

Expanding CDFI Coverage in Underserved Areas

Aligning Products and Services with your CDFI's Mission

Understanding the Benefits of CDFI Status for Newly-Certified and
Prospective CDFIs
Denver, CO

July 23, 2015



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Overview

- Alignment and What it Means for CDFIs
- Emerging Market Review Approach
- Key Products and Services
- Core Lessons for Alignment of Products and Services

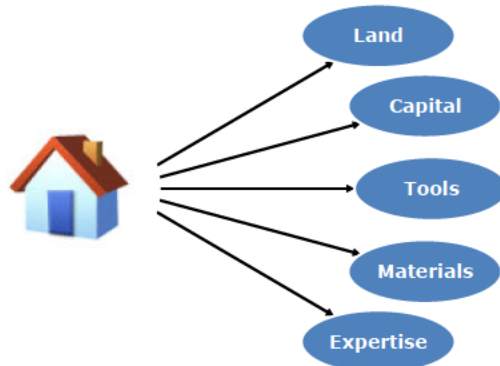


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What Do We Mean by *Alignment*?

Example: Building a Home



Mission → Alignment of Resources



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What Does it Mean for Individual CDFIs?

CDFI Mission Statements → *Alignment Categories and Criteria*

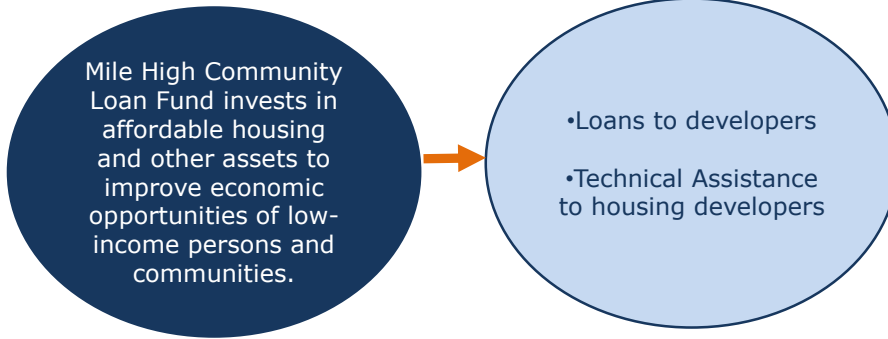
- | | | |
|---|--|---|
| <ul style="list-style-type: none"> • Target Market Definition <ul style="list-style-type: none"> - Investment Areas, LITP, OTP - Homogeneous or mixed characteristics • Development Focus <ul style="list-style-type: none"> - Consumer (retail) - Commercial (wholesale) - Specific need - Spectrum of needs - Time horizon (short, intermediate, long) | | <ul style="list-style-type: none"> • Operations <ul style="list-style-type: none"> - Capacity to deliver products and services to all segments of defined Target Market(s) • Products <ul style="list-style-type: none"> - Address demonstrated need - Remove barriers - Produce savings - Build assets - Accessibility and convenience • Services <ul style="list-style-type: none"> - Reduce costs - Reach new markets - Build new capabilities - Protect and Build assets |
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Example: Mile High Community Loan Fund

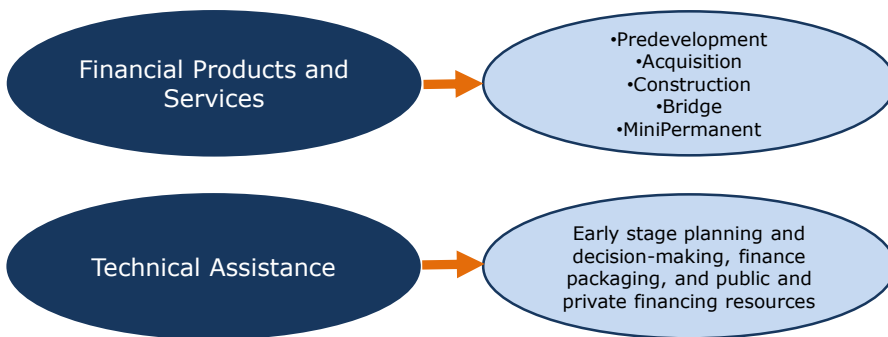
Mission → **Alignment of Resources**



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Example: Mile High Community Loan Fund

