs. Net worth, which primarily results from the accumulation of earnings, necessarily grows more slowly, thus depressing the ratio.

Asset-Building and Asset Protection

CDCUs are leaders in providing services that help low-income members build and preserve assets. Individual Development Accounts (IDAs), financial counseling and education, free tax preparation, alternatives to payday and refund anticipation loans (RALs), homebuyer counseling: all these services are far more prevalent – sometimes 5 to 10 times or more -- among CDCUs than the general credit union population.

Segmentation by Asset Size

By most measures, larger CDCUs tended to fare better in the economic crisis than smaller measures. On some, though not all, counts, financial performance improved steadily in proportion to asset size.

- **Return on Assets (ROA).** The median ROA for all asset classes less than $10 million was negative. On average, CDCUs with assets above this level recorded positive ROA despite the economic stress.
- **Deposit Growth.** On average, CDCUs of every asset category increased their deposits. However, the pace of increase rose steadily with increased assets: CDCUs of less than $2 million in assets recorded an average increase of only 1.8%, while CDCUs with assets over $100 million showed an increase of 19.0%.
- **Loan Growth.**
    - **Loan Portfolios.** Increases with asset size were less marked and consistent. CDCUs in the smallest asset category showed an 8.7% increase in their average loan portfolios, while the CDCUs above $100 million increased by 5.1%. The intermediate asset classes showed varying results.
    - **Loan origination** by dollar volume increased by 21.1% in the lowest asset category (below $2 million); it also increased by 6.0% in the mid-sized category ($10 - $50 million). However, origination declined among other asset categories, and the decrease was greatest (-7.0%) among CDCUs with more than $100 million in assets.
- **Portfolio Quality.** Increases in delinquency rates and net charge-offs plagued the overall credit union movement, including CDCUs**.**
    - **Delinquency.** CDCUs in the various asset classes up to $50 million recorded delinquency rates of 60+ days of 4.14% to 7.83%, based on dollar-weighted averages. Delinquency was distinctly lower in the larger credit union asset classes, ranging from 1.94% to 3.39%.
    - **Net Loan Charge-offs.** Asset classes below $10 million showed aggregated charge-off rates ranging from 2.01% to 3.15%, while the larger asset classes showed charge-offs of 1.34% – 1.46%.

Regional Variations[4]

- **Asset Size.** On average, the largest CDCUs are found in the Western region (median: $10.8 million) and the smallest in the Northeast ($.96 million). However, because of several large and very-large CDCUs in the Midwestern region, that region accounts for nearly $2.4 billion of the total $5.2 billion CDCU asset base.
- **Asset Growth.** Assets grew strongly in all regions, ranging from 9.8% in the East to 22.4% in the Southeast.
- **Return on Assets.** Median ROA declined for CDCUs in all regions. However, CDCUs in the Midwest on average remained profitable, with a positive return of 34 basis points.
- **Portfolio Quality.** A mixed picture emerges from the data. The Northeast showed declines both in charge-offs and delinquency, while the Southeast saw an increase in charge-offs but a decline

[4] See Appendix 2 for the definition of Federation regions used for this study.

in delinquency. The Midwest saw a decline in charge-offs, but a rise in delinquency, while the West showed increases in both delinquency and charge-offs.
- **Lending.** Loan origination volume increased in the Northeast, but declined in other areas – most strongly, in the Southeast and West

Access to Capital: Impact of the CDFI Fund

In 2009, eleven CDCUs received a total of $18 million in Financial Assistance (FA) awards from the federal Community Development Financial Institutions (CDFI) Fund. Nine received awards totaling $17.15 million of the $90 million made available through a special CDFI Fund round funded by the American Recovery and Reinvestment Act (ARRA) announced on June 29, 2009. Two CDCUs received $850,000 of the $52.7 million in Financial Assistance awards announced on October 2, 2009.
In total, CDCUs accounted for $18 million of the $142.7 million in awards made in 2009. This represented approximately 13% by dollar amount made to CDFIs, and 11 of 121 (9%) of the number of awards.[5]

[5] In addition, CDCUs received about $300,000 of the smaller pool of technical assistance awards. For a listing of CDCU awardees, please see Appendix 3.

Financial Trends in CDCUs, 2009

Asset Growth

Assets of the 208 CDCUs studied stood at $5.25 billion at December 31, 2009, an increase of approximately $692 million from the previous year. The growth rate was a robust 15.2%, outstripping even the healthy growth of rate of 9.1% for all federally insured credit unions. In such difficult economic circumstances, asset growth was an important indicator of the vitality of CDCUs.

Primarily, asset growth was fueled by the growth in member deposits at CDCUs. The temporary increase in limits on federal deposit insurance, from $100,000 up to $250,000, was a minor contributor to this growth, since CDCUs have few depositors with accounts in this range. The crisis of the mainstream banking system undoubtedly played a role, as people sought the security of federally insured deposits. Credit unions received an unprecedented amount of favorable publicity in 2008-09 from mainstream and new media. For example, Suze Orman, who commands millions of viewers and readers through her television show, books, and articles, reached out to the credit union movement (and personally, to the Federation) when she became outraged at the rising fees charged by banks. The Huffington Post blog urged readers to "move your money" from the major banks to community financial institutions. The most prominent financial newspapers and magazines advised readers to seek better deals at credit unions. CDCUs benefited by a net 4% increase in membership – more than 40,000 new members – a rate of increase more than twice that of credit unions generally, and more than twice that of CDCU growth over 2007-08.

