Rev Black Polit Econ (2013) 40:459–490
DOI 10.1007/s12114-013-9166-6

Community Development Credit Unions: Securing and Protecting Assets in Black Communities

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Published online: 4 June 2013

Abstract Credit Unions, with a hundred year history, and Community Development Credit Unions (CDCUs), with a 30–40 year history of serving the under-served, have only recently begun to be recognized by some of the media and the progressive community as "safe havens" and fair lenders. There is little independent, academic research, however, that investigates and evaluates the ways that credit unions are community-rooted and responsive to local needs, and/or their achievements in this area. This paper reports on preliminary qualitative research this author has conducted to help us understand how community development credit unions in Black communities in the U.S. provide affordable financial services, and especially help their clients/members to preserve assets. Major findings include: all CDCUs note that they charge lower rates for their products, and provide higher interest or dividends when possible; both which enable members/customers to save money and build assets. CDCUs work closely with their members to personalize services, to help them avoid loans they cannot afford, and to educate them enough to make sound financial

With assistance from Charlotte Otabor (graduate student, Department of Economics, Howard University). Thanks to generous support from Howard's Center on Race and Wealth (Ford Foundation grant), and also faculty research support from the Provost's Office of John Jay College, CUNY, and support from the Centre for the Study of Co-operatives, University of Saskatchewan, Canada (SHIRC and CURA grants). Thanks to Christelle Essaga at John Jay, Dwayne Patterson at the Centre for the Study of Co-operatives, and Torrence Simon at Howard University for additional research assistance over the past years. The author's interview questions were also piloted (and additional research contributed) by students participating in the doctoral qualitative research course at Southern New Hampshire University's School of Community Economic Development, under Dr. Christina Clamp in the fall semester 2009. Many thanks to all the credit unions, their managers, directors, and members who agreed to talk with us.

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decisions and preserve their assets. Many give some direct options to their members to avoid "payday loans" with check cashing and other predatory lenders. In addition, most CDCUs are deeply involved in their communities, and the bigger ones actually provide donations, encourage their employees to volunteer in the community and are generous employees (creating jobs with benefits and job ladder opportunities). Some are able to help finance affordable housing and contribute to other community economic development projects.

Keywords Credit unions · Community development credit unions · Predatory lending · Subprime loans · Asset building · Low-income borrowers · Cooperatives · Community benefits · Financial Literacy · Alternative financial institutions · Community development financial institutions

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

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

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

This is another period in U.S. history where more asset stripping is occurring than asset building.[1] Housing foreclosures, periodic stock market declines, financial distress, and high (often still rising) unemployment in what is now a "jobless recovery" accelerate asset loss. This de-accumulation of assets was in many cases initiated by rampant predatory lending and sub-prime mortgage loans sold to and forced on borrowers in the 1990s and early 2000s. This article explores ways that credit union practices, to support member-owners with affordable financial services and access to credit, counter these asset-stripping policies and aid in providing banking services to the unbanked and opportunities for asset ownership–particularly to working-class and low-income communities. I report on case study analysis and other findings that indicate that community development credit union practices address many of the major challenges associated with access to banking and the current financial crisis.

There is little independent, academic research that investigates and evaluates the ways that credit unions are community-rooted and responsive to local needs, and/or their achievements in this area. This paper reports on preliminary qualitative research

[1] For more on asset stripping see Adamson 2003; Gordon Nembhard and Chiteji 2006; Henson et al. 2005; Darity and Nicholson 2005; Winbush 2003, and Browne 1973.

this author has conducted to help us understand how credit unions in the U.S., especially community development credit unions, serve as non-predatory lenders, provide a variety of affordable financial services including home mortgages, help their clients/members to preserve assets, and act as community assets.[2] I focus specifically on the impacts of community development credit unions on African American communities, and ways that community development credit unions help African American members save and build assets.

The first section of this article reviews these major economic challenges and the need for alternative financial institutions. I then provide some definitions, descriptions, and history of: cooperatives, credit unions (CUs), and community development credit unions (CDCUs). The third section provides a comparison of CUs and commercial banks based on their interest rates, loan rates, delinquency rates and capitalization levels; in addition to basic statistical information about CUs' performance in the 21st century. I then describe my methodology and the results from interviews with managers at five mostly urban CDCUs. I also summarize the financial status of six mostly rural credit unions associated with the Federation of Southern Cooperatives/Land Assistance Fund (as reported in the FSC/LAF's Annual Reports), to provide an example of average savings some credit unions facilitate among African Americans, and to give some sense of the number of loans outstanding and assets of a set of credit unions that serve predominantly Black populations (members). I make some conclusions about how credit unions function as community assets, particularly in Black communities, based on the summary statistics of one set of CDCUs, as well as the interviews with managers at another group of CDCUs around the country, and other discussions with credit union employees and members that I have had while engaging in participatory action research to study cooperatives and credit unions in the United States and Canada.

