OUTREACH ADVOCACY COMMITTEE

Tuesday, July 20, 2010
10:00 AM - 2:00 PM

GCUA Board Room
6705 Sugarloaf Parkway
Duluth, GA 30097
Outreach Advocacy Committee  
(Sub-committee of Advocacy Policy Committee)  
Agenda  
July 20, 2010  
10:00 A.M. – 2:00 P.M.  
GCUA Board Room (6705 Sugarloaf Parkway)  
Duluth, Georgia 30097

I. Call to Order

II. Review Purpose of Sub-Committee: To identify ways credit unions are serving people of modest means that contribute positively to the financial well-being of the credit union and serve to differentiate credit unions from other for-profit suppliers.

III. Who are “people of modest means”? What do they need?

IV. Candid Discussion of How “Important” This issue is to Credit Union CEO’s

V. Reasons for Serving People of Modest Means  
   • Legislative/tax exemption  
   • Regulatory/CRA  
   • Philosophical  
   • Good (profitable) business

VI. REAL Deal – a Framework for Describing Georgia CU Outreach Impact  
   • The concept  
   • What’s been accomplished  
   • Measuring “tangible impact”- survey results  
   • National coordination

VII. How can REAL Deal Outreach Campaign be Enhanced

VIII. Next Steps

IX. Adjourn
OUTREACH ADVOCACY COMMITTEE
(Sub-Committee of Advocacy Policy Committee)
Georgia Credit Union League

Statement of Purpose
To identify ways credit unions can serve people of modest means that contribute positively to the financial well-being of the credit union and serve to differentiate credit unions from other for-profit suppliers.

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Who Are the People of Modest Means?
What Do They Need?
Member Service Assessment Pilot Program
A Study of Federal Credit Union Service

November 3, 2006
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Executive Summary

Congress and the Government Accountability Office (GAO) raised a number of important questions relative to whether federal credit unions (FCU) continue to serve their mission and purpose. In response to these questions, the National Credit Union Administration (NCUA) designed the Member Service Assessment Pilot Program (MSAP) to collect data on the membership profile of FCUs, the types of services FCUs provide their membership, and the total compensation of FCU executives. This project was completed within the Office of Management Budget's (OMB) imposed deadline of August 31, 2006, at a cost of over $1.1 million.

MSAP member income analyses encompassed analyzing 14 million member account records from 448 randomly selected FCUs. The data collected provided statistically valid results for the entire FCU system, and for FCUs grouped by asset size (i.e., FCUs with less than $50 million in assets, and for FCUs with greater than or equal to $50 million in assets).\(^1\)

Because of time and resource constraints, it was not possible to conduct a survey that would have provided statistically conclusive results for the different FCU charter types (occupational, associational, and community). However, the data collected allowed for descriptive analyses, strengthened by the proportionality of the sample.

Overall, MSAP provides the most conclusive data to date available on the membership profiles of FCUs. Importantly, MSAP:

- Demonstrates that FCUs are serving those they have been chartered to serve – working individuals.

- Confirms the expectation that FCUs designated as low-income, with underserved areas, or with a community base have better opportunities to serve lower income groups and individuals and generally have more diverse membership profiles as compared to FCUs with more restrictive common bonds and fields of membership (FOM).

- Strengthens NCUA's previous position that changes in membership profiles do not occur immediately – they take time. Consequently, while the percent of FCUs now serving a community base has recently increased, the membership profiles can not be expected to differ from the traditional occupational or associational charter until a considerable period of time has elapsed that allows for the new market penetration.

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\(^1\) Statistical validity has to do with basing conclusions on proper use of statistics. To obtain statistically valid results for a normally distributed population, at a specified confidence level and interval, a sample of a required size has to be randomly selected from that population. If the underlying population is not normally distributed, various statistical techniques, such as stratified random sampling, can be used to obtain statistically valid results for the population. MSAP's methodology satisfied these requirements, enabling statistically valid conclusions.
Additionally, MSAP bolsters NCUA’s long standing view that the FCU common bond limitation is the overriding factor that impacts membership demographics. Interpreting MSAP data or any other data developed purporting to define the membership of FCUs is best understood and applied within the context of whom FCUs can legally serve, i.e., those within a specified FOM. Relevant to this discussion, it is essential to have an understanding that:

- The common bond constraint, imposed by statute, limits NCUA’s flexibility. As a result, the ability of FCUs to serve groups not included in the traditional membership base is also restricted.

- Developing FCU chartering policies that not only comply with the statutory common bond requirement, but also encourage and permit reaching out to those outside the traditional membership base, has been a regulatory challenge.

- Congress has recognized the inherent conflict of trying to reach out to less advantaged individuals and groups within a statutory framework that clearly defines who FCUs can serve. As a result, some flexibility has been legislated. But, the essential characteristics of common bond have been steadfastly retained since 1934. Consequently, the primary membership nucleus for FCUs remains those who historically avail themselves of the financial services offered by FCUs -- working individuals. Who FCUs can serve is a critical factor that must be considered along with other available data in assessing whether they continue to serve their mission and purpose.

It should also be noted that while the issues addressed in this Report are in response to the questions raised by Congress and GAO, this Report does not directly respond to any findings or opinions that may be expressed in GAO’s 2006 study on the same topic. Additionally, this Report does not make comparisons with other financial institutions and their deposit base. The objective of this Report was to gather and analyze data on FCUs in order to provide meaningful information to Congress and GAO. The data will also be useful to the NCUA Board in making policy decisions on the issues that gave rise to the Report.
Chapter I -- Overview

Background
With the enactment of the Federal Credit Union Act (FCU Act) in 1934, Congress expressed an overall purpose that FCUs should “make more available to people of small means credit for provident and productive purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States.”2 This language from the preamble of the FCU Act, although dropped from the codified version in 1959, has remained an essential mission objective at NCUA.

In passing the Credit Union Membership Access Act of 1998 (CUMAA), Congress used a different term to describe who credit unions should serve. The preamble to CUMAA referred to credit unions meeting “the credit and savings needs of consumers, especially persons of modest means.”3 While CUMAA does not define the meaning of “modest means,” the Senate Report describing the legislation refers to serving people of “modest means, including those with low- and moderate-incomes, within the field of membership of such credit union.”4 The House Report has similar language. This reflects the clear understanding that “modest means” has a broader meaning beyond just low- and moderate-income individuals. Equally important, the language also reflects the limitation that those being served must be within the FOM.

The expressions by Congress about whom FCUs should serve are framed by an important, and often overriding, limitation about whom they can serve. This structural limitation is the statutory common bond, or the legally authorized FOM.5 Every FCU has an FOM which requires that membership services be limited to those who (1) are within the FOM, and (2) become a member of the FCU.6

Congress and GAO have recently questioned whether FCUs are continuing to serve, as part of their overall mission and purpose, people of small means or, as more recently clarified in CUMAA, people of modest means. In GAO’s October 2003 Report on Credit Unions, two of the stated objectives of the study were to evaluate “the extent to which credit unions ‘make more available to people of small means credit for productive purposes’” and “the impact, if any, of CUMAA on credit unions field of membership requirements for federally-chartered credit unions.”7 Not clear,

6 The recently enacted Financial Securities Regulatory Relief Act of 2006 provides for limited service (i.e., check cashing and money transfers) to nonmembers who are within a FCU’s field of membership. Pub. L. No. 109-351, 120 Stat. 1966 (October 13, 2006).
7 GAO, Credit Unions: Financial Condition Has Improved, but Opportunities Exist to enhance Oversight and Share Insurance Management, GAO-04-91 (October 27, 2003) at 2.
however, is whether in asking these questions the implications of FOM statutory requirements were appropriately considered.

GAO’s October 2003 Report recommended NCUA “use tangible indicators, other than ‘potential membership,’ to determine whether FCUs have provided greater access to credit union services in underserved areas.” In commenting on NCUA’s objection to the recommendation, GAO stated:

“That type of information, collected uniformly by a federal agency like NCUA, could serve as [a] first step towards documenting the extent to which credit unions have reached for members outside of their traditional membership base. Finally without this information, it will be difficult for NCUA or others that are interested to determine whether credit unions have extended services of any kind to underserved individuals as authorized in CUMAA.”

In responding to the issues raised by Congress and GAO, NCUA carefully detailed the common bond restrictions imposed by the FCU Act and, in particular, the difficulties of reconciling who credit unions “can” serve with the congressional intent of whom they “should” serve. Although NCUA had no empirical data to demonstrate the profile of credit union membership, it was argued that recent growth data, historical information, experience, and NCUA policies supported the position that FCUs are serving those they were chartered to serve. Examples of the different types of FCU charters and fields of membership (e.g., associational, occupational, or community) were provided to demonstrate not only the difficulty of comparing credit unions with other types of financial institutions, but also comparing membership and services among different credit unions.

Absent NCUA data, however, GAO primarily relied on the Federal Reserve’s Survey of Consumer Finance to determine whether FCUs were fulfilling their mission and purpose. GAO’s reliance on this data led to misleading conclusions and failed to take into full account the extensive information on the unique differences of FCUs. Although GAO recognized the field of membership limitations imposed on FCUs, it did not fully elaborate on the legal and operational impediments encountered in expanding service to groups outside the traditional membership base. Without question, understanding the statutory limitations on who can become members of FCUs is critical in conducting an objective assessment of any public policy consideration of the status of FCUs, those who benefit from their services, and their impact on the financial sector.

Since 1934, FCUs have been defined, in part, by whom they can serve. This characteristic (i.e., common bond), creates an inherent conflict and places limitations on the congressional intent to reach out to underserved groups and individuals.

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8 Id. at 83.

9 Id. at 86 (emphasis added).
Recognizing the challenges of operating a credit union with a primarily low-income based field of membership, Congress directed NCUA to establish a low-income designation for credit unions in 1970.\textsuperscript{10} The low-income designation provided credit unions primarily serving low-income members with expanded authority to accept shares from nonmembers. However, it was not until 1998 with the enactment of CUMAA that Congress enabled FCUs to expand their FOM to reach out beyond their traditional FOM limitations, authorizing FCUs with multiple common bond charters to adopt "underserved areas." Importantly, Congress has not eliminated or substantially altered the requirement for FCUs of maintaining a common bond of association, occupation, or community. Consequently, while some flexibility was realized in legislation authorizing low-income designation and the adoption of underserved areas, the limiting common bond structure remains the predominant defining feature for FCUs relative to whom they can serve. As a result, statistical data noted for all FCUs will be heavily influenced by the most prevalent common bond charter type -- those that are or were originally chartered as occupational based to serve working people.

GAO’s recognition and use of the language “traditional membership base” succinctly and accurately underscores the primary issue confronting NCUA. It has been a regulatory challenge developing sound chartering policies reflecting the traditional limitations of association, occupation and community, while at the same time providing FCUs with the flexibility to reach out to those outside the traditional membership base. In considering any actions on chartering policies, NCUA must also ensure those actions are driven by Congress’ expectation that NCUA maintain a safe and sound FCU system.

In September 2005, GAO initiated a follow-up audit to its 2003 Report. While the follow-up audit covers a number of issues, relevant to this discussion were several questions related to NCUA’s efforts to address the recommendations in the 2003 Report. For example, in its preliminary questions dated September 2005, GAO asked: “What information does NCUA collect on the extent to which credit unions have been successful in reaching out to low income or underserved communities?” They also inquired if the “NCUA conducted any studies or obtained information on the social and economic characteristics of credit union members?”

In January 2006, GAO formally notified NCUA that it was “beginning work examining several areas within the credit union industry.” Four objectives were listed, including “updating our [GAO’s] 2003 report on credit union membership and service to low and moderate income consumers.”

**NCUA Initiates Member Service Assessment Pilot Program**

In response to the issues raised by GAO, as well as the questions posed by the House Ways and Means Committee in November 2005, NCUA initiated MSAP in March 2006 to conduct a survey of FCU member income distribution. MSAP

accessed the share and loan account information of all members within 448\textsuperscript{11} randomly selected FCUs which included more than 14 million member account records.

MSAP provided statistically valid results for the entire FCU system and for FCUs with less than and greater than or equal to $50 million in assets although not by charter type. This information was considered critical to fully address the issues raised by Congress and GAO. The data also enabled descriptive analyses\textsuperscript{12} of different FCU charter types for a more in-depth understanding of the FCU system.

As will be detailed later in this report, the findings are consistent with the information and generalized assumptions previously provided to Congress and GAO that FCUs are serving those they were chartered to serve. The gathered data also strengthen the argument that absent consideration of the statutory limitations, it is unfair to draw any definitive conclusions about the success of FCUs in serving individuals and groups outside their traditional membership base without fully focusing on whom they can legally serve. This one fact provides the foundation for understanding and placing in proper context any statistical data profiling the membership of FCUs. A failure to consider the implications of common bond undermines the interpretation of the data, which may lead to unwarranted conclusions.

In conjunction with MSAP, NCUA also conducted a historical and legislative review of the development of credit unions in the United States. This review has been used to appropriately assess the results from MSAP and provide an understanding of congressional intent when it expressed the mission of FCUs in CUMAA as meeting “the credit and savings needs of consumers, especially persons of modest means.”\textsuperscript{13}

It is important to note that the National Association of State Credit Union Supervisors (NASCUS) is conducting a similar study on the membership characteristics of state-chartered credit unions. Since FOM requirements are less restrictive in many states, the data gathered by NASCUS may provide additional valuable information on how common bond impacts membership diversity.

\textbf{Data Results}

The statistically valid MSAP results can be projected to the entire FCU system but not by charter type. As shown in Table 1, the data collected during MSAP reflect that 60 percent of the membership in the average FCU has a median family income

\textsuperscript{11} Of the original 481 FCUs randomly selected to participate in MSAP, the estimated member income data was received for 448 FCUs. This exceeded the minimum of 437 FCUs needed to provide statistically valid results for the entire FCU system and the two sub-populations.


of less than $60,000 annually, 82 percent has less than $75,000, and 96 percent has a median family income of less than $100,000.

Table 1

<table>
<thead>
<tr>
<th>FCU System Membership Income Distribution (Cumulative Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Family Income &lt; $60,000</td>
</tr>
<tr>
<td>Median Family Income &lt; $75,000</td>
</tr>
<tr>
<td>Median Family Income &lt; $100,000</td>
</tr>
</tbody>
</table>

The data further demonstrate the income diversity in FCUs. This balance of diverse income levels is important to an economically viable credit union system.

The membership income profiles indicate that FCUs primarily serve those considered to be working individuals, with 44 percent of FCU membership making less than the median family income of their respective metropolitan statistical area (MSA).15

Based on the data collected, NCUA developed observations of the membership income distribution by charter type. Although these results were not statistically conclusive, the randomly selected FCUs provided a proportional representation of the different charter types within the FCU system, strengthening the descriptive analyses performed. Table 2 provides an illustration of the impact common bond restrictions have on member demographics.

Compared to single occupation, single association, and multiple common bond charters included in MSAP with more restrictive FOMs, the ninety-seven community credit unions surveyed serve a greater percent of the membership earning less than the median family income.

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14 According to the U.S. Census Bureau, a family is a group of two people or more related by birth, marriage, or adoption and residing together. The Year 2000 Census median family income was $50,732. The data in this report is based on Year 2000 U.S. Census Bureau figures with no inflation adjustment.

15 An MSA is a core area containing a substantial population nucleus, together with adjacent communities having a high degree of social and economic integration within that core. MSAs comprise one or more counties.
<table>
<thead>
<tr>
<th>Median Family Income (MFI) as a % of MSA MFI</th>
<th>Observation of Membership Income Characteristics 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Occupation</td>
<td>Single Association</td>
</tr>
<tr>
<td>&lt; 70%</td>
<td>10.65%</td>
</tr>
<tr>
<td>&lt; 80%</td>
<td>18.37%</td>
</tr>
<tr>
<td>&lt; 90%</td>
<td>29.07%</td>
</tr>
<tr>
<td>&lt; 100%</td>
<td>41.62%</td>
</tr>
<tr>
<td>&lt; 110%</td>
<td>54.45%</td>
</tr>
<tr>
<td>&lt; 120%</td>
<td>67.19%</td>
</tr>
<tr>
<td>&lt; 130%</td>
<td>76.61%</td>
</tr>
</tbody>
</table>

These data bolster NCUA’s long-held view that the **common bond limitation is the overriding factor that impacts membership demographics**. The common bond constraint, imposed by statute, limits NCUA’s flexibility relative to FOM policies. As a result, the ability of FCUs to serve groups not included in the traditional membership base is also limited.

Importantly, as noted earlier, CUMAA provides an opportunity for multiple common bond FCUs to expand into underserved areas. This increased flexibility offers a greater opportunity to reach individuals in a lower income range. This is reflected in Table 2 for those credit unions in MSAP that have adopted underserved areas.

Although NCUA initially developed policies based on its interpretation of CUMAA allowing the expansion into underserved areas by all charter types, a recent legal challenge from the American Bankers Association and others resulted in a regulation change, significantly curtailing this authority. The new policy permits underserved areas to be added only to multiple common bond FCUs.19 This action results in single occupation, single association, and community common bond charters being restricted to offering service only to people within their respective membership base. Thus, the increased flexibility initially gained from CUMAA has been curtailed considerably, which will lessen the ability of FCUs to expand into underserved areas and provide service to lower-income individuals. Effectively, this action thwarts

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16 The data presented in this table apply only to FCUs included in MSAP, with the percentages representing the percent of total membership in each FCU charter type included in MSAP. This is discussed throughout the report.

17 The FCU Act defines an underserved area as a local community, neighborhood, or rural district that is an “investment area” as defined in Section 103(16) of the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. § 4703(16)). For example, an investment area can be an area in an MSA where the median family income is at or below 80 percent of the MSA’s median family income or an area where the percentage living in poverty is at least 20 percent. The result of recent litigation forced NCUA to limit the addition of underserved areas to multiple common bond FCU charter types only.

18 A credit union serving predominately low-income members may be designated as a low-income credit union. NCUA’s Rules and Regulations defines the term “low-income members” as those members who: (1) make less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics; or (2) whose annual household income falls at or below 80 percent of the median household income for the nation as established by the U.S. Census Bureau. See 12 C.F.R. § 701.34.

19 12 C.F.R. § 701.1 (as amended); Interpretive Ruling and Policy Statement (IRPS) IRPS 03-1, Chapter 3, Section III.A (as amended by IRPS 06-1).
congressional intent to increase FCU service to lower income individuals and groups, and can only be reinstated through legislation.

The data also highlight the challenges FCUs face when converting charter types to better reflect their new common bond. This is particularly true when converting to a community charter base or when adding underserved areas. It is unrealistic to expect that a new community charter can immediately change its membership profile, particularly when the nucleus of the new community charter remains occupational and/or associational. Expanding to a community base from an occupational or associational base requires a considerable period of time to effect meaningful membership profiles.

As shown in Table 3, those community credit unions in MSAP operating as community charters for more than five years serve a greater portion of membership earning less than the median family income for their respective MSA. Specifically, for those community credit unions in operation more than five years, 51 percent of the membership earns less than the median family income, while 47 percent of the membership earns less than the median family income for those in operation five years or less.

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Observation of Membership Income Characteristics</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Median = 100% of MFI</td>
</tr>
<tr>
<td></td>
<td>Below the Median</td>
</tr>
<tr>
<td>Community (&gt;5yrs)</td>
<td>51%</td>
</tr>
<tr>
<td>Community (&lt;=5yrs)</td>
<td>47%</td>
</tr>
</tbody>
</table>

This observation pertaining to community charters is especially noteworthy given the recent increase of conversions to community charters from single and multiple common bond. Although many of these conversions were due to industry restructuring and consolidation, they represent a significant new potential to provide financial services to those below the median family income. As Table 4 illustrates, less than 9 percent of FCUs were community charters in 2000. By the end of 2005 almost 21 percent of FCUs were community charters.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Year End</th>
<th>Number of Federal Community Charters</th>
<th>Percent of Federal Charters</th>
<th>Number of Federal Charters</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>517</td>
<td>8.5%</td>
<td>6,079</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>781</td>
<td>12.8%</td>
<td>6,115</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>854</td>
<td>14.3%</td>
<td>5,953</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>986</td>
<td>17.1%</td>
<td>5,776</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>1,051</td>
<td>18.9%</td>
<td>5,572</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>1,115</td>
<td>20.7%</td>
<td>5,393</td>
<td></td>
</tr>
</tbody>
</table>

20 The data presented in this table apply only to FCUs included in MSAP. This is discussed throughout the report.
As a part of MSAP, NCUA collected data on the type of member services offered to their membership. Generally, FCUs are providing a broad range of financial services consistent with the diverse membership they serve. Importantly, more than 83 percent of those FCUs offering share drafts or Automated Teller Machines (ATMs) provide these services free to their members. Similarly, 60 percent of FCUs offer financial counseling.

As an adjunct to MSAP, NCUA collected information on the total compensation provided to the executive staff of the average FCU. Although NCUA examiners review FCU staff compensation within the context of the safety and soundness examinations, the data were collected to address the questions raised by the House Ways and Means Committee and GAO concerning executive compensation on a systemic basis. Executive salaries are established by a volunteer board of directors elected by the membership. The data collected show the average 2005 compensation of the chief executive officer (CEO) in the average FCU to be $77,490, with median compensation of $58,860.

Sixty-six percent of FCUs had total CEO compensation of $75,000 or less, while 80 percent had total CEO compensation of $100,000 or less.

Summary
Since 1934, FCUs have been defined, in large part, by whom they can serve. This characteristic creates an inherent conflict between the statutory FOM requirements and the congressional intent to reach out to underserved individuals and groups. The tension between the FOM requirement and the congressional expectation has been difficult to reconcile.

Overall, FCUs are serving those they are chartered to serve. MSAP data suggest that FCUs are also making progress in achieving congressional intent. This is most evident in those FCUs that have added underserved groups, are low-income designated, or who serve a community base. These trends are encouraging and consistent with expectations that broader and more diverse FOMs will create new opportunities to serve lower-income individuals and groups.

Additionally, MSAP provides a clearer picture of the membership profile for the average FCU. This membership profile is consistent with the fact that approximately 80 percent of FCUs still have a limited occupational or associational base, which is reflective of working individuals.

\[21\] Share drafts are equivalent to bank checking accounts but are designed to recognize the unique nature of credit union member ownership.

\[22\] MSAP defined compensation as salary and benefits. Examiners analyzed Year 2005 IRS Forms W-2 and 1099 to obtain the information.

\[23\] The term CEO is a recent phenomenon for FCUs. Prior to a change in title designation in the early 1990s, the term mostly used by FCUs for the individual responsible for oversight of operational staff was the term “manager.” In a FCU with all-volunteer staff, the Treasurer on the board is generally responsible for operational oversight and therefore would not be considered a chief executive officer.
Chapter II -- Federal Credit Unions (FCU) in Historical Context

Achieving an understanding of MSAP data requires a historical insight into the legislative framework in which FCUs have operated. Critical to this understanding is an appreciation for the conflict inherent in the statutory constraint on whom FCUs can serve, and the congressional expectation on whom they should serve: that is, their mission to provide services to all persons, including those of small or modest means, and the constraint that limits their service to those persons sharing a common bond of occupation, association or community. Reconciling how these concepts work together and how they have evolved and changed with time necessitates a full consideration of the historical context, the evolving demographics of the United States economy, and the meaning inherent in the statutory language. Additionally, integral to the analyses is an awareness of the cooperative, not-for-profit, democratic structure of FCUs. These unique characteristics must be considered in conjunction with membership profile data and the limitations on whom FCUs can serve before assessing any public policy consideration of the status of FCUs, those who benefit from their services, and their impact on the financial sector.