While asset and deposit growth were certainly good news for CDCUs, it should be noted that asset growth adversely affected the net-worth ratio of CDCUs, as it did for other credit unions. Retained earnings -- the key portion of credit union net worth, and the numerator of the ratio -- typically rise more slowly than the denominator, total assets, since retained earnings are the residual of profit achieved over time. Given the 14.9% increase in assets of CDCUs, it was impossible for their net worth to increase at the same pace, unless the credit unions received infusions of CDFI grant funds or secondary capital.

Lending

While many mainstream banks pulled back sharply on their lending, CDCUs nearly held their own, showing an overall net decrease of -3.43%, from $1.56 billion to $1.51 billion in originations. In this respect, CDCUs lagged the more prosperous segments of the credit union movement. However, despite the tremendous stress on the credit union system, more than half of CDCUs – 111 of 208, or 53.3% -- actually increased their lending. It is notable that 57 of the 111 were in the smallest assets category (less than $2 million), an important sign of vitality for an especially vulnerable sector of the CDCU movement. The outstanding loan portfolio increased from $3.52 billion to $3.69 billion, a $170 million (4.83%) increase over the previous year, considerably sharper than the 1.14% increase for FICUs.

Over the two-year period 2007-09, the CDCU loan portfolio outstanding increased by some $379.8 million, or about 10.3%. Comparing 2009 to 2007, the year before the crisis hit full-force, CDCU annual loan origination decreased by $34.9 million, or about 2.3%. Because of the rapid increase in deposits among CDCUs and other credit unions, portfolio deployment ratios dropped in 2009. Among CDCUs, the loans-to-shares ratio declined from about 88.8% to 80.1%, an 8.7 percentage-point drop. All FICUs showed a drop of about 7 percentage points, from 83.1% down to 76.1%.

Asset Quality: Delinquency and Charge-Off

CDCUs saw an increase in the ratio of delinquent loans to total loans in 2009: from 2.77% to 3.39%, an increase of 52 basis points. Among all federally insured credit unions, as well, delinquent loans as a percentage of total loans increased from 1.38% to 1.82%, or by 44 basis points. The disparity between CDCUs and all FICUs is typical: delinquency rates are generally higher for credit unions that specialize in serving low-income, more financially fragile members.

Similarly, the ratio of net charge-offs to average loans outstanding rose in 2009, from 1.09% to 1.43%, a 31.2% increase. For FICUs generally, the increase was from 0.85% to 1.21%, a 42.4% increase, albeit from a lower base. Rising delinquency is never good news, but in the context of a broad and deep economic crisis, the changes in 2009 do not seem extraordinary or surprising. As of early 2010, the “official” end of the recession had not been marked by an upsurge in employment. Given the predominance of low-income and minority members among CDCUs, it would not be surprising if the recovery were even slower in the communities served by these credit unions.

Portfolio Composition

Table 3 below shows the composition of the loan portfolio of CDCUs compared to all federally insured credit unions. Unsecured loans (credit cards and other) account for approximately 10.4% of the CDCU portfolio, comparable to 10.6% for all credit unions; these loans are generally smaller than the other categories. About 41% of the CDCU portfolio is in vehicle loans (new and used), some 10 percentage points higher than for all FICUs. On the other hand, FICUs have about 55% of their loans in first mortgages and other real estate, compared to about 42% for CDCUs. Both CDCUs and FICUs have seen growth in this portfolio segment. For the credit union movement in general, growth in mortgage and real estate lending has compensated for a declining share of automobile lending, as dealer financing, often aided by concessionary rates, claimed a greater market share. The continued prominence of automobile lending in the CDCU portfolio, especially for used vehicles, is important: studies have shown that low-income, minority, and immigrant consumers are frequently victimized by higher rates from dealers.

Table 3. Loan Portfolio Composition (by dollar volume)		
	CDCUs	**FICUs**
Unsecured credit cards	4.42%	6.09%
All other unsecured	5.93%	4.46%
New vehicle	18.64%	13.15%
Used vehicle	22.47%	17.14%
First Mortgage Real Estate	28.01%	37.93%
Other Real Estate	13.75%	16.15%
Leases and All Other Loans	6.77%	5.08%

CDCU Mortgage Lending

Credit unions have historically had a low, single-digit share of the mortgage industry; many credit unions, even some substantial ones, make no mortgages at all.[6] Nonetheless, mortgages have accounted for a growing share of the credit union portfolio over the last decade: first mortgages totaled 37.93 % of total portfolio balances in 2009, with other real estate loans accounting for 16.15%, for a total of 54.08%. Despite the massive disruption of the housing market in 2009, credit unions in general continued to loan, and in fact, increased their market share of mortgage originations to about 4.25%.

