National Federation of Community Development Credit Unions Conference 2014

ABCU Field Trip – supported by Citi

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Introduction & background

Between 14 and 16 May 2014, a group of four British credit union executives, two ABCUL staff members and an Economic Advisor to the Church of England attended the National Federation of Community Development Credit Unions’ (the Federation) Annual Conference in Detroit, Michigan. The trip was supported by Citi as part of its community development commitment and as a means of leveraging its transatlantic assets built through supporting community finance initiatives in both the UK and USA.

The trip presented an opportunity for the group to learn from best practice in the US Community Development Credit Union movement which is a sub-section of the US credit union sector with a specific focus on financial inclusion and “serving the underserved”. There are clear parallels between the mission and focus of this section of the US credit union sector and that of British credit unions since both seek to serve sections of society that have difficulty accessing crucial financial products and both therefore face very similar challenges in relation to designing and delivering appropriate products sustainably.

The learning opportunities for British credit unions are further augmented by the position of credit unions in the US more-generally where upwards of 40% of the population are members of credit unions, the sector has been established since the nineteenth century (growing particularly since the 1930s) and credit unions of all sizes offer a full service. Some central features of this success, including collaborative shared business models and successfully serving a broad range of members (rather than exclusively the excluded), are central to the current strategies for expanding and embedding credit unions in Britain, particularly with reference to the Credit Union Expansion Project.

What follows summarises the key themes and findings from the field trip on behalf of the whole delegation. Full details of the group can be found in Appendix 1.
Key themes and findings

Low income lifestyles, financial needs and behavioural economics

A great deal of attention was paid to the findings of academics and researchers looking at the lifestyles and financial needs of the low- to middle-income US population, their use of alternative financial products and the reasons behind this and the growing wealth of insights yielded by behavioural economics into the best way to design financial products and services in order to have favourable consumer outcomes.

- **Income volatility and precariousness** – several in-depth studies into the short-run temporal pressures on the financial position of low and middle-income families found significant in-year volatility in both income and expenditure. Often there is a mismatch between peaks and troughs in income and expenditure. This results in periods of acute financial distress and other periods of relative abundance and speaks to a need for services which smooth income while recognising the often-overlooked financial ingenuity of low and middle-income consumers.

- **Meeting needs, trust and relationships** – there were a number of counter-intuitive findings which focussed on the positive reasons for low and middle-income consumers choosing high-cost alternative financial services to meet their needs. This focussed on hidden costs and lack of transparency on the part of mainstream services; the need for clear, user-friendly information in stores and online and a strong focus on building relationships and trust by alternative providers. In order to disrupt this market, credit unions need to focus on addressing these same short-comings in the mainstream offering which can also affect their own services. These findings also speak to a need to provide financial counselling and support, including around improving credit scores, alongside financial services.

- **Behavioural economics** – the findings of this pioneering field between psychology and economics have recently drawn a great deal of attention. The focus here is on the challenge of designing products which work with the behavioural biases which psychological studies have shown to be at play in consumers' engagement with financial products and services. Key among these are: status quo bias, inertia, misjudgement of risk and information overload. Products which default to positions favourable for consumer outcomes, which present risks fairly, which work to support positive self-perceptions and which offer clear and transparent terms and conditions are to be preferred according to this approach.
The US regulatory agenda for credit unions and consumer protection

There are a number of interesting and informative parallels between the regulatory agenda in the US and the UK, both in relation to the regulation of credit unions and more generally with respect to consumer protection and the response to the challenges posed by the 2008 financial crisis. The US context is instructive in presenting a useful comparator to practices and trends in the UK and Europe which look to address many of the same issues but often adopt slightly differing approaches and therefore the differential in success can help to inform better policy.

- **National Credit Union Agency (NCUA) and credit union regulation** – NCUA, as the regulator solely responsible for overseeing credit union operations in the US (which contrasts with the UK where credit unions are regulated under the same regulatory institutions as other financial services). NCUA also has a dedicated office with responsibility for the oversight of smaller credit unions. Credit unions in the US experience a more-detailed level of scrutiny with all receiving at-least-annual regulatory visits. The comparison with UK regulation was instructive here, first, because of similarities in relation to questions of the extent to which credit union regulation should mirror that of banks under Basel III and due to particular foci in relation to prudential management of interest rate and liquidity risk. Similarly, NCUA has a strong focus on governance and MI standards which are also a concern in the UK. Holding down the cost of regulation is another common concern.