**Timeline of Credit Union Development in the United States**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1909</td>
<td>The first credit union in the United States is established in New Hampshire; State of Massachusetts enacts the Massachusetts Credit Union Act.</td>
</tr>
<tr>
<td>1917</td>
<td>The U.S. Attorney General issues opinion confirming credit unions, as cooperatives, are exempt from federal income taxes.</td>
</tr>
<tr>
<td>1934</td>
<td>Congress passes FCU Act, and establishes regulatory oversight of FCUs in the Farm Credit Administration.</td>
</tr>
<tr>
<td>1937</td>
<td>Congress amends FCU Act that expressly exempts FCUs from federal and state income tax.</td>
</tr>
<tr>
<td>1941</td>
<td>President Roosevelt issues an Executive Order transferring FCU oversight to the Federal Deposit Insurance Corporation (FDIC).</td>
</tr>
<tr>
<td>1949</td>
<td>Congress transfers the oversight of FCUs to the Federal Security Agency (FSA) and establishes the Bureau of Federal Credit Unions (BFCU).</td>
</tr>
<tr>
<td>1951</td>
<td>Revenue Act of 1951 expressly designates, for the first time, state credit unions as exempt from federal income taxes.</td>
</tr>
</tbody>
</table>
### Date | Event
--- | ---
1956 | BFCU (under FSA), commissions a study to assess the objectives and principles guiding the FCU program.
1960s | BFCU, together with the Office of Economic Opportunity (OEO), charters FCUs focused on bringing cooperative financial principles to the impoverished.
1970 | Congress creates NCUA, the National Credit Union Share Insurance Fund (NCUSIF) providing federal insurance for member shares, and the low-income designated credit union program.
1979 | Congress creates the Community Development Revolving Loan Fund (CDRLF), to provide low interest loans and grants to low-income designated credit unions.
1982 | NCUA uses its regulatory authority to permit the “multiple common bond” charter for federal credit unions.
1998 | Supreme Court rules multiple common bond credit unions are not authorized by the FCU Act. In response to the Court’s ruling, Congress passes CUMAA.

### Principal FCU Characteristics

The preamble to the FCU Act of 1934 describes the mission Congress intended in creating the FCU system: “to make more available to people of small means credit for provident and productive purposes through a national system of cooperative credit, thereby helping to stabilize the credit structure of the United States.”\(^{24}\) The FCU Act prescribed the structure of the institutions charged with accomplishing this objective and included the following requirements and limitations:

- Democratically controlled, with each member having one vote. Each member is an equal owner regardless of the dollar amount of shares owned.
- Managed by a volunteer board of directors elected by and from the membership.
- Not-for-profit, designed to provide a safe, convenient place for members to receive prudent and productive financial services.
- **Limited to serving people within a defined FOM based on a common bond of employment, association, or community.**

Each of these structural limitations, designed to assure the successful accomplishment of the mission, survives and is exhibited in today’s FCU system. For present purposes, the most significant is the common bond limitation.

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Rationale and History of the Common Bond

A review of legislative history leading to the enactment of the FCU Act shows that the principle of common bond was both consciously adopted and intended specifically to contribute to the success of the credit union movement. The express notion was that individuals sharing some common interest or other characteristic would be more likely to work together to make the credit union succeed. In the same vein, such persons would be more inclined to fulfill their financial obligations to the institution if they knew that failure to repay a loan would potentially cause harm to others with whom they worked or associated.

Limiting membership to individuals who share some distinct, objective common bond is not typical of most cooperative societies. It is, however, a principal feature of all FCUs, and most, if not all, state credit union statutes incorporate similar constraints. In testimony before the Senate Banking and Currency committee in 1933, Roy Bergengren, a founder of the North American credit union movement, explained the significance and practical importance of this feature in enabling many credit unions to survive without loan losses during some of the most difficult financial times ever seen in the United States:

> We have been through these 3 years of terrible and trying time with no very serious loss in our small-loan business. . . . That the determination of whether the man shall have that loan or not is such a personal matter that if he withdraws from the group and goes off yonder somewhere, he is supposed to withdraw from the credit union, because it is too difficult to follow him. They predicate so much on their personal knowledge of the man that if he withdraws from the sphere of operation of the union, they appreciate that they cannot continue thereafter to have that personal knowledge of his which they need.25

Statements and observations like these led directly to the enactment of the common bond constraints that characterize the FCU Act.26

Today, participation in FCUs remains restricted to persons who share a common bond:

- Single common bond charters limit credit union membership to individuals who qualify under discrete, relatively narrow criteria. A single common bond can be classified as occupational or associational.
  - Occupational common bonds relate to employment, including employees of schools, textile plants, government, automobile manufacturers, or the military.

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25 Credit Unions: Hearing before the Subcommittee of the Senate Committee on Banking and Currency, 73d Cong. 35 (1933) (statement of Roy Bergengren).

Associational common bonds relate to participation in associations, including participants in professional societies, labor unions, and religious organizations.

- Multiple common bond FCUs include two or more single common bond groups. They generally occur when a single common bond FCU elects to add a second single group to its field of membership. The majority of groups added to multiple common bond charters have been small businesses and associations, which would likely not have otherwise had credit union service. Since January 2000, multiple common bond FCUs added 75,969 groups. Of these, 66,921 groups (88 percent) had less than 200 people.

- Absent multiple common bond authority, a group consisting of less than 200 people generally does not have an opportunity for FCU service since an FCU of this size is most often not viable.

- Community charters are based on a single, geographically-defined, local community where individuals have common interests and/or interact. Some occupational and/or associational based FCUs converted to community charters to compensate for the closure of sponsors. For example, in Michigan, FCUs that originally provided service to the autoworkers converted to community charters when the automobile industry declined.

Chart 1 reflects the percent of FCUs by charter type at September 30, 2005. Eighty percent of all FCUs still share a common bond of occupation or association.

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28 This date reflects the most current 5300 call report data available at the initiation of MSAP.
“Small Means” in Historical Context

In his 1933 Senate testimony, Roy Bergengren also explained the philosophy of Edward Filene in organizing credit unions and described the types of individuals who are the intended beneficiaries of credit unions and how they are served:

Also he [Filene] is establishing a plan whereby this small-loans evil, which is a terrible burden on the workingman and workingwoman and on small farmers, is being eliminated. And, above all, he is teaching people what dividends are, what interest is, what money is all about, how to manage it conservatively and for their own best interests. Mr. Filene’s theory in financing the work is, I repeat, that he is thereby promoting the public good by developing thrift through the credit unions, solving the short-term credit problems of the workingman, the small business man, and the farmer, freeing them from the usurious money lenders, and teaching sound economic lessons at a time when such teaching is very essential.29

At the time of the enactment of the FCU Act of 1934, demographics in the United States were such that the vast majority of citizens were working class, employed in blue collar, agricultural or service jobs that did not require higher education or training, but which typically paid enough for a single wage-earner to support his family in reasonable comfort. References to the working class were clearly understood to be references to this large group, which had been in part shunned by the commercial banking sector. Credit unions were established and were fully capable of existing as financial institutions devoted to discrete groups of these types of persons, with the classic example being the employees of a specifically identified manufacturing plant or factory. Collectively, these were the types of persons identified as “persons of small means.” In its historical context, the term refers to working or employed individuals; persons who naturally comprise an FCU’s intended membership.

During the formative years of the FCU system in the 1930s through the 1950s, a majority of FCUs chartered were based on an occupational FOM with membership comprised of the employees of the sponsoring organization. As reported in FDIC’s 1941 Annual Report for Federal Credit Unions, of the 4,793 FCU charters issued since 1934, federal employee groups comprised the single largest category, with 392 FCUs. The other largest sponsoring organizations represented at this time were educational institutions, the petroleum industry, wholesale and retail stores, and railroads.30

In 1956, NCUA’s predecessor, the Bureau of Federal Credit Unions (BFCU), commissioned a study by University of Notre Dame Economics Professor John T.

29 Credit Unions: Hearing, supra at note 25.
30 Federal Credit Unions, Annual Report on Operations, December 31, 1941, issued by the Federal Deposit Insurance Corporation, page I.
Croteau to assess the objectives and principles guiding the FCU program. BFCU posed eleven questions for Croteau to address in his study. Several of the questions asked are pertinent to MSAP now conducted by NCUA, including whether credit unions had departed from their original purpose.31

In his summary of findings, Croteau described persons traditionally served by credit unions. He stated:

[T]he credit union serves the American consumer, not the rich nor the very poor, especially during the difficult years of the family life cycle. It was this class of working people that the Federal credit union was designed to serve – people of ‘small means’ in the archaic terminology of the Federal Credit Union Act.32

Croteau concluded that his study should serve to clear up what was then a popular misunderstanding, i.e., that credit unions were designed to serve, almost exclusively, the lowest income classes. His study highlighted that FCU fields of membership consist primarily of members of the middle-income classes rather than the lowest classes.33

Common Bond and Small Means – Historical Complements

As previously stated, the FCU system was created as a vehicle to provide credit for provident and productive purposes to people of small means. Although the term “small means” was not defined, as outlined above, it was understood to be a reference to the working class. By design, FCUs were organized around the principle of common bond, which typically took the form of employees of a specific employer or members of specific, discrete organizations, most commonly a labor union. Though typically not wealthy, FCU members were almost always employed. The arrangement worked very well, with both the institutions and their members gaining in prosperity, partaking in the post-war growth of the great American middle class. Throughout this time, the constraint reflected by the common bond served as an organizing principle by which groups of working class individuals (people of small means) established credit unions. In a very real sense, the reference to persons of small means was simply a shorthand reference to a credit union’s natural constituency. In this regard, the concepts are complementary and mutually supportive.

Congress Enhances FCU Outreach to Low Income and Underserved

By the 1960s, it became increasingly apparent that a significant portion of America’s population had somehow missed the economic benefits associated with the rise of the middle class. Since inception, however, there have been a small number of “de


32 Id. at I-1

33 Id.
facto” limited-income credit unions, built around a membership of migratory laborers, low-income workers, etc. 34 By and large, the credit union establishment in the United States was not geared toward relief of the lowest income classes. Beginning around the mid-1960s, a deliberate effort was made to use the credit union concept and structure to affirmatively address the problems of poor persons living in America. BFCU, acting in concert with the Office of Economic Opportunity (OEO), chartered hundreds of credit unions in the 1960s focused on bringing cooperative financial principles to low-income individuals.

Importantly, by law FCUs were still constrained by FOM and common bond restrictions and existing credit unions were not expected to (indeed, were not able to) reach out to specific groups of low-income individuals under their existing charters. As explained in a 1969 survey by the Urban Coalition, such an outreach under then-prevailing rules was impractical:

The more affluent, existing Federal credit unions often did not meet the needs of the very limited income groups due to location and/or job-related membership requirements, among other factors. 35

Accordingly, the approach taken was to charter credit unions specifically to serve low-income groups (as opposed to an effort to graft such groups onto existing charters). This avoided any conflict with the statutory constraints governing FOM.

Representative chartering decisions from that era include credit unions devoted to serving residents of specific low-income neighborhoods and credit unions charted to support members of associations or other groups comprised of low-income individuals. BFCU also sponsored consumer education programs to supplement and support the newly chartered institutions and their membership, such as Project Moneywise, funded through grants from OEO. The program consisted of a series of training classes that were provided in 1966 to local leaders in limited-income areas. The reported objective of this program was “to provide the participants with the expertise necessary for the successful operation and management of credit unions in their local communities.” 36

In all, BFCU chartered approximately 700 low-income FCUs through these poverty initiatives. By 1969, it was evident these initiatives would not achieve the anticipated results. FCUs established in low-income areas, solely dependent on self-generated capital, proved less viable as a cooperative structure. Virtually all were closed or merged out of existence. 37 This experience demonstrated the difficulty of sustaining

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35 Id.
36 Id. at 2.
37 Of the initial 700 of these credit unions, less than twenty remain in existence today.
a credit union structure in which the membership consists exclusively of low-income individuals. It also demonstrated a financially diverse membership provided a much better opportunity for continued success.

**Congressional Action Resulting in Low-Income Designation for Eligible FCUs**

The failed BFCU/OEO initiative led directly to the enactment of legislation in 1970 that provided a new approach to creating a low-income credit union program, one that continues in an evolved form to this day. On May 27, 1969, Senator Hugh Scott of Pennsylvania, along with several other prominent co-sponsors, introduced S. 2259, “to Establish Credit Unions in Low-Income Areas.” As Senator Scott stated, the purpose of the bill was to:

> [E]ncourage saving and provide access to credit for low-income persons, and to bring consumer education into poverty areas. Although my bill will permit the poor to expand their incomes, it is not a welfare proposal. It opens the door to the poor – who want more money and credit – to help themselves.\(^\text{38}\)

Senator Scott’s bill was incorporated into another bill (S. 3822), which subsequently was enacted in 1970 as an amendment to the FCU Act.\(^\text{39}\) This 1970 amendment marked the beginning of a separation of the perceived expectations about whom credit unions can and should serve. It provided the context and limitations of low-income designated credit unions. For example, low-income designated credit unions can accept nonmember deposits to ensure an adequate deposit base. For the purpose of implementing the amendment, Congress specifically directed NCUA to define “low income.” NCUA’s definition of a low-income individual is one who earns less than either 80 percent of the average for all wage earners, as established by the Bureau of Labor Statistics, or whose household income is at or below 80 percent of the median household income\(^\text{40}\) as established by the U.S. Census Bureau.\(^\text{41}\) Since inception, the low-income designation for credit unions has been viewed and accepted as a subset of the broader “small means” characterization of FCU membership.

NCUA has administered the program devoted to the support of these credit unions for more than thirty years. As of December 31, 2005, there were 879 FCUs designated as low income. These credit unions represent 16.3 percent of the total

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\(^\text{40}\) According to the U.S. Census Bureau, a household consists of all people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. The Year 2000 Census median household income was $41,994.

\(^\text{41}\) See 12 C.F.R. § 701.34(a)(2). As originally implemented, NCUA’s rule used 70% of national median household income as the relevant percentage indicator of “low income.” The rule was changed to its current usage of 80% of national median household income in 1993.
number of FCUs and held $20.8 billion in assets, which is just over 5.5 percent of the total assets in the FCU system.

In 1979, Congress created the Community Development Revolving Loan Fund (CDRLF) to provide low interest loans and grants to low-income designated credit unions.\(^{42}\) The creation of this fund recognized the financial assistance low-income designated credit unions required to be successful.

**Other Consequences of Changing Demographics and Economic Evolution**

Since 1934, dramatic changes in the overall economic environment in which credit unions must operate have occurred. These changes have required that credit unions adapt in order to meet the financial needs and expectations of their members. Specifically, in the last forty years, changing demographics in the United States were characterized both by the loss of numerous well-paying blue collar jobs in the manufacturing sector and an increasing disparity in the income range between persons in the working class and the upper class. Operational evolution can be seen at several levels, including the offering of a wider range of services to a more broadly defined FOM. Fundamentally, however, even though some FOMs are broader today, FCUs have adhered to and preserved the integrity of both the common bond and their cooperative structure, which is reflected in regulatory policies. In addition, the types of services FCUs now increasingly offer have changed. As with the common bond, FCUs have found it necessary to adapt in order to meet member expectations and demand for products and services.

These changes in the overall economy and demographic makeup of the United States have required that NCUA make adjustments to its own policies vis-à-vis the system it regulates. In 1982, driven by the need to safeguard the NCUSIF and to handle the resolution of failing single common bond FCUs, NCUA authorized the establishment of multiple common bond FCUs. NCUA Interpretative Ruling and Policy Statement (IRPS) 82-3 established that multiple common bond FCUs could be created through: (1) the addition of new, but different common bond groups to a single common bond credit union; and (2) through the merger of occupational credit unions into other occupational credit unions, new charters, amendment or conversion.

**Credit Union Membership Access Act (CUMAA)**

The policy reflected in IRPS 82-3, although primarily designed to assure the continued viability of FCUs confronting dramatic change in the economic landscape, attracted opposition from the commercial banking sector. Litigation challenging the legitimacy of the policy was filed by banking interests and ultimately reached the U.S. Supreme Court. In 1998, the Court determined that NCUA’s multiple common bond policy was not supportable by the FCU Act.\(^{43}\) In reaction to the Court ruling,

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Congress enacted CUMAA, partially reestablishing NCUA’s Multiple Common Bond policy initiative.

CUMAA is also instructive as the most current reflection of the view of Congress with respect to the mission of FCUs. The term “modest means” was first introduced in proposed amendments to the FCU Act in 1998 describing the mission of credit unions. Although these amendments were not adopted in the final version of CUMAA, the House Report accompanying the proposed bill in describing the mission noted: “Section 204 reaffirms the continuing and affirmative obligation of insured credit unions to meet the financial services needs of persons of modest means, including those with low- and moderate-incomes, consistent with safe and sound operation.”

The Senate Report followed a similar usage in referring to section 204 of the bill. In this reference, the Senate Report also discussed the calling of credit unions to serve the entire range of membership and to provide “affordable credit union services to all individuals of modest means, including those with low- and moderate-incomes, within the field of membership of such credit union.”

The important point to note is that these congressional views reflect the clear understanding that the term “modest means” indicates a meaning broader than individuals with low- and moderate-income, and those that meet the definition of modest means must be within the FOM. In this respect, the term, though not specifically defined, conforms explicitly with its earlier counterpart, “small means,” as a shorthand reference to members of the broad American working class. The preamble to the bill ultimately enacted makes this connection clear:

The Congress finds the following: (1) The American credit union movement began as a cooperative effort to serve the productive and provident credit needs of individuals of modest means. (2) Credit unions continue to fulfill this public purpose … (4) Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means.

CUMAA served notice that outreach programs, of the type begun during the BFCU/OEO initiatives of the 1960s and the support for credit unions designated to serve low-income memberships commencing in the 1970s, should still continue. CUMAA authorized low-income designated credit unions to accept contributions of

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secondary capital and authorized those credit unions to obtain a waiver of the limitations that typically apply to FCU member business lending programs.\textsuperscript{47} These new authorizations reflect a continued awareness by Congress that the low-income segment of the population is less financially capable, without assistance or special consideration, of supporting a credit union bound by the traditional constraints of common bond.

CUMAA also specifically authorized certain federal credit unions to add geographically based “underserved areas” to their fields of membership.\textsuperscript{48} The concept reflects recognition that geographic areas exist in the United States that exhibit certain criteria, such as a declining population base or increasing rate of unemployment, that can result in diminished access by residents and businesses to financial products and services. Although the “underserved” designation is not strictly a function of income level of the residents, it is expected that over time broader demographic representation among the membership will occur in FCUs that have added underserved areas.

CUMAA partially reconciled the constraints of the working class common bond with the expectation that FCUs should more affirmatively reach out to individuals who are underserved or lack access to financial services. Specifically, CUMAA provided a mechanism by which certain, but not all, FCUs may fulfill that aspiration. It allowed multiple common bond FCUs to add members outside their traditional FOM, while preserving the overall integrity of the common bond principle. This change allowed such FCUs to provide valuable products and services to those who were otherwise excluded from membership. It also partially corrected the flaw that was exposed with the BFCU/OEO experiment by allowing for this outreach in the broader credit union sector, thereby avoiding the constraints and income limits inherent in the low-income designated credit union program.

In an effort to assure maximum ability to provide services to lower-income individuals, NCUA initially allowed all charter types of FCUs to add underserved areas to their FOM. Since the adoption of the law, 641 FCUs have added 1,414\textsuperscript{49} underserved areas to their fields of membership. It is noteworthy, in this respect, that the banking sector has opposed NCUA’s efforts to enhance or expand FCU outreach in underserved areas. Litigation filed by the American Bankers Association, the Utah Bankers Association and three Utah banks challenged that determination. In response to the litigation and after review of the underserved area policy, NCUA limited the ability to expand into underserved areas only to FCUs with multiple common bond charters, as explicitly authorized by CUMAA.

\textsuperscript{47} 12 U.S.C. §§ 1757(6), and 1757a(b)(2)(A).

\textsuperscript{48} 12 U.S.C. § 1759(c)(2).

\textsuperscript{49} This number includes underserved areas adopted by Multiple Common Bond, Single Common Bond, and Community Charters through December 31, 2005. Prior to a moratorium issued by the NCUA Board in December 2005, formalized in June 2006 by IRPS 06-1, all charter types were authorized to adopt underserved areas.
Thus, NCUA’s ability to provide greater flexibility for all FCUs to serve individuals outside their traditional membership base is now limited to only one charter type. This limitation appears to be a direct contradiction of congressional intent to reconcile the constraints of the working class common bond with the expectation that all FCUs should more affirmatively reach out to individuals who are underserved or lack access to financial services. This apparent conflict can only be corrected by Congress.

**Outreach Initiatives by NCUA to Increase Service to the Underserved**

Over the years NCUA, and its predecessor agency, initiated several programs focused on assisting low-income designated credit unions and on providing all credit unions with best practices to consider when converting to community charters or adding underserved areas.

Since 1987, NCUA has administered the CDRLF. This program, which is available to low-income designated credit unions, provides technical assistance grants and low-cost loans to those low-income designated credit unions interested in enhancing service to their membership. Since inception, the CDRLF has granted 273 loans totaling $40.5 million, and 1,923 grants totaling $5.8 million.

In addition to the CDRLF, the Access Across America initiative, announced in February of 2002, incorporated the agency’s activities for low-income designated and small credit unions, as well as FCUs expanding into underserved areas. The program has been designed to partner with federal government agencies and other organizations to identify and facilitate use of resources available for credit unions to assist in their efforts to serve individuals in underserved areas. Workshops continue to provide partnering opportunities with federal government agencies, as well as non-profit and private organizations. This initiative has resulted in NCUA entering into Memoranda of Agreement with the Internal Revenue Service, Operation Hope, and the Department of Agriculture, each of which committed to provide assistance in sharing opportunities with participating credit unions. Moreover, NCUA maintains good working relationships with the Department of Health and Human Services, Treasury Department’s Community Development Financial Institution Fund, and Fannie Mae to provide opportunities for credit unions to expand the products and services particularly useful to those members with lower incomes.

