

Reaching Rural Communities with Cutting-Edge Technologies  
CDFI Prize Competition

**I. Proposal Summary**

This proposal requests funding to bring CU Impact, the first and only core banking system created specifically for CDFIs to some of this country's poorest counties in rural Louisiana and Mississippi. CU Impact enables CDFIs to expand far beyond their existing capacity and operational limitations to reach further into the communities they serve more efficiently, thus providing a more comprehensive range of products and services to meet the needs of an even greater number of underserved and rural communities.

This application consists of a partnership between three CDFIs: the National Federation of Community Development Credit Unions (the Federation), Red River Mill Employees Federal Credit Union, and Shreveport Federal Credit Union.

The Federation is the premier CDFI intermediary that organizes, supports and invests in CDFI credit unions serving low- and moderate-income consumers, and the exclusive provider of the CU Impact system. The CU Impact platform prioritizes system enhancements for low-income members, bringing innovation to the marketplace faster, allowing CDFIs to increase their capacity and reach deeper into the community of focus with an expanded range of services. The system also supports CDFI outcome tracking and reporting, and leads to the long-term viability of CDFI credit unions through the use of streamlined technologies targeting communities and borrower in the greatest need of financial products and services.

Red River Mill Employees Federal Credit Union (Red River Mill FCU) and Shreveport Federal Credit Union (Shreveport FCU). Both Red River Mill FCU and Shreveport FCU are long-standing CDFIs with a proven history of meeting the needs of the underserved populations. Both CDFIs have deep relationships with community partners that provide services to many of the low-income and rural members they serve.

The targeted counties of focus for this application are six rural, persistent poverty parishes and counties in Louisiana and Mississippi. Together these CDCUs serve 23,000 people in these persistent poverty counties providing banking services and access to credit for people who have few good options.

**Red River Mill FCU: serving members in a Rural and Persistent Poverty Community**

Red River Mill CU serves and operates out of the rural and persistent poverty community of Natchitoches Parish County, where one in three residents lives below the Federal Poverty Level. Currently, 41% of Red River FCU's target market live in poverty, 53% are female heads of household, and 70% are African American. According to the 2010 Census, the unemployment rate was 31%.

**Shreveport: Serving Persistent Poverty Counties in Louisiana and Mississippi**

All Shreveport's branch locations are in Persistent Poverty Counties. Shreveport FCU has operations in five rural and persistent poverty counties: Quitman, MS; Panola, MS; Coahoma, MS; Morehouse, LA, and Lincoln, LA. The only other parish where Shreveport operates, in Shreveport,

LA, is persistent poverty, but not rural. Well over 90% of all activities are directed towards Persistent Poverty communities.

The financial services needs in these rural, underserved communities require a range of strategies and services, both “high-touch” and high-tech, yet the current core technologies place limitations on the reach of each institution. CU Impact will allow the CDFI credit unions to operate with a ‘branchless banking network’ moving beyond brick and mortar operations and extending their financial services into the hands an extensive network of partners through web- and mobile-based transactions and services, ultimately increasing the scale and the impact of their work and allowing the credit unions to extend operations deeper into the rural markets they serve. To better serve the membership, CU Impact will enable the credit unions interact with customers through smartphones and support the credit unions to roll out features including remote deposit check capture and affordable and immediate wire transfer services for remittances.

## **II. Problem Identification**

### **Underserved communities in Louisiana and the Mississippi Delta**

A USDA study shows levels of rural poverty are particularly extreme in “high poverty-clusters” along the Cotton Belt and the Mississippi Delta regions. The six counties of focus in this application have an astonishingly high 30.3% average poverty rate, more than double the overall US poverty rate, with some counties such as Coahoma county, serviced by Shreveport, having a nearly 36% poverty rate.

These marginalized communities are scarred by deeply entrenched, generational poverty. The rural poverty rate is growing and has exceeded the urban rate every year since the 1960s. Louisiana's rural poverty rate is 24.2% as compared to the U.S. poverty rate of 15%. Mississippi has the highest overall poverty rate of any state in the US, with 21.5% of households in poverty, and an even higher rural poverty rate of 28.8%.

