**INTRODUCTION**

Appalachian Community Federal Credit Union (ACFCU) is a certified Community Development Financial Institution (CDFI) and Low-Income Credit Union with 7 branches across eastern Kentucky, southwestern Virginia, and northeastern Tennessee. ACFCU was founded in 1932 by a small group of working class paper mill employees. Since that time, ACFCU has grown into a $185MM full service credit union with 68 employees and more than 14,000 members.

ACFCU’s CDFI Investment Area includes seventeen Persistent Poverty Counties in eastern Kentucky: Bell, Clay, Clinton, Estill, Harlan, Jackson, Knox, Laurel, Leslie, Letcher, McCreary, Madison, Owsley, Pulaski, Rockcastle, Wayne, and Whitley. For the sake of brevity, we will refer to these Persistent Poverty Counties as the “PPCs.” This application focuses on the innovative strategy that ACFCU is using to reach these rural Appalachian counties.

**THE PROBLEM/NEED**

The PPCs are impoverished and underserved by mainstream financial institutions. According to the Kentucky Department of Labor and the US Bureau of Labor Statistics, the poverty rate in the PPCs is 31%, more than double the national rate of 14.5%. The median income is $27,987, well below the $53,657 national median. And 39.19% of residents are classified as unbanked or underbanked (according to the Corporation for Enterprise Development).

For most of the 20th Century, low-skilled manufacturing and coal mining dominated the economy in eastern Kentucky. In more recent decades, much of the manufacturing has disappeared, and the coal economy is rapidly weakening. These poor economic conditions have resulted in economic outmigration, high unemployment and financial hardship.

With the help of the Appalachian Regional Commission and numerous nonprofits, some economic investment and higher paying jobs have returned to the area. Even so, the unemployment rate in the PPCs remains at 7.75%, significantly higher than the national rate of 5.5%.

These conditions have resulted in many retail banks abandoning the area. The few mainstream institutions that have maintained a presence typically cater to higher income individuals with strong credit. This leaves more than 39% of residents of the PPCs unbanked or underbanked.

As a result, predatory lenders thrive in the PPCs. According to a 2010 report from the Kentucky Coalition for Responsible Lending, predatory lenders in the PPCs make more than $135MM in payday loans annually. These loans typically carry APRs of around 400%. For the privilege of taking out these short term loans, consumers in the PPCs pay more than $24MM in fees.

Consumers in the PPCs also struggle to access basic financial services such as checking accounts. As a result, they are forced to turn to check cashers. These predatory providers charge, on average, 2.5% of the amount of the check (per the Center for Responsible Lending). The median household income in the PPCs is $27,987. Thus, the average household that relies on check cashing services is paying $776 annually in fees.

Similarly, low income households struggle to obtain mainstream financing for vehicles. Typically their only option is a buy-here-pay-here lot. According to the Center for Responsible Lending, loans from buy-here-pay-here lots typically carry an APR of around 25%. On a typical 5-year loan of $15,000, that high APR leaves the consumer paying more than $11,400 in interest.

**THE STRATEGY**

Noticing the financial hardship of underserved residents in eastern Kentucky and the likelihood that they would fall victim to predatory lenders, ACFCU has devised a strategy to protect underserved communities in eastern Kentucky. The strategy is two-fold: provide services designed to meet the unique needs of underserved rural communities, and use technology to remotely deploy those services. ACFCU has been designing and refining this strategy since 2010. The strategy was implemented in full starting in the second half of 2014.

**Services for Rural Underserved Communities**

Underserved consumers in the PPCs are often at the bottom of the financial ladder. And they often lack even rudimentary financial skills. This leaves them vulnerable to predatory lenders and check cashers. To help protect underserved consumers, ACFCU provides products and services designed to “stair step” them up to greater financial security and wellness. As an initial step, borrowers start with products like credit builder loans, debt consolidation loans, and payday alternative loans. These products, combined with ACFCU’s free financial wellness services, help borrowers increase their credit scores. After sufficient improvement, they are eligible to have their loan rates lowered at no cost. As their financial health continues to improve, they can qualify for a low cost prime vehicle or mortgage loan.