As an adjunct to the Access Across America initiative, the Partnering and Leadership Successes program was introduced in 2003 to provide best practices in serving members and marketing to potential members in underserved areas and communities. The agency coordinated widely attended workshops where a mix of credit unions presented programs focused on serving those in the lower economic strata. A few of these programs included partnering opportunities with the

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50 NCUA Letter to Federal Credit Unions 02-FCU-06, Credit Union Development Program & Activity Report, April 2002.
Neighborhood Reinvestment Corporation, Latino outreach, and micro-business lending opportunities with the Small Business Administration.

In conjunction with these workshops, numerous Letters to Credit Unions have been published that augment the workshops, providing information to the credit union system about opportunities available to enhance service and marketing to individuals in underserved areas.\textsuperscript{51} Two early examples of these letters include the February 2002 Letter to Federal Credit Unions, Letter No. 02-FCU-02 titled \textit{Partnership Opportunities with IRS}, which introduced the credit union system to the Volunteer Income Tax Assistance program, and the September 2001 Letter to Federal Credit Unions, Letter No. 01-FCU-06 titled \textit{Financial Education Curriculum}, which announced FDIC’s new Money Smart Financial Education Curriculum.

The objective of NCUA’s initiatives is to provide increased opportunities for FCUs to diversify their membership profile and to assist low-income designated and small credit unions as they manage their operations in accordance with ever increasing and complex laws and regulations. The ultimate objective is to increase the number of low-income individuals joining credit unions and receiving valuable, affordable services.

The above initiatives were in direct response to CUMAA. But these types of initiatives have long been a part of the regulatory fabric. There have been others, such as the OEO initiative, the drive to increase the number of low-income designated credit unions, and the regulatory encouragement to add underserved areas.

In 1993, NCUA created the Office of Community Development Credit Unions dedicated to ensuring the long-term viability of small and low-income designated credit unions. Today this activity is handled by the Office of Small Credit Union Initiatives (OSCUI), which has expanded considerably in terms of staff, resources, and programs.

OSCUI conducts regional and national training workshops on a variety of topics to help small and low-income designated credit unions to succeed. For example, for 2006 to date, OSCUI held fifteen national workshops covering subjects such as establishing financial literacy programs, disaster recovery planning, and compliance with the Bank Secrecy Act. In addition to the national workshops, OSCUI coordinates with NCUA’s regional offices to conduct smaller roundtable training sessions focused on the needs of small and low-income designated credit union officials.

\textbf{Summary}

The FCU system was created to provide members of the working class, who were historically excluded from access to banks, with valuable financial products and services. These individuals, referred to as people of “small means” and later “modest

means,” have always primarily been working or employed individuals, such as small business owners, entrepreneurs, blue collar workers in manufacturing jobs, laborers, employees in service positions, military personnel, members of labor unions and farmers. The system, characterized by membership constraints in the form of common bond requirements and a not-for-profit cooperative structure, succeeded. Although the FCU system has evolved to meet changing economic and demographic conditions in the United States, its success has not come at the expense of fidelity to its founding principles, which remain unchanged. As discussed in CUMAA, FCUs remain “member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors.”

CUMAA provided a mechanism by which multiple common bond FCUs may deliver their unique brand of financial services to individuals and families living in areas traditionally underserved by other financial institutions. Although this important authority only applies to multiple common bond FCUs, it nevertheless, will allow for expansion into underserved areas by 44 percent of FCUs. An expanded implementation of this authority will require further action by Congress. Also, conversions of single and multiple common bond FOMs to broader-based community charters are expected to enhance this outreach, since communities encompass a relatively more diverse income population than the more traditional membership base.

Chapter III -- Member Service Assessment Pilot Program (MSAP)

To assess FCU membership income distribution, NCUA staff analyzed 14 million member account records from 448 randomly selected FCUs. MSAP provided statistically valid results for the entire FCU system, and for FCUs grouped by asset size (i.e., FCUs with less than $50 million in assets, and FCUs with greater than or equal to $50 million in assets). The data also enabled descriptive analyses of different FCU charter types for a more in-depth understanding of the FCU system.

Income estimates were derived by matching member addresses with U.S. Census Bureau data. Rather than actual member income, MSAP used the Year 2000 median family income (MFI) for each member’s respective census tract to estimate the membership income. Additionally, the data collection software compared the member’s estimated income to the median family income of the local MSA as follows:

<table>
<thead>
<tr>
<th>Estimated Membership Income Calculation</th>
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<tbody>
<tr>
<td>Census Tract Year 2000 MFI</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>= Estimated Year 2000 Membership Income as a % of the MSA's Median Family Income</td>
</tr>
</tbody>
</table>

This methodology adjusted for the differences between salaries in high- and low-cost geographic areas. Fifteen percent of the member addresses analyzed were located outside the MSA boundaries. In these cases, the data collection software estimated the median family income by comparing the median family income of all non-MSA census tracts in the particular state. The estimated membership income calculation is similar whether the member address is within or outside the MSA boundaries. Therefore, for simplicity, the term MSA’s median family income is used throughout.

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53 Fair Lending Wiz, the third party software used to estimate FCU member median family income as a percent of the metropolitan statistical area in which the member resides, did not have the capability to aggregate multiple accounts for one member. Thus, income estimates are based on the number of share accounts rather than the number of members. The term “membership” is used interchangeably with member share accounts throughout this document. See Appendix 2 for additional information.

54 Descriptive statistics focuses on collecting, summarizing, and presenting a set of data. Inferential statistics uses sample data to draw conclusions about a population. Berenson, supra note 12.

55 According to the U.S. Census Bureau, a family is a group of two people or more related by birth, marriage, or adoption and residing together; and, the national median family income for the Year 2000 was $50,732. Median family income is also available and varies by metropolitan statistical area. The data in this report is based on Year 2000 U.S. Census Bureau figures with no inflation adjustment.

56 Census tracts are small, relatively permanent statistical subdivisions of a county. Census tracts are designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions, census tracts average about 4,000 inhabitants.
this report. Appendix 2 contains a complete description of the data collection methodology.

**MSAP Results**

It is useful to analyze FCU membership income data in terms of the median.\(^{57}\) For simplicity of discussion, 100 percent of the median family income for an MSA is hereafter referred to as the median. As shown in Chart 2, in the average FCU, 44 percent of the membership earns less than the median and 56 percent earns more than the median.

In Chart 2, FCU member income distribution is displayed in ranges of ten percent of the median family income for the applicable MSA. The columns represent the percent of FCU member share accounts within these income ranges. The line represents the cumulative percent of member share accounts within these income ranges. For example, about 14 percent of FCU membership earns between 90 and

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\(^{57}\) Although other statistics were considered for the analyses, using medians allowed for a better description of the general tendency in the data. Use of averages, for example, may have skewed the results, as the data analyzed was not symmetrically distributed and was characterized by extreme values. As stated by Berenson, "a mean will be greatly affected by any value that is greatly different from the others in the data set. When you have such extreme values, you should avoid using the mean.... The median is not affected by extreme values, so you can use the median when extreme values are present." Medians are also commonly used by other governmental agencies, such as the U.S. Census Bureau, in their income analyses. Although the mode, like the median, is not affected by extreme values "you should use mode only for descriptive purposes as it is more variable from sample to sample than either the mean or the median...[o]ften there is no mode or there are several modes in a set of data." Berenson, supra note 12, at 76-76.
100 percent of the median family income for their MSA; while about 44 percent of FCU membership cumulatively earns less than 100 percent of the median family income for their MSA.

**Income of FCU Membership Compared to the United States Population**

Although MSAP results are reported in terms of the median family income as a percent of the MSA’s median family income, to compare the data to the United States population, it had to be converted to income dollars. The U.S. Census Bureau analyzes the income distribution of the United States population in the income ranges provided in Chart 3. Thus, for purposes of comparison, the income of FCU membership is also displayed in these income ranges.

Chart 3

The solid columns represent the percent of the average FCU’s membership within these income ranges. The striped columns represent the percent of the United States population in the same ranges. The line represents the aggregate distribution of the average FCU’s membership within these income ranges. For example, about 9 percent of the membership in the average FCU earns $35,000 to $40,000 annually, while about 6 percent of the United States population falls in this income range. About 96 percent of the membership in the average FCU earns less than $100,000 annually, as compared to 85 percent of the United States population. The bulk of FCU membership (about 90 percent) earns between $30,000 and $100,000 annually.
Table 1 reflects the cumulative percent of membership in the average FCU earning less than the stated annual income ranges.

<table>
<thead>
<tr>
<th>Median Family Income &lt; $60,000</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Family Income &lt; $75,000</td>
<td>82%</td>
</tr>
<tr>
<td>Median Family Income &lt; $100,000</td>
<td>96%</td>
</tr>
</tbody>
</table>

In the average FCU, 60 percent of the membership earns less than $60,000 annually, about the same as the United States population in general.

**FCU Membership Income Distribution Based on FCU Asset Size**

As of September 30, 2005, FCUs with less than $50 million in assets comprised 80 percent of all FCUs. The sampling methodology used for this study allows for statistically valid conclusions for those FCUs with less than $50 million in assets, as well as those FCUs with assets of $50 million or more.

Table 5 displays the cumulative income distribution of the membership of an average FCU in ranges of 10 percent of the median family income for the applicable MSA. The column titled *All FCUs* represents the results for the FCU system collectively. Of the other two columns, the first represents the results for FCUs with assets less than $50 million and the second represents FCUs with assets $50 million or greater.

<table>
<thead>
<tr>
<th>Median Family Income (MFI) as a % of MSA MFI</th>
<th>FCU Membership Income Distribution (cumulative)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All FCUs</td>
</tr>
<tr>
<td>&lt; 70%</td>
<td>10.72%</td>
</tr>
<tr>
<td>&lt; 80%</td>
<td>18.68%</td>
</tr>
<tr>
<td>&lt; 90%</td>
<td>30.08%</td>
</tr>
<tr>
<td>&lt; 100%</td>
<td>43.96%</td>
</tr>
<tr>
<td>&lt; 110%</td>
<td>57.21%</td>
</tr>
<tr>
<td>&lt; 120%</td>
<td>69.15%</td>
</tr>
<tr>
<td>&lt; 130%</td>
<td>78.07%</td>
</tr>
</tbody>
</table>

As shown, FCUs with less than $50 million in assets serve more members below the median than the FCU system as a whole while FCUs with at least $50 million in assets closely mirror the FCU system. The results for all FCUs are heavily influenced by the membership in FCUs with assets $50 million or greater, as these institutions served 79 percent of FCU membership as of September 30, 2005.

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58 Table 1 previously shown on page 7.
Chart 4 illustrates the income distribution of the membership of FCUs with assets less than $50 million (solid columns) compared to all FCUs (striped columns).

Chart 4

<table>
<thead>
<tr>
<th>MR Percent (%)</th>
<th>FCUs &lt; $50 Million in Assets</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10 - 20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20 - 30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30 - 40</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>40 - 50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50 - 60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60 - 70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>70 - 80</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80 - 90</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>90 - 100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100 - 110</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>110 - 120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>120 - 130</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>130 - 140</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>140 - 150</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>150 - 160</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>160 - 170</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>170 - 180</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>180 - 190</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>190 - 200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Chart 5 illustrates the income distribution of the members at FCUs with at least $50 million in assets (solid columns) compared to all FCUs (striped columns).

Chart 5

<table>
<thead>
<tr>
<th>MR Percent (%)</th>
<th>FCUs &gt;= $50 Million</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10 - 20</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20 - 30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>30 - 40</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>40 - 50</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>50 - 60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>60 - 70</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>70 - 80</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>80 - 90</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>90 - 100</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100 - 110</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>110 - 120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>120 - 130</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>130 - 140</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>140 - 150</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>150 - 160</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>160 - 170</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>170 - 180</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>180 - 190</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>190 - 200</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Descriptive Analyses**

MSAP did not provide statistically-conclusive results for FCUs of different charter types and other characteristics. However, descriptive analyses, pertaining only to the 448 FCUs in the sample, can be performed to acquire a more in-depth understanding of the FCU system. Proportionality of the sample provided additional strength to the descriptive analyses performed.
FCU Membership Income Distribution by Charter Type

As shown in Table 6, the selected sample proportionally represented all FCU charter types at September 30, 2005.

Table 6

<table>
<thead>
<tr>
<th>Field of Membership Type</th>
<th>MSAP Sample</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percent</td>
</tr>
<tr>
<td>Single Association Common Bond</td>
<td>29</td>
<td>6%</td>
</tr>
<tr>
<td>Single Occupation Common Bond</td>
<td>122</td>
<td>27%</td>
</tr>
<tr>
<td>Multiple Common Bond</td>
<td>200</td>
<td>45%</td>
</tr>
<tr>
<td>Community Common Bond Charter</td>
<td>97</td>
<td>22%</td>
</tr>
<tr>
<td>Total</td>
<td>448</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 7 displays the cumulative income distribution of the membership of an average FCU with various charter types and other characteristics in ranges of 10 percent of the median family income for the applicable MSA. The column titled All FCUs represents the results for the FCU system collectively. The four columns underneath the header Field of Membership represent observations by charter type. The two columns underneath the header Other Characteristics represent observations related to FCUs in the sample that had added underserved areas and those designated as low income.

Table 7

<table>
<thead>
<tr>
<th>Median Family Income (MFI) as a % of MSA MFI</th>
<th>Aggregate Percent of FCU Membership</th>
<th>Other Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All FCUs</td>
<td>Field of Membership (Charter)</td>
</tr>
<tr>
<td></td>
<td>All FCUs</td>
<td>Single Occupation Common Bond</td>
</tr>
<tr>
<td>&lt; 70%</td>
<td>10.72%</td>
<td>10.65%</td>
</tr>
<tr>
<td>&lt; 80%</td>
<td>18.68%</td>
<td>18.37%</td>
</tr>
<tr>
<td>&lt; 90%</td>
<td>30.08%</td>
<td>29.07%</td>
</tr>
<tr>
<td>&lt; 100%</td>
<td>43.96%</td>
<td>41.62%</td>
</tr>
<tr>
<td>&lt; 110%</td>
<td>57.21%</td>
<td>54.45%</td>
</tr>
<tr>
<td>&lt; 120%</td>
<td>69.15%</td>
<td>67.19%</td>
</tr>
<tr>
<td>&lt; 130%</td>
<td>78.07%</td>
<td>76.61%</td>
</tr>
</tbody>
</table>

MSAP Observations Based on Charter Type

- Single occupation FCUs serve a greater percentage of the membership below the median than the membership of single association FCUs; both single common bond charters serve a lower percentage of the membership below the median than the FCU system collectively.

59 The data in “All FCU” column apply to the entire FCU system, while the rest of the data apply to FCUs in MSAP only. This is discussed throughout the report.

60 See supra note 17.

61 See supra note 18.
• Multiple common bond FCUs serve more of the membership with income below the median than the FCU system collectively and both types of single common bond FCUs.

• Community charter FCUs serve more of the membership with income below the median than all other charter types and the FCU system collectively.

• FCUs with underserved areas and low-income designated FCUs serve more of the membership with income below the median than the FCU system collectively.

**Descriptive Analysis of Community Charters by Age**

Reaching the membership of the community in all economic ranges is, in part, a function of time. Results are not immediate. Serving the needs of a community presents an opportunity and a challenge to management previously focused on serving occupational and/or associational groups. It takes time for the new business model to be understood and absorbed into the fabric of the new community charter.

Chart 6 compares the membership income ranges of MSAP community FCUs in existence more than five years (solid columns) and less than or equal to five years (striped columns). It shows that as an FCU operates as a community charter for an extended period, a greater percent of the membership has a median family income below the median. As an FCU with a community charter seasons, participation by the membership in all economic ranges increases.
Table 3\textsuperscript{62} compares the percent of the membership above and below the median for those FCUs which have operated with a community FOM longer than five years, and those operating with a community FOM for five years or less. MSAP sample included forty-two community FCUs that are more than five years old, and fifty-five community charters five years or less.

<table>
<thead>
<tr>
<th>Table 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparison of Community Charters</strong></td>
</tr>
<tr>
<td><strong>Median = 100% of MFI</strong></td>
</tr>
<tr>
<td>Below the Median</td>
</tr>
<tr>
<td>Community (&gt;5yrs)</td>
</tr>
<tr>
<td>Community (&lt;=5yrs)</td>
</tr>
</tbody>
</table>

As Table 3 illustrates, 51 percent of the membership in MSAP’s community FOMs that have been in existence longer than five years earns less than the median, compared to 47 percent of the community FOMs in existence five years or less. These observations indicate that as community charters age, they become more successful in penetrating the potential membership at all economic ranges.

**FCU Membership Income Distribution with Low-Income Designation or Less Restrictive FOM for Serving the Underserved**

**Analysis of Low-Income Designated FCUs**

The data collection study included 69 low-income designated FCUs, or 16 percent of the total sample, proportionately representing the entire FCU system. Chart 7 displays the membership income ranges of FCUs with low-income designations\textsuperscript{63} (solid columns) compared to membership income ranges of the FCU system collectively (striped columns).

\textsuperscript{62} Table 3 previously shown on page 9.

\textsuperscript{63} The results are not directly comparable to NCUA’s definition of “low-income” in 12 C.F.R. § 701.34, because the income estimates are not based on the same U.S. Census data. In addition, § 701.34 includes adjustments for 11 high-cost geographic areas of the country that are not comparable to the MSA’s median family income upon which the data collection results are based.
As Table 8 indicates, low-income designated FCUs in MSAP serve more of the membership in income ranges below the median and less of the membership in income ranges above the median than the FCU system collectively.

<table>
<thead>
<tr>
<th></th>
<th>Low Income</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below the Median</td>
<td>61%</td>
<td>44%</td>
</tr>
<tr>
<td>Above the Median</td>
<td>39%</td>
<td>56%</td>
</tr>
</tbody>
</table>

**Analysis of FCUs with Underserved Areas**

The data collection study included 102 FCUs, or 23 percent of the total sample, that had added underserved areas to their fields of membership, proportionately representing the entire FCU system. Chart 8 displays the income distribution of FCUs with underserved areas added to their field of membership (solid columns) compared to the FCU system collectively (striped columns).
Similar to the low-income designated FCUs, as indicated in Table 9, FCUs in the sample with underserved areas serve more of the membership in income ranges below the median and less of the membership in income ranges above the median than the FCU system collectively.

<table>
<thead>
<tr>
<th>Table 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparison of Underserved Areas to All FCUs</strong></td>
</tr>
<tr>
<td><strong>Median = 100% of MFI</strong></td>
</tr>
<tr>
<td><strong>Below the Median</strong></td>
</tr>
<tr>
<td>Underserved Areas</td>
</tr>
<tr>
<td>All FCUs</td>
</tr>
</tbody>
</table>

**Summary**

FCUs predominately serve a membership with earnings in the range of $30,000 to $100,000 annually. With 80 percent of FCUs restricted by common bond of occupation and/or association, these results are consistent with a membership base comprised primarily of employed individuals. Furthermore, as the descriptive analyses indicate, the less restrictive community charters serve more of the membership earning less than the median than any other charter type. MSAP results also indicate community charters in existence greater than five years serve a higher percent of the membership earning below the median than those community charters less than or equal to five years in existence. Finally, FCUs in MSAP that added underserved areas, as well as those designated as low income, serve more of the membership earning less than the median than the FCU system collectively. For additional data results, refer to Appendix 1.

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64 See supra at note 49.
Chapter IV -- Services Federal Credit Unions Offer Their Membership

FCUs provide valuable services to participating members within their FOM, regardless of the membership income level. The service survey responses, collected as a part of MSAP, were received from 47265 randomly selected FCUs, providing statistically valid results for the entire FCU system.

The survey answers are subjective, however, because they are based on the interpretations of NCUA examiners and FCU officials. During the interview process used to collect survey data, NCUA staff noted a lack of common language about service within the FCU system. For example, an FCU responded that it did not provide financial counseling due to a lack of a formal program. That FCU, however, provides members with guidance on how to improve credit scores, balance checkbooks, and set up personal budgets. In another example, an FCU stated that it did not offer formal student financial education. The same FCU provided financial education materials to schools in the local area, offered kids club accounts, and awarded student scholarships.

FCUs often do not track the member usage rate for each type of product and service offered. Therefore, the survey focused on specific services and the level of assistance provided among all FCUs.

Share Products and Services

The average minimum balance required to maintain a share draft (checking) account in the average FCU is $17, with both the median and the mode at zero dollars. The most frequently reported amount required for FCU membership was $5.

As shown in Table 10, the majority of FCUs that offer share drafts, ATM, and bill pay services do not charge for these services. For example, on average 70 percent of FCUs offer share draft accounts. Of these FCUs, 83 percent offer these accounts free of charge. While 55 percent of FCUs provide ATM service, 83 percent of them offer this service free of charge. And, for FCUs that provide bill pay services, 81 percent offer this service free to the membership. Of FCUs offering these services, 70 percent or more had over $50 million in assets.

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65 See Appendix 3 for a copy of the survey.

66 The mode is the value in a set of data that appears most frequently. Berenson, supra note 12.
As shown in Chart 9, 45 percent of FCUs offer business share accounts, 3 percent offer low cost wire transfers, and 1 percent offer Individual Development Accounts (IDAs).  

Since the majority of FCUs lack international correspondent accounts, wire transfer services are usually offered through third parties, such as a local bank or corporate credit union. As a result, third party costs are passed to individual members requesting wire transfer services. This limits the ability of FCUs to offer low cost wire transfers. While FCUs may choose to offer IDAs to their members, these matched savings accounts can be labor intensive. In addition to tracking member contributions to IDAs, FCUs must locate a source for matched funds and complete any necessary paperwork. This may explain why only 1 percent of the responding FCUs choose to provide IDAs.

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67 IDAs are savings accounts established for lower income individuals. An IDA is used for a specific purpose such as education, purchasing a first home, or starting a business. Contracts are entered into between the lower income individuals and the financial institution, and savings are matched to a certain limit, by private or public funds, if the terms of the contract are met.
Loan Products and Services

Of the loan products included in the survey, the most frequently offered is the credit builder loan. On average, 59 percent of FCUs offer this type of loan. Credit builder loans are used to build a positive credit history, when a member has no credit history or a negative history.

Consumer loans of less than $500 are the second most offered product among FCUs. On average, 54 percent of FCUs make this loan product available to the membership. These micro-consumer loans may provide funds for an emergency or hardship, holiday/vacation, medical expense, or other purpose.

Chart 10 provides data on the other loan products included in the survey. Information about First Time Home Buyer Programs was compared to all FCUs offering real estate loans; on average, 66 percent of FCUs offer real estate loans. All other information is compared to all FCUs, as any FCU could choose to offer these types of loan products.

![Chart 10](image-url)

The smallest unsecured loan amount granted in the past year by the surveyed FCUs averaged $436. Likewise, the smallest secured loan amount granted in the past year averaged $1,048.