Current economic challenges and the need for alternative financial institutions

The wealth gap between whites and African Americans, and whites and Latinos has been persistently wide (white wealth between 7 times and 20 times that of Blacks or Latinos over the past 25 years) (Kochlar et al. 2011; also see Gordon Nembhard and Chiteji 2006). Moreover, since the housing crisis and the "Great Recession," wealth holdings have decreased and these wealth gaps are increasing significantly (Kochlar et al. 2011). During the recent housing crisis, many people, particularly people of color, women, and workers (many of whom are now unemployed), have been losing what few assets they had, particularly homes, because of sub-prime mortgages and other predatory lending practices that targeted women and people of color (see Rivera et al. 2008 for example). These assets such as home equity, and even small business equity, are assets finally gained over the past two decades by people who had often been left out of mortgage and credit markets. In 2006 subprime loans as a percentage of all mortgages had grown from 10 % in 1998 to 23 %; and from \$35 billion in 1994 to a volume of \$665 billion in 2005 (Rivera et al. 2008). Foreclosure filings reached

[2] See Oliver and Shapiro 2006, for example, on the importance of using qualitative data to understand differing experiences with wealth accumulation and effects of wealth policy.

their peak in 2010 at 2.87 million properties (see Realtytrac Staff 2013a). In January 2013, foreclosure filings decreased by 36 % from January 2012 continuing this trend (RealtyTrac Staff 2013b). Recent levels, however, remain significantly higher than 2007 (1.28 million) when the crisis began. In addition, while the number of foreclosures are decreasing nationwide, in 2012 the number of foreclosures actually increased from 2011 in 25 states, while decreasing in the other 25 states (RealtyTrac Staff 2013a). In addition, bank repossessions increased again by 7 % (on a monthly basis) in May 2012, after previously being on a downward trend (RealtyTrac Staff 2012b). Because unemployment levels remain high, banks are not helping working people to refinance, and new federal policies have not done enough (see Adler 2010 and Iley 2009).

In addition, as banks fail, merge, and abandon certain neighborhoods (again), increasing numbers of people of color, women, and low-income people become or remain unbanked. In 2011, 28.3 % of U.S. households were unbanked or underbanked, an increase from 2009 (Adler 2012). "Over 29 % of U.S. households lack a savings account, while about 10 % lack a checking account" (Adler 2012: 1). Low-income families and people of color were found to be more likely than the rest of the country "to have little or no contact with a traditional bank" (Adler 2012: 2). Use of fringe financial institutions such as check cashers, pay-day lenders and pawn shops is increasing–often the only option for low-income unbanked people (Kumeh 2012). Many of the fringe financial businesses actually deplete people's assets rather than help them to build assets because they charge high fees and interest rates. In addition, without a bank account it is difficult to buy plane tickets online, rent a car, do other transactions that require a credit card, or obtain a mortgage on a house. Without a savings account it is difficult to save money.

Kumeh (2012) quotes Greg Kato (policy and legislative manager of the Office of the Treasurer-Tax Collector in San Francisco) that "check-cashing fees at the fringe institutions could total $1,000 a year and interest rates for loans are as high as 425 %." Some describe this as predatory lending. Predatory Lending is a credit market lending practice that manipulates low-income and uniformed borrowers to borrow money under conditions of excessively high interest rates and penalties. These borrowers become unsuccessful borrowers (default) under these conditions. Predatory lending practices include charging excessively high interest rates regardless of credit rating or ability to pay; pre-payment penalties; excessive late fees; adjustable rate mortgages (exploding); exclusion of taxes and insurance; steering; interest-only payment plans; and lack of stated income or ability to pay (see Rivera et al. 2008). These fees can reach up to 400 % or higher (NFCDCU No Date "Payday Lending Alternatives")–similar to debt peonage. The practices of pay-day lenders are best described by the *Atlanta Journal Constitution*: "the payday loan industry depicts itself as a financial crutch propping up struggling borrowers until their next paycheck. In truth, the loans are financial straightjackets that squeeze the working poor into a spiral of mounting debt" (Atlanta (GA) Journal-Constitutional Editorial, 12/8/2003).

In the 2012 Federal Deposit Insurance Corporation (FDIC) press release, acting chair Martin Gruenberg concludes that the results of their survey "indicate that insured financial institutions have an important chance to grow their customer base by expanding opportunities that bring unbanked and underbanked individuals into mainstream banking" (Adler 2012:2). Access to affordable financial services and savings accounts is thus also needed, in addition to access to credit markets and safe asset ownership. Availability of financial services that are affordable, appropriate and secure facilitate savings and aid acquisition of a home as well as business and real estate ownership. Lack of these services remains an important reason why marginalized and underserved groups have difficulty building assets. Gordon Nembhard (2008a: 25) remarks that one approach to address lack of financial services, credit and asset ownership among low-income people is to explore structures and mechanisms where "pooled resources" give people access to and participation in economic activity and savings, and give them "some economic stability, relative independence, and asset ownership, as well as the ability to help one another." I term these pooled resources, community assets. Joint ownership is a stepping stone to individual/household wealth, as well as an end in itself.

Brief primer on cooperatives, credit unions and credit union history

One of the most traditional community assets is the credit union–a financial consumer cooperative. Credit unions, like all cooperatives, address market failure, market insufficiency, and asymmetric information (Gordon Nembhard 2008b). Credit unions in the U.S. are government regulated, democratically-owned, community-based, not-for-profit financial institutions whose purpose is to provide affordable high quality financial services to their members. Many are able to offer all the same financial services that commercial banks offer. Community Development Credit Unions are credit unions whose purpose is to serve underserved low-income communities, and are part of a larger group of community development financial institutions (CDFIs) with a similar purpose.

Credit unions, with a hundred year history, and community development credit unions, with a 30–40 year history of serving the underserved, have only recently begun to be recognized by some of the media and the progressive community as "safe havens" and fair lenders.[3] In addition, financial analysts have begun to suggest that banks need to return to their roots, become more locally focused and based. Morris (2010: 2), for example, notes that "a growing number of financial analysts believe that at the heart of the breakdown in global finance and the resulting breakdown in national economies was the growing distance between depositor, borrower and lender, and the end of relationship banking." Morris (2010: 2–3) contends that "This growing chorus of high-level, expert dissent demonstrates that there is now an opening to advance a conversation and an agenda around fundamentally restructuring our financial system to be more community-rooted and responsive to local needs." Credit unions are those community-rooted, responsive financial institutions.