CDCUs, which are smaller than FICU averages, traditionally have had limited activity in mortgage finance, partly because of limited access to secondary markets. Nonetheless, they continued to make first-mortgage loans throughout the crisis year of 2009. The number of originations declined marginally (from 3,074 loans in 2008 to 3,067 in 2009), while the dollar volume of loans increased by about 2% ($265.5 million in 2009, compared to $260.3 million in 2008). In contrast, among FICUs generally, first-mortgage lending increased by 4.39% in 2009, to a total of $208.0 billion.

Table 4. CDCU Mortgage and Real Estate Lending			
	2009	**2008**	**% increase**
First Mortgages Originated	$265.5	$260.3	2.0 %
First Mortgages Outstdg.	$1,034.8	$962.8	7.5%
Other R.E. Originated	$143.5	$164.4	-12.7%
Other R.E. Outstanding	$507.9	$466.0	9.0%
Total R.E. Outstanding	$1,542.7	$1,428	7.97%
Total R.E. Originations	$409.0	$424.7	-3.70%
R.E. outstanding as % of total CDCU loan portfolio	41.8%	40.5%	

Amounts in millions

[6] According to the Mortgage Bankers Association, the credit union share was 4.5% as of December 31, 2009, with total mortgage loans outstanding of approximately $95 billion.

While new lending was nearly flat, the aggregate first-mortgage portfolio of CDCUs increased by $72 million to $1.035 billion, a 7.5% increase. Other real estate loan outstanding increased by $42 million or 9%, to $508 million. In total, first-mortgage and other real estate loans amounted to $1.543 billion, up by about 8%. Together, they comprised approximately 41.7% of the entire CDCU loan portfolio of $3.694 billion in 2009, up by about 120 basis points from the 2008 ratio and 390 basis points from the ratio in 2007.

CDCUs executed only a handful of first-mortgage modifications in 2008. All those CDCUs that made any significant number of mortgages significantly increased their numbers of first-lien loan modifications in 2009. For credit unions of $10 million in assets and up, the year-to-year summary appears below.

Table 5. CDCU Mortgage Loan Modifications, 2008-09

Assets in millions	2009 modifications (millions)	2008 modifications (millions)	Change
$10 - $50	$18.6	$0.4	4,445.8%
$50 - $100	$3.3	$0.2	1,260%
$100+	$10.4	$4.1	155.7%
Total	$32.6	$4.8	583.1%

CDCU Small-Business Lending

CDCUs primarily loan to small local businesses. The volume of this lending is systematically undercounted, because credit unions are only obliged to report to their regulators on loans of $50,000 or above, which are designated "Member Business Loans (MBLs)." Anecdotally, many of the personal loans made by CDCUs are for business purposes, such as home-based or other microenterprises.

CDCUs originated $93.5 million in MBLs (business loans in excess of $50,000) in 2009. This represented a decrease of 12.8% from the previous year's total of $107.2 million. Loans outstanding with guarantees from the federal Small Business Administration (SBA) totaled $22.7 million, little changed from 2008 ($22.0 million). The portfolio of CDCU Member Business Loans outstanding rose from $215.2 million to $262.3 million, which represented about 7.1% of the CDCU loan portfolio.

Without more granular analysis, it may be conjectured that the depressed economy sharply undermined the viability of small businesses in low-income communities. Furthermore, some CDCUs have faced strong pressure from federal and state examiners to reduce their exposure to small-business loans, even if the credit unions have strong track records in this market.

Automobile Lending

The automobile lending market, traditionally a major focus of the credit union industry, underwent a tumultuous period in 2009, with the bankruptcy of General Motors and Chrysler, contraction of their "captive" financing arms and tightening of credit, disastrous declines in automobile sales, punctuated by "Cash for Clunkers" promotions to drive up demand. Credit unions had opportunities to expand their role, but suppressed demand and declining credit scores made it difficult to take full advantage of these market shifts.

The picture for CDCUs was split. New-vehicle loans declined by 5.39% or $39.2 million, from $727.8 million to $688.6 million. However, this drop was more than compensated for by the $73.3 million increase -- nearly 10% -- in used-vehicle loans, to $830 million. This paralleled, but was even sharper than, the trend among FICUs, which also saw a drop in new-vehicle loans and a rise in used-vehicle loans. Given the limited resources of CDCU members, it is not surprising that the growth in used-vehicle financing was more than twice that for all FICUs, especially amid an acute recession.

Table 6. Credit Union Automobile Lending, 2009	
New Vehicles	**Change in volume**
CDCUs	-5.39%
FICUs	-7.68%
Used Vehicles	
CDCUs	+9.69%
FICUs	+4.09%

Return on Assets

While credit unions are nonprofit institutions, they must generate positive net earnings in order to build their net worth. Return on Average Assets (ROA) for the CDCU movement as a whole was a scant .09% in 2009, up from 0.0% in 2008. However, the median ROA was -.09% down from .36%, a decline of 45 basis points. Other federally insured credit unions fared better: all FICUs showed an ROA of 20 basis points for 2009. Industry-wide, the diminished ROA showed the results of the crisis. Before 2008, it was typical for regulators to expect and credit unions to report a ROA of 1% or higher.