Other Services Offered

As shown in Chart 11, 42 percent of FCUs, on average, provide financial literacy programs (including programs focused on students), and 60 percent offer financial counseling. As discussed above, the information displayed in the following chart may
understate the actual education and assistance provided to FCU membership. On average, only 4 percent of FCUs offer the Voluntary Income Tax Assistance Program (VITA). However, no FCU offered VITA five years ago. The VITA programs offer free tax preparation assistance, a service particularly beneficial to lower income members who may not otherwise realize the full amount of tax refunds due to them.

Chart 11

Community Involvement
As part of the survey NCUA asked questions regarding the FCU’s involvement in its local community or field of membership. As shown in Chart 12, on average, 67 percent of FCUs surveyed donated funds to one or more charity organizations in their local community or field of membership. A little over half of the credit unions collected funds on behalf of charities. Nineteen percent of FCUs offer programs for employees of their sponsor organizations, such as uniform purchase programs. Finally, 27 percent of FCUs provide financial or operational assistance to low-income designated credit unions.
Assistance is provided to low-income designated credit unions by a variety of FCUs within the system. Twenty-seven percent of FCUs provide financial or operational assistance to low-income designated credit unions, which can be FCUs or federally-insured state-chartered credit unions (FISCU). As shown in Chart 13, this type of assistance is provided by all charter types with community and multiple common bond FCUs being the most prevalent. Low-income designated FCUs receive significant assistance from the FCU system collectively.
Summary
FCUs offer a wide range of services that would particularly benefit those with lower incomes. On average, 82 percent of FCUs offer at least one of the following programs: credit builder loans, first time home buyer program, micro-consumer loans, micro-member business loans, and share secured credit cards.

As noted herein, experience has shown that FCUs established in low-income areas, solely dependent on self-generated capital, may face greater challenges than other FCUs. For example, the demand for loans and the operational service expected may not be supported by the shares deposited. The viability of low-income designated FCUs is enhanced through the cooperation and partnerships between credit unions, including the deposit of funds that often provides working capital at favorable rates.
Chapter V -- Executive Compensation

FCUs are not required to file IRS Form 990\(^{68}\) and thus no database exists on executive compensation. To address questions posed by the House Ways and Means Committee and GAO, NCUA collected compensation information as an adjunct to MSAP. More specifically, NCUA collected information on the total compensation and benefits provided to the executive staff of those FCUs surveyed.\(^{69}\)

FCUs are managed by a board of directors elected by and from the membership. The board is responsible for directing and controlling the affairs of the credit union and establishing policies and procedures for the conduct of credit union affairs. By statute, no member of the board may be compensated as such; however, an FCU may compensate one individual who serves as an officer of the board.\(^{70}\)

The board selects management to carry out policies and procedures and monitor credit union performance. As stated, NCUA collected compensation and benefit information for senior executive staff. For the purpose of MSAP, senior executive staff included the chief executive officer, chief financial officer (CFO), and chief operating officer (COO). A general conclusion gained from the study is that FCUs do not always staff all three positions. In some cases, one executive officer is responsible for more than one position. In other cases, senior executive officers are not compensated, or are paid by the credit union’s sponsor.

For this data collection, compensation is defined as salary and benefits, including deferred compensation, medical and health care payments, debt forgiven, awards or similar income, and rent and legal fees paid. Credit union executives are not eligible for stock options as part of their compensation packages as credit unions cannot issue stock. NCUA examiners obtained compensation data from IRS Forms W-2 and 1099 for calendar year 2005 and completed a standard survey (Appendix 3) for 472 randomly selected FCUs, providing statistically valid results for the entire FCU system. Additional descriptive analyses were performed to acquire a more in-depth understanding of executive compensation.

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\(^{68}\) FCUs are expressly exempt from income tax pursuant to the FCU Act. 12 U.S.C. § 1768. FCUs are also considered “federal instrumentalities,” and thus, are also immune from taxation pursuant to the Supremacy Clause of the United States Constitution. U.S. CONST. art. VI, cl.2. Because of their status as federal instrumentalities exempt from taxation by an act of Congress, FCUs are classified by the Internal Revenue Code as 501(c)(1) tax exempt organizations. As a result of this classification, FCUs are not required to file IRS Form 990. IRS Form 990 is an informational filing required by the IRS for the majority of tax exempt organizations. Among other things, IRS Form 990 requires information regarding the compensation and benefits paid to a tax exempt organization’s current officers, directors, trustees and key employees.

\(^{69}\) Collection of this information via MSAP was also necessary because NCUA examiners focus on specific compensation data for senior staff or officials as it relates to safety and soundness. NCUA does not currently collect or aggregate executive compensation information for the entire FCU system.

\(^{70}\) See 12 U.S.C. §§ 1761(c) and 1761a.
**Chief Executive Officer Compensation**[^71]

The results of MSAP indicate, on average, about 95 percent of FCUs pay CEOs compensation, 4 percent of FCUs are operated entirely by volunteers, and in about 1 percent of FCUs the entire CEO compensation is paid by the credit union’s sponsor.[^72]

Including all CEO compensation types described above, the average FCU has median CEO compensation of $55,588 and average CEO compensation is $74,020. Excluding FCUs with no CEO compensation expense, the average FCU has median CEO compensation of $58,860 and average CEO compensation is $77,490.

The columns in Chart 14 represent the percent of FCUs, on average, with CEO compensation in specified income ranges. As shown, CEO compensation in 2005 was $75,000 or less in 66 percent of FCUs, and $100,000 or less in 80 percent of FCUs.

![Chart 14](chart.png)

Additional descriptive analyses, which apply only to FCUs in MSAP, were performed to acquire a more in-depth understanding of executive compensation.

[^71]: Out of 472 MSAP FCUs, 469 provided CEO compensation data, 1 FCU declined to provide the data, and 2 FCUs did not have the CEO position staffed at the time of the data collection. These three FCUs were excluded from the analysis of CEO compensation.

[^72]: The 5 percent of MSAP FCUs with volunteer and sponsor-paid CEOs reported $0 for CEO compensation expense.

[^73]: Results may not sum to 100 percent due to rounding.
Table 11 contains the average and median CEO compensation by FCU asset size. The table also includes the count of FCUs in MSAP, grouped within their asset range, and the percentage they represent of the total FCUs in MSAP. As illustrated, average and median CEO compensation increases with the FCU’s asset size.

<table>
<thead>
<tr>
<th>Asset Range (millions)</th>
<th>Average Compensation</th>
<th>Median Compensation</th>
<th>Count</th>
<th>Percent of FCUs with CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10</td>
<td>$30,832</td>
<td>$31,000</td>
<td>221</td>
<td>47%</td>
</tr>
<tr>
<td>$10 - $50</td>
<td>$75,836</td>
<td>$71,450</td>
<td>151</td>
<td>32%</td>
</tr>
<tr>
<td>$50 - $100</td>
<td>$109,547</td>
<td>$103,775</td>
<td>42</td>
<td>9%</td>
</tr>
<tr>
<td>$100 - $500</td>
<td>$155,953</td>
<td>$142,500</td>
<td>40</td>
<td>9%</td>
</tr>
<tr>
<td>&gt; $500</td>
<td>$374,081</td>
<td>$341,716</td>
<td>15</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>469</td>
<td>100%</td>
</tr>
</tbody>
</table>

Charts 15 and 16 represent the average and median CEO compensation in different FCU asset sizes. The bars represent the average CEO compensation for FCUs in five asset ranges. The percent values above the bars represent the percent of the total FCUs that participated in MSAP in the applicable asset range.

Chart 15

![Average CEO Compensation Chart](chart15.png)
As shown in Chart 15, the average 2005 CEO compensation for the fifteen FCUs with assets over $500 million (3 percent of FCUs in MSAP) was $374,081, while the average CEO compensation for the 221 FCUs with assets less than $10 million (47 percent of FCUs in MSAP) was $30,832.

Chart 16 reflects the median 2005 CEO compensation for the fifteen FCUs with assets over $500 million (3 percent of FCUs in MSAP) was $341,716, while the median CEO compensation for the 221 FCUs with assets less than $10 million (47 percent of FCUs in MSAP) was $31,000.

**Chief Financial Officer Compensation**

On average, about 25 percent of FCUs have a staffed CFO position. For those that do, the median CFO compensation in 2005 was $72,000, and the average CFO compensation was $86,422.

---

74 Only 116 of 472 (25 percent) FCUs in MSAP reported having a staffed CFO position.
As shown in Chart 17, 50 percent of FCUs with staffed CFO positions had total 2005 CFO compensation of $75,000 or less, while 73 percent had total 2005 CFO compensation of $100,000 or less. The columns in Chart 17 represent the number of FCUs with CFO compensation in certain income ranges.

Additional descriptive analyses, which apply only to FCUs in MSAP reporting a CFO position, were performed to acquire a more in-depth understanding of executive compensation.

Table 12 contains the average and median CFO compensation by FCU asset size. The table also includes the count of FCUs in MSAP, grouped within their asset range, and the percentage they represent of the total FCUs in MSAP. As illustrated, average and median CFO compensation increases with the FCU’s asset size.

75 Results may not sum to 100 percent due to rounding.
Table 12

<table>
<thead>
<tr>
<th>Asset Range (millions)</th>
<th>Average Compensation</th>
<th>Median Compensation</th>
<th>Count</th>
<th>Percent of FCUs with CFO</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10</td>
<td>$22,389</td>
<td>$23,100</td>
<td>7</td>
<td>6%</td>
</tr>
<tr>
<td>$10 - $50</td>
<td>$48,060</td>
<td>$48,891</td>
<td>30</td>
<td>26%</td>
</tr>
<tr>
<td>$50 - $100</td>
<td>$75,076</td>
<td>$76,000</td>
<td>32</td>
<td>28%</td>
</tr>
<tr>
<td>$100 - $500</td>
<td>$94,266</td>
<td>$91,018</td>
<td>32</td>
<td>28%</td>
</tr>
<tr>
<td>&gt; $500</td>
<td>$200,502</td>
<td>$173,636</td>
<td>15</td>
<td>13%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>116</td>
<td></td>
</tr>
</tbody>
</table>

Chart 18 represents the average CFO compensation in different FCU asset sizes. The bars represent the average CFO compensation for FCUs in five asset ranges. The percent values above the bars represent the percentage of the total FCUs reporting a staffed CFO position in the applicable asset range.

As shown, the average 2005 CFO compensation for the fifteen FCUs with assets over $500 million (13 percent of the 116 FCUs represented in MSAP) was $200,502, while the average CFO compensation for the seven FCUs with assets less than $10 million (6 percent of the 116 FCUs represented in MSAP) was $22,389.

Chief Operating Officer Compensation

On average, only about 20 percent of FCUs have a staffed COO position. For those that do, the median COO compensation in 2005 was $75,000, and the average COO compensation was $91,523.

---

76 Only 95 of 472 (20 percent) FCUs in MSAP reported having a staffed COO position.
The columns in Chart 19 represent the percentage of FCUs with COO compensation in certain income ranges. As shown, 50 percent of FCUs with a staffed COO position had COO compensation of $75,000 or less in 2005, while 75 percent of FCUs surveyed reported total COO compensation of $100,000 or less.

Additional descriptive analyses, which apply only to FCUs in MSAP reporting a COO position, were performed to acquire a more in-depth understanding of the executive compensation.

Table 13 contains the average and median COO compensation by FCU asset size. Included also in the table is the count of the surveyed FCUs in each asset range and the percentage they represent of the total surveyed FCUs. As illustrated, average and median COO compensation increases with the FCU’s asset size.

---

**Table 13**

<table>
<thead>
<tr>
<th>Asset Range (millions)</th>
<th>Average Compensation</th>
<th>Median Compensation</th>
<th>Count</th>
<th>% of FCUs with COO</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $10</td>
<td>$41,320</td>
<td>$41,320</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>$10 - $50</td>
<td>$53,338</td>
<td>$45,770</td>
<td>30</td>
<td>32%</td>
</tr>
<tr>
<td>$50 - $100</td>
<td>$67,763</td>
<td>$65,199</td>
<td>23</td>
<td>24%</td>
</tr>
<tr>
<td>$100 - $500</td>
<td>$100,992</td>
<td>$85,680</td>
<td>28</td>
<td>29%</td>
</tr>
<tr>
<td>&gt; $500</td>
<td>$218,793</td>
<td>$227,207</td>
<td>12</td>
<td>13%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>95</td>
<td></td>
</tr>
</tbody>
</table>

---

77 Results may not sum to 100 percent due to rounding.
Chart 20 represents the average COO compensation in different FCU asset sizes. The bars represent the average COO compensation for FCUs in five asset ranges. The percent values above the bars represent the percentage of the total FCUs reporting a staffed COO position in the applicable asset range.

As shown, the average 2005 COO compensation for the twelve FCUs with assets over $500 million (13 percent of the ninety-five FCUs represented in MSAP) was $218,793, while the average COO compensation for the two FCUs with assets less than $10 million (2 percent of the ninety-five FCUs represented in MSAP) was $41,320.

**Summary**

The spirit of volunteerism is still an active part of the FCU business model since all boards and many committees remain volunteers. Additionally, as MSAP indicates, about 4 percent of FCUs are entirely operated by volunteers.

While not all FCUs have staffed CEO, CFO and COO positions, for those that do, the executive compensation tends to increase with the asset size of the credit union, as expected. Overall, total executive compensation appears appropriate for the different asset-sized FCUs.
Chapter VI -- Structure and Purpose of Federal Credit Unions Within the Financial Institution Industry

The predominant characteristic of credit unions relative to tax exemption has been and remains their cooperative structure. This feature serves as the principal foundation on which their tax exemption is based. Despite the changes in the law, the economy, and member demographics over time, credit unions have remained faithful to their originally conceived cooperative, not-for-profit, democratic structure.

Throughout its history NCUA has remained steadfast in its adherence to ensuring the cooperative structure of FCUs is maintained. Although the evolution of the financial service industry has required modification in policies (e.g., service to members, investment authorities, and chartering policies), the cooperative structure of FCUs has remained unaltered since their inception. FCUs continue to be member-owned, democratically operated, not-for-profit cooperatives generally managed by volunteer boards of directors.

History of Tax Exemption
Research into the history of the tax exemption for FCUs confirms the principal foundation on which it is based is the cooperative structure.

1917 -- U.S. Attorney General Opinion
In 1917, the U.S. Attorney General issued an opinion confirming credit unions are exempt from federal income taxes. The opinion concluded that a statutory exemption was available to credit unions because they were organizations conducted principally for the benefit of individuals belonging to them and no part of the net income inures to the benefit of any private stockholder or investor. The opinion characterized credit unions as follows:

\[
\text{The fundamental principle underlying the system of credit unions is cooperation. ... The association is one of individuals and not of shares, each shareholder being entitled to only one vote, regardless of the number of shares he may own. ... It is apparent that the purpose of these financial associations is to help people to save and to assist those in need of financial help. ... They are organized and operated for mutual purposes and without profit.}^{78}
\]

1937 -- Amendment to the FCU Act of 1934
In 1937, Congress amended the FCU Act to explicitly exempt FCUs from federal, as well as state income tax, in recognition of their cooperative, democratic and mutual nature.\(^{79}\)


1951 -- Revenue Act of 1951
With the Revenue Act of 1951, express statutory tax-exempt status was afforded to state-chartered credit unions, essentially affirming that credit unions remained true to their cooperative nature.

1998 -- CUMAA
Recently, Congress restated its support for the credit union tax exemption and its recognition of the cooperative structure of credit unions:

Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because they are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specific mission of meeting the credit and savings needs of consumers, especially persons of modest means. 81

FCU Structure and Mission Today
Aside from being member-owned, democratically controlled, not-for-profit financial cooperatives, the following structural features uniquely set FCUs apart from other financial institutions:

• Unlike banks or savings institutions, credit unions cannot issue stock to raise additional capital. An FCU can only build net worth through its retained earnings, unless it is a low-income designated FCU that can accept secondary capital contributions.

• FCUs are managed by a board of directors elected by and from the membership. By statute, no member of the board may be compensated as such; however, an FCU may compensate one individual who serves as an officer of the board.

• FCUs must have a supervisory committee that either performs or contracts with a third party to perform an annual audit of the credit union’s books and records. No member of this committee can be compensated. Depending on its bylaws, an FCU’s board may also appoint a credit committee to consider loan applications. Members of the credit committee cannot be compensated.

In addition to their unique structure, by virtue of their enabling legislation, FCUs are more restricted in their operations than other traditional financial institutions. For example, FCUs:


• May only provide services to members of their defined field of membership.82

• Must transfer their earnings to net worth and loss reserve accounts or distribute it to the membership. This distribution can take the form of dividends, relatively lower loan rates, or relatively lower fees.

• Have a federal statutory usury limit of 15 percent, inclusive of all fees, which is unique among federally-chartered financial institutions. The FCU Act permits a higher rate if the NCUA Board adopts a regulation, a matter that it must regularly review and reconsider every eighteen months. The current usury ceiling is 18 percent.

• Have limited lending authority, including a limit on loan maturity and a prohibition on prepayment penalties.

• Have limited investment authority; they are generally limited to investing in government issued or guaranteed securities and cannot invest in the diverse range of higher yielding products, including commercial paper and corporate debt securities.

• Cannot invest in the shares of an insurance company or control another financial depository institution. Thus, they cannot be part of a financial services holding company and cannot become affiliates of other depository institutions or insurance companies.

• Do not have general trust powers.

• Have limited borrowing authority (50 percent of paid-in and unimpaired capital and surplus).

• Have very limited broker-dealer authority.

• Have limited ability to make member business loans; limited to the lesser of 1.75 times net worth or 12.25 percent of total assets.83

• Must hold 200 basis points more in capital than banks and savings institutions to be considered “well capitalized” under federal “prompt corrective action” laws.

• Have limited investment and lending authority toward subsidiaries (credit union service organizations), which in turn are indirectly limited in the scope and extent of businesses in which they can engage.

As the discussion above indicates, FCUs have many more restrictions than tax paying financial institutions. Thus, the cumulative impact of the cooperative

82 The recently enacted Financial Securities Regulatory Relief Act of 2006 provides for limited service (i.e., check cashing and money transfers) to nonmembers who are within a FCU’s field of membership. Pub. L. No. 109-351, 120 Stat. 1966 (October 13, 2006).

83 There are three exceptions to the limitation on member business lending. It does not apply to FCUs 1) having a low-income designation, 2) that have been determined to having been chartered for the purpose of making member business loans, or 3) have been determined to have a history of primarily making member business loans.
structure, combined with the common bond and other operational limitations, serve to distinguish FCUs.

**Comparison with For-Profit Financial Institutions**
The services offered by many FCUs have increased since 1934 reflecting changes in society and technology. The services and authorities of taxable financial institutions have also increased significantly during this period. Thus, FCUs have made only modest gains in the breadth of services offered relative to the increasing, broad authorities and services of commercial banks. FCU service remains focused on providing basic financial services to the working class. Of course, the inventory of what is considered basic financial services has evolved since 1934. For example, providing access to accounts via the Internet is a relatively basic service today, but personal computers, let alone the Internet, did not exist in 1934 and the telecommunications infrastructure was very primitive.

As shown in Chart 21, credit unions are an important, but relatively small, segment of the financial institution industry. As of December 31, 2005, approximately $11.6 trillion in assets were held in federally-insured depository institutions. Banks and other savings institutions insured by FDIC held $10.9 trillion, or 94 percent of these assets. Credit unions insured by the NCUSIF held $678.6 billion, or 6 percent of all federally-insured assets.

![Chart 21: Assets Held By Federally Insured Financial Institutions at December 31, 2005](attachment:image)

Also, as shown in Chart 22, total assets held by federally-insured financial institutions steadily increased from 2003 to 2005. While total assets increased in these
institutions overall, the percent of assets held by federally-insured credit unions (FICU) fell from 6.3 percent in 2003 to 5.9 percent in 2005.

As well, as shown in Table 14, the combined federally-insured deposits in commercial banks and savings banks increased from 91.8 percent of all federally-insured deposits in 2003 to 92.5 percent in 2005. This equates to deposit growth of 10.6 percent in 2004 and 8.5 percent in 2005.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Federally Insured Deposits</th>
<th>Banks and Other Financial Institutions Insured by Federal Deposit Insurance Corporation84</th>
<th>Credit Unions Insured by NCUSIF (Federally-Insured Credit Unions)85</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commercial Banks</td>
<td>Savings Banks</td>
<td>Total FDIC Insured</td>
</tr>
<tr>
<td>2005</td>
<td>7,718,597</td>
<td>6,073,333</td>
<td>1,067,845</td>
</tr>
<tr>
<td>2004</td>
<td>7,140,323</td>
<td>5,592,825</td>
<td>991,376</td>
</tr>
<tr>
<td>2003</td>
<td>6,482,630</td>
<td>5,028,866</td>
<td>925,423</td>
</tr>
</tbody>
</table>

Comparatively, while member share deposits in FICUs also continued to grow, they grew at a slower rate than customer deposits at commercial and savings banks. FICU share deposits decreased from 8.2 percent of all federally-insured deposits in 2003 to 7.5 percent in 2005. From 2003 to 2005, FICUs experienced average share


85 Information obtained from Yearend Statistics for FICUs as published by the National Credit Union Administration for 2003, 2004, and 2005.
deposit growth of 4.5 percent. Share deposit growth in FICUs was 5.3 percent in 2004 and 3.8 percent in 2005.

**Summary**

Despite changes over time in the law, the economy, technology, and member demographics, FCUs have remained faithful to their originally conceived cooperative, not-for-profit, democratic structure. Without question, FCUs and their member-owners have enjoyed the benefit of tax exempt status. To a large extent, the tax exempt status has played a critical role in their growth and development, and allowed them to achieve the public policy objectives first envisioned by Congress. As an important, although relatively small, segment of the financial marketplace FCUs are positioned to continue to positively impact public policy considerations, especially reaching out to those of modest means.
Chapter VII -- Conclusions and Recommendations

Membership Profiles

MSAP provided NCUA valuable data on the income profiles of membership in FCUs. It is the most objective comprehensive data available to date addressing who FCUs serve. With this data, it is possible to address with greater specificity the issues that have been raised by Congress and GAO.

Most importantly, MSAP, considered in light of the statutory constraints on common bond, provides a clear picture that FCUs serving an occupational or associational base have greater challenges in reaching out to lower income individuals and groups outside their FOM. These FCU charter types comprise approximately 80 percent of all FCUs. Thus, as reflected in the data, the membership profile for all FCUs is heavily influenced by FOMs limited primarily to working individuals.

MSAP is also important in that it allows for descriptive analyses, strengthened by the proportionality of the sample, of the different types of FOM (occupational, associational and community). Based on these analyses, MSAP strongly suggests that FCUs designated as low-income or with less restrictive FOMs, i.e., those that have added underserved areas, or have converted to a community charter, have more diverse membership income profiles and are better positioned to more aggressively reach out to lower income individuals and groups. For the first time, evidence exists that is supportive of NCUA’s expectations that progress can be made in serving lower income individuals and groups outside the traditional FOMs.

