Doubling the Number of CDFI Credit Unions? Yes! But….

NCUA and the Department of the Treasury have announced a plan to double the number of CDFI-designated credit unions. Credit unions should welcome this. This strategy has been vigorously pursued by the National Federation of CDCUs, my successor, Cathie Mahon and the Federation team. So, congratulations to all are in order.

How did we get to this promising development? And what gives me pause about its implications?

Full disclosure: I take this initiative personally. It's something that I worked toward for many years as CEO of the Federation. For more than 30 years, I was involved in and helped shape the CDFI movement. In 1984, as banks were closing branches throughout low-income neighborhoods, I crafted model legislation for the creation of a New York State "Corporation for Community Banking" to help credit unions and other community-based lenders fill the gaps. It took many years, but we won some modest state support for this effort.

In the meanwhile, the Federation expanded our vision nationally. In the late 1980s, we proposed the creation of a federal entity that we tentatively called "National Neighborhood Banking Corporation." In 1991, we formed a coalition with non-regulated, nonprofit community development loan funds and the few existing community development banks, to push for federal legislation and appropriations. Presidential candidate Bill Clinton was on a parallel track, promising to create a "network of 100 community development banks." And when he was elected, our newly named "CDFI Coalition" linked our efforts to the Clinton Administration's. On September 23, 1994 we celebrated victory when the Community Development Financial Institutions Fund under the Treasury Department was signed into law.

The CDFI Fund has weathered changes in Administration to enjoy great growth, especially under President Obama. It has invested more than $1.5 billion in the institutions it has officially certified as CDFIs. "CDFI" is arguably the most valuable brand in community economic development. It has increasingly become a badge of credibility and honor, a gateway not only to the CDFI Fund but also to other federal and state programs. It's a great success story in many ways. But I, and some other long-time allies in the CDFI movement, do ask ourselves whether there is a cost to this success.

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Why was the joint NCUA/Treasury action important for credit unions?

The CDFI Fund is an invaluable, unique source of *equity capital*. This is what our CDFI Coalition fought for from the very beginning. It was an unprecedented victory. Other government programs provide annual operating support or debt; the CDFI Fund helps build *sustainable* institutions by providing net worth, precious equity that can fuel leverage and expansion. The Fund has invested more than $1.5 billion in CDFIs; under the current Administration, it has been investing more than $200 million annually, with individual institutions receiving up to $2 million or occasionally more. It is hardly necessary to explain to credit unions how valuable infusions of net worth can be.

But most of the recipients have not been depositories – that is, not credit unions, or community development banks. Year after year, since the Fund opened its doors, non-regulated loan funds have received the lion's share of funding – typically, 70-75%. Credit unions obtain perhaps 15%, less in a bad year, somewhat more in a "good year." (Community development banks get even less, and community development venture capital funds, who also helped build the CDFI Coalition, get almost nothing.)

This is not a knock on the loan funds. Many do amazing work. They have a strong, highly effective trade association to help them. But the disproportionate share for loan funds was not what many of us envisioned back in the early 90s. To the contrary: some early drafts of the CDFI Fund legislation reflected a preference for investing in insured, regulated depositories. And of course, Clinton had called for the creation of a "network of community development *banks*."

In 1992 our young Coalition of CDFIs agreed to oppose preferences for any one type of institution, regulated or not. For us in the CDCU movement, this meant giving up an inside track to CDFI funding. But we recognized that it was important for our diverse Coalition – community development credit unions, loan funds, banks, microenterprise funds, venture funds – to speak with one voice. That made sense politically, and it worked. So, to this day, the CDFI Fund is officially "agnostic" as to the type of organization it will fund.

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It is Ironic and frustrating for us in the CDCU movement that credit unions have been marginalized by the Fund, obtaining only a small portion of the available funds. From my experience wrestling with the CDFI Fund over many years and from my subsequent research, I have heard a number of rationales for this.

"Credit unions don't write good proposals," we've been told. Agreed, this is often the case. The CDFI Fund essentially runs a grant competition, and the credit union culture is not one of grant-seeking, unlike other nonprofits.