ACFCU has branded this innovative “stair step” approach as *myMoneyTrackSolutions®*. This program blends quality financial products with extensive financial wellness services. We are the only financial institution in central Appalachia offering such a program on a wide scale. The various products and services in the *myMoneyTrackSolutions®* program are briefly discussed below.

Credit Builder Loans

Many new members come to ACFCU with little credit or bad credit. To help these consumers, ACFCU offers a “credit builder” loan. Rather than being immediately distributed, the loan proceeds are placed in an account as collateral. By making regular periodic payments on the loan, the member establishes positive credit history. Once the loan is paid off, the loan proceeds are released, encouraging savings. As they build a higher credit score, users of this product are often able to qualify for other loans that will help them continue stair stepping up to financial health.

Debt Consolidation Loans

Underserved consumers are frequently plagued by predatory loans with high interest rates. Approximately 76% of ACFCU’s new members with lower credit scores have been the victims of predatory lenders. Many other members have small medical collections on their credit reports.

To refinance predatory loans and payoff medical debt, ACFCU offers a debt consolidation product to borrowers with credit scores as low as 550. To manage charge-off risk, larger loans are partially secured by equity in a vehicle. By refinancing predatory loans, members are able to reduce their payments and work towards making ends meet. By paying off medical debt, members are able to stop collection calls and start rebuilding their credit scores.

Payday Alternative Loans

Low income consumers are financially fragile. They do not have the savings to cover unexpected expenses. Even relatively small expenses such as new tires or a trip to the doctor can cause financial hardship. Payday lenders meet the market need for short-term financing to cover unexpected expenses, but their rates are abusive.

As an alternative, ACFCU offers a $500 three-month, fully amortized personal loan. Members are limited to 4 such loans per year. To help the member build savings, $50 of the loan proceeds are placed on hold until the loan is paid. There is no minimum credit score to qualify for this product. This product responsibly satisfies the need low income consumers have for short term, small dollar loans.

While our payday alternative product does not significantly add to the bottom line (i.e. it’s just above breakeven), it serves to introduce ACFCU to consumers that might otherwise be hesitant to use a mainstream financial institution. When consumers come in for a payday alternative loan, we have the opportunity to start building trust. Once they see that we truly are here to help, we are able to offer them our financial wellness services, credit builder loans, and other products that help them “stair step” up towards financial health.

Affordable Non-Prime Auto Loans

Eastern Kentucky is largely rural, and the public transportation system is not well developed. This makes a reliable vehicle a critical necessity. But residents with low income or low credit scores have limited access to mainstream vehicle financing. As a result, they are forced to turn to buy-here-pay-here lots that offer high rate financing (25% APR is typical according to the Center for Responsible Lending). On a typical 5-year loan of $15,000, the consumer often pays more than $11,400 in interest.

As a lower cost alternative, ACFCU offers an auto loan with an APR of 13% to borrowers with credit scores as low as 620. On a $15,000 5-year loan, the total interest paid is only $5,477. So, even on a relatively modest car loan, the consumer stands to save over $5,900. For the median household making less than $28,000 that is a significant savings.

“80/20” Mortgage Loans

One of the best ways to build financial security is to purchase a home. Unfortunately, lower income consumers simply do not have the ability to save the necessary down payment. To help lower income consumers become homeowners, ACFCU offers an “80/20” mortgage. This product allows the borrower to finance a 20% down payment over 10 years. The shorter timeframe on the down payment loan helps the borrower build equity relatively quickly.

To increase the borrower’s chance of success, ACFCU offers a HUD-certified “American Dream” homebuyer’s workshop. The workshop covers topics such as homeowners’ insurance, property taxes, maintenance, and saving for unexpected expenses. ACFCU provides the workshop at no cost.

Checking Accounts

Many low income consumers in rural areas are unable to qualify for a checking account at a mainstream bank. They struggle to maintain the minimum required deposit, and they often have imperfect credit histories. As a result, they are forced to turn to predatory check cashers that charge high fees for every check cashed.