Although frequently discussed, NCUA has not had the ability, until the completion of MSAP, to provide data that specifically and objectively address issues and concerns raised by Congress and GAO. In the past, this lack of data forced NCUA to primarily rely on anecdotal and non-conclusive observations. The data provided by MSAP is critical in this respect. However, additional data and analyses will be required to more completely and conclusively address those issues and concerns. A historical baseline for comparison and more conclusive opinions on the differences between FCU charter types are just two of the analyses that would be required. As always, the cost of these additional analyses has to be carefully compared to their benefits. As the total cost of MSAP, over $1.1 million, clearly demonstrates, a more cost efficient method of gathering new data should be explored.

From time to time, it is expected that NCUA will again be requested to provide data on the issues addressed in this Report. Staff believes NCUA may be able to position itself to more efficiently address these and similar issues in a timely manner without unduly placing a burden on FCUs. Accordingly, it is recommended that the NCUA Board evaluate whether it is appropriate to:

(1) Collect FCU member income distribution data as part of NCUA’s normal examination program. With the current risk-based exam schedule, NCUA could
obtain this data from nearly all FCUs within a three-year period. Gathering the information routinely may:

- Be more efficient and over time provide a complete data set for all FCUs;
- Allow NCUA and others to study trends in member income distribution over a period of time using MSAP as the baseline;
- Provide a basis for developing strategic goals and objectives that more specifically address any issues that may be identified as necessary to improve service to lower income individuals and groups; and
- Assist in developing legislative proposals based on objective data.

(2) Gather additional information on outreach efforts for certain types of FCUs.

**Executive Compensation**

NCUA currently reviews executive compensation primarily to determine its reasonableness as it relates to safety and soundness. To date, there have not been any system-wide issues relating to executive compensation. Since executive compensation is set by a volunteer board of directors elected by the membership, NCUA has not gathered or aggregated this type of data.

MSAP clearly suggests that overall FCU executive compensation is appropriate and presents no regulatory concerns. However, transparency of executive compensation for non-profits and tax exempt entities has recently been a major concern, and has been requested by Congress. This type of data can be obtained and aggregated to preserve privacy with little burden on FCUs.

There is the additional issue of whether the FCU membership is entitled to know total compensation paid to those representing their interests. In the past, NCUA, while not objecting to disclosure of this type of information, has deferred to applicable state laws on whether it had to be disclosed. Accordingly, it is recommended that the Board evaluate whether it is appropriate to:

(1) Evaluate alternatives to collect and aggregate executive compensation on a FCU system basis; and

(2) Consider alternatives requiring the periodic disclosure of executive compensation to the membership.

**Outreach Efforts**

MSAP provided a basis for better understanding and evaluating NCUA’s outreach efforts. As with many programs, the ability to measure success of various programs is limited. MSAP underscored the need to review and determine whether the goals of the outreach programs are being met. Specifically, it is recommended that:
(1) The NCUA Board evaluate the effectiveness of NCUA programs focused on assisting low- and moderate-income individuals, such as Access Across America, OSCUI workshops, and The Resource Connection. If deemed appropriate, the NCUA Board should consider ways to improve how these programs are monitored, evaluated and best practices are shared;

(2) The NCUA Board consider the enhancement and full utilization implementation of the system to monitor FCUs receiving benefits under the CDRLF program. Specific points to monitor include whether funds approved for disbursement were actually disbursed, whether they were used as intended, and, most importantly, whether the benefits anticipated were actually achieved; and

(3) The NCUA Board consider reassessment of NCUA’s formula for determining if an FCU qualifies for low-income designation. At present, the regulatory formula makes reference to the national median household income, with adjustments reflecting the cost of living in eleven different, static geographic areas. Using median family income, as a percentage of the median family income for specific metropolitan statistical areas, would be more reflective of the regional economic diversity of the United States as it evolves and of the circumstances in which FCUs members actually live. Also, in this regard, the NCUA Board should consider working more closely with the Treasury Department’s Community Development Financial Institutions Fund to determine whether revised low-income criteria could help low-income designated credit unions automatically qualify as community development financial institutions.

Legislation

As maintained in this Report, the MSAP data, or any other data purporting to depict who FCUs serve, must be evaluated within the context of their authorized FOM. It has been NCUA’s position that FCUs designated low-income or with less restrictive FOMs will, over time, have a more diverse membership income profile. This reasonable expectation is supported by the MSAP data.

Historically, NCUA has endeavored to address the issue of how to best reach out to lower income individuals and groups in its chartering and outreach policies. Although legal challenges have limited the effectiveness of these programs, MSAP indicates the intended results can be achieved. NCUA’s ability to provide additional flexibility is limited and is somewhat dependent on FCUs voluntarily changing their charter type to a community base, becoming low-income designated or, if a multiple common bond FCU, adding an underserved area.

A necessary flexibility that would directly impact service to lower income individuals and groups would be the ability for all FCUs, not just those designated multiple common bond, to add underserved areas. In this regard, it is recommended that NCUA consider pursuing this issue with Congress.
National Association of State Credit Unions Data Project

The data being gathered by NASCUS will provide additional valuable information on the credit union system, and will be particularly helpful in assessing the membership income profiles for the different charter types. It is recommended that the NCUA Board study the member services assessment results obtained by NASCUS in its survey of state-chartered credit unions, compare its data with the MSAP results, and coordinate with NASCUS on appropriate follow-up action items.
Appendix 1 – Additional MSAP Membership Income Distribution Results

As noted in Chapter III, income estimates were derived by matching member addresses with U.S. Census Bureau data. Rather than actual member income, MSAP used the Year 2000 median family income for each member’s respective census tract to estimate the membership income. Additionally, the data collection software compared the member’s estimated income to the median family income of the local MSA.

Table 15 provides examples of the significant variations in the median family income of various census tracts and MSAs. MSAP methodology was adjusted for the differences between salaries in high- and low-cost geographic areas.

<table>
<thead>
<tr>
<th>Street Address</th>
<th>MSA Code</th>
<th>Census Tract Code</th>
<th>MFI for Census Tract</th>
<th>MFI for MSA</th>
<th>MFI as % of MFI for a MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 N Capitol St NW Washington, DC 20001</td>
<td>47894</td>
<td>59</td>
<td>$46,250</td>
<td>$71,099</td>
<td>65.05%</td>
</tr>
<tr>
<td>Fifth Ave &amp; 42nd St. New York, NY 10018</td>
<td>35644</td>
<td>82</td>
<td>$114,624</td>
<td>$49,461</td>
<td>231.75%</td>
</tr>
<tr>
<td>400 Stewart Avenue Las Vegas, NV 89101</td>
<td>29820</td>
<td>7</td>
<td>$24,732</td>
<td>$50,504</td>
<td>48.97%</td>
</tr>
</tbody>
</table>

The median family income for the various census tracts and MSAs shown in Table 15 vary widely. By deriving FCU income estimates using the median family income of the census tract in which the member resides as a percent of the median family income for the MSA in which the census tract is located, MSAP methodology adjusted for the differences between salaries in high- and low-cost geographic areas.

**FCU Membership Income Distribution by Charter Type**

**Analysis of Single Common Bond Charters**

Single common bond charters limit credit union membership to individuals who qualify under discrete, relatively narrow criteria. A single common bond can be classified as occupational or associational. Occupational common bonds relate to employment (e.g., employees of fire departments, government, military, school districts are occupational common bonds). Associational common bonds relate to participation in associations (e.g., participants in professional societies, labor unions, and religious organizations share associational common bonds).

---

86 The Federal Financial Institution Examination Committee (FFIEC) geo-coding system was used to obtain census tract, MSA, and median family income information for these street addresses. The street addresses are provided for explanatory purposes; they were not selected from the data sample. The addresses are public buildings associated with federal, state, or local government. The FFIEC geo-coding system is available to the general public at: [http://www.ffiec.gov/Geocode/default.aspx](http://www.ffiec.gov/Geocode/default.aspx)

87 All conclusions drawn in this appendix apply only to FCUs in MSAP.
MSAP included 151 FCUs, or 34 percent of the total sample, with single common bond charters.

As shown in Chart 23 above, there is a difference in the income ranges of membership served by FCUs with different types of single common bonds. This chart displays the income ranges of the occupational FCU membership (striped columns) and the associational FCU membership (solid columns). It also shows the cumulative percent of occupational (line with x) and associational (line with square) membership within these income ranges. For example, in MSAP’s occupational FCUs, about 11 percent of the membership earns between 80 and 90 percent of the MSA’s median family income, while about 42 percent cumulatively earns less than the median.

As shown in Table 16, single occupational common bond FCUs serve more (42 percent) of the membership below the median than single associational common bond charters (40 percent).

| Table 16: Comparison of Single Common Bond Charters to All FCUs |
|---------------------------------|-----------------|-----------------|
| Below the Median | Above the Median |
| Single Associational Common Bond | 40% | 60% |
| Single Occupational Common Bond  | 42% | 58% |
| All FCUs                  | 44% | 56% |
While membership of single occupational FCUs is more likely to have income below the median than membership of single associational FCUs, both single common bond charters in MSAP serve fewer of the membership below the median than the FCU system collectively.

The difference between the membership below the median at the different types of single common bond FCUs could be due to higher average income among the membership of professional associations. Comparing single common bond FCUs to all FCUs, membership income ranges may be more compressed (and higher) at single common bond FCUs due to the shared professional and associational bonds. However, insufficient information has been gathered to draw a reliable conclusion about the reasons for these differences.

**Analysis of Multiple Common Bond Charters**

MSAP included 200 FCUs, or 40 percent of the total sample, with multiple common bond charters.

![Chart 24](attachment:image.png)

Chart 24 displays the income ranges of multiple common bond FCUs (solid columns) and the cumulative percent of multiple common bond membership (line) in these income ranges. For example, about 15 percent of the membership in the multiple common bond FCUs participating in MSAP earns between 90 and 100 percent of the MSA’s median family income, while about 45 percent cumulatively earns less than the median.
Table 17

<table>
<thead>
<tr>
<th></th>
<th>Below the Median</th>
<th>Above the Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple Common Bond</td>
<td>45%</td>
<td>55%</td>
</tr>
<tr>
<td>All FCUs</td>
<td>44%</td>
<td>56%</td>
</tr>
<tr>
<td>Single Common Bond</td>
<td>40% and 42%</td>
<td>60% and 58%</td>
</tr>
</tbody>
</table>

As shown in Table 17, multiple common bond FCUs in MSAP serve more of the membership with income below the median than all FCUs and both types of single common bond FCUs. Greater variation in the income ranges of the membership served by multiple common bond FCUs may contribute to the greater percentage of the membership served below the median. However, insufficient information was gathered to draw a reliable conclusion about the reason for these differences.

**Analysis of Community Charters**

MSAP included ninety-seven community-chartered FCUs comprising 22 percent of the total sample. Chart 25 compares the income ranges of the membership for these community FCUs (solid columns) with the cumulative percent of the community membership (line) in these income ranges. For example, about 15 percent of community FCU membership earns between 90 and 100 percent of the median, while about 48 percent cumulatively earns less than the median.

Table 18 reflects the percentage of the membership in these community charters with median family income below and above the median compared to the FCU system collectively.
In Chart 26, the income ranges of the membership in the community charters participating in MSAP (solid columns) are displayed with those in the entire FCU system (striped columns). The striped columns represent the percent of membership of the entire FCU system within these income ranges. For example, 15 percent of community charter membership earns between 100 and 110 percent of the median family income for their MSA, while 13 percent of the membership in the entire FCU system earns between 100 and 110 percent of the median family income for their MSA.

As depicted in Chart 26, a significant difference exists between income ranges of members being served by the entire FCU system and the community charters participating in MSAP. As discussed below, this difference becomes more vivid when the income ranges of membership at community charters greater than and less than or equal to five years in existence are contrasted.
Appendix 2 – MSAP Methodology

**Sampling Methodology**

The sampling methodology was based on two principles:

1) Statistical validity of the results.
2) Feasibility constraint.\(^{88}\)

Guided by these two principles, the samples were selected as follows:

- The sampled population was limited to FCUs, due to the extent of NCUA’s regulatory authority. Table 19 shows a total of 5,449 FCUs submitted a call report for the September 30, 2005 reporting cycle, representing 62 percent of the total population of 8,795 federally-insured credit unions.

- To ensure validity of the results and to allow for more in-depth analysis of the FCU system, the total population was divided into sub-populations, using stratified random sampling approach. The sub-populations could be individually tested and their results combined to draw conclusions about the entire population.

- The number of sub-populations was constrained by the amount of time allotted for this phase of the project, its intent of testing methods to achieve the results, and the constraints set by OMB.\(^{89}\) Several options were considered, including a sub-division by charter type. However, to draw statistically valid conclusions by charter type, a review of an additional 709 FCUs would be required. These additional contacts were not feasible in the amount of time available.

- While feasibility constraint limited the number of sub-populations, historical data suggested the use of two sub-populations: FCUs with asset sizes less than $50 million and FCUs with asset sizes $50 million and greater.

<table>
<thead>
<tr>
<th>Sub-Population Assets</th>
<th>Number of Federal Credit Unions</th>
<th><strong>Assets</strong></th>
<th><strong>Members</strong></th>
<th><strong>Percent</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>=&gt; $50 Million</td>
<td>1,110</td>
<td>$326,582,095,026</td>
<td>37,713,877</td>
<td>79.2%</td>
</tr>
<tr>
<td>&lt; $50 Million</td>
<td>4,339</td>
<td>$48,812,542,218</td>
<td>9,928,270</td>
<td>20.8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>5,449</td>
<td>$375,394,637,244</td>
<td>47,642,147</td>
<td>100%</td>
</tr>
</tbody>
</table>

- The minimum number of observations was selected to provide statistically valid results for the entire system, as well as for the two sub-populations. To apply results obtained from the sub-populations to the entire population, each sub-population had to be proportionately represented in its sample size. To ensure that this happens, the minimum sample size required for the smallest

\(^{88}\) The data collection process was constrained by the availability of time and examiner resources.

\(^{89}\) On March 7, 2006, Office of Management and Budget (OMB) issued its clearance under the Paperwork Reduction Act enabling NCUA to proceed with MSAP. OMB required the data collection to be completed by August 31, 2006.
sub-population is determined first and its proportion calculated. The obtained proportion is then used to calculate the required sample size for the second (larger) sub-population. Using this rule, the following sample sizes for different confidence intervals and confidence levels were obtained and analyzed using Raosoft Sample Size Calculator (Tables 20 and 21).90

<table>
<thead>
<tr>
<th>Sub-population</th>
<th>Sample Size Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90% confidence level</td>
</tr>
<tr>
<td></td>
<td>95% confidence level</td>
</tr>
<tr>
<td></td>
<td>99% confidence level</td>
</tr>
<tr>
<td>=&gt; $50 Million</td>
<td>1,110 218 / 19.6%</td>
</tr>
<tr>
<td>&lt; $50 Million</td>
<td>4,339 852 1,118 1,626</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>5,449 1,070 1,404 2,042</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sub-population</th>
<th>Sample Size Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10% confidence level</td>
</tr>
<tr>
<td></td>
<td>95% confidence level</td>
</tr>
<tr>
<td></td>
<td>99% confidence level</td>
</tr>
<tr>
<td>=&gt; $50 Million</td>
<td>1,110 64 / 5.8%</td>
</tr>
<tr>
<td>&lt; $50 Million</td>
<td>4,339 250 348 567</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>5,449 314 437 712</td>
</tr>
</tbody>
</table>

- After careful analysis of both the accuracy of the results and the feasibility of the data collection process, a 10 percent confidence interval and a 95 percent confidence level were deemed optimal for MSAP.
- In addition, to account for the possibility that not all credit unions in the sample will have data available, an additional 10 percent of units was added to the minimum sample size for each sub-population, as shown in Table 22.

<table>
<thead>
<tr>
<th>Sub-population</th>
<th>Minimum Sample Size</th>
<th>10% Increase</th>
<th>Total Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>=&gt; $50 Million</td>
<td>1,110</td>
<td>89</td>
<td>98</td>
</tr>
<tr>
<td>&lt; $50 Million</td>
<td>4,339</td>
<td>348</td>
<td>383</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>5,449</td>
<td>437</td>
<td>481</td>
</tr>
</tbody>
</table>

- Once the required sample sizes were obtained, the following steps were performed to obtain random samples for the two sub-populations:

90 http://www.raosoft.com/samplesize.html
o FCUs were selected from the database of all credit unions reporting for the September 30, 2005 reporting cycle and divided into two sub-populations, as described above.

o Microsoft Excel’s randomizer function was used to obtain random samples from the two sub-populations.

**Characteristics of the Sample**

Of the 481 FCUs randomly selected to participate in MSAP, the estimated member income data were received for 448 FCUs. This exceeded the minimum of 437 FCUs needed to provide statistically valid results for the entire FCU system and the two sub-populations. The data also enabled descriptive analyses of different FCU types for a more in-depth understanding of the FCU system. For example, NCUA used the data collected to develop an assessment of the different charter types based on common bond. Although these results are not statistically conclusive, the 448 randomly selected FCUs provided a proportional representation of the different charter types within the FCU system, strengthening the descriptive analyses performed.

Tables 23 - 26 below compare profiles of the 448 FCUs and of the entire FCU system.

**Table 23**

<table>
<thead>
<tr>
<th>Field of Membership Type</th>
<th>MSAP FCUs</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>%Units</td>
</tr>
<tr>
<td>Community Charter</td>
<td>97</td>
<td>22%</td>
</tr>
<tr>
<td>Single Association Common Bond</td>
<td>29</td>
<td>6%</td>
</tr>
<tr>
<td>Single Occupation Common Bond</td>
<td>122</td>
<td>27%</td>
</tr>
<tr>
<td>Multiple Common Bond</td>
<td>200</td>
<td>45%</td>
</tr>
<tr>
<td>Total</td>
<td>448</td>
<td></td>
</tr>
</tbody>
</table>

**Table 24**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>MSAP FCUs</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>%Units</td>
</tr>
<tr>
<td>&lt;$2 million</td>
<td>56</td>
<td>13%</td>
</tr>
<tr>
<td>$2 - $10 million</td>
<td>143</td>
<td>32%</td>
</tr>
<tr>
<td>$10 - $50 million</td>
<td>151</td>
<td>34%</td>
</tr>
<tr>
<td>$50 - $100 million</td>
<td>43</td>
<td>10%</td>
</tr>
<tr>
<td>$100 - $500 million</td>
<td>40</td>
<td>9%</td>
</tr>
<tr>
<td>&gt; $500 million</td>
<td>15</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>448</td>
<td></td>
</tr>
</tbody>
</table>

**Table 25**

| Low-Income Designated FCUs               | MSAP FCUs | All FCUs |
|                                          | Units     | %Units   | Units     | %Units   |
|                                          | 69        | 15%      | 877       | 16%      |

---

91 Descriptive statistics focuses on collecting, summarizing, and presenting a set of data. Inferential statistics uses sample data to draw conclusions about a population. Berenson, supra note 12.
Table 26

<table>
<thead>
<tr>
<th>Community Chartered FCUs</th>
<th>MSAP FCUs</th>
<th>All FCUs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Units</td>
<td>% Units</td>
</tr>
<tr>
<td>CC &lt;= 5 years</td>
<td>55</td>
<td>57%</td>
</tr>
<tr>
<td>CC &gt; 5 years</td>
<td>42</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td></td>
</tr>
</tbody>
</table>

Chart 27 below shows geographic dispersion of the final sample. Regional sample distribution was also proportional to that of the entire FCU system.

Data Collection Methodology

MSAP was designed to provide information about FCUs’ member income distribution, member services, and executive compensation and benefits. Using NCUA’s examination authority, which is set forth in the FCU Act, NCUA examiners performed contacts to collect the data.

To obtain and record information about FCUs’ member services and executive compensation, NCUA examiners interviewed management and completed a standard survey (Appendix 3) for 472 of the 481 FCUs in MSAP. The remaining nine FCUs merged before the data collection began.

Initially, three methods to assess FCU member income distribution were employed, as follows:
1. Reviewing a random sample of loan files;\textsuperscript{92}

2. Associating member zip codes from the Automated Integrated Regulatory Examination Software (AIRES) share and loan download files with census data on median household income;\textsuperscript{93} and

3. Analyzing the AIRES share and loan download with third-party geo-coding software that tracks the member addresses to census tract median family income.

Two of the three methods required an AIRES share and loan download. Of the 472 active FCUs participating in MSAP, twenty-four were unable or unwilling to provide an AIRES share and loan download. Therefore, the results of FCUs’ member income distribution are based on data sets provided by 448 FCUs.

FCU member income distribution results are based on the number of share accounts provided in the AIRES share and loan download. It is important to note, a member may have a single share account or may have several accounts such as a savings, draft, and retirement account. The following factors were considered in this decision:

- AIRES share downloads provided by FCUs in MSAP did not have standard account codes to identify and narrow the download to one share account type (i.e., regular share accounts).
- The Fair Lending Wiz software used to estimate member income could not aggregate member account information into member level data.
- Use of member accounts provided a better measure of members who are making a wider use of credit union services.

The initial use of three methods to collect member income data allowed the comparison of the validity and reliability of each method. Eventually, the labor intensive manual review of loan files was eliminated and the analysis of the AIRES share and loan downloads was relied upon for the remainder of the data collection.

**Method #1 - Reviewing Loan Files**

Income data recorded in 13,699 loan files from 164 FCUs were analyzed to determine the reliability of this data collection method. The following concerns with data quality obtained via manual loan reviews were noted:

- Exclusion of significant member data.

\textsuperscript{92} During the November 3, 2005, U.S. House of Representatives Committee on Ways and Means hearing, GAO Managing Director Richard Hillman testified that reviewing individual loan files was the appropriate method of collecting member income data. To accommodate this position, NCUA included the manual review of loan files as an initial data collection method in MSAP despite NCUA’s concerns about the quality and completeness of information contained in loan files.

\textsuperscript{93} The AIRES loan and share download contains electronic loan, deposit, and address information for each credit union member. NCUA uses the electronic download in the examination software to expedite credit union examinations. Refer to Letter to Credit Unions, CU 03-CU-05, Expanded AIRES Loan and Share Record Layout Specifications for more details.
For the 164 FCUs reviewed, loan accounts represented 26 percent of member accounts. Therefore, close to 75 percent of FCUs' members would be excluded from this data collection.

- Inconsistent quality and completeness of information.
  - FCUs use various loan underwriting criteria and loan file documentation requirements. For example, some FCUs base lending decisions on gross versus net or disposable income.

- Resource burden on FCUs.
  - For FCUs without automated loan documentation, credit union staff retrieved and returned loan files.

- Resource burden on NCUA.
  - Examiners spent an average of seven hours per FCU reviewing the random sample of individual loan files versus two hours analyzing AIRES share and loan downloads to obtain member income data.