Credit Unions (CUs) operate in the cooperative tradition. Cooperatives are companies jointly owned by their members–the people who use their services. They can be structured as consumer-owned, producer-owned, or worker-owned depending on which class of people join together to form the cooperative business; and as for- profit or not-for-profit enterprises. Cooperatives promote pooling of resources, sharing risks and profits, and the production, distribution and/or acquisition of affordable high

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

quality goods and services for members (and sometimes also other customers). Cooperative businesses operate according to a set of principles about democratic governance, open membership, transparency, returns based on use, continuous education and concern for community (International Co-operative Alliance No Date). With a long and dynamic history, cooperatively-owned businesses are examples of democratic community-based enterprises. Previous research indicates that cooperatives fill gaps left by market failure; and that successful cooperatives have income and wealth benefits for their members that spill over into their communities (see Fairbairn et al. 1991; and Gordon Nembhard 2002, 2004a, b, 2008b for example). Cooperative ownership also tends to promote increased civic engagement (see Gordon Nembhard and Blasingame 2002). Cooperatives provide economic stability and protection: economic help for the dispossessed and landless, and services for the under-served; better prices for locally made products; and often higher wages and/or benefits for employees and producers (Gordon Nembhard 2002, 2004a and 2008b).

Credit unions are consumer cooperative financial organizations and community-based not-for-profit financial institutions. Credit Unions provide access to affordable financial services and loans, and opportunities for savings and investment to their members, because their mission is to provide financial services and develop loan and savings instruments to best serve their members. The philosophy behind credit unions is that people should be able to pool their money and make loans to each other (Cerise No Date).[4] Membership in most credit unions remains affordable: costing the first $5.00 of a deposit to open a savings account (which also fosters saving). In addition, credit unions were initially required to consist of people who share a "common bond," such as a church, employer, or union affiliation; a neighborhood or zip code. They deliver low-cost financial services, affordable loans, financial literacy and home ownership education, particularly to under-served and marginalized communities. In mid2012 credit unions continued to grow significantly [see Table 1]. There were 7,103 credit unions in the United States so consolidations continued, but with over $1 trillion in assets, 94 million member-owners, and low delinquency rates averaging 1.20 %, they are in a stronger position than ever (CUNA 2012). They experienced the largest increase in membership in over a decade between midyear 2011 and midyear 2012, and the largest dollar amount of loan originations in their history (from midyear 2011 to midyear 2012) (CUNA 2012).

Community Development Credit Unions (CDCUs) are financial institutions with a special mission of serving low to moderate income individuals and their communities (NFCDCU, "What is a CDCU"). The primary objective of community development credit unions is to provide asset-preserving and asset-building opportunities to, and financial assistance needed by, low-income people to improve their wealth (see Isbister 1992). CDCUs, like other credit unions, are cooperative financial institutions that are owned and controlled by the people who use their services. The major distinction between CUs and CDCUs is that a community development credit union has to be designated as a low-income credit union from the National Credit Union Administration (NCUA) or a state regulatory agency. This designation as a low-income credit union accords special status, such as the right to accept non-member

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

deposits and secondary capital (NFCDCU, "What is a CDCU"). CDCUs partner with commercial banks and government agencies to serve low-income members. Through the Community Reinvestment Act and other programs, banks grant and lend money to community development credit unions so that they can build the net worth needed to lend in and to low-income communities, and expand community development services (Cerise No Date). The term "community development credit union" was coined in the 1970s by the National Federation of Community Development Credit Unions (NFCDCU), the trade association for low-income credit unions.

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

As of June 2012, there were 244 community development credit unions in the U.S. (that were members of the NFCDCU and most are members), which is an increase of 9 since 2010. With over 1.7 million member/owners and more than $11 billion in total assets, CDCUs are growing and becoming stronger (NFCDCU 2012). [See Table 2]

Overview of credit union history

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

From the early 1900's to the 1930's credit unions showed considerable growth. Between 1915 and 1930 25 more states started credit unions. In 1929 there were 974 credit unions with a membership of 264,908 people (Neifeld 1930). According to the Credit Union National Association (No Date, "History: Post WWII Era"), in 1945 there were 8,683 credit unions, and by 1955 there were 16,201. The U.S. movement reached its peak in 1969 with 23,876 credit unions. The 1970s brought changes in legislation, growth, and expansion of CU services. In 1977, legislation expanded services to credit union members, including share certificates and mortgage lending (NCUA No Date). The number of credit union members more than doubled and credit union assets tripled to over $65 billion (NCUA). In the 1980s, deregulation and increased flexibility in merger and field of membership criteria expanded member services. High interest rates and unemployment in the early 1980s challenged credit union expansion, but by the 1990s credit unions had consolidated (so that there were fewer),but membership increased. Since the 1990s CUs have continued to be "healthy and growing" with low numbers of failures (NCUA No Date).

Many different political and economical policies and the evolution of financial intermediaries were involved in the growth of credit unions over its history. In the 1990's the success of the majority of the community development credit unions was attributed to the establishment of the Community Development Financial Institution (CDFI) Fund, under the Clinton administration. In 1994 the CDFI Fund was established to expand the availability of credit, investment capital, and financial services in distressed urban and rural districts. The CDFI Fund was established by the Riegle Community Development and Regulatory Improvement Act of 1994, as a bipartisan initiative and is one of the largest sources of funding for community development credit unions. The CDFI Fund functions under the U.S. Department of the Treasury and operates three principal programs (Office of the General Inspector 2000). Since 1995, the CDFI Fund has awarded over $84 million to credit unions serving low-income and under-served communities across the country, and 98 % of these awards went to CDCUs in the NFCDCU (NFCDCU No Date "Federation Experience with the CDFI Fund"). However, in the decade of the 2000s (under the Bush administration), the CDFI fund greatly diminished. The Bush administration consistently sought to decrease the CDFI funding through the Treasury Department, to change its focus, and proposed at one point to eliminate the program (moving its funding to a Commerce Department program). The degree of funding received from the administration is always important, particularly to credit unions because "when less money has been appropriated in the past, the amount that makes it to credit unions has shrunk even more" (Morrison 2008). For example, in 2008, credit unions and credit union organizations were awarded roughly 10 % of the $54 million in overall distribution even though credit union CDFIs have among the most impact on their communities.[5]

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

[5] Morrison 2008, quotes NFCDCU Executive Director Cliff Rosenthal.