ROA was markedly reduced in 2009 by the enforced write-off of federal deposit insurance investments – known in the credit union industry as “stabilization expense.” However, it is difficult to ascertain except on a credit union-by-credit union basis the size and timing of the impact.[7] The recession obviously had a strong impact in many parts of the country, reflected in rising loan delinquency and charge-offs among all types of credit unions. A decline in operating expenses mitigated the damaged slightly: the dollar-weighted average for CDCUs was 4.90% of average assets for CDCUs, decreasing from 5.35% in 2008, a decrease of 45 basis points. The operating expenses of FICUs decreased by 5 basis points, from 3.59% to 3.54% -- not as sharply as for CDCUs, but from a leaner base.

[7] Note: This figure includes the National Credit Union Share Insurance Fund Stabilization Expense and Recovery Income. Regulators changed course on a stabilization expense levied on all credit unions to replenish the industry’s deposit insurance fund. Initially, credit unions were to pay the entire expense in one year, but were later allowed to spread out payments over seven years. As a result, credit unions that had included a stabilization expense in 2008 or first quarter 2009 financial reports reversed those charges in the second quarter.

Net Worth

A sound equity, or net worth, position is crucial for any financial institution. Credit unions, as highly regulated depositories, have federally defined standards that they must meet in order to avoid regulatory sanctions: Credit unions whose net worth is 7% of assets or above are categorized as "well capitalized"; with 6% to 7% net worth, as "adequately capitalized"; or with less than 6% net worth, "undercapitalized." Net worth of CDCUs consists of retained earnings, which are generated through operations; equity-like "secondary capital," if any[8]; and donated equity, if any.

Industry-wide, credit unions suffered a 70 basis point decline in their net-worth ratios over 2008-2009, from 10.61% to 9.91%. As noted earlier, this resulted from the recession, the deposit-insurance charges, and the loss of credit union investments in their wholesale or "corporate" credit unions. In the aggregate, CDCUs saw a 29 basis point decline from 9.82% to 9.53%. But the decline was sharper for the majority of CDCUs: median net worth declined by 98 basis points over 2008-09, from 10.77% of assets to 9.79%.

Despite this adversity, most CDCUs were able to weather the storm. As 2009 ended, the net worth-to-assets ratio of 170 of 208 CDCUs – 81.7% of the total -- were at or above the 7% mark, putting them in the regulatory category of "well capitalized." This was a decline from 185 credit unions (88.5%) as of a year earlier. Those CDCUs with ratios of 6% to 7% -- "adequately capitalized" by regulatory standards – increased from 9 (4.3%) a year earlier to 16 (7.7% of the total). The number of undercapitalized credit unions, with ratios less than 6% of assets, rose from 15 in 2008 to 22 as of 12/31/09 (from 7.2% to 10.6% of all CDCUs). [9] These credit unions face enhanced regulatory supervision, and must develop "net worth restoration plans" to increase their ratios.

Table 7. Net Worth Ratios of CDCUs, 2008-2009

Net-Worth Ratio	# of CDCUs (2009)	%(2009) of CDCUs	# of CDCUs (2008)	% of CDCUs 2008
7% or above	170	81.7%	184	88.5%
6% - 6.99%	16	7.7%	9	4.3%
Below 6%	22	10.6%	15	7.2%
Total	*208*	*100%*	*208*	*100%*

Two different sources of capital mitigated the damage for a number of credit unions and bolstered the aggregate results for the CDCU movement.

CDFI Fund. Eleven CDCUs received major grants from the federal Community Development Financial Institutions (CDFI) Fund. Nine CDCUs unions won awards that added a total of $17.15 million to their net worth in the "stimulus" (ARRA) round announced June 29, 2009, and two more received a total of

[8] Most credit unions accumulate net worth solely through their retained earnings generated through operations (they are not permitted to raise capital through stock offerings). Low-income designated credit unions have the power to acquire secondary capital: deeply subordinated, long-term debt that counts towards net worth. This privilege reflects the recognition by Congress and NCUA of the difficulty of accumulating capital in a low-income community. The Federation is a major source of secondary capital for CDCUs. In addition, credit unions certified by the CDFI Fund can compete for major equity and technical assistance grants.

[9] These figures do not include the CDCUs which merged or were liquidated in 2009, as discussed below.

$850,000 in the regular FY2009 funding round announced October 2, 2009. Several others received much smaller, technical assistance grants (see Appendix 3).

Secondary Capital. A $47-million dollar increase in secondary capital – from $30.6 million in $2008 to $77.8 million in 2009 – also increased the net worth of the CDCU movement. For the most part, this increase was attributable to investments in the new Self-Help Federal Credit Union. Chartered in 2008, SHFCU grew very rapidly through mergers with other CDCUs. Secondary capital investments made this growth possible, enabling regulatory net worth to keep pace with the dramatic expansion of this institution, which has played an important role in maintaining CDCU services in hard-hit California.

Institutional Trends: Credit Union Consolidation

The number of credit unions in the United States has declined steadily for the last several decades, even while credit union assets have grown sharply to top $884 billion and membership has grown to nearly 90 million people. For the years immediate prior to 2008, typically about 3% of credit union charters, or about 300 a year, disappeared through mergers or, less commonly, liquidations.[10] In the credit union movement, unlike the corporate financial world, mergers are not typically driven by the prospect of higher profits. The need to achieve economies of scale in a highly competitive financial environment, characterized by a large and growing compliance burden over the last ten years, is generally the driving force. In 2008 and 2009, weakened financial condition was a major factor, as well. This was especially true in the "sand states" of California, Arizona, Nevada, and Florida, where the decline in real estate and employment were exceptionally sharp.