Based on the results obtained, income estimates using AIRES share and loan downloads provided better quality data that is more current, objective, consistent, reliable, and cost effective to obtain. Thus, on May 26, 2006, data collection from the manual review of loan files was eliminated.

**Method #2 - Associating Zip Codes with Census Data**

Internally-developed software that matched member zip codes from the AIRES share and loan downloads with Year 2000 U.S. Census Bureau data for median household income was the second data collection method employed. Since census data by zip code are available to the public from the U.S. Census Bureau web-site, this method was quick and inexpensive. Considering there are 31,881 zip codes in the United States compared to 66,438 census tracts, the zip code method of estimating member income is less precise than an analysis using census tracts. If the member lives outside the United States or in a newer zip code, the member's income could not be estimated. This situation occurred with less than 6 percent of the records reviewed.

**Method #3 - Geo-coding Street Addresses/Census Tracts**

*Fair Lending Wiz* software, developed by PCI Corporation (now Wolters Kluwer Financial Services), matches member street addresses from the AIRES share and loan download to Year 2000 U.S. Census Bureau median family income by census tract. The use of this software was the third method employed. The software provides greater precision than the zip code method at a greater expense.

If the street address is a P.O. Box, *Fair Lending Wiz* finds the exact midpoint of the related census tract and matches median family income based on the midpoint address. This midpoint or “zip centroid” matching occurred in 12 percent of the accounts. If the street address is outside the United States, the program cannot estimate the member’s income. This situation occurred with less than 3 percent of the 16.8 million uploaded account records.
Appendix 2

Success Rate Information
The AIRES share and loan downloads obtained from the 448 FCUs in MSAP that were willing and able to provide them contained 16.8 million member account records. Of this number of records, 14 million were in a usable form to assess member income. Table 27 tracks the total records uploaded and the elimination of unusable data. Unusable records resulted from accounts with data that could not be assigned a median family income or accounts without share or original loan amounts.

- About 500,000 records lacked MSA medium family income data once processed by the *Fair Lending Wiz* software. This information could not be estimated in cases where the address was not located in the United States or did not match to a census tract.

- Accounts were also eliminated due to zero balance shares (1.9 million accounts) or from missing original loan amounts (242,000 accounts).

Table 27

<table>
<thead>
<tr>
<th>Individual Account Data</th>
<th>Shares</th>
<th>Loans</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Uploaded Accounts</td>
<td>16,779,882</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less Those with No Matching Median Family Income</td>
<td>(522,513)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Uploaded Accounts</td>
<td>13,357,387, 2,899,982</td>
<td>16,257,369</td>
<td></td>
</tr>
<tr>
<td>Less Unusable Accounts:</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Share Balance = $0</td>
<td>1,944,649</td>
<td>0</td>
<td>1,944,649</td>
</tr>
<tr>
<td>Original Loan Amount = $0</td>
<td>0</td>
<td>241,784</td>
<td>241,784</td>
</tr>
<tr>
<td>Usable Accounts</td>
<td>11,412,738</td>
<td>2,658,198</td>
<td>14,070,936</td>
</tr>
<tr>
<td>Usable Rate</td>
<td>85%</td>
<td>92%</td>
<td>87%</td>
</tr>
</tbody>
</table>

Table 28 below provides the success rate of the Fair Lending Wiz software to match member street address to a census tract to estimate median family income.

Table 28

<table>
<thead>
<tr>
<th>Geo Coding Methods</th>
<th>Shares</th>
<th>Loans</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Street Address Matching</td>
<td>9,999,047</td>
<td>2,324,595</td>
<td>12,323,642</td>
<td>88%</td>
</tr>
<tr>
<td>Zip Centroid Matching</td>
<td>1,413,691</td>
<td>333,603</td>
<td>1,747,294</td>
<td>12%</td>
</tr>
<tr>
<td>Total Accounts</td>
<td>11,412,738</td>
<td>2,658,196</td>
<td>14,070,934</td>
<td>100%</td>
</tr>
</tbody>
</table>

Member Income Distribution - Validity of Methods/Results Comparison

**NOTE:** NCUA compared and analyzed the results obtained using different methods. Generally, the different methods tracked closely and the difference in the results was not statistically significant.\(^94\)

\(^{94}\) Statistical significance of the differences in the results of different methodologies described below was determined using t-tests.
Number of Accounts versus Dollar Amount in Accounts

After comparing the analyses using number of accounts versus the dollar amount in the accounts, NCUA determined that both methods tracked very closely. Using median family income for the census tract as a percent of the metropolitan statistical area’s median family income, NCUA found the results to be similar whether using the number (solid line) or dollar amount of share accounts (dotted line), as illustrated in Chart 28.

Similarly, the number of loans (solid line) and the dollar amount of the original loan (dotted line) tracked closely using the same estimated member income distribution, as illustrated in Chart 29.
Using the estimated median household income based on zip code as a percent of the national median household income, NCUA obtained similar results when comparing number of share accounts (solid line) to dollar amount in the accounts (dotted line), as shown in Chart 30.
Likewise, NCUA had similar results comparing the number of original loans (solid line) to the dollar amount of the original loans (dotted line), as illustrated by Chart 31.

**Chart 31**

![Graph](image)

Therefore, for simplicity, NCUA focused on the analysis of the member income distribution by number of share accounts and number of original loans.

**Share Accounts versus Loan Accounts**

After comparing results using the number of share accounts and number of original loan accounts, NCUA determined that both methods tracked very closely. Using the median family income for the census tract as a percent of the metropolitan statistical area’s median family income, NCUA found the results to be similar whether using the number of share accounts (solid line) or the number of original loan accounts (dotted line), as illustrated in Chart 32. However, the results using the number of original loan accounts slightly shifted the income distribution to the left, indicating lower estimated incomes.
Using the estimated median household income based on zip code as a percent of the national median household income, the results using the number of share accounts (solid line) and number of original loan accounts (dotted line) track even closer as shown in Chart 33. NCUA did not see the same slight shift in results using the number of original loan accounts.
NCUA had concerns about using original loan counts as the method to demonstrate the member income distribution. In about a third of FCUs in MSAP, NCUA could not obtain an electronic AIRES file on the FCU’s entire loan portfolio because the credit union outsourced servicing for a portion of the loans. In most cases, these were mortgage and credit card loans. In addition, not all FCU members have loans with their credit unions, but they all have a share account. Therefore, to ensure all FCU members are represented in the income distribution analyses, NCUA focused its results on the number of share accounts rather than loan accounts.

**Zip Code Matching versus Geo-Coding/Census Tract Matching**

Using the number of share accounts, NCUA compared member income distribution results via zip code matching and geo-coding, or census tract matching. The solid line in Chart 34 illustrates the estimated member income distribution using census tract median family income as a percent of the metropolitan statistical area median family income. The dotted line illustrates the estimated member income distribution using zip code based median household income as a percent of the national median household income. The census tract or geo-coding results in a slightly greater percent of members in the 110 to 140 percent range, but slightly less percent of the members above 160 percent.

Converting these results to income dollars, the solid line in Chart 35 shows the estimated member income distribution based on census tract median family income. The dotted line shows the estimated member income distribution based on zip code median household income.
In terms of dollars, the zip code method (dotted line) results in a greater percent of the membership in the $45,000 to $65,000 annual salary range. The geo-coding or census tract method (solid line) results in a slightly greater percent of the membership in the $75,000 to $125,000 range. Since the geo-coding method is considered more precise, NCUA focused its member income distribution analyses on these results.

**Aggregate Data versus Average of Data for All Individual Credit Unions**

The final data integrity analyses involved comparing results using aggregate share account data versus the average of individual FCU statistics to determine whether the largest FCUs in MSAP skewed the results.
Chart 36 demonstrates that the results using census tract median family income as a percent of the metropolitan statistical area’s median family income are substantially the same whether NCUA uses share accounts in aggregate (solid line) or the average of individual FCUs in MSAP (dotted line). Therefore, FCUs in MSAP with the largest number of share accounts does not skew the results of the member income distribution analyses.
## Appendix 3 – Services and Executive Compensation Survey

### Account Information

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the par value of a share in the credit union?</td>
<td></td>
</tr>
<tr>
<td>How many months does a member have to deposit the entire par value, after opening an account?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union require a minimum balance to maintain a share draft account?</td>
<td></td>
</tr>
<tr>
<td>What was the smallest secured consumer loan granted during the past 12 months (original balance)?</td>
<td></td>
</tr>
<tr>
<td>What was the smallest unsecured consumer loan granted during the past 12 months (original balance)?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union require a minimum balance to open a share draft account?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union require a minimum term for a share certificate?</td>
<td></td>
</tr>
</tbody>
</table>

### Compensation

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO Total Compensation &amp; Benefits - Calendar Year 2005</td>
<td></td>
</tr>
<tr>
<td>Does the credit union have a CFO? If Yes what is the total compensation and benefits?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union have a COO? If Yes what is the total compensation and benefits?</td>
<td></td>
</tr>
</tbody>
</table>

### Services Provided

<table>
<thead>
<tr>
<th>Service</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free Checking</td>
<td></td>
</tr>
<tr>
<td>Brochures in other languages (non-English)</td>
<td></td>
</tr>
<tr>
<td>Credit Builder Loans</td>
<td></td>
</tr>
<tr>
<td>Financial Counseling (Debt and/or Investment)</td>
<td></td>
</tr>
<tr>
<td>Financial Literacy &amp; Education Workshops</td>
<td></td>
</tr>
<tr>
<td>First Time Home Buyers Program</td>
<td></td>
</tr>
<tr>
<td>Individual Development Accounts (IDA)</td>
<td></td>
</tr>
<tr>
<td>IR net or other low cost remittance</td>
<td></td>
</tr>
<tr>
<td>Micro Consumer Loans (&lt;$500)</td>
<td></td>
</tr>
<tr>
<td>Micro Member Business Loans (&lt;$50,000)</td>
<td></td>
</tr>
<tr>
<td>No surcharge ATMs</td>
<td></td>
</tr>
<tr>
<td>Free Bill Pay</td>
<td></td>
</tr>
<tr>
<td>Student Run Branches</td>
<td></td>
</tr>
<tr>
<td>Student Financial Education Seminars</td>
<td></td>
</tr>
<tr>
<td>Share-secured Credit Cards</td>
<td></td>
</tr>
<tr>
<td>Volunteer Income Tax Assistance (VITA) Program</td>
<td></td>
</tr>
<tr>
<td>Member Business Loans</td>
<td></td>
</tr>
<tr>
<td>Business Share Accounts</td>
<td></td>
</tr>
<tr>
<td>Other Services</td>
<td></td>
</tr>
</tbody>
</table>

### Community Involvement

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Does the credit union offer assistance to low-income designated credit unions?</td>
<td></td>
</tr>
<tr>
<td>Has the credit union donated funds to one or more charity organizations related to the field of membership or local community?</td>
<td></td>
</tr>
<tr>
<td>Is the credit union involved with the collection of funds on behalf of charities?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union attempt to market to all potential members in the field of membership?</td>
<td></td>
</tr>
<tr>
<td>Does the credit union offer special loan programs linked to employment at the sponsor organization (uniform purchase, etc)?</td>
<td></td>
</tr>
</tbody>
</table>

### Charter

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has the credit union added an underserved area?</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 4 – NCUA Member Service Assessment Pilot Program Costs

MSAP involved twenty-six NCUA examiners who collected the data, as well as twenty NCUA office staff. The office staff designed the methodology and database to collect the information, as well as the mechanism to upload and post it to NCUA server. Office staff also designed training for the examiners participating in MSAP, installed Fair Lending Wiz and other software on examiner computers, answered examiner questions throughout the process, scrubbed the data, and completed the final analyses.

During the six-month period ending August 31, 2006, NCUA analyzed 14 million account records and collected MSAP data from 472 credit unions. NCUA estimates the total cost of this effort at $1.1 million.

<table>
<thead>
<tr>
<th>Description</th>
<th>Related Estimated Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examiner Time (5,372 hours)</td>
<td>$273,811</td>
</tr>
<tr>
<td>Office Staff Time (11,394 hours)</td>
<td>$729,621</td>
</tr>
<tr>
<td>Travel Costs</td>
<td>$60,974</td>
</tr>
<tr>
<td>Fair Lending Wiz Licenses and Training</td>
<td>$41,000</td>
</tr>
<tr>
<td>Total</td>
<td>$1,105,406</td>
</tr>
</tbody>
</table>

The above estimate understates actual monetary cost such as significant time expended by senior NCUA staff. Administrative costs, such as costs of computer usage and those associated with processing travel reimbursements, were not included above.
### Appendix 5 – Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>AIRES</td>
<td>Automated Integrated Regulatory Examination Software</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
</tr>
<tr>
<td>BFCU</td>
<td>Bureau of Federal Credit Unions</td>
</tr>
<tr>
<td>CDRLF</td>
<td>Community Development Revolving Loan Fund</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>COO</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>CUMAA</td>
<td>Credit Union Membership Access Act</td>
</tr>
<tr>
<td>FCU</td>
<td>Federal Credit Union</td>
</tr>
<tr>
<td>FCU Act</td>
<td>Federal Credit Union Act</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
</tr>
<tr>
<td>FICU</td>
<td>Federally-insured Credit Unions</td>
</tr>
<tr>
<td>FICUSCU</td>
<td>Federally-insured State Credit Unions</td>
</tr>
<tr>
<td>FOM</td>
<td>Fields of Membership</td>
</tr>
<tr>
<td>FSA</td>
<td>Federal Security Agency</td>
</tr>
<tr>
<td>GAO</td>
<td>Government Accountability Office</td>
</tr>
<tr>
<td>IDA</td>
<td>Individual Development Accounts</td>
</tr>
<tr>
<td>IRPS</td>
<td>Interpretive Ruling and Policy Statement</td>
</tr>
<tr>
<td>MFI</td>
<td>Median Family Income</td>
</tr>
<tr>
<td>MHI</td>
<td>Median Household Income</td>
</tr>
<tr>
<td>MSA</td>
<td>Metropolitan Statistical Area</td>
</tr>
<tr>
<td>MSAP</td>
<td>Member Service Assessment Pilot Program</td>
</tr>
<tr>
<td>NASCUS</td>
<td>National Association of State Credit Union Supervisors</td>
</tr>
<tr>
<td>NCUA</td>
<td>National Credit Union Administration</td>
</tr>
<tr>
<td>NCUSIF</td>
<td>National Credit Union Share Insurance Fund</td>
</tr>
<tr>
<td>OEO</td>
<td>Office of Economic Opportunity</td>
</tr>
<tr>
<td>OMB</td>
<td>Office of Management and Budget</td>
</tr>
<tr>
<td>OSCUI</td>
<td>Office of Small Credit Union Initiatives</td>
</tr>
<tr>
<td>VITA</td>
<td>Volunteer Income Tax Assistance Program</td>
</tr>
</tbody>
</table>
Community Reinvestment Act (CRA)
CUNA Issue Summary

COMMUNITY REINVESTMENT ACT (CRA)

ISSUE: Congress enacted the Community Reinvestment Act (CRA) in 1977 in response to the unjustified “redlining” of lower income and minority neighborhoods by banks and thrift institutions during the 1960s and early 1970s. The purpose was to ensure that for-profit financial institutions (including both federal and state-chartered commercial and savings banks) were adequately meeting the financial service needs of all parts of the communities from which they draw deposits. Periodic CRA examinations and ratings assess the extent to which banks and thrifts are meeting the credit needs of lower income and minority consumers, providing needed and affordable services to all customers and investing in local economic and community development projects. CRA ratings are taken into consideration by the banking regulatory agencies when banks or thrifts seek to open new branches, initiate mergers or acquire other financial institutions.

Credit unions, as not-for-profit, community based institutions, have been exempt from CRA requirements. There was an effort during the passage of the Credit Union Membership Access Act (H.R. 1151) to place CRA-like marketing requirements on community credit unions, but the provision was stripped from the final Senate version of the bill.

CUNA POSITION: CUNA is opposed to any effort to include credit unions under CRA requirements. Credit unions, by their nature and mission of “people helping people,” already meet the financial needs of a broad spectrum of people that fall within their fields of membership, and play an active role in community development and growth. By virtue of their membership requirements, credit union products and services are offered within local communities. Therefore, credit unions should not be subject to burdensome regulatory requirements when they are already meeting and exceeding the intent behind CRA.

OPPOSING VIEWS: The banking industry insists that CRA be applied to credit unions. However, they continue to object to having to meet CRA obligations themselves. Understanding that the credit union tax-exemption is unlikely to be in jeopardy this Congress, the bankers have shifted their efforts to impose CRA on credit unions. Recent attempts came from the National Community Reinvestment Coalition (NCRC), an organization that gets partial funding from the banking industry, which issued a misleading study on credit unions and their service to low-income individuals.

CUNA analysis has shown that as credit unions ability to serve communities has increased, their performance in lending to low-and moderate-income (LMI) borrowers is superior to other lenders. According to 2007 data collected through the Home Mortgage Disclosure Act (HMDA) reporting:

- Credit unions make a greater proportion of HMDA-covered loans to LMI borrowers than do other mortgage lenders.
- Credit unions approve first mortgage loans to LMI and minority borrowers at much higher rates than do other lenders. Similarly, credit unions deny first mortgage loans to LMI and minority borrowers at much lower rates than do other lenders.
- Credit unions are much less likely than other lenders to make high-rate loans. When credit unions make high-rate loans, the rates tend to be substantially lower than the rates typically
charged by other lenders.

Credit unions are portfolio lenders, whereas other lenders are much more likely to use the originate-to-sell model -- which has been recognized as one of the key drivers of subprime lending abuse and recent mortgage market disruptions.

IMPACT ON CREDIT UNIONS: It would not make sense to implement additional regulatory burdens on credit unions since (1) credit unions did not participate in the “redlining” activities that prompted Congress to impose CRA requirements on the banks and thrift institutions, (2) credit unions serve people within their fields of membership and all income levels, and (3) Congress is looking to make regulatory requirements on financial institutions more efficient and effective, not increase burdens for the sake of redundancy. If credit unions were subjected to CRA requirements, the time and resources used to document the work they are already doing would take away from new initiatives to enhance existing services and expand to new underserved areas.

STATUS/OUTLOOK: On March 12, 2009, Rep. Eddie Bernice Johnson (D-TX) introduced H.R.1479, the Community Reinvestment Act Modernization Act of 2009. CUNA strongly opposes this bill because it would extend CRA requirements to credit unions. CRA is unnecessary for credit unions because they serve their members at all income levels, offer affordable products and continuing to lend when others have reduced credit availability. H.R. 1479 seeks to measure credit union service to consumers who are not members of the credit union. Credit unions face an important restriction with respect to who they can serve: they can only serve their members who join from defined fields of membership. This legislation recognizes neither credit unions strong history of serving low- and moderate income individuals nor the statutory restrictions the keep credit unions from doing more.

On September 16, 2009, the House Financial Services Committee held a hearing entitled Proposals to Enhance the Community Reinvestment Act. During the hearing, Rep. Luis Gutierrez (D-IL), chairman of the Subcommittee on Financial Institutions and Consumer Credit pledged to hold a hearing on HR 1479 later in the 111th Congress.

CUNA will continue to monitor these hearings and defend credit unions against the banker lobby attacking credit unions and suggesting that CRA be applied to them.

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Tom Gannon, (202) 508-6727, tgannon@cuna.coop
Michele Johnson, (202) 508-6718, MGJohnson@cuna.coop

RELATED DOCUMENTS:
Letter from Dan Mica to House Financial Services Committee Chairman Barney Frank regarding H.R. 1479, the Community Reinvestment Modernization Act.

LAST UPDATED: November 6, 2009

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What is the Credit Union Difference?
WHAT IS THE CREDIT UNION DIFFERENCE?

New federal laws and regulations are changing the structure and face of the financial services industry. In this time of accelerating change, it is important to truly understand how credit unions are unique and different, and why we remain a necessary and extremely popular financial alternative for 87 million Americans.

- **Not-for-profit.** Credit unions are not-for-profit financial cooperatives. We exist to serve our members, not to make a profit. Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to our members in the form of lower loan rates, higher interest on deposits, and lower fees.

- **Taxation.** Credit unions do pay taxes - payroll taxes, sales taxes, and property taxes. Congress exempts credit union from federal income taxes. The exemption was established in 1937, affirmed by statute in 1951, and re-affirmed in 1982 in H.R. 1151, the Credit Union Membership Access Act, which states:

  Credit unions, unlike many other participants in the financial services market, are exempt from Federal and most State taxes because credit unions are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means."

- **Ownership.** Credit unions are economic democracy. Each credit union member has equal ownership and one vote—regardless of how much money a member has on deposit. At a credit union, every customer is both a member and an owner.

- **Volunteer Boards.** Each credit union is governed by a board of directors, elected by and from the credit union's membership. Board members serve voluntarily.

- **Membership Eligibility.** By current federal statute, credit unions cannot serve the general public. People qualify for a credit union membership through their employer, organizational affiliations like churches or social groups, or a community-chartered credit union.

- **Financial Education for Members.** Credit unions assist members to become better-educated consumers of financial services. Additionally, CUNA is partnering with the National Endowment for Financial Education, a not-for-profit foundation, to expand financial education among high school students. A national study shows that just ten hours of personal finance education can positively affect students' spending and saving habits for a lifetime.

- **Social Purpose: People Helping People.** Credit unions exist to help people, not make a profit. Our goal is to serve of our members well, including those of modest means - every member counts. Our members are fiercely loyal for this reason. They know their credit union will be there for them in bad times, as well as good. The same people-first philosophy causes credit unions and our employees to get involved in community charitable activities and worthwhile causes - just ask us.

**THE CREDIT UNION DIFFERENCE - JUST ASK YOUR CREDIT UNION!**
REAL Deal Outreach Campaign
Contents

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Safe, Secure, Ready to Lend 5
Member Business Lending 6
The REAL Deal 7
Helping Georgians Manage Their Finances 8
Improving Financial Literacy 9
Impacting Communities 10
Investing in America 11
Making a Difference 12
About Georgia Credit Union Affiliates 13
Credit unions were founded on two guiding principles: “People Helping People” and “Not for profit. Not for charity. But for service.” Much like our nation, which was founded “of the people, by the people and for the people,” credit unions developed a culture of focusing on people. Until recently, credit unions have been one of the best kept secrets in Georgia – not on purpose, however. For millions of Georgians, credit unions are opening new doors to the future. Examining new ideas and developing new products to better serve members is the direction in which the credit union system is headed as this new decade unfolds.

**CSRA Credit Union**, along with Engine Company No. 15 of the Augusta Richmond County Fire Department delivered stuffed animals to the children hospitalized at Joseph M. Still Burn Center in Augusta, Georgia, the nation’s largest and the world’s third largest burn center.

**Atlanta Postal Credit Union** participated alongside 400 other metro Atlanta companies and several thousands of individual participants in Kaiser Permanente’s 27th Annual Corporate Run/Walk. This event is designed to help promote health, wellness and fitness among Atlanta companies and their employees. Proceeds from this annual event benefit the Atlanta Braves Foundation and the Boys & Girls Club of Metro Atlanta.