### **Financial needs in underserved communities**

When it comes to money, most consumers make choices based on trust and convenience. This is especially true for those who are the most economically insecure, where financial choices can affect a family's health, well-being and prospects for stability. Unfortunately, families and individuals with the least money often have the fewest choices, with little or no access to safe and affordable products and services. These economically vulnerable Americans rely upon payday lenders, check cashers and other fringe financial services that charge exorbitant interest and fees for essential small dollar credit products and transaction services. Despite regulatory efforts to protect consumers, the fringe financial sector continues to thrive.

Tens of millions of Americans are financially insecure, lacking either the ability to meet monthly bills or the necessary savings to cover unexpected expenses. According to a 2013 study by the FINRA Investor Education Foundation, more than half of Americans lack sufficient savings to cover three months of living expenses if an unexpected need arose in the following month. Communities of color suffer most, with racial wealth gaps growing wider since the Recession.

For economically vulnerable Americans, particularly in Persistent Poverty Counties, financial insecurity is compounded by a lack of access to secure, affordable financial services. One quarter of all U.S. households do not have a basic checking or savings account, and rely on fringe financial services for banking needs. The average underserved household spends \$2,412 each year just on interest and fees for fringe financial services, and in 2012, these charges drained nearly \$90 billion from low income households. High interest rates and excessive fees can be detrimental to low- and moderate-income families struggling to cover basic needs.

Often times, rural communities like these do not have a branch of a bank within them, leaving only residents with only fringe banking services as the remaining option. Any given zip code with less than .02 bank branches per 1000 people is called a bank desert. A 2015 study at the University of Wisconsin, Whitewater identified at least 650 bank deserts in rural areas across the United States, concentrated most heavily in the South.

A 2013 survey administered by the FDIC further showed that the southern portion of the United States suffers most greatly from a lack of access to banking. More often than not, those households that do not have access to standard banking are also living below the poverty line. A 2006 study from Caskey estimated that 79% of those households that are unbanked are also living below the poverty line.

Specific needs and challenges of our Target Market result from long-term socio-economic barriers, such as lack of access to financial services, lack of transportation and scarce job opportunities.

Louisiana, where more than 30% of households are either unbanked or underbanked, is second in its lack of banking only to Mississippi, which has the highest percentage of any state of both unbanked and underbanked households, with 14.5% of households completely unbanked and 32.8% of households underbanked. Many individuals residing in our Target Market represent an increasing population of working poor. The Corporation for Enterprise Development (CFED) reports 31.4% of the jobs in Louisiana are low-wage jobs, paying below the poverty threshold with the majority of Louisiana's low-paying jobs concentrated in rural areas. In Mississippi 20.8% of households live below the federal poverty line.

Louisiana also holds one of the highest concentrations of payday lenders in the nation. With few consumer protections from usury and one of the highest legal limits, 780% APR, for payday loans in the U.S., according to [paydayloaninfo.org](http://paydayloaninfo.org). Nearly one-fourth of Louisiana's households have relied on payday lenders (Louisiana Office of Financial Institutions, 2014). According to the Center for Responsible Lending, the average payday loan in Mississippi is at an exorbitant 572% APR rate, meaning that on a loan of \$350 a borrower can expect to pay \$691 in fees and still owe the original \$350. The ease of access helps to make predatory loans more appealing. Mississippi, has the highest number of payday lenders per capita of any state.

Louisiana's usurious lending practices are also rampant in the auto lending industry where it is not uncommon for unregulated auto and title lenders to charge upwards of 30%, setting borrowers up for inevitable challenges of living up to loan agreements and risk for repossession of an asset that represents, for many families, the sole means of transportation to and from work.

## **Technology Limitations**

Shreveport and Red River CU provide services to underserved distressed neighborhoods and communities and low-income target populations that historically lacked access to credit and banking services. According the Carsey Institute, members of rural communities are more likely to be offered, and to accept, a high APR subprime mortgage than their urban counterparts.

