

LENDING

Credit Unions

Use these standards for credit unions, which are nonprofit financial that are cooperatively owned and organized.

Level 1: Program Feasibility Assessment

These basic criteria determine the feasibility of a credit union. The focus is on the organizational and financial readiness of the credit union.

1. NEED

- a. Community Need
 - i. The credit union serves those without access to conventional financing.
- b. Market Study/Needs Analysis
 - i. The market study confirms the need for, and viability of the credit union.
 1. There are no other credit unions in the area that can work with the target population.
 2. There is enough demand and sources of funding to support the credit union.
 - ii. The market study informs the organization about demographics of the area, competition, and barriers to entry.
 1. The credit union's interest rates and terms are comparable to or better than those of the local area.
- c. Local Support
 - i. The beneficiaries of the credit union, such as businesses within the area, support the credit union.
 - ii. Neighbors and local community members support the credit union.
 - iii. The credit union is in alignment with local city, county, state and/or federal development goal(s)

2. ORGANIZATIONAL READINESS

- a. The organization is willing and able to do the credit union.
- b. The credit union is in alignment with the mission of the organization.
- c. The Board of Directors embraces a CED strategy and/or embraces the credit union as a part of the CED strategy.
- d. The organization and/or its partners have a track record of participating in similar credit unions.
- e. The organization has the financial and operational capacity to undertake the proposed credit union.
 - i. The organization can support the additional debt (if any) created by the credit union.
 - ii. The organization has qualified staff that can undertake the credit union.
 - iii. The organization has access to reliable, qualified vendors and service providers.

3. FINANCIAL FEASIBILITY

- a. Program cost
 - i. The credit union is affordable to the organization, and the projected cost is appropriate to the concept.
 - ii. The operator or staff providing the cost estimates is qualified and experienced with credit unions.
- b. Funding sources
 - i. There are enough sources of funding for the uses.
 - ii. The organization has endeavored to secure all available competitive and noncompetitive funding sources for which the credit union qualifies.
 - iii. The actual disbursement of each source is timely and in sync with the needs of the credit union.
 - iv. The organization is aware of the compliance implications of each source.
- c. Cash flow
 - i. The credit union produces enough cash flow to support the proposed debt structure (if any).
 1. The credit union minimally pays for itself over time. It has a sustainable cash flow, or the credit union is subsidized enough to sustain itself.
 2. The credit union can survive beyond the first year.
 3. The credit union will be able to capitalize itself each year.

Level 2: Practical Considerations

These criteria are essential for a successful, operating credit union.

1. MARKET BARRIERS

- a. The organization understands why past credit unions have not worked and instead addresses prior issues in innovative and alternative ways.

2. DEVELOPMENT TEAM & PARTNERSHIPS

- a. The organization has assembled the best team for the credit union, including vendors, employees, trainers, outreach coordinators, underwriters, and management staff.
- b. If the organization is lacking in any area (financial, experience), it has partnered with another entity to operate the credit union.
- c. The credit union is supported by public sector, private sector, and community partners.
- d. Through an open dialogue with the community, the organization has sought and incorporated community participation in the credit union.

3. SITE CHARACTERISTICS

- a. The area that is served by the credit union makes sense.
- b. The offices of the credit union are located near or adjacent to transit.

4. PROGRAM DESIGN & OPERATION

- a. The credit union is run in the appropriate language(s) for the clientele in the area.
- b. The credit union is culturally appropriate to the clientele in the area.
- c. The credit union is tailored to the specific geography of the clientele in the area.
- d. The credit union has lending guidelines.
- e. The credit union has underwriting guidelines.
- f. What types of documentations is required?
- g. The loan committee consists of members with expertise in the industry, whether through past experience or current employment.

5. PORTFOLIO MANAGEMENT

- a. What percentage is the loan loss reserve?
- b. Loss tolerance: when do losses become a concern?
- c. The organization has established key ratios that it abides by to manage the credit union.

Level 3: From Feasible to Exemplary

These criteria elevate a credit union to an exemplary one.

1. FUNDING & FUNDING REQUIREMENTS

- a. The credit union uses a funding program or funding source that is new and innovative.
- b. Each funding source was heavily leveraged to gain further resources.
- c. Certain features of the credit union were adapted to capture funding, but the credit union was not completely changed in order to capture one particular funding source.
- d. There are multiple stakeholders providing funding, and this mix of funding sources maximizes the feasibility of the credit union.
 - i. Funding includes conventional funding from bank.
 - ii. Funding includes nonconventional funding, such as start up grants.
- e. The credit union exceeds minimum standards required by funding sources.
 - i. There is deeper low and moderate income targeting than required by funding sources.

2. FUTURE PROJECTS

- a. The credit union strengthens the position (financial, political, capacity, experience) of the organization.
- b. Through the credit union, the reputation of the organization was enhanced. Issues that the staff faced were dealt with in a diplomatic manner, enabling future programs.
- c. The success of the credit union will enable future funding on other programs.
- d. The community is happy with the credit union and will participate in more/similar programs in the future.
- e. The community is more knowledgeable about credit union.

3. ENVIRONMENTAL IMPACT

- a. The credit union has less environmental impact than traditional banks during construction and during operation.
 - b. The credit union meets green building standards such as adaptive reuse or LEED certification.
 - c. The credit union conserves energy and water.
 - d. The credit union has an effective recycling program.
 - e. The credit union fulfills the triple bottom line.
 - f. The credit union stimulates green job creation.
4. ECONOMIC IMPACT
- a. The credit union attracts customers and new businesses to the area.
 - b. The credit union helps retain existing businesses.
 - c. The credit union stimulates long-term job creation.
 - d. The credit union encourages development, redevelopment, and investment.
5. PORTFOLIO ANALYSIS
- a. There is a diversity of loans in sizes, terms, and types.
 - b. The credit union funds green projects/programs and creates green jobs.
 - c. The credit union funds food security projects.
 - d. There is a low cost per loan disbursed.
6. MISSION ADHERENCE
- a. The financial products are accessible to or benefit the local community.
 - b. The credit union stays true to its mission during tough economic times.
 - c. The credit union serves neighborhoods and projects that are more complicated and require more time and effort, and are generally undesired by conventional lenders.
7. COMPREHENSIVENESS
- a. The organization provides or connects to other programs that provide multiple services e.g. technical assistance.
8. DIVERSITY
- a. The credit union serves a mixed income clientele.
 - b. The credit union encourages mixed age, gender, ethnic, etc. participation.
 - c. The credit union supports minority businesses.
9. PUBLIC BENEFITS
- a. The credit union provides financial services that are needed by the community but are currently not provided or accessible.
 - b. The credit union results in other positive physical impacts.
 - c. The credit union results in other positive economic impacts.
 - d. The credit union results in other positive social impacts.
10. REPLICABLE/SCALABLE
- a. This credit union can be replicated in other communities, regions, and/or states.