**South DeKalb Church Federal Credit Union** (Atlanta) held an empowerment seminar featuring Kelvin Boston, PBS Television “Moneywise” host and award winning author of “Smart Money Moves for African Americans”.

**GEMC Federal Credit Union** (Atlanta) hosted a presentation on identity theft.

Members and staff of **Etowah Valley Federal Credit Union** (Rome) donated generously to help those in need during the credit union food drive. The collection of food was donated to the Harvest House food pantry, Cartersville ministry that helps feed the hungry.
Georgia credit unions are there for their members: trusted and strong, they help families through tough times; they help businesses when other institutions refuse to, and they help the local communities where their members live and work. Nearly 2 million consumers across the state benefit from a variety of financial services provided by Georgia credit unions. Aside from basic checking and savings accounts, members can access new and used auto loans, mortgage and student loans, and short-term loans for emergencies; all at some of the best rates available. These low rates save Georgians millions of dollars each year. Georgia credit unions are committed to meeting members’ lending needs. And members enjoy the security of knowing that, in Georgia alone, credit unions back it all up with assets, nearly $16 billion strong.

1.8 million
Number of credit union members in Georgia.

$130 million
The estimated annual financial benefits enjoyed in the form of lower fees and better rates on loans and savings.

$42.2 million
Amount credit union members yielded in higher interest rates on savings products (compared to banks).

$34.3 million
Amount credit union members saved due to fewer and lower fees (compared to banks).

$53.3 million
Amount Georgia credit unions saved members due to lower average interest rates on loans (compared to bank rates).

$16 billion
Assets at Georgia’s 163 credit unions.

Source: National Credit Union Administration.
As of December 31, 2009.
Even in the midst of a worldwide financial crisis, credit unions continue to provide opportunities for Georgians to thrive. As consumers seek credible, safe options for honest financial services, credit unions are becoming widely regarded as the safest place to keep savings, and one of the best options for lending. The reason credit unions are doing well despite what others in the financial services industry have experienced in recent years is quite simple; it’s called putting people before profits.

Credit unions have kept to their century-old practice of responsible lending and doing what’s best for members. As a result of operating responsibly and putting members ahead of profits, Georgia credit unions have strong capital. Better yet, they have money to lend for prudent purposes. Businesses and consumers can appreciate that in these tight times.

<table>
<thead>
<tr>
<th>Number of used auto loans</th>
<th>Number of new auto loans</th>
<th>Number of total loans</th>
<th>Amount of total loans on the books</th>
</tr>
</thead>
<tbody>
<tr>
<td>260,873</td>
<td>120,393</td>
<td>925,831</td>
<td>$9 billion</td>
</tr>
</tbody>
</table>

Source: National Credit Union Administration. As of December 31, 2009.
In today’s economic climate, small business owners are struggling to access the credit they need. Credit unions are ready to help and to provide the assistance small businesses need and cannot find from other sources. Credit unions have a long history of giving back to the communities they serve. Providing stimulus that will create jobs in those communities puts action to the credit union philosophy of “People helping People.”

“Credit unions provide lending for primary and secondary business ventures that are typically underserved, or not served at all by major financial institutions and markets. These small business ventures over the last decade have demonstrated that their contribution to national employment growth is vital. They have lead in the creation of jobs during this period when employment in major industries has contracted.”

~James Thomas Coe, The Counselors of Real Estate
The REAL Deal Outreach Campaign is a program that helps people of modest means make good financial decisions and provides them with tangible programs that work. This initiative supports credit unions in offering programs that assist low-wealth individuals and families, as well as contributing to and partnering with organizations to build strong communities. Nearly half of all credit unions in Georgia participate in this program.

- 64% offer unsecured loans of $500 or less
- 85% offer used vehicle loans to credit stressed borrowers
- 83% offer low-cost checking
- 53% offer low-wealth or first-time homebuyer loans
- 95% offer check cashing for members
- 70% offer international remittances

Source: National Credit Union Administration
As of December 31, 2009.
Credit unions offer products and services that assist individuals of modest and moderate means to achieve their personal financial goals. Examples include second-chance checking accounts, first-time homebuyer loans, short-term loans, credit rebuilding loans, skip-a-payment, bridge loans for teachers, prepaid credit cards, student loans, holiday and vacation clubs and others.

**Transaction Products for Modest Means Members**

- Check-cashing for members: 83%
- Free checking: 64% + 2%
- Money orders: 70%
- International remittances: 4% + 4%
- Voluntary Income Tax Assistance (VITA): 16% + 13%
- Prepaid reloadable cards: 55% + 13%
- 2nd chance checking accounts: 7%
- Check-cashing for non-members: 15%
- Tax prep and/or filing assistance: 5%

**Lending Products for Modest Means Members**

- Used vehicle loans to low-wealth: 85%
- Unsecured loans of $500 or less: 64%
- Tiered loan pricing based on risk: 74%
- Payday loan alternative: 29% + 15%
- Small business loans: 24%
- Low-wealth or first-time homebuyer: 53% + 5%
- Credit-builder loans: 46%
- Credit card for those without history: 43%
- Credit re-builder loans: 43%

Source: National Credit Union Foundation REAL solutions baseline survey.  
As of August, 2009.
Credit unions help improve consumer financial knowledge with the goal of empowering individuals to make good choices that impact their personal financial circumstances.

**National Saving Challenge 2009**
Each year, Georgia credit unions participate in a national savings campaign for youth held each year in April. In 2009, young members saved a record amount at credit unions nationally, more than doubling the amount saved in 2008. More than $26.5 million was saved by youth at their credit unions across America in 2009.

**$170,000+**
Amount saved by youth members at Georgia credit unions during April 2009

**1,512**
Deposits made by youth members in April 2009

**244**
New accounts opened by youth members in April 2009

Source: Credit Union National Association (CUNA). As of April, 2009.
Credit unions contribute financial support and volunteer time to community activities and charitable programs that are targeted to assist individuals of modest and moderate means. Additionally, credit unions help strengthen communities by building solid partnerships with other organizations that provide outreach services to individuals of modest and moderate means. Based on feedback from REAL Deal Credit Unions in 2009 ...

$1.7 million
Amount donated by credit unions to community and charitable organizations in Georgia.

16,875
Number of volunteer hours contributed by credit unions.

$341,719
Value of volunteer labor from credit union staff at community activities and events (at $20.25/hour).

222,000
Number of Georgians helped through credit union community outreach efforts.

112
Number of organizations credit unions partner with throughout the state to build strong communities.

Through the nationwide Invest in America program, credit unions help support the U.S. auto industry by offering members special discounts and cash back on select models. The program has proven to be a win/win/win with credit union members getting great deals on new cares; credit unions attracting new members and loans as a result of the special offers; and car makers seeing significant growth in sales.

Source: National Credit Union Administration. As of December 31, 2009.
As credit unions look to the future, they remain committed to the principles of the work they do in Georgia:

- Members, not just customers
- One member, one vote
- Service makes the difference
- Profits belong to the members

This philosophy provides a solid foundation for the future of credit unions and a promising opportunity for Georgia’s consumers.
ABOUT GEORGIA CREDIT UNION AFFILIATES

In 2009, Georgia Credit Union Affiliates (GCUA) celebrated its 75th anniversary. GCUA provides service and support that help credit unions meet the financial services needs of the state’s more than 1.8 million credit union members. GCUA offers advocacy, educational, operational and marketing support for Georgia’s 163 credit unions, which in 2009 have combined total assets of over $16 billion.

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More information can be found at www.georgiacreditunions.org.
REAL Deal Credit Unions

1st Choice CU
Albany Federal Employees C.U.
Associated Credit Union
Atlanta Postal Credit union
Augusta Metro FCU
Augusta VAH FCU
BEKA FCU
B.O.N.D. Community FCU
Catoosa Teachers FCU
CDC FCU
CGR CU
Clarke Community FCU
Coosa Valley FCU
CORE CU
Coweta Cities & Co. EFCU
Credit Union of Atlanta
Credit Union of Georgia
CSRA FCU
DOCO Regional FCU
Delta Community CU
Emory Alliance CU
Ethicon CU
Etowah Valley Federal CU
Excel FCU
Family Savings FCU
Fidelity FCU
First Reliance FCU
Ft. Gordon FCU
Fulton Teachers’ CU
GEMC FCU
Georgia FCU
Genuine Parts
Georgia-Fla United Methodist FCU
Georgia Heritage FCU
Georgia Power Northwest FCU
Georgia Power Valdosta FCU
Georgia’s Own CU
GeoVista CU
Glynn County Fed. Emps. CU
Gwinnett FCU
Habersham FCU
H. E. A. FCU
HMC Employees FCU
Hallco Community Cu
Health Center CU
Human Services Employees' CU
Hutcheson Federal CU
Interstate Unlimited FCU
MEA Federal Credit Union
Mead Employees CU
Members United CU
Mercy FCU
MidSouth Community FCU
Mutual Savings CU
North Georgia CU
Northside CU
Northwest Georgia CU
Oconee Credit Union
Pinnacle CU
Platinum FCU
Retail Employees CU
Richmond Community FCU
RICH-SEAPAK FCU
Robins FCU
Rose City FCU
South DeKalb Church FCU
Southeastern FCU
State Employees CU
TIC FCU
The Coca-Cola Company Family FCU
Three Rivers CU
United 1st FCU
Valdosta Educators CU
Valdosta Teachers' FCU

As of 7/12/10
Please use this tool to report current offerings and plans to offer various REAL Solutions products, services and programs at your credit union. This tool consists of 32 questions. After completing each question, click on the “Save” button to move forward to the next section. To review or edit previous questions, just click on the appropriate title in the right-hand column.

In addition, you can use this tool to quantify your credit union as the “REAL Deal.” REAL Deal is an outreach framework created by state leagues in partnership with the Credit Union National Association and National Credit Union Foundation. REAL Deal is designed to convey the impact of credit unions’ outreach efforts and recognize success.

The information you provide will be used to quantify existing outreach efforts, both nationally and by state. REAL Solutions staff and state league liaisons will have access to the information your credit union provides. All information is confidential and will be reported in an aggregate fashion unless we receive your permission to share your credit union’s information with others.

Section 1: REAL Solutions—Products & Services Promoting a “Good Deal” for Members
(Questions 1-20)

1. Does your credit union offer a payday loan, or a payday loan substitute? (Note: These are small, unsecured, short-term loans with no or minimal underwriting. This does not include overdraft protection or courtesy pay services tied to checking accounts.)
   - Yes
   - No
   If no, does your credit union have plans to offer a payday loan product?
     - Yes, our credit union will introduce a payday loan product within the next six months
     - Yes, our credit union plans to introduce a payday loan product within the next seven to 12 months
     - Yes, our credit union will eventually introduce a payday loan product, but not within the next 12 months
     - No, our credit union has no plans to offer a payday loan product
     - Don’t know

2. Does your credit union offer closed-end unsecured loans of $500 or less, or open-end lines-of-credit with a maximum of $500 or less? (Note: Do not include overdraft privilege/courtesy pay.)
   - Yes
   - No
   If yes, approximately how many of these small-dollar value loans or lines-of-credit did your credit union originate in 2008?
     - # of loans/lines ≤ $500 __________________________
     (An estimate is fine)

3. Does your credit union offer used-vehicle loans for low-credit score borrowers (i.e., D and E paper)?
   - Yes
   - No
   If no, does your credit union have plans to offer used-vehicle loans for D and E paper borrowers?
     - Yes, our credit union will introduce used-vehicle loans for D and E paper within the next six months
     - Yes, our credit union plans to introduce used-vehicle loans for D and E paper within the next seven to 12 months
     - Yes, our credit union will eventually introduce used-vehicle loans for D and E paper, but not within the next 12 months
     - No, our credit union has no plans to offer used-vehicle loans for D and E paper
     - Don’t know
4. Does your credit union cash payroll and/or government-issued checks for members?
   - Yes
   - No

5. Does your credit union offer check-cashing (of payroll and/or government-issued checks) to non-members?
   - Yes
   - Only during disaster recovery
   - No

   Does your credit union have plans to offer a non-member check-cashing product?
   - Yes, our credit union will introduce a non-member check-cashing product within the next six months
   - Yes, our credit union plans to introduce a non-member check-cashing product within the next seven to 12 months
   - Yes, our credit union will eventually introduce a non-member check-cashing product, but not within the next 12 months
   - No, our credit union has no plans to offer a non-member check-cashing product
   - Don't know

6. Does your credit union offer an alternative (i.e., remedial) checking/transaction account for members who do not qualify for your regular checking account? (Note: This is an account totally different and separate from regular checking.)
   - Yes
   - No

   Does your credit union have plans to offer a remedial checking/transaction account?
   - Yes, our credit union will introduce a remedial checking/transaction account within the next six months
   - Yes, our credit union plans to introduce a remedial checking/transaction account within the next seven to 12 months
   - Yes, our credit union will eventually introduce a remedial checking/transaction account, but not within the next 12 months
   - No, our credit union has no plans to offer a remedial checking/transaction account
   - Don't know

7. Does your credit union offer prepaid reloadable general spending cards? (Note: Do not include gift or travel cards.)
   - Yes
   - No

   When did your credit union begin offering prepaid reloadable general spending cards?
   Month & Year:  ____________

   For which market segment(s) is your prepaid reloadable general spending card product intended? (CHECK ALL THAT APPLY.)
   - College students
   - Those who don’t want or qualify for a checking account
   - Immigrant population(s)
   - Other (please specify:)

   Since the inception of your prepaid reloadable general spending card program, how many cards has your credit union issued?  # of cards  ____________

   Name & contact information for credit union employee responsible for prepaid reloadable cards:  __________________________________________________________________

   Does your credit union have plans to offer a prepaid reloadable card product?
   - Yes, our credit union will introduce a prepaid card product within the next six months
   - Yes, our credit union plans to introduce a prepaid card product within the next seven to 12 months
   - Yes, our credit union will eventually introduce a prepaid card product, but not within the next 12 months
   - No, our credit union has no plans to offer a prepaid card product
   - Don't know
8. Does your credit union offer tax preparation and/or filing assistance? (Note: Do not include VITA site participation.)
   ☐ Yes
   ☐ No

9. Does your credit union participate in a Voluntary Income Tax Assistance (VITA) program—a national program that helps low-to-moderate income consumers complete tax filing at no cost and avoid predatory refund anticipation loans? (Note: Participation can range from promoting the existence of a local VITA site to hosting your own VITA site.)
   ☐ Yes
   ☐ No
   
   Does your credit union have plans to participate in a VITA site?
   ☐ Yes, our credit union will participate in a VITA site during the 2009 tax season (calendar year 2010)
   ☐ Yes, our credit union will participate in a VITA site during the 2010 tax season (calendar year 2011)
   ☐ Yes, our credit union will eventually participate in a VITA site, but not within the next two tax seasons
   ☐ No, our credit union has no plans to participate in a VITA site
   ☐ Don’t know

10. Does your credit union offer a product or program to help low-income members save?
   ☐ Yes
   ☐ No
   
   Does your credit union have plans to offer a product/program to help low-income members save?
   ☐ Yes, our credit union will introduce a product/program to help members save within the next six months
   ☐ Yes, our credit union plans to introduce a product/program to help members save within the next seven to 12 months
   ☐ Yes, our credit union will eventually introduce a product/program to help members save, but not within the next 12 months
   ☐ No, our credit union has no plans to offer a product/program to help members save
   ☐ Don’t know

11. Does your credit union offer a mortgage product/program for low-wealth or first-time homebuyers (e.g., Credit Union HLPR loan, low/no downpayment loan, multiple family member loan, etc.)?
   ☐ Yes
   ☐ No
   
   Does your credit union have plans to offer a mortgage product/program for low-wealth or first-time homebuyers?
   ☐ Yes, our credit union will introduce a mortgage product/program for low-wealth or first-time homebuyers within the next six months
   ☐ Yes, our credit union plans to introduce a mortgage product/program for low-wealth or first-time homebuyers within the next seven to 12 months
   ☐ Yes, our credit union will eventually introduce a mortgage product/program for low-wealth or first-time homebuyers, but not within the next 12 months
   ☐ No, our credit union has no plans to offer a mortgage product/program for low-wealth or first-time homebuyers
   ☐ Don’t know
12. Does your credit union have a special program or initiative in place to serve one or more unbanked or underbanked immigrant populations?

- [ ] Yes
- [ ] No

Which of the following types of products and program features does your credit union have in place to serve immigrant populations? (CHECK ALL THAT APPLY.)

- [ ] Bi-lingual staff
- [ ] Bi-cultural staff (i.e., one or more staff members from the immigrant community)
- [ ] Low-cost international remittance service
- [ ] Printed materials in Spanish or other native language
- [ ] Web site in Spanish or other native language
- [ ] Accept matricula cards or other documents from the person’s country of origin for identification purposes
- [ ] Accept taxpayer identification numbers in lieu of Social Security numbers
- [ ] SAFE accounts (non-dividend earning saving/share accounts for those without taxpayer identification)
- [ ] Loans designed specifically to meet the needs of immigrant members (e.g., citizenship test loan)
- [ ] Educational outreach (e.g., English as a second language, citizenship preparation program, computer literacy, financial literacy, first time homebuyer)
- [ ] Partnership(s) with a community-based organization
- [ ] Bill payment (e.g., for utilities)
- [ ] Prepaid reloadable general spending cards
- [ ] Other (please specify:)
- [ ] None of the above

Please list the country of origin for each major immigrant population that your credit union serves:

_______________________________________________________________________

Name & contact information for credit union employee responsible for immigrant outreach:

_______________________________________________________________________

13. Does your credit union have a special program or initiative in place to serve youth 11-to-13 years of age?

- [ ] Yes
- [ ] No

Which of the following products/services has your credit union developed or customized specifically for the 11-to-13 year old market? (Note: Do not include products/services that you offer in an identical form to the general credit union membership.)

- [ ] Savings account
- [ ] Prepaid reloadable general spending card
- [ ] Small loan
- [ ] Educational program(s) or tool(s)
- [ ] Special Web site or section of credit union’s Web site
- [ ] Pre-teen advisory board
- [ ] In-school branch (middle school)
- [ ] Contest, activity, or program to generate involvement
- [ ] Other (please specify:)
- [ ] None of the above

Name & contact information for credit union employee responsible for pre-teen outreach:

_______________________________________________________________________
14. Does your credit union have a special program or initiative in place to serve teens 14-17 years of age?

Yes →

Which of the following products/services has your credit union developed or customized specifically for the 14-to-17 year old market? (Note: Do not include products/services that you offer in an identical form to the general credit union membership.)

- Savings account
- Investment account or club
- Checking account with a debit card
- Prepaid reloadable general spending card
- Credit card
- Scholarship(s)
- First-time vehicle loan
- Other type of loan
- Educational program(s) or tool(s)
- Special Web site or section of credit union’s Web site
- High school advisory board
- In-school branch (high school)
- Contest, activity, or program to generate teen involvement
- Other (please specify): _______________________________________
- None of the above

Name & contact information for credit union employee responsible for teen outreach:
____________________________________________________________________

No →

Does your credit union have plans to introduce a program or initiative to serve teens 14-to-17 years of age?

- Yes, our credit union will introduce a program or initiative to serve teens within the next six months
- Yes, our credit union plans to introduce a program or initiative to serve teens within the next seven to 12 months
- Yes, our credit union will eventually introduce a program or initiative to serve teens, but not within the next 12 months
- No, our credit union has no plans to introduce a program or initiative to serve teens
- Don’t know
15. Does your credit union have a special program or initiative in place to serve young adults 18-30 years of age?

☐ Yes  
☐ No

Which of the following products/services has your credit union developed or customized specifically for the 18-30 year old market? (Note: Do not include products/services that you offer in an identical form to the general credit union membership.)

☐ Savings account  
☐ Investment account or club  
☐ Checking account with a debit card  
☐ Credit card  
☐ Student loan  
☐ Scholarship(s)  
☐ First-time homebuyer loan  
☐ First-time vehicle loan  
☐ Other type of loan  
☐ Educational program(s) or tool(s)  
☐ Special Web site or section of credit union’s Web site  
☐ Young adult advisory board  
☐ Contest, activity, or program to generate young adult involvement  
☐ Other (please specify): ____________________________

☐ None of the above

Name & contact information for credit union employee responsible for young adult outreach:
________________________________________________________________________

☐ No  

Does your credit union have plans to introduce a program or initiative to serve young adults 18-30 years of age?

☐ Yes, our credit union will introduce a program or initiative to serve young adults within the next six months  
☐ Yes, our credit union plans to introduce a program or initiative to serve young adults within the next seven to 12 months  
☐ Yes, our credit union will eventually introduce a program or initiative to serve young adults, but not within the next 12 months  
☐ No, our credit union has no plans to introduce a program or initiative to serve young adults  
☐ Don’t know

16. Does your credit union offer money orders?

☐ Yes  
☐ No

17. Does your credit union offer international remittances (i.e., outgoing money transfers to members or to friends and family of members in another country)?

☐ Yes  
☐ No

18. Which of the following other products/services and/or program features does your credit union offer for low-to-moderate income and low-wealth members? (CHECK ALL THAT APPLY.)

☐ Basic financial literacy/education program(s) or tool(s)  
☐ Formal credit counseling (by accredited in-house counselors or referral)  
☐ Tiered loan pricing based on risk  
☐ Credit card for members with no credit history  
☐ Credit-builder loan (for those with no credit history)  
☐ Credit re-builder loan (for those with poor credit history)  
☐ Small business loans  
☐ Credit-score builder counseling/program  
☐ Free checking account (no monthly or per-check fees & no minimum balance requirement)  
☐ Other (please specify): ____________________________

☐ None of the above
19. Which of the following activities has your credit union completed, or have plans to complete?

<table>
<thead>
<tr>
<th>Currently have in place</th>
<th>Have plans to complete</th>
<th>No plans to complete</th>
</tr>
</thead>
<tbody>
<tr>
<td>Received a low-income designation</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Added an official underserved area to its field of membership</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Established a branch in a low-income or underserved area</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Placed a kiosk or ATM in a low-income or underserved area</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>

20. Are you willing to share your credit union’s specific business models for serving low-wealth households with other credit unions through the National Credit Union Foundation’s REAL Solutions Impact Center?

☐ Yes
☐ Probably yes, but I need more information before making a final decision
☐ No

The information that you have provided to NCUF via this questionnaire will not be shared with other leagues or credit unions without your permission.

Section 2: REAL Sources—Educational Tools, Programs and Counseling Services for Consumers (Questions 21–24)

21. Does your credit union provide consumer information—services, programs, and/or tools—for the purpose of improving financial literacy, awareness and understanding of financial products/services, and financial decision-making? Examples include online tools, workshops and seminars, financial literacy programs, and formal credit counseling services. (Note: Newsletter articles, marketing materials, and informal financial education/advice are not considered services, programs, and/or tools.)