Accomplishments of credit unions and community development credit unions

Comparisons between credit unions and commercial banks

In comparison to commercial banks, according to Stock (2009), the number of credit union failures is still comparatively less than those of banks which had reached around 120 (of approximately 8,100). Credit unions outperformed banks in 2008 in new mortgages and loans and increases in deposits. Credit union loans increased from $539 billion in 2007 to over $575 billion in 2008, at a time when loans outstanding in U.S. banks decreased by $31 billion (Marte 2009). Membership in CU's continues to increase. "In the 12 months ended in June 2009, 1.6 million Americans joined a credit union, boosting the industry's assets by 8.2 %, according to the Credit Union National Association" (Stock 2009). 2010, 2011 and 2012 experienced similar growth. Between 2007 and 2011 credit union business loans grew by 42 %, while business loans from commercial banks declined by 2.2 %. Real estate and all loans increased in credit unions while decreasing in commercial banks (Schenk 2011) [see Table 6]. Delinquency rates, though increased for all financial institutions were significantly below commercial banks every year (1.59 % for credit unions in 2011 for example, compared with 4.22 % for commercial banks that same year; Schenk 2011) [See Table 7].

In addition, credit unions remain "over capitalized" in terms of maintaining a strong capital base and more than adequate reserve funds. The National Credit Union Administration considers a credit union with a capital ratio to total assets of 7 % or higher to be well capitalized (Harris 2009). Credit Unions were well capitalized above that 7 % rate when the Great Recession started (at 11.5 % in 2006 and 11.4 % in 2007), and have been hovering at 10 % since 2009 (10.2 % in 2011) (Schenk 2011).

Interest rates on all loans have been consistently less at credit unions than at commercial banks (and much lower than at pay-day lenders) (Schenk 2011) [See Table 4]. Credit unions no only provide lower interest rates on loans but also give higher interest rates on interest-bearing accounts than commercial banks (Schenk 2011) [See Table 3]. Interest rates at credit unions are higher on savings accounts, 1 year certificates, interest checking and savings accounts. Jackson's (2007) research also finds credit union pro-consumer behaviors. Credit unions exhibit a pricing asymmetry that lowers the interest expense associated with deposits but also lowers the interest revenue associated with loans over the interest rate cycle, "consistent with a strategy of maintaining constant margins between average deposit rates and average loan rates" (Jackson 2007).

Consumers are looking for safe places to deposit their savings and safe loans (Rosenthal and Kim 2010; Stock 2009). "We're always looking for new opportunities," said Family First CEO Kent Moore. "And the whole economic crisis has made people educate themselves a little bit better about all of the options out there" (Stock 2009: 2). John Peden, chief operating officer of the Navy Federal Credit Union (the world's largest credit union) notes that "There's been kind of a flight to safety with consumers, the crisis was an opportunity for us to say: 'We're strong, we're reserved and we're looking out for your best interests.' With the troubles going on out there right now, that message resonates" (Stock 2009: 2). These trends have born out as credit unions are experiencing unprecedented growth in 2012 (CUNA 2012).

Overview of current status of CDCUs

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

Community development credit unions have been affected by the recent financial crisis since their members have borne a disproportionate share of the burden of higher unemployment, loss of businesses and foreclosures; and the communities they serve have been hardest hit by the crisis. The NFCDCU however, finds the economic impact on CDCUs to be mixed. The statistical data provided by the Federation for 209 community development credit unions (CDCUs) nationwide for 2008, shows that while there were overall increases in total assets and members served, as well as modest growth in real estate, commercial and industrial, and member business lending, as many as 18 CDCUs were lost (9 % of the Federation's total membership) due to mergers and liquidations (NFCDCU 2010a "Financial Trends"). CDCUs continued to suffer stress and losses in 2009. In addition, failures in the wholesale "Corporate" credit unions (U.S. Central Credit Union and Western Corporate Federal Credit Union suffered multi-billion dollar losses in 2009) depleted the National Credit Union Share Insurance Fund (NCUSIF)–the federal insurance cooperatively funded by all participating credit unions. Credit unions and CDCUs had to make contributions to the Fund and thus loss net worth in 2009 (Rosenthal and Kim 2010). These consequences from the "Great Recession" have been a serious loss for community development credit unions, however by the end of 2009 the number of members in CDCUs continued to grow (by 4 %) to 1.06 million; and continued to grow into 2012 to 1.07 million. In addition, in 2009 assets increased by 15.2 % (to $5.25 billion), deposits/shares increased by 16.2 % (to $4.62 billion), and loans outstanding increased 4.43 %–all by higher percentages than federal credit unions (Rosenthal and Kim 2010). During this period (the middle of the Great Recession), many CDCUs were able to hold lending steady and some to even increase lending, although automobile loans decreased while home mortgages and other real estate lending had only modest growth (Rosenthal and Kim). Rosenthal and Kim (2010:1) summarize the mostly optimistic view:

> The credit union movement benefitted from its long-established reputation for financial stability, its pro-consumer orientation, and its nonprofit, member-owned structure. … In 2009, the credit union movement as a whole recorded increased

> membership, assets and deposits. On a number of these indicators, CDCUs equaled or even surpassed the performance than even the credit union movement as a whole. In the area of lending, though, the picture was less encouraging, for credit unions in general, and even more for CDCUs, whose members are especially vulnerable to layoffs.