"Credit unions don't produce the kind of impacts the Fund is looking for." For years, the Federation argued about this with the CDFI Fund. To the degree that the Fund (and legislators) focus on numbers of jobs or housing units created, credit unions are disadvantaged by these metrics.

"There are many more loan fund applicants than credit unions. We at the CDFI Fund support a similar percentage of all types of institutions," we have been told.

This last point is what makes the current policy initiative so important. As of the end of 2015, there were 265 credit unions certified as CDFIs, out of a total of 977 certified institutions – about 27%; two years earlier, there were only 173 CDFI credit unions out of a total of 804. What would the landscape look like if the credit union percentage doubled – would that not make the case for a larger share of CDFI Fund resources going to credit unions?

This is precisely what the NCUA/Treasury initiative will test. Pouring through early Clinton Administration documents and draft legislation, I have seen language that recognizes the need to provide basic financial services to underserved communities. No one can deny the importance of creating jobs and affordable housing. But in the last twenty years, predatory lenders have multiplied. Tens of millions of Americans are unbanked or underbanked. Inequality has grown. It is more glaringly obvious than ever that access to affordable credit and financial services are vital.

The CDFI Fund has done much good. But it has not yet fulfilled its potential to address the problems of equitable financial access. The new initiative by NCUA and Treasury could help.

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Apart from credit union self-interest, I believe increased CDFI Fund support for our movement will do much to further the core principles upon which the CDFI Fund was established. The Fund was to encourage the development of *sustainable, self-sufficient institutions*, which do not depend on repeated federal subsidies but would attract non-federal matching support. Credit unions (and for the matter, banks) are founded on this principle, in contrast to nonprofits that must continually raise grant dollars.

Apart from sustainability, *scale* is (or should be) a major strategic goal of the CDFI Fund. Size matters. Notwithstanding the great work of many non-regulated CDFIs, they are all but unknown and invisible to the general population. Credit unions have more than 100 million members. By most definitions, they have achieved scale and visibility. They are widely distributed throughout the country, not only in large urban centers, but in smaller cities and rural centers.

Over the last several years, the National Federation of CDCUs has made notable progress in bringing large credit unions into the CDFI world. There are now multi-billion-dollar credit unions with both CDFI certification and low-income designation. These institutions dwarf almost all other certified CDFIs, whether loan funds or even banks. Most importantly: they serve hundreds of thousands of members.

In short, credit unions have the potential to *elevate, broaden, and transform the CDFI movement* more than any other approach I can think of. They bring sustainability, scale, and – importantly -- far broader political reach than the CDFI movement. Greater bipartisan support could help the CDFI Fund not only survive, but expands. And expansion is needed. Especially as the ranks of CDFIs grow, the CDFI Fund could well use annual appropriations of $1 billion or more, if it is to deliver significant benefits to the economy.

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So, yes, expanding the CDFI universe through credit unions is an exciting initiative, filled with potential to be a game-changer. Why, then, am I concerned?

I worry about the potential for *dilution of the brand,* and with it, decreased credibility and political support for CDFIs.

The first generation of CDFIs, regardless of institutional type, were unquestionably "mission-driven," motivated by a commitment to serve the people and communities left behind. Many were shaped by the civil rights and anti-poverty movements, by religious faith, by campaigns against bank redlining. Becoming a CDFI meant gaining access to support for the mission. Even if you didn't get funding, the CDFI Fund provided a kind of "badge of honor," recognition of the value of your work and a way to join like-minded institutions in building a movement.

Since 2010, CDFI designation has also brought some tangible benefits. In 2010, the National Federation and our allies in and out of government won access to federal TARP funds, in the form of the Treasury Department's *Community Development Capital Initiative (CDCI).* Eligible CDFI depositories – only credit unions and banks, not loan funds – were able to obtain millions of dollars in low-cost, equity-like subordinated debt. After an arduous application ordeal, 48 CDFI credit unions obtained $69.9 million in funding of the total of $570 million invested in 84 CDFIs; CDFI banks received the rest.