As in the broader credit union industry – and banking generally – the largest institutions hold a disproportionate share of deposits. CDCUs over $100 million held approximately 59.8% of all CDCU assets in 2009, up from 58.0% in 2008. They held 61.2% of all CDCU loans, up marginally from 61.0% in 2008.

Typically, CDCUs have shown higher merger and liquidation rates than the credit union movement overall. CDCUs serve the most economically vulnerable members of society, especially in African-American and Latino communities, which usually suffer disproportionately from recessions. In 2009, the CDCU movement lost 14 CDCUs, or about 6.7% of the Federation's membership. Six of these were in California, one of the most highly distressed states, especially in the Central Valley, which has a large Latino and immigrant population. The encouraging aspect of this story is that four of these credit unions merged with other CDCUs, which preserved and often expanded services to the members of the merged institutions, and one with a Community Development Partner of the Federation.[11] In California, in particular, three CDCUs merged into Self-Help FCU over 2008-09.

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[10] From year-end 2004 through 2009, the number of federally insured credit unions declined from 9,014 to 7,554, a decrease of 1,460 institutions, or 19.3%.

[11] Community Development Partners are credit unions which, though not predominantly low-income, share a commitment to this population and have joined the Federation.

Impact of the CDFI Fund

The CDCU model is built upon sustainability: insured deposits provide the funding for lending; loan interest, fees, and income from investments cover operating expenses and loan losses, and enable credit unions to build net worth in the form of retained earnings. Even in ordinary times, the challenges of this model are significant in low-income communities; during the current crisis, the challenges have been especially formidable.

Few CDCUs are dependent on the CDFI Fund for their core operations; historically, only a minority of CDCUs have received support from the Fund. However, infusions of external capital from the CDFI Fund, which typically take the form of grants, have been extremely valuable in helping many CDCUs take a quantum leap in adding services, members, and branches – expansion which would have been difficult to finance without access to external support. CDFI funding has undoubtedly been crucial in bolstering a number of CDCUs during the current crisis, and positioning them to resume their momentum.

In 2009, nine CDCUs received awards totaling $17.15 million of the $90 million made available through a special CDFI Fund round funded by the American Recovery and Reinvestment Act (ARRA) announced on June 29, 2009. Two CDCUs received $850,000 of the $52.7 million in Financial Assistance awards announced on October 2, 2009. In total, CDCUs received $18 million of the approximately $142.7 million in awards made in 2009. This represented approximately 13% by dollar amount made to CDFIs, and 11 of 121 (9%) of the number of awards.[12]

CDFI Financial Assistance awards are extremely valuable for CDCUs, since they represent the only national source of donated equity available to credit unions. However, the small number of credit union awards limited the impact of the CDFI Fund on the CDCU movement as a whole. There were approximately 150 CDFI Fund-certified credit unions in 2009. The universe of credit unions designated as low-income by the National Credit Union administration totals approximately 1,000. Many, though not all of these credit unions would be good candidates for CDFI Fund certification. While CDFI Fund awards are highly competitive, there is room for credit unions to increase their presence in the CDFI arena, and to increase their share of awards.

Regional Analysis

The Federation divides its membership into four regions. Regional differences among CDCUs are pronounced. The Northeast has the highest number CDCUs, but on average, they are far smaller than the CDCUs in other regions; the Midwest, which includes some large credit unions in Texas, represents by far the largest concentration of CDCU assets. Median size is largest in the Western region, but there are fewer CDCUs in these states. These differences are summarized in Table 8 below.

[12] In addition, CDCUs received about $300,00 of the smaller pool of technical assistance awards. For a listing of all credit union CDFI Fund recipients in 2009, please see Appendix 3.

Table 8. Regional Variation in CDCU Asset Size					
Region	# of CDCUs	% of CDCUs	Total Assets ($million)	% of Assets	Median size ($million)
Northeast	68	32.7	446.2	8.5	.96
Southeast	53	25.5	1,382.9	26.4	2.54
Mid-West	53	25.5	2,356.7	44.9	2.25
West	34	16.3	1,061.9	20.2	10.77
Total	*208*	*100%*	*$5,247.8*	*100%*	*$2.53*

The median Return on Average Assets declined in every region over 2008-09. However, the Midwest fared best: unlike other regions, ROA remained positive, if diminished, during 2009. The largest decline in median ROA was -63 basis points in the Southeast.[13]

Table 9. Median Return on CDCU Assets (ROA) by Region				
Region	**# of CDCUs**	**Median ROA 2009**	**Median ROA 2008**	**Change**
Northeast	68	-.18%	.38%	-56 b.p.
Southeast	53	-.25%	.38%	-63 b.p.
Mid-West	53	.34%	.52%	-18 b.p.
West	34	-.33%	-.62%	+29 b.p.
All CDCUs	*208*	*-.09%*	*.36%*	*-45 b.p.*

With respect to delinquency and charged-off loans, the picture is mixed. The credit unions in the Northeast and Southeast saw a decline in delinquency; while Northeast CDCUs saw a decline in charge-offs in 2009, the Southeast saw an increase, which may correlate with decreased delinquency in this region. The Midwest saw a drop in charge-offs, but growing delinquency, while CDCUs in the West saw an increase in charge-offs as well as in delinquency, although delinquency in that region remained lower than in other areas. It is likely that varying degrees of aggressiveness in charging off loans, prompted both by regional economic trends and in some cases, regulatory pressure, was reflected in the portfolio results.