- **Dodd-Frank Act and the Consumer Financial Protection Bureau** – The Dodd-Frank Act was the key legislative instrument in the US which addressed the regulatory and legislative shortcomings which gave rise to the financial crisis and the associated consumer detriment. A key provision was the creation of a new federal regulator and consumer protection agency – the Consumer Financial Protection Bureau (CFPB). There are interesting parallels between CFPB and several institutions set up in the UK for similar reasons – the Financial Conduct Authority, the Money Advice Service and the Financial Ombudsman Service. CFPB aims to regulate firms in order to deliver good outcomes for consumers by, for example, improving the quality and transparency of disclosures. It also has a consumer empowerment function in providing financial skills and a complaints-handling role. While credit unions generally welcome these aims, there is a tension in that credit unions are required to comply with similar rules which inhibit their ability to provide their services. This is a very familiar tension for British credit unions.

- **CDFI Certification** – US credit unions which meet a series of seven criteria relating to the proportion of their business which aims at supporting the financially excluded are
able become certified as Community Development Financial Institutions (CDFIs). This is informative for British credit unions for a number of reasons. Firstly, the certification allows credit unions extra regulatory flexibilities in recognition of the challenges they face. Secondly, certification provides credit unions with access to a range of grant and investment programmes with which credit unions historically have not engaged with to any great degree. Thirdly, a new report from the Federation has found that certified CDFI credit unions are more than nine times more-effective in leveraging external investment for maximum impact than loan fund-type CDFIs which are common in the UK and are leading institutions by financial performance and service level relative to other credit unions. Finally, the certification standard is commonly referenced by supporters and assessors as a benchmark by which they can be assured of a credit union’s soundness and social mission.

- **Securitisation and access payment services** – as will be expanded below, all credit unions in the US offer a full service to their members. This involves extensive availability of transactional checking or current accounts through credit unions and the ubiquitous offer of mortgage finance. These services can be offered by credit unions of all sizes and a major contributing factor is the regulatory and institutional landscape which allows credit unions to access payment services on favourable, sustainable terms and to sell mortgage assets for securitisation via Fannie Mae and Freddie Mac.

- **Regulatory responses to payday lending** – there is a wide-ranging and emotive debate taking place on both sides of the Atlantic around the most-effective means of regulating payday lending to prevent consumer detriment whilst not curtailing the availability of credit. The US is an interesting example in this because regulation of payday lending is a matter for state authorities and therefore multiple regulatory responses have been tried and can be compared. Research by the Pew Institute has found that interest capping and limits on rollovers are ineffective in terms of improving consumer outcomes but that the response of Colorado has been more successful by requiring loans to be repaid in instalments. This supports evidence from the London Mutual Credit Union payday lending product which found great appetite for longer repayment terms. Pew recommends limiting loan repayments on affordability to 5% of an individuals’ income.

**The Community Development Credit Union business model**

A key learning opportunity for the British delegation was to observe and discuss the US CDCU business model in action in order to determine which practices, services and institutional arrangements might be replicated in the UK. This is particularly instructive given the parallels in community served and the longer operational history of the US movement.
The full service model – Community development credit unions in the US, as their mainstream counterparts, tend to offer a full service offering with a broad range of loan and savings products, transactional payment accounts and mortgage credit, car financing and insurance as standard. This ability to offer the full range of financial services and products has been critical to their ability to become self-sustaining since they have a range of income streams upon which to draw and are also able to offer an holistic financial solution to their members' needs. Only 10% of credit unions accept grant support which demonstrates their ability to sustain themselves even in challenging markets.

“Meeting people where they are” - this is a phrase which is widely-used around the CDCU sector in the US. This draws upon many of the findings of research into the needs of low income consumers as well as behavioural economics. It involves a range of areas, including: transparent and user-friendly information; the routine offer of financial counselling and capability services in branch; a commitment to economic regeneration and engagement with the wider community; the design of specialised products and services such as “Save to Borrow”, “Trust Card”, “5 for Me” cheque cashing or prize-based savings which seek to smooth the transition from alternative financial services to consumer-friendly credit union offerings. For more information on products and services, see below.