To help these consumers, ACFCU offers two checking accounts. Neither account has a minimum balance requirement, nor do they carry a check cashing fee. ACFCU’s first tier product is its “Premier Checking”, which is a free, full service checking account. Premier Checking is available to consumers with positive ChexSystems histories.

For those who have negative marks on their history, ACFCU offers an alternative we call the “Fresh Start” checking account. Like the Premier Checking account, the Fresh Start account comes with a debit card and full access to ACFCU’s ATMs and online banking. To manage risk, overdraft services are not offered on Fresh Start accounts. There are no check cashing fees; rather, there is a small monthly charge of $10. After 6 months of positive history in a Fresh Start account, members are eligible to move up to the free Premier Checking account.

Financial Wellness Services

As low-income individuals improve their overall economic condition, they need someone who will exhibit empathy for their situation while also offering sober advice to build their credit and improve their financial health. So, in addition to the products described above, ACFCU also provides extensive financial wellness services as a part of the *myMoneyTrackSolutions®* program. The two main financial wellness services are personal financial coaching and group financial wellness workshops.

Personal Financial Coaching

The primary personal financial coaching tool is a “Financial Assessment”, which was developed with the help of an industry-leading consultant. When performing a Financial Assessment, ACFCU reviews the member’s credit report and teaches the member how to improve their credit score and lower their loan rates. The Financial Assessment concludes with the member receiving a copy of their credit report and a written plan to improve their score. On average, members who go through the Financial Assessment process increase their credit scores by 40 points in 6 months. All call center employees and branch employees are trained to perform Financial Assessments. That way, this critical service is always available for every member that contacts us or walks into one of our branches.

ACFCU also offers free one-on-one budget development and financial counseling sessions. During these sessions, ACFCU reviews the member’s income, expenses, and debts. Staff evaluates where there is room to improve and how the member can reach financial balance. The member leaves the session with a budget, including a debt payment plan and an expense reduction plan. This program is provided through ACFCU’s Member Development Department, which serves as a traveling resource for ACFCU lenders, collection staff, and non-profit partners facing particularly challenging cases.

Group Financial Wellness Workshops

Some consumers find one-on-one coaching to be intimidating. To help these consumers, ACFCU also offers financial wellness workshops in a group setting. In these workshops, we cover such topics as budgeting, credit score repair, homeownership, and saving for the future. These workshops serve as an easy first step towards financial wellness. After sitting through a workshop, many attendees will take the next step by completing a Financial Assessment or requesting a counseling session with our Member Development Department.

**Remote Delivery of Services to Underserved Communities**

As described above, ACFCU has, in its *myMoneyTrackSolutions*® program, developed a suite of products and services designed to meet the needs of underserved communities in the PPCs. But that is only the first challenge.

The other primary challenge is to deploy these products and services to underserved communities in a financially sustainable way. The PPCs in our Kentucky service area are very rural. They have fewer than 90 people per square mile. That’s less than one third the population density of the average Metropolitan Statistical Area. The low population density makes service delivery a very real challenge. Traditional branches are simply too expensive a delivery channel to use in these low-density areas. As a lower cost alternative, ACFCU has focused on remote deployment of services through technology.

Existing Remote Delivery Channels

Since 2010, ACFCU has deployed 53 ATMS, developed full service online banking, released a mobile banking application, and established a remote deposit capture service. With the unveiling of *myMoneyTrackSolutions®*in October 2014, additional services were established such as a call center with 24/7 availability and the institution of remote loan closing using electronic signatures. This suite of remote delivery channels allows ACFCU to cost-effectively provide services to rural communities between its 7 community branches.

2017 Deployment of Virtual Teller Machines

The next step in the strategic technology plan is to deploy Virtual Teller Machines (VTMs). To our knowledge, we are the only financial institution in the country using VTMs to sustainably reach underserved rural communities.

VTMs are ATM-like machines with a video screen and microphone that allow the customer to video chat with a credit union employee in a remote location. They have electronic signature capability, which facilitates loan applications and closings. They also function as a depository ATM, accepting deposits of checks and cash, and dispensing cash down to the dollar. In short, for a fraction of the cost of a traditional branch, VTMs are able to deliver comparable services.