Community Development Credit Unions are an affordable alternative to high cost lenders. But so far these institutions have been constrained in how far the CDFIs can extend their reach due to the limitations within the technologies that guide their operations. Existing core systems are primarily built for mainstream financial institutions, which do not grow in a scalable fashion when applied to low-income borrowers and underserved communities.

CU Impact, the first and only core system created specifically for CDFI's, will finally enable the institutions to expand far beyond their existing capacity and operational limitations to reach further into the communities they serve, thus providing a more comprehensive range of products and services to meet the needs of an even greater number of underserved communities.

## **III. The Approach - A Solution to Increase Impact in Underserved Communities**

For nearly a century, CDFI credit unions have delivered safe and affordable financial services in the nation's most economically disadvantaged communities; targeting unbanked and underbanked consumers. Responsible products and services have earned the trust of low-income consumers, but we have thus far been unable to supply these services at a scale to match the magnitude of demand. While community development credit unions have proven to be leading innovators and early adopters of new technologies their growth is constrained by the cost and complexity of connecting innovative products and services to their banking platforms.

### **CU Impact - Overview of Goals**

CU Impact, a customized shared banking system created by the Federation, will help to scale up the delivery of innovative products and services in low-income and underserved communities by transforming the way in which credit unions deliver financial services on a large scale at low cost, sustainably, and without losing the hard-earned trust of low-income consumers. The objectives are to:

1. Connect more low-income Americans to safe and affordable financial services.
2. Develop a continuum of asset-building accounts, loans and education to help people move from debtor to saver to asset owner.
3. Track and measure the impact of credit union services on end-users to improve reporting and provide greater insights into operations.
4. Provide a uniform platform of service so low-income residents can access the same high quality services from CDCUs whether they are in a branch, a church basement or a service organization.

The Federation has engaged a software partner, EPL, Inc., to customize a core banking platform and convened a software advisory group comprised of CDCU innovators to identify and prioritize the design of financial services tailored specifically to low-income individuals and communities. These experts and our own research into the preferences and needs of low-and very low-income consumers have helped us define initial priority services:

1. Automated lending platforms facilitating rapid credit decisions tailored to the unique underwriting criteria for underserved target populations.
2. Mobile banking apps “credit union branch in your pocket,” to allow consumers to check account balances, transfer money, receive low fund alerts, deposit checks and pay bills without going to a branch.
3. Automating incentivized savings plans that can encourage people to save through customized savings schedules, goals or contests.

With EPL's robust data analytics tool within the banking platform, the Federation and CDCUs will be able to measure the impact and refine products to improve the overall financial security of users. For example, the system will track whether a specific loan product achieves its anticipated outcomes of reducing debt, or improving credit. Armed with this data, credit unions can make improvements to help people not just access credit but to use credit productively.

Finally, CU Impact allows innovative banking, savings and loan products to be delivered through multiple credit unions simultaneously, expanding access to a larger suite of services across multiple institutions. With common products, services, and delivery systems across multiple institutions, the Federation will be better able to develop common marketing and outreach campaigns to reach more consumers in targeted areas.

### **CDFI'S well-position for growth**

Both CDFIs have positioned their institutions for growth. In response to a proliferation of predatory lenders and a lack of mainstream financial services within the target market, Red River FCU made a strategic decision to revise its charter from serving a single employer group (SEG) to include everyone who lives, works or worships across a wide-spread, underserved rural area. The newly covered areas include Natchitoches, Sabine, and Winn parishes, all of which are both rural and all persistent poverty counties. With assistance from its regulatory authority, NCUA, Red River FCU developed an aggressive strategic plan to address the economic distress facing thousands of low-income residents who, without access to safe financial options, are increasingly marginalized. Red River FCU's recently constructed a new, full-service branch to accommodate additional members. As part of this growth initiative, the credit union increased staffing by one full time employee and one part-time employee.