The number of CDCUs, number of members, assets and savings all increased again in 2010, 2011 and 2012 (NFCDCU 2010b and 2012).

CUs in general continue to have strong balance sheets; increasing profitability; to be overcapitalized; have no typical subprime lending; the highest consumer satisfaction; low and declining delinquency rates; and an increase in lending to individuals and small businesses. Mergers are increasing, for all CUs especially CDCUs–but CU membership and activities continue to grow (mergers can provide more services and more cost effective services). CDCUs real estate lending is greater than banks and general credit union rates. CDCUs utilize strong federations and coalitions to initiate community programs and social investing, member and public education; to provide insurance and engage in policy advocacy. Credit unions are relatively conservative bankers (safe), show concern for the communities in which they are located, and are slated to continue to grow in the coming years. Ellen Seidman told the Multinational Monitor (2009) that credit unions "turn a profit, but they are double bottom line or triple bottom line entities–meaning they measure and value social, and sometimes environmental, achievements as well as financial success."

Questions asked by this author in the interviews and discussions with CDCU managers produced similar findings, with some explanations for how credit unions have achieved these successes.

Description of methodology and interview process for this research

For the past 10 years I have been researching and designing ways to measure asset building and wealth accumulation through cooperative business ownership (co-ops) and community-based financial services, particularly in low-income communities and communities of color. A major focus is on both individual/household-level and community-level asset development through credit unions. Phase one began with the identification of mechanisms and indicators to understand and measure cooperative and community wealth (see Gordon Nembhard 2002, 2004a, 2008b). Phase two focused on credit unions and community development credit unions–doing extensive research to understand how credit unions in the U.S. and Canada operate and what services they provide; designing and piloting questions to ask credit union managers, directors and members; and interviewing credit union employees and members (see "Methodology" below for more information and Gordon Nembhard et al. 2012).

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

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

Methodology

This is a mixed methods study synthesizing existing research and data on credit unions with participatory research, and telephone interviews with credit union managers in the U.S. By participatory research I mean observations and discussions with credit union staff, managers, members, and credit union trade organizations, at conferences and credit union meetings. Over the past several years I have been researching credit unions in the U.S. and Canada, attending conferences about cooperatives and giving presentations to credit union organizations, observing credit union practices and talking with credit union employees and members. I devised an extensive set of questions for credit union managers, staff and members about credit union services and achievements (Gordon Nembhard 2008b),[6] and tested the questions in New Hampshire (with the School of Community Development at the University of Southern New Hampshire[7]), and in Saskatchewan Canada (with the Center for the Study of Co-operatives at the University of Saskatchewan, see Gordon Nembhard et al. 2012). I further revised and shortened the

[6] These questions were revised and expanded with Lou Hammond Ketilson, and with assistance from Dwayne Patterson, at the Centre for the Study of Co-operatives at the University of Saskatchewan, Canada, from 2009 to 2010.

[7] At the University of Southern New Hampshire I worked with Chris Clamp's graduate research class in the fall of 2009.

questions for CDCUs in the United States, and then worked with a research assistant[8] to conduct interviews with managers at five community development credit unions in 2010. [See Table 7 for a summary overview of each CDCU's basic statistics; and see Appendix: "Community Development Credit Union Sample Questions for Managers" for a sample of the questions asked.] We chose about 10 CDCUs based on their geographic location (we wanted a sample from around the country), the demographics of their members (we wanted CDCUs whose members were predominantly Black in rural and urban settings), and their reputation (they were recommended by credit union researchers and board members). We ended up with the five we have because their managers were willing to take out an hour of time to be interviewed (several of the mangers we met at a credit union conference before doing the telephone interview). This was therefore not a random sampling of CDCUs from around the country or even a random sampling of the CDCUs whose members are predominantly African American. It is a piloting of our questions with a sample of CDCUs who are interested in measuring credit union impacts on communities and on asset building among low-income communities of color–and who are willing to volunteer their time to work with researchers.

The five (5) credit unions in this study are community development credit unions that serve members who are low income–in one case as high as 93 % are low income -; and often women (in one case 60 %). The service area of these community development credit unions are poverty-rural communities and inner-city communities. Most of the credit unions in this study serve predominantly African American members (as high as 97 %), although one serves predominantly low-income white members, and many are experiencing an increase in the number of Latina/o members and customers, and some Asian Americans. [See Table 7] One credit union actually targets and services non-profit organizations in their community that bring in their members and clients to access credit union services.

Below I summarize many of the responses, especially as they relate to serving the underserved and helping low-income African Americans to save and get mortgages and other loans. I compare responses from the interviews with the existing research about uniqueness and innovations of credit unions, types of members, types of loans, and contribution to community. After discussing the information gained from these five interviews, I also report on and discuss the statistics of credit unions associated with the Federation of Southern Cooperatives/Land Assistance Fund, which are mostly rural CDCUs that serve predominantly Black populations. I include this information because we have so little information and analysis about credit unions that serve African Americans, I want to include as much information as possible of what is available to contribute to my analysis.

Findings from interviews with five CDCUs

Uniqueness of credit unions

A major recurring theme from the interviews is the uniqueness of credit unions: that they are people-focused and mission-driven. One interviewee articulates the "mission to

[8] Charlotte Otabor a graduate student at Howard University's Center on Race and Wealth.