In 2017, ACFCU will be placing three VTMs at different sites across rural eastern Kentucky. All three will be in Persistent Poverty counties (Jackson, Letcher, and Owsley). For example, ACFCU will place a VTM at Mountain Comprehensive Health (MCH) in Whitesburg, Kentucky. MCH is a non-profit medical services provider with clinics throughout rural eastern Kentucky. Established in 1971, it has over 250 employees and serves more than 27,000 patients each year.

The VTM at MCH will further solidify a strong partnership between MCH and ACFCU. Currently, ACFCU employees are driving to MCH’s clinics once a month to open accounts and take loan applications. The VTM will give ACFCU a more permanent presence, allowing us to reach more underserved consumers.

ACFCU has developed sufficient infrastructure to deploy three VTMs efficiently and effectively. In particular, ACFCU has developed the human resources, the facilities resources, and the expertise to effectively and efficiently deploy VTMs.

Regarding human resources, ACFCU has developed a 4-person Information Technology department, a 2-person HR/Training department, a 1-person Facilities Support department, and a Logistics Coordinator/Communications Manager position. Accordingly, ACFCU is well-staffed to handle the technological, training, facilities support, and logistical aspects of deploying VTMs.

In addition, ACFCU has a 24/7 call center. The call center is staffed by individuals that all have extensive frontline experience. They are also well versed in our current remote services (i.e. online account opening, online loan applications, remote loan closing, and remote deposit capture). Accordingly, these employees are equipped to quickly learn how to staff remote VTMs.

Regarding facilities, ACFCU built a large central administrative facility in 2012. The facility houses all of ACFCU’s administrative functions and serves as a hub for ACFCU’s branches. The facility has room to add additional staff, as necessary, as the VTM program grows.

Lastly, ACFCU has developed substantial internal expertise in deploying remote services. ACFCU’s branch network spans a 3-state area, with its most remote branch being 195 miles from the headquarters. ACFCU also offers – through its website and mobile application – remote account opening, remote loan applications, remote loan closings, and remote deposits. These capabilities have been used to provide services to rural communities where ACFCU has no physical presence. In short, ACFCU has significant experience remotely deploying products and services. This experience will help ACFCU to successfully deploy 3 VTMs in 2017.

**ACHIEVED/PROJECTED OUTCOMES**

The implementation of *myMoneyTrackSolutions®* has been quite effective in the PPCs in rural eastern Kentucky. In FY15 (which started July 1, 2014), ACFCU originated a little more than $5MM in loans in the PPCs. The $5MM originated includes $4.1MM in consumer loans and $900,000 in home loans.

ACFCU’s loans will save consumers in the PPCs a significant amount in interest and fees. For example, we originated 87 non-prime vehicle loans in the PPCs in FY15. As explained above, these loans are offered as an alternative to loans from buy-here-pay-here lots. Considering that the average APR on our loans is nearly half of the average offered at buy-here-pay-here lots, we estimate the borrowers will save over $500,000 in interest on these loans alone.

ACFCU’s checking account products are having a similar impact in the PPCs. In FY15, we opened 250 checking accounts in the PPCs. Even assuming that only 80% of the account holders were using check cashers, ACFCU’s checking accounts will save these consumers more than $140,000 in check cashing fees annually.

In addition to the loans and checking accounts, ACFCU has provided a great deal of free Financial Wellness services to the PPCs through the *myMoneyTrackSolutions®* program. In FY15, we provided 15 workshops (reaching 730 attendees), and we performed 190 one-on-one personal coaching sessions in the PPCs.

Our investment in VTMs will further increase our reach and our impact in the PPCs in 2017. With just three VTMs, ACFCU projects that it can deploy $4.6MM in vehicle loans and $156,000 in pay day alternative loans in the first year alone. This would result in over $2MM in savings to consumers who were using buy-here-pay here lots and traditional pay day loans. As we make these loans, new checking accounts and new opportunities to provide financial wellness services will naturally follow.