Mobile and IT innovation – as in the UK, US credit unions are grappling with how to offer a service which is attractive and convenient to a 21st Century market and this critically involves enabling the offering of services online and on mobile. A great many credit unions in the US are actively exploring and implementing solutions to this issue and many have seen substantial cost benefits in addition to attracting new members. A key challenge here, though, is scale and capacity and many credit unions have founded Credit Union Service Organisations and other collaborative initiatives to address these challenges. These are common challenges which are very much occupying the British credit union sector also.

Sustainability and membership base – there is a long-standing challenge in the British credit union sector around attracting a new and diverse range of members in order to aid sustainability. Many credit unions were self-consciously founded as anti-poverty initiatives and have required external subsidy to continue operating. It is clear from the US model that while it is not immediately obvious and does not apply across the board, CDCUs start from a core membership base of profitable, employed and economically-active members. Most credit unions, therefore, start from a strong financial position and have expanded out into the community and more socially-motivated activity from this base. The full service proposition is fundamental to this.
• **Business planning and data analytics** – there is an emerging trend within the US credit union sector which is seeking to embed smarter business planning techniques which are based on intelligent use of data. There is a particular project which is seeking to utilise the well-publicised benefits of “Big Data” by aggregating credit union service data and using this as a basis for better business planning, member targeting and marketing. The increased availability of such techniques as credit unions in Britain come together and collaborate more closely should enable similar benefits to accrue to UK credit union business planning over time.

**Support structures and trade bodies**

The US credit union sector is supported and augmented by a range of different trade bodies and support organisations and initiatives of which the Federation is only one. There are a number of lessons that can be taken from the examples of this work which were covered at the conference.

• **Young Leader development** – many of the British credit unions managers were impressed by the level of engagement by young professionals in the US credit union system. Attracting and developing young talent is acknowledged as a key challenge as part of the sector’s strategy going forward. The Citi-funded young leader development programme (“Cooperative Finance Leaders for America (CFLA)) is something which might be developed in a British context, building on efforts already underway in the sector.

• **Accredited training programmes** – there was a strong emphasis on accredited training programmes in the US credit union sector and the British delegation was once again impressed by the quality and range of this. While there are a range of training opportunities available in Britain, a stronger, accredited training system akin to that in the US was felt to be something the British sector should aim to emulate.

• **Compliance** – as in Britain and Europe, the compliance burden upon credit unions in the US grows all the time. However, given the small scale of credit unions generally, it is very often hard for credit unions to rise to the increasingly-difficult compliance challenge. Trade bodies in the US have adopted a number of innovative support packages to help address this challenge including comprehensive and user-friendly resources such as standardised template policies and procedures. They also commonly offer a “rent-a-compliance-officer” service which allows credit unions to access the advisory services of trade body-provided compliance officers in order to assess and improve upon existing practices.

• **Use of grants and investments** – given the low engagement of US credit unions with
grant support and investment, the Federation plays a key role in encouraging credit unions to avail themselves of grant support in a way which delivers scalable and sustainable new products and services rather than breeding dependency. This has resulted in some very beneficial outcomes for credit unions and credit union members as testified to by recent findings of the advanced offering provided by the CDFI-certified credit unions in the US. There are parallels here with the Credit Union Foundation’s new role in the UK.
Product and service ideas

The trip presented a number of innovative and imaginative product and service design ideas which are aimed specifically at meeting the needs of low- and middle-income consumers and supporting their transition to mainstream, affordable services.

Save and Borrow

This is a loan product which is designed to consolidate debts and encourage the transition out of debt by providing a savings base. Essentially the customer will borrow to consolidate their debts and be provided with a further sum which is placed in a non-withdrawable savings account. Once the member has cleared their debts, the savings can then be accessed. This allows the member to build up a credit score and take control of their finances. This is a development of a common practice among credit unions in the UK who require members to save a certain amount as they repay their loans. While borrowing more than necessary might seem counter to rational choice, this draws on behavioural economics by making saving easier and diluting the psychological effect of deferring spending today to build up savings in the future.

Trust Card

This is a credit card product which is designed to transition those with high credit card debts off the product entirely. The member takes out the card which is used to consolidate their existing credit card debts. They are then required to destroy all other credit cards and as they pay down the balance on their Trust Card a new line of credit is opened which increases as the balance reduces. The aim is for the Trust Card holder to be credit card debt-free within 36-60 months which is incentivised by extending a line of credit as the process goes on.