Shreveport has also prepared for growth into rural markets. Shreveport is planning to launch a Mobile Branch service, a dedicated vehicle that will travel to rural communities in Mississippi and Louisiana, which will operate 5 days a week, in various locations year round. Each mobile branch will service 4 rural communities on an every two day schedule. The branch will be staffed with security and therefore can accept deposits, cash withdrawals, and payments. The mobile strategy

will complement the CU Impact system, allowing for both hands-on services for cash-related transactions, and supported by remote access through the CU Impact platform.

With support from a CDFI Prize Completion Red River Mill FCU and Shreveport FCU will be the first two CDFIs to adopt the CU Impact system enabling the institutions to carry-out ambitious expansion plans, leveraging a network of partnerships that all three CDFIs have developed over our combined 125 years of operation.

Traditionally, CDFIs have been challenged to adequately adapt their systems to fit the needs of the community. The challenge has often been that CDFIs were limited in being able to present countywide solutions with a consistent product or platform that CDCUs and their community partners could plug into. With CU Impact, the Federation will be able to offer systematic solutions and opportunities to help low-income and rural residents and clients across a variety of rural communities and across multiple partnerships with consistent access to high-quality banking services. CU Impact will allow for the connection to city initiatives such as safe banking programs, summer youth employment, financial empowerment centers and more.

### **Systems for Collaborative Outreach**

The Federation will also support the credit unions in marketing efforts for expansion. With the support of this CDFI Prize Completion grant, the Federation will be able to provide assistance to the CUs enrolling on CU Impact to engage in targeted outreach and education throughout the target neighborhoods.

Specific strategies will include: the development of professional common marketing materials and content, facilitating partnerships with local non-profit organizations and local affiliates of national partners by providing targeted trainings on the system for providers; and engaging with local employers (especially of those CDCUs with close ties to the local employee groups).

### **Specific Programs and Technology Upgrades**

The outreach efforts will be coupled with a suite of innovative products specifically targeted for underserved and rural communities. Early enhancements to the suite of products offered by both credit unions will include the roll-out remote account opening, remote deposit capture, and remittances. Each of these services will allow the CUs to expand services deep into rural areas that lack the presence of mainstream financial institutions, and enabling the credit unions to bring financial products and services to the unbanked and underbanked consumers.

Both CDFIs will offer a range of new mobile banking services through smartphones enabling the new members to be able to check balance, make transfers, pay bills and deposit checks from their hand saving time and money to their households.

## **IV. Partnerships and Leverage**

### **Looking Ahead**

CU Impact is the ultimate extension of these early collaborations, allowing for innovative banking, savings and loan products to be delivered through multiple credit unions simultaneously, expanding access to a larger suite of services across multiple institutions. With common products,

services and delivery systems across multiple institutions the Federation will be better able to develop common marketing and outreach campaigns to reach more consumers in targeted areas.

**The Federation is the lead organization on this effort.** In 2013, the Federation embarked upon a research and design project to determine the feasibility of building a dedicated core banking system to power the growth and impact of CDFI credit unions in the United States.” As part of this process, the Federation convened a Technology Advisory Committee to delineate the essential elements of an ideal core operating system with specific capabilities for community development credit unions. After a thorough search and extensive negotiations the Federation finalized an agreement and made an equity investment into a cooperatively owned software company providing core data processing services to the credit union industry, EPL Inc. Through this agreement, EPL will deploy a team of programmers to work directly with the Federation staff, a software advisory committee and the two participating credit unions to build innovative products and service into the CU Impact platform.

The Federation’s role is overall collaborative manager and lead interface with software provider directing the development and implementation of CU Impact on-site at the credit unions. The Federation is the technical assistance provider and deliverer of shared back-office functions (currently focused on accounting, internal controls and compliance). In this capacity, Federation staff are responsible for overseeing the software development process, convening the software advisory committee to review and prioritize system enhancements.

In addition to designing the system improvements, the Federation will oversee the conversion process to convert Red River Mill FCU and Shreveport FCU onto the CU Impact system, track the implementation of the system on-site and provide a regular feedback loop to programmers on the progress. Furthermore, the Federation will work oversee the research team in the design of outcome metrics and work with the programmers to develop the tracking of these metrics within the system.