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

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

Respondents were able to discuss how their credit unions differ from commercial banks. The number one difference asserted by just about every credit union staff member interviewed, was cost for customer/members–the low rates and fees. As cooperatives, credit unions can and try to give back to their members. Often instead of an annual dividend on their deposits (savings), the credit union will lower the costs of services and increase the interest rate earned on savings (share) accounts. Keeping loans affordable and providing as high a return on savings as possible is important at any period of time and for every demographic, but is particularly important during economic downturns and financial crises, and for low-income households.

Some of the credit unions also offer innovative services and instruments designed to be flexible in helping their members, or specifically designed to start them saving, to help improve their credit or increase their savings. Members can open and maintain accounts with low balances. Wiring to other banks, sending remittances abroad, all cost less than at commercial banks. Some of the credit unions actually do compete with check cashing outlets. One credit union provided a payday loan rate of 18 % while the outlet down the street charged 124 %.[9] Starting in 2005 the NFCDCU has encouraged community development credit unions to include services that discourage members from going to predatory lenders like pay-day loans and pawn shops to get loans which are heavily located in low-income communities.[10] Providing an alternative to predatory loans helps low income families reduce their debt and save more. This increases their economic stability and theoretically increases the amount of money that can be used for other things–and may be reinvested in the community. As of December 2005, 27 % of CDCUs were providing payday loan alternative programs, with an estimated 11,401 payday substitute loans worth about \$7.4 million (NFCDCU No Date, "Payday Lending Alternatives"). While this may be just a small amount of total payday use, it is significant support for CDCU's low-income and

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

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

financially vulnerable clients/members. In addition, this percentage shows how seriously many CDCUs are taking their mission to provide quality affordable financial services and to help their clients build and maintain assets.

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

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

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

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

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

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

Conservative investment and responsible lending practices make the credit union a safe and stable financial institution. Managers believe that members (and non member customers) understand and appreciate this. Our interviewees report that members provide "a lot of good, positive feedback." "Most of our members would definitely not receive financial services from a commercial bank"; and many credit unions are getting new members who were dissatisfied with their experiences with a commercial bank or mortgage broker. Also research done by the industry as well as outside the industry shows a high level of customer (member) satisfaction with and sometimes preference for, credit unions.[11]

Lending practices

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

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

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

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

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

[11] For example, the Canadian Credit Union Central 2009 study.

providing lending for community building activities such as small business and micro-enterprise loans, education, youth development, community development, and transportation, as well as home ownership.

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

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

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

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

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

Financial literacy and advice

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

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

Community development and benefits to community

The success of improving the assets of low-income families in a community depends greatly on the achievements of the community development credit union within the neighborhood.

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

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

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

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

The credit union managers describe their credit unions as good employers. They provide salaried jobs with benefits and often with job ladder opportunities. For those credit unions that did have full time staff (all except for two very small credit unions in the study), interviewees are proud of their "robust benefits package."

Credit unions associated with the Federation of Southern Cooperatives/Land Assistance Fund

The community development credit unions affiliated with the Federation of Southern Cooperatives/Land Assistance Fund have helped their members to gain access to financial services and credit, and even accumulate savings. While it has continued to be a challenge to keep these credit unions in business, especially when the large employers that were sometimes a credit union's base leave the area, many of the FSC/LAF-sponsored CDCUs have remained in business and increased their assets and number of members in the Black Community. I provide a brief analysis of the FSC/LAF CDCU statistics in the 21st century to illustrate ways that community development credit unions provide financial services, savings opportunities, and loans to their members; thus helping low-income Black communities in the south to build assets [See Table 8].

Table 8 illustrates that the CDCUs affiliated with the predominantly Black Federation of Southern Cooperatives/Land Assistance Fund in the southern states of the U.S. (six CDCUs in 2011 down from a high of 18 at the beginning of the 21st century) have been increasing in number of members and assets, particularly before 2009. They all share the same mission–to provide financial services and loans to mostly rural low-income African Americans and other people of color. Total assets of these community development credit unions have been growing, increasing to approximately \$39.6 million, or about \$2,449 per member in 2008 (for 11 credit unions); then decreasing to \$26.1 million but about \$3,079 worth of assets per member with six credit unions in 2011. So while the number of CDCUs decreased, their worth increased. Loans have increased: the total value of loans in 2008 was \$239.5 million, with total number of loans since founding made by the eleven CDCUs at 79,286. In 2011 with the six remaining CDCUs, total number of loans was still significant at 56,214 and total value at \$190.2 million. Shares (holdings or savings in share accounts) have also basically increased for the members of these credit unions–to $34.7 million in 2008 and down to $23.2 million in 2011(with fewer number of CDCUs). Shares per member, however, continued to increase after hitting a low of $972 in 2006, rising to $2,152 in 2008 and $2,715 in 2011. This is significant saving for low-income people especially during this time of serious recession and high unemployment.

2005 and 2006 were challenging years for these CDCUs. There was a significant drop in loans outstanding between 2005 and 2006. Very small credit unions have not done as well as larger credit unions and particularly over the past decade some of the smaller credit unions were forced to merge with larger credit unions, in the Federation of Southern Cooperatives/LAF, as well as elsewhere. There was a drastic decrease in credit union members in 2007 in the FCS/LAF credit unions, which reflects this loss of separate credit unions. In addition, over the past decade, the federal regulator, the National Credit Union Administration (NCUA), has liquidated or merged more than half of the FSC/LAF's community development credit unions because of their small size (FSC/LAF 2011–2012:16). This explains why there are only six CDCUs left in the FSC/LAF network and no new CDCUs have been chartered in the south in the past 10 years (FSC/LAF 2011–2012:16). The FSC/LAF (2011–2012: 16) explains that "The cautious regulatory policies of NCUA defeat a major organizing strategy of the Federation, which is helping low-income people and distressed communities in the rural Black Belt South to organize and develop their own financial institutions."