For some credit unions, coming after the corporate credit union disaster and the Great Recession, the money was virtually a lifesaver. Credit unions that had never heard of "CDFI" before were able to get resources. I believe that all or the great majority of credit unions were sincere in their focus on serving underserved communities.

But many banks also came to the table, and among these were some – especially in the South – that not only had not heard of CDFI, but didn't trouble themselves too much about what it meant to be one. An enterprising lawyer had shepherded a number of these institutions into the CDFI world. Simply put, these institutions "became" CDFIs for access to capital. "Mission" was not at the top of their list; they checked the boxes, applied, and got cheap capital to do what they had done before.

Another major benefit for CDFIs came from the *Consumer Financial Protection Bureau (CFPB).* Attempting to rectify some of the worst abuses of the mortgage lending industry, the CFPB required financial institutions to verify borrowers' ability to repay (ATR), under the Qualified Mortgage (QM) rule. Certified CDFIs were exempted from this rule. This benefit became a powerful magnet for financial institutions to become CDFIs.

So, "CDFI" has become not merely a badge of honor, but for some, a flag of convenience and opportunity. It *paid* to become a CDFI – sometimes literally. For me, the burning question for the future is this:

Will the expansion of the CDFI universe will signal greater commitment to and resources for the unbanked, the underbanked, the underserved, the people living on the financial margins – or will it be simply a way to provide comfort to the bottom line and avoid compliance burdens?

It's not just about CDFI designation, either. Over the last few years, NCUA has dramatically expanded the ranks number of low-income designated credit unions. Today, there are well more than 2,000 low-income credit unions (LICUs). This represents more than a third of all federally insured credit unions. It is a far cry from the early 1990s, when there were about 150 designated LICUs out of more than 12,000 credit unions – a little more than 1%.

Like CDFI certification, low-income designation brings tangible benefits. To name just two: access to secondary capital, which the Federation and NCUA worked to bring about in 1996, and relief from Member Business Lending (MBL) limitations. Being a LICU "pays." We are a long way from the late 80s and early 90s, when both the regulators and the rest of credit union industry looked upon low-income credit unions with scorn. There are billion-dollar, highly respected "mainstream" credit unions with low-income designation. NCUA's efforts deserve much credit for effectively removing a stigma that long plagued LICUs.

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It is understandable that institutions follow self-interest and pursue these designations for the benefits they bring. But the policy justification for have awarding CDFI certification and low-income designation is to address the problems of financial disempowerment and exclusion. This demands hard questions and rigorous answers. When institutions "rebrand" themselves to take advantage of CDFI certification and low-income designation, are they truly pursuing the mission that justifies these benefits and privileges? Will new entrants to the field simply keep doing what they were doing before – which may not have been truly mission-driven – or will they instead refocus, reframe, and expand their work to revitalize and empower low-income communities and individuals?

The record is incomplete. Hundreds of credit unions have received large "underserved" expansions or low-income designation. I am unaware of any research that analyzes and documents the service that they provide post-designation. Andon the community development banking side, I know there is quiet grumbling about whether recent entrants to the field are truly serving those they should be.

Despite my qualms, I remain optimistic – even excited – about the expansion of the credit union presence in the CDFI world. Over the last several months, I've visited around the country with several multi-billion-dollar credit unions that have recently become CDFIs. They had never been CDCUs or LICUs; they were much larger and seemingly more "mainstream" than the stalwarts of the CDCU movement. But they talked powerfully about their missions, services, and programs, about what they could do with the resources and recognition that CDFI specifically could provide.

I came away convinced, and excited. At a time when the number of credit unions steadily erodes and the compliance burden weighs ever more heavily, my visits to these large, sophisticated institutions provided me with a generous dose of the optimism that I've found hard to summon up lately.

So, congratulations to NCUA, to Treasury and the CDFI Fund, to the National Federation of CDCUs. The work doesn't end here. But it's an important start.

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