[13] In assessing changes in portfolio quality and ROA, it is important to note that those credit unions that were merged during 2009 were not included in 2009/2008 comparisons. Had they been, the losses in the West – in California, in particular – would have been sharper.

Table 10. CDCU Portfolio Quality by Region				
Region	**Delinquency Rate (60 days+) (2009)**	**Delinquency Rate (60 days+) (2008)**	**Net Charge-Offs /Avg.Loans (2009)**	**Net Charge-Offs/Avg. Loans (2008)**
Northeast	5.26%	5.89%	.39%	.69%
Southeast	2.96%	3.98%	1.05%	.71%
Mid-West	3.66%	3.83%	.36%	.77%
West	2.16%	2.04%	1.30%	1.05%
All CDCUs	***3.38%***	***3.79%***	***0.82%***	***0.77%***

Loan origination increased significantly in the Northeast, but from a relatively low base. The sharp increase in lending in the West is in large part attributable to merger activity, which brought additional loans into the CDCUs in the sample. The Midwest, which accounts for the largest volume of CDCU loan originations, was virtually flat.

Table 11. CDCU Loan Origination by Region				
	# of CDCUs	**2009 Loan Originations (millions)**	**2008 Loan Originations (millions)**	**Change**
Northeast	68	$154.0	$113.6	35.6%
Southeast	53	$218.0	$267.8	-18.6%
Mid-West	53	$941.7	$947.6	-0.62%
West	34	$194.0	$232.3	-16.5%
All CDCUs	***208***	***$1,507.7***	***$1,561.2***	***-3.43%***

CDCU asset growth was strong in all regions. As shown in Table 12, the sharpest increases occurred in the Southeast and the West.[14]

Table 12. Growth of CDCU Assets by Region				
Region	**# of CDCUs**	**Assets, 2009 (millions)**	**Assets, 2008 (millions)**	**Change**
Northeast	68	446.2	406.6	9.8%
Southeast	53	1,382.9	1,129.9	22.4%
Mid-West	53	2,356.7	2,102.5	12.1%
West	34	1,061.9	916.1	15.9%
All CDCUs	*208*	*5,247.8*	*4,554.9*	*15.2%*

[14] It should be noted that in both the Southeast and West, the figures were skewed by merger activity, which brought significant additional assets to the credit unions in the sample.

CDCUs by Asset Size

By most measures, larger CDCUs were better able both to withstand the effects of recession and deposit insurance increases, and take advantage of market opportunities presented by the widespread disenchantment with banks.

Return on Assets. The median return on assets (ROA) of all size categories of CDCUs under $10 million in assets was negative, while medians in all asset categories was positive. As Table 13 shows, substantial majorities of the smallest CDCUs showed negative ROA, while far fewer of the larger institutions were negative in 2009. The ROA of the largest CDCUs – more than $100 million in assets – was virtually identical to the ROA reported by NCUA for all federally insured credit unions (.20%).

Table 13. Return on Average Assets (ROA) by CDCU Size

Assets (millions)	# of CDCUs	Median ROA	CDCUs with negative ROA
< $2	91	-..20%	58.2%
$2 - $5	37	-.24%	59.5%
$5 - $10	25	-.99%	68.0%
$10 - $50	37	.10%	43.2%
$50 - $100	11	1.04%	27.3%
$100+	7	.26%	14.3%
All CDCUs	***208***	***-.09%***	***53.9%***

The impact of CDFI Fund awards was most evident in the $50 - $100 million category. Four of the 11 CDCUs in this category received awards of $2 million each, contributing to a median ROA that was far above that of all other asset categories.

Deposits, Assets, and Lending Growth. As Table 14 shows, growth in key balance sheet items was strongest among larger CDCUs over 2008-09. The three largest asset-size categories, in particular, showed dramatic growth; the top two categories significantly exceeded the FICU industry average on all three measures, and the credit unions in the $10-$50 million asset range were closer to the industry average, although considerably higher in loan portfolio growth. Lending increased significantly at the smallest asset category, though dropped off for credit unions between $2 and $10 million in assets.