While savings in absolute numbers is not large in this example of CDCUs with predominantly Black members, the average value of savings (shares per member at $2,152 in 2008 and $2,715 in 2011) indicates basic asset ownership for populations that often have no or negative wealth. These members are predominantly African American and all are low-income. African American average median net worth was under $6,000 in 2009 (down from a little over $12,000 in 2005, see Kochlar et al. 2011), so that the ability for low income African Americans to save over $2,000 during the Great Recession is significant. In addition, the credit unions also provide personal loans, car loans, and home mortgages to some of these depositors–helping their members to buy a car, a durable good, and/or a house; thus facilitating asset building in this population. The FSC/LAF (2011–2012: 16) notes that these CDCUs "locally owned and operated financial institutions help people to pool their savings and assets to work toward self directed community development from the 'bottom-up'." These are examples of how credit unions help grassroots people to "pool and control their assets for community building" (FSC/LAF 2011–2012: 16), as well as for their own asset ownership.

Concluding remarks: credit unions and asset building

Credit Unions provide many paths to asset building and wealth accumulation for their members. They provide access to financial services and loans, and opportunities for savings and investment. In the past 4 years memberships in credit unions have increased and both loan and savings growth have increased, while delinquencies remain low. Credit unions are therefore responsibly making loans to their members and helping them to save. Credit Union National Association (CUNA) reported that in the 12 months ending June 2008, U.S. credit unions provided an estimated $7,890,267,139 in direct financial benefits to the nation's 88,105,469 members–"equivalent to $90 per member or $170 per member household" (CUNA 2008)–down slightly from its benefits in 2007. Credit union members held an average member deposit of $6,897 in 2006 (CDFI Data Project 2006). In CUNA's document, "Benefits of Credit Union Membership," the trade organization also calculates that credit unions provide an average saving of $194 per year in interest expense on a $25,000 new automobile loan, and that "those who use the credit union extensively–often receive total financial benefits that are much greater than the average." In addition, CUNA concludes that:

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

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

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

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

The IDA programs generally include support services like budget counseling, homeownership and entrepreneurial training to help participants achieve their goals. When members have reached their goal, they can withdraw all of the money in the account to spend on that aspiration, including the matching funds granted by the CDCU or an outside organization. Some CDCUs partner with other community organizations to offer IDA programs. In one case the CDCU is partnering with a neighborhood cooperative to provide savings for neighborhood participants.[12]

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

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

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

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

Figures from a targeted group of credit unions in the south (the FSC/LAF CDCUs discussed in the above section "Credit Unions of the Federation of Southern Cooperatives/Land Assistance Fund"), along with answers from the author's interviews with five CDCUs around the country (discussed in "Findings from interviews with five CDCUs"), indicate that community development credit unions help members own transaction accounts, keep savings, and pay affordable rates for financial services. They indicate ways that as non-predatory community-owned financial institutions they aid their members in securing and maintaining assets. Annual increases in membership and assets mean that the CDCUs' potential for helping members and communities to increase asset building is growing. We find that credit unions provide a variety of savings instruments and asset-building programs, often at less cost and with higher return than commercial financial institutions. These services offered by CDCU's contribute to asset-building among low-income families within the community. The NFCDCU itself provides some research on these activities and accomplishments and the credit union trade organizations and regulators provide some statistics about credit union services and programs, however there has been little independent research conducted in this area. This may be in part because the range of products offered by CDCU's can change from one neighborhood to the next, so that we do not have standardized products to measure or study.

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

Recently in the U.S., the media have begun to recognize and tout credit unions as safe havens and community-friendly financial institutions that are reliable sources of lending. *The Wall Street Journal*, for example, published an article entitled: "Safe Havens: Credit Unions Earn Some Interest" in March 2009 (Marte 2009). Marte reports data on the increased growth in credit union membership and credit union lending ("loan growth has been robust"). She notes that loan delinquencies are rising, "but they are still far from the levels seen at most banks." She challenges readers to compare credit unions with banks for themselves. Gross (2008) praises credit unions in *Newsweek* for managing risk properly and being focused on the impact on community:

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

Tansey (2010) concludes a little less optimistically, but still praises CDCUs: "Although Community Development Credit Unions may be the best replicable model for providing affordable capital and financial services in low-income and very low-income areas, there are still major challenges that these financial institutions need to overcome." The industry understands many of the challenges and has been working to overcome them. Many CDCUs are very small and so cannot offer the same variety of financial services as larger credit unions. Some are tied to a small low-wealth organization such as a local church. Some are only chartered to make personal loans not commercial loans. The credit union track record in general, however, is very good.

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

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

This research indicates that credit unions are important asset builders for low-income and low-wealth families and communities, and have been used by African Americans to do so. Community development credit unions are providing both the loans and education that their members need, as well as creating innovative products to serve the needs of their member-customers. They could do this for more people if given the supports needed to increase their assets and loan portfolios. In addition credit unions, particularly community development credit unions are good employers, they help to re-circulate money and resources within a community, and to stabilize and energize their local economies. Finally they are community-based and democratically owned so decisions as well as any value-added are broadly distributed. Therefore supporting and promoting the growth and development of credit unions would trigger many multiplier effects that increase community economic development, and positively impact low-wealth families and their communities.

