PolicyLink

Equitable Development Toolkit

Resident-Owned CDFIs

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Lifting Up What Works®

How to Use It

How They Work

CDCUs and CIICs are similar in that they are resident owned and have a primary community development mission. They differ in several key respects.

CDCUs provide access to credit by recycling resident deposits back into the community. In contrast to commercial banks that have historically taken resident deposits in poor communities without a commensurate level of community lending, CDCUs circulate resident funds locally. They are intentional in their targeting of low-income communities as a service area in which to recycle investment. Resident deposits provide loans to local small business and farms, as well as home mortgages, automobile financing, and credit consolidation loans. CDCUs help build the financial stability of individuals in under-served communities by promoting responsible money management and saving, providing an alternative to the exorbitant rates charged by check-cashing outlets, and other services.

As do other cooperatives, CDCUs operate on a one-member, one-vote basis. Member-owner status is obtained by making a deposit. Members elect the board of directors that sets institutional policy. As cooperative members, the resident owners of the CDCU receive dividends on their deposits that are comparable, in many cases, to interest rates paid on savings accounts at mainstream financial institutions.

CIICs were designed as vehicles to finance major community development projects in selected areas and create individual asset-building opportunities for low-income residents. According to the HUD concept, CIICs would have access to low-cost capital from outside the community, including Economic Development Initiative grants, thus circumventing the typical CDCU challenge of limited capital due to low levels of member deposits. In theory, as the CIIC invested in successful large-scale community development deals, resident shareholders would receive a return on their investment. As shareholders, residents would also take part in deciding how the CIIC would invest its funds.

The CIIC concept has never been fully implemented. City First Bank in Washington DC is the only CIIC currently in operation and the bank has not yet sold shares to residents (see Tool in Action). As City First proceeds to develop the resident ownership component, it will be important to monitor two aspects of the CIIC model: 1) the resident/shareholder return on investment; and 2) the relationship between ownership and engagement among residents.

Level of Use

Resident-owned financial institutions are established at the city or neighborhood level.

Financing

- **CDCUs .** Member deposits are the principal source of capital. CDCUs acquire supplementary capital from religious organizations, foundations, banks, corporations, government, and individuals. In addition, the National Federation of Community Development Credit Unions operates several funds that provide different types of capital to CDCUs.
- **CIICs .** When HUD publicly launched the CIIC concept in 1996, available funding included both Section 108 loan guarantees and Economic Development Initiative (EDI) grants. HUD awarded extra points on funding applications for financial institutions with a resident ownership component. Today, HUD is no longer giving special consideration to CIIC projects and EDI grants are no longer available for this purpose. Potential financing for new CIICs might include HUD 108 loans in combination with other public funds such as Community Development Block Grant (CDBG) funds or private sources, like Program-Related Investments (PRIs).

EDI and Section 108:

Economic Development Initiative (EDI) and Section 108 Loan Guarantee Program are both HUD administered programs. EDI provides grants to local governments that can be used to add to the security of loans guaranteed through the Economic Development Loan Fund and increase the feasibility of the large economic development and revitalization projects they finance. Section 108 enables states and local governments participating in the Community Development Block Grant (CDBG) program to obtain federally guaranteed loans that can fuel large economic development projects and other revitalization activities."

Who Benefits

Low-income residents, nonprofit CDCs and businesses in low-wealth communities that use the banking services made available by resident-owned financial institutions are primary beneficiaries. In addition, member-owners of these institutions may receive additional benefits in the form of decision-making power regarding investments, financial returns, and other community development issues.

Key Players

Community residents, local civic leaders, community development intermediaries and other community-based organizations, and community development finance specialists are core stakeholders to involve in developing a resident-owned financial institution. In addition, elected officials can provide key support at different points in the process. Finally, establishing a resident-owned financial institution also requires legal expertise and assistance.

Advantages

Both models provide residents with direct ownership and governance opportunities in institutions dedicated to community development.

- **CDCUs** are a tested and replicable model for increasing access to affordable capital and financial services for low-income/low-wealth residents of underserved communities.
- **CIICs** are a conceptual model that offer promise as a mechanism to provide residents with potential financial returns from the financial institution's local activities.

Challenges

- **CDCUs'** lending capacity is limited. As a function of low levels of local deposits by low-income residents, CDCUs have smaller loan portfolios and generate less interest income for operating expenses and members dividends. Financial benefits to members are relatively small.
- The **CIIC** model is still under development in Washington D.C. - no "finished" model exists that can be easily replicated. As with any investment, investments in community development projects (the CIIC's mission) involve risk. The risk is shared with the institution's investors, including resident shareholders.

Tools in Action

Northeast Community Credit Union, San Francisco, California. Northeast Community Credit Union was chartered in 1981 in San Francisco's Chinatown. The credit union began with assets of $24,000, with headquarters consisting of a shared office above a restaurant. <="" p="">

Northeast serves a diverse population. The majority of its 1,200 members are of Chinese descent, including both recently arrived immigrants and those whose families have been in California for several generations. The Tenderloin branch members are predominantly African American, with Caucasian and Vietnamese participation. According to Northeast's President of the Board, Michael Chan, some of the Tenderloin branch members are homeless.

Northeast has a tiered dividend system that pays interest at close to market

City First Bank **of Washington, D.C.** City First Bank of Washington is a community development bank that opened its doors in 1998. It provides credit and financial services to individuals and businesses in the District's lower-income, underserved areas. **In three years, City First has already raised deposits from over 800 local residents , and originated over 190 loans to lower income neighborhoods. City First has committed to find ways to build community stakeholding in the Bank, including owning shares of stock.**

The bank originated through a small group of individuals who were concerned about the scarcity of banking services for smaller businesses in the District of Columbia's distressed areas. Once the group determined that it wanted to start a bank and had incorporated, it responded to the CIIC funding opportunity through HUD. City First Bank received $3.5 million in EDI grants and $5 million in Section 108 loan funds.

Today, City First offers accounts with low minimum balance requirements as well as youth and senior accounts. On the lending side, City First primarily provides business loans such as working capital, bridge loans, and commercial real estate development loans. Almost 90 percent of loans have been in the District; about 60 percent have been in low and moderate-income neighborhoods. Examples include a $400,000 building acquisition and construction loan to Action to Rehabilitate Community Housing (ARCH), a nonprofit organization, and a $500,000 line of credit to The Neighborhood Development Company LLC, to revitalize and renovate existing housing in Columbia Heights.

While City First is in a stable financial position, banks generally take several years to achieve profitability. In the interest of supporting asset building and wealth creation for local residents, the board has elected to delay offering stock to residents until the bank becomes profitable, which could be as soon as 2003.

Resources

Organizations

National Federation of Community Development Credit Unions

120 Wall Street , 10th Floor
New York, New York 10005
Phone: 212-809-1850

CDFI Coalition

Public Ledger Building
620 Chestnut Street, Suite 572
Philadelphia , PA 19106-3405
Phone: 215.923.5363 x 248

Publications

Flowers, Gwendolyn. 1999. "What Can We Expect from Community-based Lending for the District of Columbia," *American Economic Review* 89(2).

Isbister, John. 1994. *Thin Cats: The Community Development Credit Union Movement in the United States, Davis , CA : The University of California Center for Cooperatives.*

McCulloch, Heather, with Lisa Robinson. 2001. Sharing the Wealth: Resident Ownership Mechanisms. 86-93. pp. See PolicyLink.