5 for me

This is a product which is designed to “meet people where they are” by replicating the experience of cheque cashier shops. The credit union in question – Self-Help Credit Union – has acquired a number of cheque-cashing outlets and retained their look and feel. They offer a cheque cashing service with competitive fee rates but which, in addition to providing cash, requires the customer to put $5 of the cheque balance into a savings account. The idea behind the model is that over time the individual will build up a cash reserve which they can draw on to see them through the time taken for their pay cheques to clear through their credit union or bank for free.
Save to Win

This is a prize-based savings account which has required legislative reform to introduce in those US states which have adopted it since 2008. It bears some similarity to the Saving Gateway pilot product in the UK but rather than matching deposits, each $25 saved in a month up to a limit (often ten per month) gives the member an entry into a monthly lottery draw. The member is permitted to make one withdrawal in a 12 month period and there is one larger draw at the end of the year. This has proven to be successful in encouraging those that do not save to do so. It also has the effect of encouraging new membership at credit unions and providing credit unions with an opportunity to cross-sell.

Credit union implementation plans

In July 2014, ABCUL investigated what concrete plans the delegation had to introduce ideas which they had gained at the conference. These were as follows:

- Two credit unions are planning on introducing a service whereby they assist their members to understand their credit score and how to improve it.

- One credit union has undertaken detailed analysis of their common bond area and mapped lending against income to better understand the profile of its membership and lending business.

- One credit union has introduced a credit builder loan which operates along similar lines to the Save and Borrow product above.

- One credit union has plans to introduce the Trust Card concept in 2014.

- Another credit union is trialling a partnership with a local department store to provide credit for their retail customers to finance purchases.

- One credit union is exploring options for offering mortgages to its members in partnership with a local building society and a group of neighbouring credit unions.

- Another credit union has been inspired to invest more in the development of their younger staff with their future leadership in mind and is paying for one young team member to undertake financial accounting qualifications.
Conclusion

The Federation conference was an excellent opportunity for the British delegation to gain an insight into the factors which underpin the success of the US Community Development Credit Union sector. It was also an extremely interesting opportunity to compare and contrast a very similar set of dynamics and environmental factors which contextualise the operations of credit unions and their members’ circumstances in both countries.

Of particular note were:

- The similarities in the financial circumstances of low- to middle-income groups in the US and UK and the need to design a product and service offering which “meets people where they are”.

- The importance of providing a full service offering in order for British credit unions to attain the sustainability levels which credit unions in the US have done. Certain regulatory and legislative barriers may need to be addressed in the UK in this respect.

- The importance of a modern and accessible service in order to attract a balance of members which can underpin sustainable development and growth.

- The value of supporting and developing credit union staff and volunteers, especially young professionals in the sector.

- The value that can be derived from a recognised certification programme which can be relied upon by a range of stakeholders.

- The very similar regulatory challenges which credit unions face in both countries, particularly around tensions between compliance and effective service delivery.

The British delegation left inspired and motivated and would like to thank Citi for the opportunity to attend the conference. The ideas and inspiration that the delegation received during the visit have already resulted directly in concrete plans which will benefit their membership and the wider credit union sector over time.
Appendices

Appendix 1 – The Group

Mark Lyonette – ABCUL Chief Executive. Mark has led the Association of British Credit Unions since 2005 and has overseen the introduction of new enabling legislation and ABCUL’s successful bid for a major Government contract aimed at bringing improved sustainability and collaboration to the sector. Mark is also Chief Executive of ABCUL’s trading subsidiary, Cornerstone Mutual Services, which is developing a range of shared products and services for its credit union owners as part of the Credit Union Expansion Project. He has recently been invited to join a Task Group set up to advise the Archbishop of Canterbury on how best to support credit unions as part of a competitive financial sector which encourages responsible lending and saving.

Matt Bland – ABCUL Policy and Communications Officer. Matt has been with ABCUL since January 2009 and is a key part of a small team representing credit unions to legislators, regulators and the media. The team’s work includes supporting the All-Party Parliamentary Group on Credit Unions in Westminster and regular liaison with a range of governmental and regulatory contacts. Matt holds a BA Hons in History, a Certificate in Professional Development, Promoting Financial Inclusion in Low-Income Communities and will soon complete a Post Graduate Diploma in Political Economy.