Table 14. Growth of Deposits, Assets, and Loans by CDCU Size

Assets (millions)	# of CDCUs	Deposit Growth	Asset Growth	Loan Portfolio Growth
< $2	91	1.79%	0.98%	8.26%
$2 - $5	37	1.53%	1.75%	-1.86%
$5 - $10	25	3.29%	4.03%	-.27%
$10 - $50	37	10.89%	8.48%	6.01%
$50 - $100	11	16.55%	15.33%	3.95%
$100+	7	19.55%	18.99%	5.16%
All CDCUs	***208***	***16.18%***	***15.21%***	***4.83%***
All FICUs		10.50%	9.08%	1.14%

Portfolio Quality. In general, delinquency rates and charge-offs are both higher among the smaller- asset categories. The pattern is more or less linear: the delinquency rate decreases with size for credit unions of up to $100 million in assets; however, it then spikes upward for the largest credit unions. The downward slope of charge-off rates, however, is more even, with no spike in the top asset category. Charge-offs increased in every CDCU asset category between 2008 and 2009; similarly, the overall credit union undustry suffered a sharp, 36-basis point increase in the charge-off rate, rising from .85% to 1.21%, a 42% jump. The charge-off rates among the smaller CDCUs were significantly higher than the FICU industry average; however, the largest CDCUs nearly mirrored the overall rate of all federally insured credit unions.

Table 15. Portfolio Performance by CDCU Size

Assets (millions)	# of CDCUs	Delinquency Rate (60 days+)	Net Charge-Offs /Avg.Loans (2009)	Net Charge-Offs/Avg. Loans (2008)
< $2	91	7.83%	2.37%	1.82%
$2 - $5	37	5.60%	3.15%	2.52%
$5 - $10	25	3.92%	2.01%	1.19%
$10 - $50	37	4.14%	1.46%	1.16%
$50 - $100	11	1.94%	1.34%	1.39%
$100+	7	3.39%	1.35%	.93%
Total	***208***	***3.39%***	***1.43%***	***1.09%***
All FICUs	***7,554***	***1.82%***	***1.21%***	***.85%***

Rates are for dollar-weighted averages in each category.

Loan Origination. In the aggregate, CDCUs decreased their loan origination by 3.43% over the past year, about $53.5 million. Increases were uneven at the different asset levels, perhaps reflecting local conditions. There was strong growth among the smallest CDCUs (21.1%), and among CDCUs in the $10 - $50 million asset group (6%).

Table 16. Loan Origination by CDCU Size

Assets (millions)	# of CDCUs	2009 Loan Originations (millions)	2008 Loan Originations (millions)	Change
< $2	91	$21.3	$17.6	21.1%
$2 - $5	37	$34.2	$36.1	-5.0%
$5 - $10	25	$45.0	$45.3	-0.5%
$10 - $50	37	$294.4	$277.7	6.0%
$50 - $100	11	$233.1	$238.6	-2.3%
$100+	7	$879.6	$945.9	-7.0%
Total	***208***	***$1,507.7***	***$1,561.2***	***-3.43%***

High-Impact Services Provided by CDCUs

Credit unions often distinguish themselves from banks by the auxiliary services they provide. Some are financial products designed with low fees or minimum balances; others, like financial education or tax preparation, are not directly financial but nonetheless may have an important impact on the financial well-being of consumers, especially since they are often provided free.

Table 17 below (Financial and Development Services) compares the prevalence of these services between CDCUs and the broader universe of federally insured credit unions. This data is reported to the National Credit Union Administration as part of the quarterly call reports (form 5300) that all federally insured credit unions are required to provide. On every indicator, CDCUs are more likely – often, much more likely -- to offer the service than the typical federally insured credit union.

- **Financial counseling, education, and literacy** are especially widespread among CDCUs.
- **Tax preparation (EITC/VITA) and related services (refund anticipation loans)** are much more likely to be offered by CDCUs than typical credit unions.
- **Services to immigrants** (international remittances and bilingual services) are considerably more likely to be found at CDCUs.
- **Individual Development Accounts (IDAs)** are rare among typical credit unions, but are offered by a significant minority of CDCUs.
- **Small loans for personal and business purposes** (payday alternatives; micro-business; micro-consumer) are much more likely to be offered at CDCUs.

The gap between CDCUs and other credit unions is much narrower on the more common financial services, such as no-cost share drafts ("free checking"); credit cards secured by shares (deposits); low-balance share certificates (certificates of deposits); and especially, overdraft lines of credit and overdraft protection, where the rates are nearly identical. The market for overdraft-related services is likely to change dramatically this summer, when consumers will be required by law to "opt in" for overdraft or "bounce" protection, rather than be automatically enrolled in this service, which if misused can be very costly for consumers.

Table 17. Financial and Development Services					
	FICUs offering service		CDCUs offering service		CDCUs/FICUs
	#	%	#	%	
Health Savings Accts	710	4.4%	12	5.8%	132.2%
Individual Development Accounts	161	1.0%	35	17.0%	1699.0%
No-Cost Share Drafts	4,017	24.9%	73	35.4%	142.2%
Share Certificates w/Low Min. Bal. Requirements	3,637	22.6%	86	41.8%	185.0%
Financial Counseling	1,871	11.6%	104	50.5%	434.9%
Financial Education	1,871	11.6%	93	45.2%	388.9%
Financial Literacy Workshops	991	6.2%	64	31.1%	505.2%
First-Time Homebuyer Program	648	4.0%	31	15.1%	374.4%
Bilingual Services	1,195	7.4%	56	27.2%	366.3%
No-Cost tax prep services	199	1.2%	32	15.5%	1262.6%
Micro-Business Loans	679	4.2%	29	14.1%	334.4%
Micro-Consumer Loans	970	6.0%	32	15.5%	258.0%
Payday Lending Alternative	516	3.2%	33	16.0%	500.6%
Refund Anticipation Loans	119	0.7%	11	5.3%	721.6%
Share-Secured Credit Cards	2,051	12.7%	37	18.0%	141.1%
Debt-Cancellation/Suspension	375	2.3%	8	3.9%	166.5%
Overdraft Protection	2,935	18.2%	46	22.3%	122.6%
Overdraft Lines of Credit	3,232	20.1%	42	20.4%	101.6%
International Remittances	655	4.1%	28	13.6%	334.7%
CDCUs: n =206; FICUs: n= 7,710					