Mission → **Alignment of Resources**

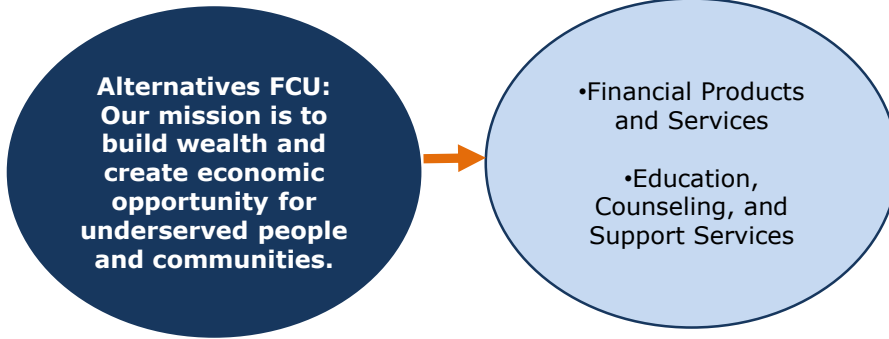


While banks often limit loans to 60-70% of the underlying real property value, MHCLF lends up to 90% LTV. Flexible repayment terms, subordinated collateral positions, and other credit enhancements are employed to help make important community development projects move forward.

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Example: Alternatives Federal Credit Union

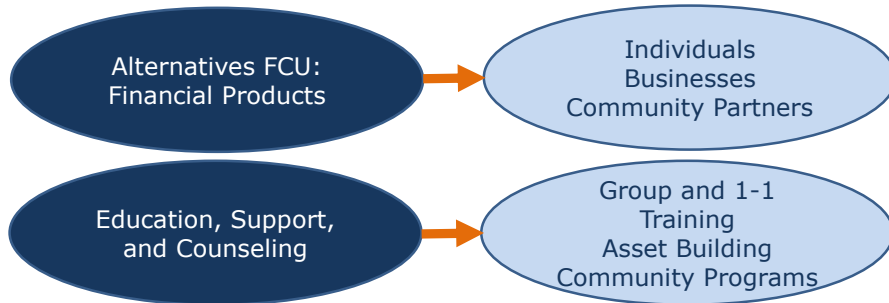
Mission → *Alignment of Resources*



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Example: Alternatives Federal Credit Union

Mission → *Alignment of Products and Services*



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How to Test Alignment

- Compare market characteristics with menu of products and services
 - Competitive Products and Services
 - Preferences of members, clients, customers
- Alignment will depend on:
 - Type of CDFI
 - Focus of activities
 - Range of products and services
 - Characteristics of target market
- Test is more complex for regulated depositories with wide range of products and services



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Emerging Market Review (EMR)

- Tools/approach first developed by Federation in 2009 to:
 - Increase community development impact of credit unions among low-income and underserved members and communities
 - Increase the size and strength of CDFI credit unions as community-based financial institutions
- Essential to balance and align
 - Community development mission
 - Business imperatives and objectives
- EMR principles and approach applicable beyond regulated CDFIs



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EMR and Aligning Products and Services

For regulated CDFIs:

1. Start where you are
2. Know where you're going
3. Build sustainable products
4. Attract new members/customers with incentives and easy access
5. Life cycle pricing
6. Link products and services to retain members/customers across financial continuum
7. Educate members at "teachable moments"

For unregulated CDFIs:

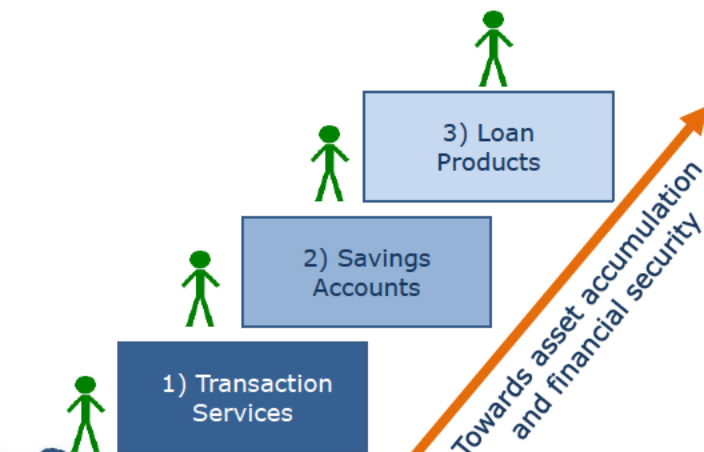
1. Know your products and market
2. Know your mission
3. Financial plan for growth
4. Adjust features of products and services to reach new clients
5. Plan on client retention and growth
6. Understand how your products and services fit in financial context of clients and customers
7. Synchronize delivery of development services with products and services