Appendix

Credit Union Statistics

Table 1 Credit union statistics (as of September 2012)

	2012	2011	2010	2009	2008
Number of CUs in USA	7,103	7,326	7,598	7,708	7,965
Member-owners	84.4mil	93.1mil	91.7mil	91.2mil	89.9mil
Assets	$1.02 tril	$974.2bil	$926.6bil	$896.8bil	$825.8bil
Loans	$592.9bil	$582.3bil	$575.7bil	$582.8bil	$575.8bil
Total savings	$880.4bil	$838.5bil	$797.3bil	$763.3bil	$691.8bil
Total surplus funds	$391.5bil	$356.6bil	$317.4bil	$282bil	$219.9bil
Delinquencies	1.20 %	1.60 %	1.75 %	1.82 %	1.37 %

CUNA Economics and Statistics 2012 (CUNA 2012)

Table 2 Community development credit unions in NFCDCU overview

	2012 (as of June 2012)	2010
Number	244	235
Member/owners	>1.7 mil	>1.6 mil
Assets	>$11 bil	
Median size	$3.8mil assets/1,597 membs	>10.7 mil
Median age	40 years	40 years

National Federation of Community Development Credit Unions, "Our Members at-a-Glance" (NFCDCU 2010b and 2012)

Comparisons Credit Unions and Commercial Banks

Table 3 Interest bearing accounts interest rate averages as of December 8, 2011

Savings instruments	Credit unions	Commercial banks
Regular savings	0.28 %	0.17 %
Interest checking	0.38 %	0.20 %
Money market deposit	0.25 %	0.17 %
1 year certificates	0.60 %	0.44 %

Informa Research Services (Schenk 2011)

Table 4 Interest rates on loans as of December 8, 2011

Loans	Credit unions	Commercial banks
Reward credit cards	10.96 %	13.25 %
2-year used auto	3.69 %	5.26 %
5-year new auto	3.49 %	4.99 %
48 month personal	10.62 %	10.79 %
Home equity LOC	4.35 %	4.68 %

Informa Research Services (Schenk 2011)

Comparisons Credit Unions and Commercial Banks

Table 5 Total loan delinquencies as a percent of loans outstanding–annual averages 4 years

Years	Credit unions (60+ day)	Commercial banks (90+ day)
2011	1.59 %	4.22 %
2010	1.73 %	4.87 %
2009	1.82 %	5.37 %
2008	1.37 %	2.93 %

Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (NCUA) (Schenk 2011)

Table 6 Growth since beginning of recession: Sept 2007–September 2011

Loans	Credit unions	Commercial banks
Real estate loans	13.7 %	−14.9 %
Business loans	42.3 %	−2.2 %
Total loans	6.7 %	−7.2 %

Schenk 2011: from FDIC, NCUA and CUNA Economics & Statistics Department

Community Development Credit Unions Studied

Table 7 Summary information on 5 community development credit unions Interviewed 2010

Characteristics	CDCU1	CDCU2	CDCU3	CDCU4	CDCU5
State	NJ	PA	LA	NC	KY
Urban/rural	Mix	Urban	Rural	Urban	Rural
# Members	704	1,508	73,023	30,021	3,000
%low-income	51 %	93 %	Predominantly	84 %	75 %
% Afr-Am	Predominantly	97 %	61 %	46 % people of color	
% Latino		Small	6 %		Small growing
% Women		60 %		42 %	50 %
Assets	$ 886,490	$ 1,400,432	$291,802,000	$512,100,264	$18,000,000

Calculations by author from answers to interview questions and CDCU's websites

Table 8 Federation of southern cooperatives/land assistance fund credit unions members, assets, savings, loans 2000–2011 (every 2 years)

	2000 18CDCUs	2002 16CDCUs	2004 16 CDCUs	2006 16 CDCUs	2008 11 CDCUs	2010 6 CDCUs	2011 6 CDCUs
Members	12,140	15,046	19,785	27,649	16,155	8,637	8,542
Assets	$23.3 m	$30.1 m	$37.6 m	38.1 m	$39.6 m	$27.2 m	$26.1 m
Assets/member	$1,923	2,000	$1,980	$1,378	$2,449	$3,155	$3,059
Member shares saved	$19.4 m	24.2 m	$29.8 m	$26.9 m	$34.7 m	$23.4 m	$23.2 m
Shares/member	$1,594	$1,605	$1,614	$972	$2,152	$2,709	$2,715
Outstanding loans	$17.2 m	$18.5 m	$20.4 m	$25.3 m	$25.2 m	$24.1 m	19.5 m
Total loans		50,154 (2001)	60,392	75,516	79,286		56,214
Total value of loans		$97.5 m (2001)	$157 m	$211.4 m	$239.5 m		$190.2 m

Calculated by the author from charts in FSC/LAF Annual Reports (Federation of Southern Cooperatives/Land Assistance Fund various years 2000–2009, and 2000–2012)

Community Development Credit Union Sample Questions for Managers (derived from previous research–in Gordon Nembhard 2004a, 2008b; and Gordon Nembhard et al. 2012)

A. General Information

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

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

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

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

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

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

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

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

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

B4. List all the benefits members of your CDCU receive {if need a prompt ask direct deposit; financial counseling, financial planning or financial literacy; mortgage counseling, home or auto ownership training; estate planning; services targeted for women; youth and student services; disability services; free tax preparation; foreign language and immigrant services; micro-lending program, peer lending}

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

C. Savings Accounts, Investments and Loans

C1. Do you think the savings and investment products your community development credit union offers help your members to save more or to acquire/build assets? {prompt: explain what an asset is–it is money or an investment that you have saved for the future and that increases in value over time–a house, CD account, retirement account, savings bond, stock, business equity, real estate, even a car}

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

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

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

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