**Red River Mill FCU and Shreveport FCU are the lead implementing organizations that will be responsible for converting onto the CU Impact platform,** testing and providing feedback on new products and services, and using the system to reach more borrowers in need.

Both CDFI credit unions will serve on the software advisory committee alongside fellow CDCU innovators to identify and implement a mix of financial services tailored specifically to low-income individuals and communities. An operational process for the continual improvement and refinement of CU Impact is already in place, with both CDFIs playing a central role.

### **On-the-ground Partnerships**

CDCUs are invested heavily in community and have formed partnerships that allow for increase access to the community. CDCUs can leverage these partnerships for outreach, referrals, and promotion of the CU Impact suite of products and services.

With direct services, Red River Mill FCU and Shreveport FCU serve over 23,000 members. Yet the network of potential members is greatly expanded when considering partnerships developed through financial counseling and local government partnerships. Red River Mill FCU partner

groups include the River Parishes Community College, the Natchitoches Parish Housing Authority; Campti, the USDA, and Field of Dreams, a youth education program. Shreveport also works with an extended network of partners including the USDA and the Housing Authority.

### **Taking Existing Partnerships to the Next Level**

The innovative technology that powers CU Impact will allow for a seamless and efficient connection to external partners. The two CDFIs that will run CU Impact have both a vast network of community and neighborhood based organizations and strong central leadership at the city and county levels to help coordinate and connect partners to their organization, yet the limitation is currently placed on the capabilities of the core system, as mentioned previously.

### **National Partnerships & Leverage:**

Historically, the CDFIs in this project have been able to effectively leverage capital, and by joining together in this single collaboration will leverage several multiples of the funding from the CDFI Prize Competition. The Federation has already negotiated reduced fees and specific customizations on behalf of the Federation's network of CDCUs in return for access to more volume. For the CDFIs in this collaboration, leverage happens in several unique ways:

- CU Impact has already received \$330,000 in funding through the initial feasibility phase and the development of the technology system from Citi.
- The Federation has invested \$300,000 to purchase shares in EPL, Inc. to create the CU Impact platform with a dedicated team of programmers. In addition, we have an option to purchase up to \$5 million in additional shares.
- The partnership with EPL includes leverages 1:1 of private investment from EPL into CU Impact: for each \$ raised by Federation and CDCU members, EPL will match the programming funds.
- In 2016, the Federation received funds for CU Impact from the WK Kellogg Foundation of \$599,500.
- A pending grant of \$1,364,500 from the Prudential Foundation will be presented to the board of directors of the organization this fall.

### **Leveraged Infrastructure:**

CU Impact will further enable the CDFIs to expand a partnership piloted with Citi this year in which they opened up their ATM network to CDCUs surcharge-free ATM, which will be expanded into CU Impact users. This example of leveraging bank infrastructure is something we will continue to build upon. With CU Impact we will be able to identify other points through which we can leverage bank infrastructure and expertise to enable credit unions to “piggy-back” and extend service to underserved people and communities not well-served by mainstream large banks. Some areas we intend to explore are in card processing systems, account management, investment vehicles and loan purchase and servicing.

CU Impact will enable the Federation and its members to increase efficiencies, create greater economies of scale and bring innovative products to low-income individuals and communities through credit unions.



## **V. Impact: Outcomes, Success Measures & Metrics**

Set-up and adoption of a new core system will take time, so the short-term, first-year goals will simply be the complete adoption of the core system by each of the credit unions within 12 months of receiving the grant funding.

The Federation has historically relied upon manual processes to collect and analyze data on its initiatives. Each credit union participating operates on different systems with non-standard account structures and reporting capabilities. Thus, our system has generally relied upon providing the data points to track and supporting each credit union to determine how to “code” their systems to provide the data as consistently as possible.

Once adopted, CU Impact has the ability to design metrics within the system that will facilitate consistent outcome tracking and analysis. We are currently working with EPL Inc, the CU Impact software provider, to establish the data analytic capability that would enable us to track members and their progress through the credit union. The Federation will track the ability for each CDFI to attract members living in rural areas and expand their target market deeper into persistent poverty communities.