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Example: Low-Income Target Populations (LITP) Consumers



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Example: LITP Consumers

- Very Low Income Consumers often have higher demand for financial products than financial services
- Important entry point for unbanked
- Competitive services must offer
 - Convenience
 - Transparency
 - Trusting Relationships
 - Welcoming Environment



1) Transaction Services

- Check Cashing
- Second Chance Checking
- Prepaid Debit
- Bill Payment



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Example: LITP Consumers

- Savings mechanisms that are automated and integrated with ongoing transactions promote savings for consumers at all income levels
- For low-income consumers, depositories can connect automated savings to account transactions and structure credit building and other short-term loans to include mandatory savings components



2) Savings Accounts

- Direct Deposit with Automated Savings
- "Teller Marketing"
- Emergency/Event Savings
- Credit-building Savings



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Example: LITP Consumers



3) Loan Products

- Financial Counseling
- Credit Builder Loans
- Payday loan alternatives
- Share-secured credit card

- Affordable loan products can help LITP consumers to establish credit and build savings
- Financial education and counseling can assist with debt consolidation and financial planning
- Continued integration with savings and transaction services



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Example: LITP Consumers



3) Loan Products



2) Savings Accounts



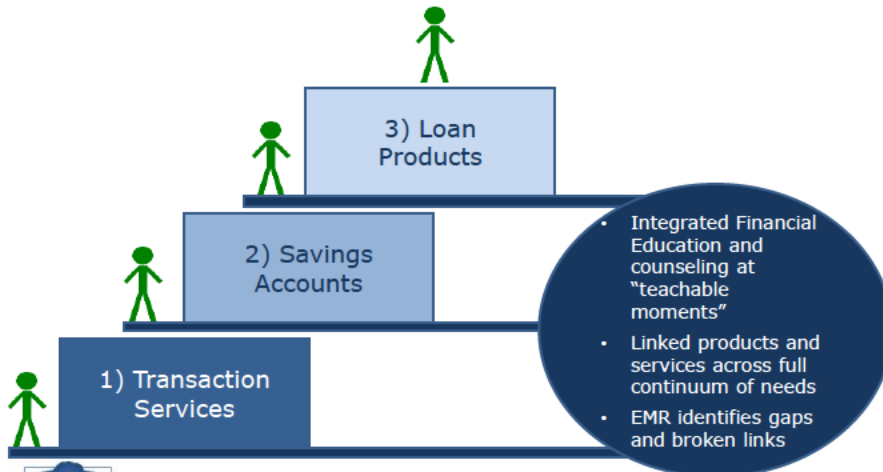
1) Transaction Services



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Example: LITP Consumers



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Key Products and Services

- Will vary by type of CDFI, specific target market and mission
- Learn from CDFIs that share common mission and focus
- For example, the keys for CDFIs include:
 - Financial Services
 - Loan Products
 - Development Services/Technical Assistance
- Use market information to identify:
 - Gaps in product line
 - Strengths and weaknesses of product design
 - Possible improvements in product delivery



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Core Lessons for Alignment of Products and Services

- Define market
 - Who competes to serve your members/clients/customers?
 - Who competes to serve your community?
 - What are the financial products and services that they provide?
- Learn from competitors
 - Why do people use “inferior” services?
 - What is missing from your products and services?



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Core Lessons for Alignment of Products and Services

- Power of partnerships
 - Extend brand through non-profits that already serve target market
 - Build credibility with new constituencies
- Make new mistakes!
 - Learn from each effort
 - “Fail up” (until you succeed)



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Questions?



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