All of the outcomes described above are tracked on our core system, Reliance, a mainstream system in use by 65 credit unions across the country. Reliance is provided by Fiserv, which is an industry leading producer of core systems for financial institutions. Reliance serves as our core transaction processing and integrated general ledger system. Reliance has a robust reporting mechanism that allows tracking and analysis of thousands of data points. All loans made, and all accounts opened, are fed into Reliance for accounting, tracking, and reporting purposes.

**REPLICABILITY**

We believe the *myMoneyTrackSolutions®* program is replicable throughout rural underserved areas across the country. Other rural underserved areas around the country face many of the same challenges that we face here in central Appalachia. These underserved areas are plagued by predatory lenders, and consumers are in desperate need of financial coaching and mainstream financial services. As it has in central Appalachia, we believe the *myMoneyTrackSolutions®* model could be used to “stair step” these consumers up towards financial health.

To increase the chances of success when replicating the program, we believe that any financial institution attempting to implement such a program should undergo extensive, specialized training. In particular, training should include (1) how to build trust in rural communities, (2) product design for consumers with lower income and lower credit scores, (3) underwriting loans to higher risk borrowers, (4) effectively closing such loans, (5) effectively collecting such loans, and (6) coaching consumers through financial difficulty.

The model of using VTMs to serve rural areas should also prove highly replicable. After the first VTM is installed, the price for subsequent VTMs decreases by approximately one third. Further, additional VTMs are easily staffed as any additional employees would be recruited, trained, and located in one central location.

Serving consumers in rural Persistent Poverty Counties presents very real challenges. However, as ACFCU has shown, the challenges are not insurmountable.

**LEVERAGE OF OUTSIDE CAPITAL**

ACFCU has used the *myMoneyTrackSolutions®* program to successfully attract outside capital. In particular, ACFCU’s use of the program has helped it to attract a $300,000 grant from a national financial institution, a $125,000 rural development grant from the USDA, and multiple smaller grants from regional and local financial institutions.

In addition, ACFCU has attracted more than $3MM in low cost deposits through the Bank Enterprise Award program and another $10MM in deposits through the Community Reinvestment Act. These deposits are an affordable funding source for ACFCU’s growing loan portfolio.

ACFCU anticipates that its investment in 3 VTMs in PPCs will further attract additional capital. In fact, one national bank has already expressed strong interest in supporting the VTM program.

**COMMUNITY PARTNERSHIPS**

The success of *myMoneyTrackSolutions®* depends on strong, long-term partnerships with the nonprofit sector and the business community in eastern Kentucky.

Nonprofit Sector Partnerships

ACFCU partners with nonprofit organizations throughout central Appalachia that provide services to low-income communities. These connections are designed to not only promote *myMoneyTrackSolutions®* to underserved communities, but also to build trust with residents that are frequently distrustful of mainstream financial institutions.

Among its many nonprofit partners, the relationship with Mountain Comprehensive Health (MCH) has been particularly successful. As mentioned above, MCH is a 501(c)(3) nonprofit medical services provider with clinics throughout rural eastern Kentucky. MCH and ACFCU have formed a strong partnership where ACFCU visits MCH’s clinics to offer financial services and financial wellness services directly to MCH’s staff and patients. Currently, ACFCU employees are driving to MCH’s clinics once a month to open accounts and take loan applications.

MCH has helped ACFCU build trust in the local community. With that foundation in place, ACFCU is increasing its investment by placing a VTM at MCH’s headquarters in Letcher County, Kentucky, which is a Persistent Poverty county.

Business Sector Partnerships

ACFCU has built a similarly strong relationship with Senture, a call center with 1,700 employees based in Laurel County, Kentucky, which is a Persistent Poverty county. As a federal contractor, Senture’s employees are required to meet minimum credit score requirements. ACFCU provides financial wellness services to Senture’s employees to help them improve their credit scores so that they can retain their positions serving federal contracts.

Another successful partnership in FY15 was with a regional convenience store chain with nearly 100 locations. Recognizing the value of ACFCU’s products and services, this partner invited ACFCU to all of its bi-weekly new employee orientation sessions. Partnerships like these have fueled ACFCU’s strong growth, which increases ACFCU’s ability to impact the Persistent Poverty Counties in central Appalachia.