### **Impact and Data Tracking**

This capability will not only allow for the ability to measure outcomes and report to funders but will better help us provide meaningful pathways toward financial security for members. Outcomes to be tracked will include: demographic profiles of members recruited through the expansion of services into high-poverty neighborhoods, the number of underserved individuals impacted by the program, access and usage of CU services, select financial condition data points through financial counseling and loan applications, all of which will determine how well we are helping low-income and underserved members navigate the financial services as well as to determine progress on financial condition. We will also track ongoing funding leveraged through the system and the project, along with a detailed list of system enhancements.

Short-Term Outcomes include the support in the conversion of both CUs to the system; implementation of mobile banking access; and test loan underwriting and deaccessioning system.

With the proper systems in place, for the long term, five plan for CU Impact years, we anticipate providing safe and responsible financial services and loans in the identified high-need underserved areas. The core system will serve the existing 23,000 members, and we expect the credit unions to serve over 35,000 members over the five year period in rural and underserved communities. The growth is expected to facilitate an additional \$33.6 million in lending and manage a loan portfolio of over \$101 million in rural communities

### **Primary Goals: Serving a Greater # of Low-Income Consumers in the targeted communities**

By year end 2016, the CDCUs in this collaboration are expected to have combined estimated loans outstanding of \$67.6 million in rural counties. In the projections below the CDFIs will increase their lending by to \$33 million in direct lending on the system over the 5-year span, a 50% growth in lending. All lending activity will be run though the system, and over 90% of the lending activity for each CDFI is expected to reach underserved consumers in the target market.

## **CDFI Industry Impact**

The impact of the CDFI Prize Competition grant will extend far beyond these two CDFI credit unions. The support for our initial local test case will enable the Federation to directly oversee and monitor the early stages of onboarding new users to the system. It will ensure that we have hands-on knowledge and experience integrating users onto the system and that we can best prioritize the needs for upgrades and enhancements. In short, it will help the Federation transform from a purveyor of best practice to an agent of transformation for the CDFI field.

## **Scalability and Replicability**

The Federation is a network of over 200 community development credit unions, of which over 2/3rds are CDFI Certified. We are in an excellent position to bring this initiative to scale among CDFIs.

Through CU Impact, the Federation expect to transform a movement. While CDFI credit unions are proven leaders in innovation and early adopters of new strategies and technologies, growth is constrained by the cost and complexity of connecting innovative products and services to their banking platforms. CU Impact, a customized shared banking system, will help to scale up the delivery of innovative products and services in low-income and underserved communities. CU Impact will enable CDCUs to deliver their unique approach to financial services on a larger scale at lower cost, sustainably, and without losing their hard-earned trust of low-income consumers.

Within five years, we anticipate providing safe and responsible financial services and loans through 30 CDFI credit unions serving high-need areas and underserved consumers. The Federation's national focus is on underserved distressed neighborhoods and communities, low-income target populations and other populations that historically lacked access to credit and banking services. Our target market includes some of this nation's most impoverished communities from the Mississippi Delta to the South Bronx, from Appalachia to Native American lands.

Approximately 74% of members in targeted CDCUs have incomes below 80% of Area median income; 20% of members are considered very low-income (< 50% of AMI) and 12% are extremely low-income (<30% AMI), and 23% live below poverty level with an estimated 68% having incomes that are below 200% of poverty.

More than 68% of members identify as African American, Native American or Latino, communities that historically lacked access to credit. Approximately 25% of current CDCU users were previously unbanked.

Funding for the CU Impact will extend far beyond these two CDFI credit unions. The support for our initial local test case in Louisiana and Mississippi will enable the Federation to directly oversee and monitor the early stages of onboarding new users to the system. It will ensure that we have hands-on knowledge and experience integrating users onto the system and that we can best prioritize the needs for upgrades and enhancements. In short, it will help the Federation transform from a purveyor of best practice to an agent of transformation for the CDFI field.