Conclusion

For low-income consumers and communities, CDCUs provided one of the few bright spots in the financial crisis. Many CDCUs, especially in the hardest-hit states, were wounded by overall economic trends as well as credit-union specific issues. Some did not survive. But even among those CDCUs that were forced to merge, some were able to combine forces with larger CDCUs, thus ensuring continuity – and even, expansion – of their services to their low-income members. The "global" picture, for the CDCU movement as a whole, showed that this sector of the credit union movement outstripped many other credit unions in their growth of deposits, member, and loans.

The crisis has not ended in 2010, nor may it end for several years to come. But the year has brought promise, as well. More than 100 CDCUs were able to apply for long-term, low-cost, equity-like capital from the Treasury Department's Community Development Capital Initiative (CDCI). By September 30, 2010, as much as $100 million may be injected into the equity accounts of CDCUs. Moreover, the CDFI Fund will offer more resources and a greater variety of programs than ever before. If CDCUs are able to leverage capital from these sources, it will greatly speed their recovery and expansion.

Appendix 1. Notes on Methodology

Year-over-year comparisons (2009 vs. 2008) of CDCUs are based on those 208 credit unions that were in existence as of December 31 of the respective years. In those few instances where comparisons were made to pre-recession 2007 figures, a slightly smaller sample (205 credit unions) was used to ensure a consistent sample.

Data on CDCUs was obtained from the official Freedom of Information Act (FOIA) release of the National Credit Union Administration (NCUA), an independent agency of the federal government. While NCUA insures the vast majority of credit unions, both federally and state-chartered, there were at year-end 2009 approximately 300 credit unions that were state-chartered and privately insured. Only two CDCUs fell into this category, and information about them was obtained separately and included in the CDCU data set.

Ratios and summary data on all federally insured credit unions was obtained from the report published by the NCUA, *Financial Trends in Federally Insured Credit Unions, January 1 – December 31, 2009.*[15] As described in this report, 2009 was not a typical year for credit unions: federally insured credit unions were obliged to make payments to replenish the National Credit Union Share Insurance Fund (NCUSIF), which suffered substantial losses originating with the wholesale, or "corporate," credit unions. Some credit unions recorded the payments at year-end 2008, others in 2009; subsequently, a portion of the charges were reversed after the first quarter of 2009. As noted in NCUA's report, page 4:

> "The reported December 31, 2008 and December 31, 2009 earnings ratios contain data irregularities due to the inconsistent recording of the corporate stabilization expense and recovery pass-back income by credit unions."

[15] www.ncua.gov/Resources/Reports/statistics/Yearend2009.pdf - 2010-06-02

Appendix 2. CDCU Regions

Appendix 3. CDFI Awards to Credit Unions, 2009

Financial Assistance (FA) Awards

Total: $18 million

Alternatives FCU (Ithaca, NY)

ASI FCU (New Orleans, LA)

Brooklyn Cooperative FCU (Brooklyn, NY)

Communicating Arts CU (Detroit, MI)

First Legacy Community CU (Charlotte, NC)

Latino Community CU (Durham, NC)

Mendo Lake CU (Ukiah, CA)

Neighborhood Trust FCU (New York, NY)

Opportunities CU (Burlington, VT)

Santa Cruz Community CU (Santa Cruz, CA)

Union Settlement FCU (New York, NY)

Technical Assistance Awards

Total: $300,000

Kunia FCU (Waipahu, HI)

Union CU (Spokane, WA)

Express CU (Seattle, WA)

Federation Staff

Executive Officers
Clifford N. Rosenthal, President / CEO
Michael Strange, Chief Financial Officer / Chief Operating Officer

Development
Terry Ratigan, Senior Development Consultant

Communications and Public Affairs
Rafael O. Morales, Public Affairs & West Coast Program Officer

Community Development Investments
Terri J. Fowlkes, Director
Cathi Kim, Assistant Director
Onika Lewis, Program Associate

Membership Services
Pablo DeFilippi, CUDE, Director of Membership Development
Brian Gately, CUDE, Senior Consultant, Small & Emerging Credit Unions
Pamela Owens, CUDE, Director of Education & Training
Melanie Stern, Senior Program Officer
Valerie Harrison, CUDE, Faith-based & Disability Program Officer

Fiscal & Admin
Irene E. Prince, Supervisor, Fiscal & Admin. Operations
Oulga Caesar, Office Manager
Salman Ghani, Junior Accountant
Sandra Dutan, Receptionist

Board of Directors

Executive Committee
Randy Chambers, Self-Help CU (Durham, NC)
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