Tom Sefton – Policy Advisor, Church of England. Tom is part of the policy adviser team for the Church of England, taking a lead on the Church’s national action on, and responses to, public policy on economics and social affairs. Previously, Tom was a Research Fellow at the London School of Economics’ Centre for Analysis of Social Exclusion and then Research & Policy Manager at Church Urban Fund. He has also worked as an Economics Adviser for various government departments. Tom is currently supporting the Archbishop of Canterbury’s task force, examining the role of credit unions in the financial sector.

Barry Roberts – Barry is the General Manager of the North Wales Credit Union (NWCU). NWCU was formed from the merger of 5 credit unions and covers a wide geographical common bond. The CU has over 10,000 members. Barry’s particular interest is establishing a credit union model which serves the financially excluded and those on lower incomes but can be sustainable in its own right. He would like to use the trip to explore cross subsidising services to lower income members by more cost effective services to higher income members. He is also keen to explore collaboration and partnership working.

http://www.northwalescu.co.uk/en/
Carol McHarg – Carol is the Manager of the 1st Alliance (Ayrshire) Credit Union. The credit union serves a mixed former industrial and rural area to the south west of Glasgow. CU has over 3,500 members. Carol is keen to explore how to meet community and member socio-economic needs whilst maintaining a balanced member base. She is also keen to see how CDCU CUUs make Government intervention work and what, if any, challenges they face with this. And she is keen on exploring the use of members’ data. [http://www.allianceayrshire.co.uk/](http://www.allianceayrshire.co.uk/)

Karen Bennett – Karen is the CEO of Enterprise Credit Union in Merseyside. Enterprise mainly serves the borough of Knowsley. The CU has over 10,000 members. Karen is particularly keen to explore the “small dollar loan products” recently developed and piloted with 14 CDCU’s across America, in answer to the mainstream “pay day loan” product. She would like to understand the market, uptake and risks they have encountered. [http://www.enterprisecreditunion.org/](http://www.enterprisecreditunion.org/)

Martin Groombridge – Martin is the Manager of London Capital Credit Union which serves the London boroughs of Barnet, Camden, City of London, Hackney, Haringey and Islington. The CU serves over 7,000 members. Martin is keen to see the product ranges and marketing strategies of US credit unions and is passionate about emulating their growth. [http://www.credit-union.coop/](http://www.credit-union.coop/)
Appendix 2 – Citi Community Development & Citi Foundation

Citi Community Development leads Citi’s commitment to achieving financial inclusion and economic empowerment for underserved individuals, families and communities by working with nonprofit and public agencies across the country to expand access to financial products and services, build sustainable business solutions and forge innovative partnerships.

Of particular relevance to credit unions, Citi Community Development enables people to build credit and accumulate savings toward important assets:

- working with Grameen America to provide microloans combined with savings opportunities for underserved entrepreneurs. To date, we have opened more than 3,000 savings accounts for Grameen members.
- partnering with Self Help to expand the Micro Branch model, which provides access to responsible financial products and services for unbanked individuals.
- developing and implementing Kindergarten to College, the nation’s first universal college savings program, with the City and County of San Francisco.

In 2013, Citi and the Federation announced two new initiatives to support the Community Development Credit Union sector, the young leaders development programme, Cooperative Finance Leaders for America and a Federation-led project to introduce shared procedures for back office processing and services. Citi Community Development was a principal sponsor of the Federation conference in Detroit and is committed to supporting innovation and development in the CDCU sector in support of its vision for financial inclusion.

In the UK the Citi Foundation is working with ABCUL to help build the capacity of the credit union sector. The Foundation has provided grant funding to enable development of a standard accounting approach for credit unions, making use of best practices in recording information and producing a standard Board pack of key Management Information for use by credit union staff, as well as training for Boards and management. This Board pack will be easily digestible, incorporating use of graphical presentation of information, and highly accessible to the non-financially trained credit union Board Director. In addition the Foundation is funding a piece of action research aimed at building the number of UK employers with low income workers who partner with credit unions. The program will develop a template set of processes and documents for use by community credit unions and their promoters for approaching employers.

ABCUL – June 2014