☐ Yes, for adults only (age 18 and older)
☐ Yes, for youth only (under age 18)
☐ Yes, for both adults and youth
☐ No

22. Does your credit union employ (or subcontract with) one or more people whose primary responsibility is education and training?

☐ Yes
☐ No
☐ Don’t know

23. How many educational events did your credit union host or sponsor during 2008? (Note: Count each online tool and type of counseling service offered as a single event.)

Total # of educational events

(An estimate is fine)

24. How many people (members and nonmembers) participated in the educational events held or sponsored by your credit union in 2008?

Total # of participants

(An estimate is fine)
Section 3: REAL Community Help/Commitment—Community Involvement and Charitable Initiatives/Donations (Questions 25–30)

25. Please identify the types of community involvement and charitable programs (i.e., outreach endeavors) in which your credit union was involved during 2008: (CHECK ALL THAT APPLY.)

☐ In-kind donations of equipment, furniture, or back office operations to non-profit organizations
☐ Official sponsorships of community-based non-profit fundraising efforts (e.g., official sponsor of the local Susan G. Komen Race for the Cure)
☐ Board/staff participation in community-based non-profit activities/events (e.g., helping to build a Habitat for Humanity house, organized participation in a walk/run event)
☐ Monetary donations to charitable programs (e.g., United Way, Children’s Miracle Network)
☐ Monetary donations to national or state credit union foundation(s)
☐ Credit-union sponsored fundraising efforts (e.g., for scholarship fund, or disaster relief)
☐ Other(s) – please specify: _________________________________________________________________

☐ None of the above    SKIP TO Q. 31

26. Please list names of the organizations to which your credit union made contributions of time, resources and/or money during 2008:

____________________________________________________________________________________________
____________________________________________________________________________________________

27. How much money did your credit union donate to charitable initiatives/programs during 2008?

Total money donated $_____________________
(An estimate is fine)

28. How many volunteer hours did your credit union’s employees contribute to charitable initiatives/programs during 2008?

Total volunteer hours _____________________
(An estimate is fine)

29. What is the monetary value of in-kind donations made by your credit union to charitable initiatives/programs during 2008?

Total value $_____________________
(An estimate is fine)

30. Does your credit union employ (or subcontract with) one or more people whose primary responsibility is public relations/community affairs?

☐ Yes
☐ No
☐ Don’t know
Section 4: REAL Partnerships—Collaboration with Other Organizations to Provide Products/Programs (Questions 31–32)

31. Please identify the types of partnerships with which your credit union was involved during 2008 to further its outreach efforts: (CHECK ALL THAT APPLY.)

- [ ] Partnerships with community development credit unions (CDCUs)
- [ ] Shared branching initiatives in low-income and/or immigrant communities
- [ ] Partnerships with community-based non-profit organizations (e.g., thrift stores/food banks, neighborhood housing services, workforce investment boards, check-cashing/payday loan outlets)
- [ ] Partnerships and/or coalitions with government-sponsored agencies
- [ ] Other(s) – please specify: _________________________________________________________________

☐ None of the above ➔ SKIP TO END

32. Please list the names of CDCUs, shared branching locations, community-based organizations and government-sponsored agencies with whom your credit union was partnered during 2008, along with the type of product/service/program that the partnership provides:

<table>
<thead>
<tr>
<th>Name of Partnering Organization</th>
<th>Product(s)/Service(s)/Program(s) Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
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<td></td>
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</tbody>
</table>

Submit This Data

Thank you for answering all of the questions in the Baseline Survey!

If you’d like more time to review your information, feel free to do so by clicking on the links to the sections on the right. You can even leave the survey and return to it later if you’d like to verify any information with your colleagues.

Once you’ve submitted the survey you cannot change your data without contacting REAL Solutions. However, you will be able to view your responses by simply logging back in to the survey.

When you have finished reviewing the survey, please click on the "Submit this data" button below.

Submit this data
Credit Unions are the REAL Deal™

An Outreach Framework for America’s Credit Unions

WHAT IS OUTREACH?

Credit unions perform outreach well, although activity levels vary by credit union. What is outreach? Outreach includes providing services and products that meet the ongoing financial needs of members – as well as non-members. Outreach is reaching, as well as reaching out, to those communities who need access to financial services the most while being a partner in the communities we serve.

Outreach can encompass, but is not limited to:

» Access to services – promoted and encouraged to all
» Education – fostering good financial choices/decisions
» Programs and products – affordable and beneficial
» Partnerships that extend outreach efforts further
» Active participation in communities we serve and in charitable activities.

...WHY NOW?

With a collective focus on outreach, we can multiply our efforts and catalog and communicate the full measure of outreach achievements by credit unions and leagues. Information on outreach efforts has been largely anecdotal. More quantitative information will support our objectives in a couple of ways:

An increased emphasis on outreach will translate to successful future member growth; and

A more comprehensive and robust picture of our outreach activities will position us favorably with federal and state lawmakers and demonstrate to the public that credit unions invest heavily in our communities.

THE REAL DEAL™

Many credit unions and leagues acknowledge the need for a common brand when it comes to outreach. This brand must be flexible enough to engage optimum local creativity while maximizing and consolidating national impact. The REAL Deal™ brand accomplishes this for our national outreach initiative.

Credit union leaders like you and your peers agree…now is the time to initiate and/or expand your credit union’s and league outreach efforts. The REAL Deal™ provides the platform for this endeavor.

INITIATE AND EXPAND YOUR CREDIT UNION’S AND LEAGUE’S OUTREACH EFFORTS

Credit unions and leagues are currently engaged at many different levels in a variety of outreach activities. The options for your participation in outreach are broad – with many of you already performing outstanding outreach activities.

Call to Action: The REAL Deal™ outreach goal, as supported by the Credit Union National Association, the National Credit Union Foundation, and the state leagues, is that EVERY credit union and league is engaged at a high level in at least two of the four REAL Deal™ outreach pillars:

REAL Programs – Products and services promoting a “good deal” for members geared toward achieving individual financial success. Examples might include:

» REAL Solutions® products and services designed to reach consumers with low wealth
Lending Solutions/Products

- Loans earmarked to rebuild creditworthiness or made as an alternative to payday lenders
- HLPRI (Home Loan Payment Relief) Loans

REAL Sources – Consumer information to members and available to non-members on credit union services, financial education and smart choices for daily finances:

- Education tools for adults and youth
  - CUNA tools: MyMoney.com, Googolplex, etc.
  - brass|Student Program
  - Opening/operating a credit union student branch
  - Offering free financial workshops and seminars on personal finance and/or financial tools
  - Offer “Get Checking” classes

- Financial literacy programs
  - NEFE (National Endowment for Financial Education)
  - High School Financial Planning Program
  - Biz Kid$ national PBS TV series and curriculum

- Credit counseling services

REAL Community Help/Commitment – Community involvement and charitable initiatives/donations, and contribution(s) of resources to charitable programs, for example:

- Children’s Miracle Network
- National Credit Union Foundation and state credit union foundations
- Other national or local charities

REAL Partnerships – Encompasses state league programs that already have traction under other names (credit unions and leagues have the option of utilizing the REAL Deal™ brand or promoting their own comparable programs):

- Partnering with community development credit unions
- Shared branching initiatives in low-income and minority communities
- Programs similar to Getting Ahead Association, Community Reinvestment Initiative, Montana Credit Unions for Community Development

Credit unions and leagues are reaching out to millions of Americans today, through numerous different programs. Let’s continue to demonstrate our value proposition to consumers, to policymakers and to our members. It’s time to get REAL with The REAL Deal™.

MEASURING OUR SUCCESS

How will we know if our outreach initiative is successful?

- A meaningful number of people are touched by outreach efforts
- A significant number of credit unions participate in two or more of the activities in the categories noted above
- Measurable data can be reported on a statewide and nationwide basis on outreach activities.

REAL STORY: RESOURCES AND NEXT STEPS...
A critical component to the REAL Deal™ outreach initiative will be attaining the “REAL Story” on existing and future outreach efforts. This will incorporate and complement the efforts already underway with NCUF’s REAL Solutions® and be responsive inquiries regarding credit unions and the fulfillment of our social mission.

For participating credit unions and leagues, a system of goals and measurements to appropriately convey the impact of outreach efforts will be developed to recognize those leagues and credit unions who have successfully undertaken this initiative. Each state league has named a REAL Deal/Outreach contact person. These individuals will be working closely with CUNA and NCUF staff in developing and encouraging outreach efforts on a broad scale and making available model program examples.

Look for additional information on how your credit union and league can participate and spread the news about getting REAL with The REAL Deal™!

**CREDIT UNIONS ARE THE REAL DEAL™**

For additional information, please contact your state league outreach contact or Richard Dines, with CUNA, 800-356-9655 ext 6721 or rdines@cuna.coop.

The REAL Deal™ is supported by the Credit Union National Association, the National Credit Union Foundation, the America Association of Credit Union Leagues and the state leagues.
Middle Class in America
MIDDLE CLASS IN AMERICA

Prepared by the
U. S. Department Of Commerce
Economics and Statistics Administration
for the
Office of the Vice President of the United States
Middle Class Task Force

January 2010
I would like to acknowledge the contributions of those who assisted in the preparation of this report.

I am particularly grateful for the work done by members of my staff. David Beede and Beethika Khan are responsible for most of the research and analysis that went into this report and were assisted by staff at the Census Bureau. George McKittrick, Jane Molloy and Sabrina Montes also contributed significantly to the final product.

We have also benefited greatly from the comments and suggested edits that were made by my colleagues at the Departments of Labor, Health and Human Services, and the Treasury, as well as those from the National Economic Council and the Council of Economic Advisors. Their astute observations greatly enhanced our work.

Finally, I want to thank Jared Bernstein for inviting us to undertake this effort for the Middle Class Task Force and for his assistance in helping us formulate our approach to this important topic.

Rebecca M. Blank
Under Secretary for Economic Affairs
U. S. Department of Commerce
Most Americans consider themselves middle class. This raises the question, what does it mean to be middle class? This report examines various definitions, discusses middle class values and aspirations, and presents hypothetical budgets showing how these aspirations might be achieved with different incomes. Finally, we consider whether or not it is harder to live a middle class lifestyle today than it was twenty years ago.

Income levels alone do not define the middle class. Many very high and very low income persons report themselves as middle class. Social scientists have explained this by defining “middle class” as a combination of values, expectations, and aspirations, as well as income levels. Middle class families and those aspiring to be part of the middle class want economic stability, a home and a secure retirement. They want to protect their children’s health and send them to college. They also want to own cars and take family vacations. However, aspirations alone are not enough; middle class families know that to achieve these goals they must work hard and save.

This report examines how two-parent two-child families and single-parent two-child families at different income levels might achieve a middle class lifestyle. The result is a snapshot of hypothetical family finances during a single year when both children are in school and before they start college. The estimates in this report present a picture of the possible spending and saving decisions that families might make. A major conclusion to be drawn from this report is that planning and saving are critical elements in attaining a middle class lifestyle for most families.

Our results indicate how difficult it might be for many families to achieve these goals, particularly families in areas with higher housing prices. In addition, any number of uncontrollable events can make it hard to achieve middle class aspirations, including extra medical bills, payments for child care or elder care, or other demands on income. Families also face uncertainty about their future income, especially in an environment of high unemployment.

Finally, we look back two decades to examine whether it is more or less difficult to attain a middle class lifestyle today. While incomes for married-couple and single-parent families with two children have increased significantly, much of this rise occurred in the 1990s. In part, these increases occurred because parents are working more hours in order to maintain higher income levels. Unfortunately, while incomes have risen, the prices for three large components of middle class expenses have increased faster than income: the cost of college, the cost of health care and the cost of a house. Thus, we conclude that it is harder to attain a middle class lifestyle now than it was in the recent past.

One of the hallmarks of American society has been the common desire among families of all backgrounds for economic security and a better life for their children. Unfortunately, many families are not able to afford the sort of expenditures that we lay out in this report. If American families are to realize their middle class dreams, the nation must have a healthy economy, a responsible private sector that offers decent jobs with benefits, and an effective public sector that provides high quality schools for all children.
MIDDLE CLASS IN AMERICA

PRINCIPAL FINDINGS

- Middle class families are defined by their aspirations more than their income. We assume that middle class families aspire to home ownership, a car, college education for their children, health and retirement security and occasional family vacations.

- Families at a wide variety of income levels aspire to be middle class and under certain circumstances can put together budgets that allow them to obtain a middle class lifestyle.

- Planning and saving are critical elements in attaining a middle class lifestyle for most families. Under the right circumstances, even lower-income families may be able to achieve many of their aspirations if they are willing to undertake present sacrifices and necessary saving.

- However, many families, particularly those with less income, will find attaining a middle class lifestyle difficult if not impossible. Areas with high housing costs can make even higher-income families feel pinched. Lack of employer-provided health insurance can confront a family with bankrupting health costs. And unforeseen expenses can ruin even the best-laid budget plans.

- It is more difficult now than in the past for many people to achieve middle class status because prices for certain key goods – health care, college and housing – have gone up faster than income.
MIDDLE CLASS IN AMERICA

Most Americans consider themselves middle class. A 2005 New York Times survey found that only 1% of respondents considered themselves to be ‘upper class’ and only 7% considered themselves part of the ‘lower class.’ The remainder said that they were either ‘middle class’ or ‘working class’ (Cashell, 2008).

The fact that so many people consider themselves part of the middle class raises the question of what it means to be middle class. What characteristics are shared by so many people?

This report assumes that middle class families and those who wish to be middle class have certain common aspirations for themselves and their children. They strive for economic stability and therefore desire to own a home and to save for retirement. They want economic opportunities for their children and therefore want to provide them with a college education. Middle class families want to protect their own and their children’s health. And they want enough income for each adult to have a car and for a family vacation each year. Middle class families are forward-looking, and they know that to achieve these goals, they must work hard, plan ahead and save for the future. Indeed, being middle class may be as much about setting goals and working to achieve them as it is about their attainment.

This report presents hypothetical budgets to show how families with middle class aspirations might achieve these goals at different income levels. The report suggests that even some lower-income families can achieve middle class lifestyles (particularly if they live in lower-cost housing areas), although they would have to make more difficult trade-offs and settle for less than would higher-income families. For many families, however, these goals will be difficult to achieve. In some areas of the country, higher housing prices make a middle class lifestyle hard even for those above the middle of the income distribution. Extra medical bills or higher family expenses for child care or elder care can easily make a middle class lifestyle unattainable.

We end by comparing the opportunities facing middle class families two decades ago, in 1990, versus today. While incomes have increased substantially among families with two children, even after accounting for inflation, much of this rise occurred in the 1990s; incomes have been relatively stagnant since 2000. In addition, many of the adults in these families are working more hours to support their higher incomes. Most importantly, prices of three big expenditure items – housing, health care, and college – have gone up faster than incomes. These factors make attaining a middle class lifestyle harder today than it was two decades ago.
I. How is the Middle Class Defined?

No single accepted definition of middle class appears in the academic or popular literature but numerous definitions have been suggested. A few of the most common definitions are outlined below.

The Pure Income Definitions. Most economic analyses of the middle class use income as the sole defining measure (Frank, 2007; Isaacs, et al., 2008). Examples of income definitions include ranges based on:

- absolute dollar-value income levels;
- income levels relative to median household income;
- fixed portions of the income distribution (e.g., quartiles or quintiles); and
- income levels relative to the poverty line.

In this report we have selected two-parent two-child families and one-parent two-child families as the focus for analysis. A family with two children under age 18 is often considered the typical American family. Table 1 shows the median, lowest quartile and highest quartile income levels for these two types of families in 2008. (The median is the income level at which half of all families earn less and half of all families earn more; the 25th percentile is the income level at which one-quarter of all families earn less; and the 75th percentile is the income level at which three-quarters of all families earn less.)

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Income Levels for Selected Families, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>In the distribution of two-parent two-child families</td>
</tr>
<tr>
<td>Lowest quartile cut-off (25th percentile)</td>
<td>$50,800</td>
</tr>
<tr>
<td>Median (50th percentile)</td>
<td>$80,600</td>
</tr>
<tr>
<td>Highest quartile cut-off (75th percentile)</td>
<td>$122,800</td>
</tr>
<tr>
<td>Poverty Line</td>
<td>$21,800</td>
</tr>
</tbody>
</table>


Note: Calculations are based on the income distribution of each family type with two children under age 18.
The family at the middle of the income distribution of two-parent two-child families has $80,600 in income. In contrast, one-parent families have significantly lower incomes. The family at the middle of the income distribution of one-parent two-child families has only $25,200 in family income, far below the 25th percentile among two-parent families. More than one-fourth of single-parent two-child families have incomes below the poverty line, an income level that cannot support a middle class lifestyle.

The data in Table 1, which we use throughout this report, are based on family income, which combines the income of all related individuals who live together. This includes the income of the primary family with any related secondary family living in the same household. The income of unrelated cohabiters, including unmarried partners, is not included in family income. While this has little effect on the income of married couples, it does reduce potential income among single-parent families. About 20% of single-parent families with two children reside with an unrelated individual. Including the income of unrelated individuals would increase the total median income available to single-parent families by about $5,000. The research on how much income is shared among non-related cohabiters shows mixed results, however. Cohabiters share some income, but much less than married couples. Most family income statistics count only income of related individuals and we follow this convention, excluding the income of unrelated cohabiters.

Throughout this report, “income” refers to gross money income (before tax payments and tax credits) which includes earnings and nonlabor income such as interests and dividends, child support and cash payments. It does not include in-kind (noncash) benefits.

**Self-Reported Class.** Another approach to defining the middle class has been to simply ask people to identify their social class. Respondents generally choose from the following options: lower class, middle class, and upper class. (Some surveys also provide a ‘working class’ option.) A 2008 Congressional Research Service report summarized results from three surveys in which people were asked about both their income and their class status and concluded that the self-defined middle class consists of people with household incomes roughly between $40,000 and $250,000 (Cashell, 2008).

A 2008 Pew Research Center survey found that there is not always a good match between a respondent’s class identification and reported income (Pew Research Center, 2008). In the Pew survey, 40% of respondents with incomes below $20,000 considered themselves to be middle class as did a third of those with incomes above $150,000. About half of each racial and ethnic category – blacks, whites and Hispanics – indicated they were middle class even though minority income levels are lower in general. These findings suggest that income alone is not a good indicator of class.

**Multidimensional Definitions.** Some researchers have attempted to create indexes that aggregate occupation, income, education, and other observable characteristics in order to rank people by social standing or living standards (Nam and Boyd, 2004; Gilbert, 2008). Such rankings can be used to indicate middle class status.

Other social scientists define the middle class more broadly by taking into account harder-to-observe, non-monetary attributes like emotional state and morale (Chen and Newman, 2007; Newman, 2006; Sullivan, et al., 2000). This is based on the perception that certain values and
expectations, primarily about economic security, safety, and protection, are strongly associated with the middle class. Examples of middle class values discussed in this literature include:

- strong orientation toward planning for the future;
- control over one’s destiny;
- movement up the socio-economic ladder through hard work and education;
- a well rounded education for one’s children;
- protection against hardship, including crime, poverty, and health problems;
- access to home ownership and financial assets such as a savings account; and
- respect for the law.

While difficult to quantify, these characteristics would explain the survey responses that suggest a middle class orientation is about more than just income.

Overall, the literature on the middle class leads to a conclusion that income levels alone do not define the middle class. Members of the middle class tend to be defined more by their values, expectations, and aspirations than their income level although income may constrain the manner in which some of their aspirations can be realized. We follow this approach by assuming that middle class families have certain common aspirations, which we lay out in the following section.

II. What Are Middle Class Aspirations?

Several key elements characterize what seem to be fairly standard middle class values and aspirations. These include economic stability, a better life for one’s children, and a current lifestyle that allows for a few creature comforts. One characteristic that stands out in the literature on the middle class is that middle class families emphasize their expectations about the future; this means they work hard, plan ahead, and expect to save in order to attain those plans. Indeed, being middle class may be as much about setting goals and working to achieve them as it is about their actual attainment.

Our assumptions about what is included in middle class aspirations are discussed below. These are general aspirations and different families may weight them differently. Some families may spend vacation time with relatives and some may not feel the need for two cars. Others live in areas where house prices are high and more resources have to be expended for housing. While we do not assume that all families have exactly the same goals, we posit that, in general, these are items that most middle class families value and wish to attain.

Home Ownership

Owning one’s own home is part of the middle class American dream. We assume that families with two children will aspire to be homeowners.
A Car for Each Adult

Car ownership has often served as shorthand for attainment of the middle class lifestyle. Ever since Henry Ford’s introduction of the Model T, no other object has so strongly typified the American middle class. On average there are two vehicles on the road for every American family (Bureau of Labor Statistics, 2008). Cars allow families a wider choice of residential and work locations and better access to many desired activities. We assume that middle class families want one car per adult. Indeed, many middle class families have job, school, and housing arrangements that make it difficult to manage without two cars.

A College Education for Children

Education provides a clear example where planning for the future, hard work, and movement up the socio-economic scale converge. Much of the planning and sacrifice families make is for the benefit of the next generation. We assume that middle class families aspire to a college education for all their children, seeing college as a ladder to future economic opportunities.

Health Security

Middle class families want to protect their children’s health and their own health – and protect their hard-earned lifestyles from the economic impacts of catastrophic medical expenses. This requires health insurance.

We assume middle class Americans desire employer-provided health insurance. This means that they must pay their share of premiums for employer-provided health insurance and for medical expenses not covered by insurance.

Retirement Security

Middle class families expect to have some economic security in retirement, and want to be able to retire at an age when they can enjoy their retirement. This means that they must save for retirement. Middle class families also strive to live within their means and avoid unsustainable levels of debt.

We assume that middle class families save enough that their accumulated savings with interest, together with Social Security, can provide income equal to at least 50% of their earnings at retirement at age 65. While this is not a high level of retirement savings, many families also have employer-provided contributions to their retirement savings, which add to their retirement income.

Family Vacations

Being middle class means having enough economic security to take well-deserved breaks. We assume that middle class families want occasional family vacations.
III. What Does it Cost Families to Achieve Middle Class Aspirations?

In this section, we present some hypothetical budgets as examples of how families at different levels of income with middle class aspirations might achieve these goals.

This exercise has at least three distinct purposes:

- We show how families at quite a wide range of incomes, under the right circumstances, may be able to attain a middle class lifestyle, and what sort of expenditures this might involve.
- We show the variation in what different families at different income levels might buy to achieve their goals.
- We indicate how constrained some of these choices are, and point out the difficulties that could prevent families from achieving a middle class lifestyle. While this is particularly true for families below the middle of the income distribution, even higher-income families may have problems achieving a middle class lifestyle in certain circumstances.

It is important to emphasize that the budgets we present below are examples of possible budgets. They do not indicate what families should spend. Rather, we estimate the costs of the six middle class aspirational items (housing, health care, car, college education, vacation, and retirement savings) that we described in the last section. We make assumptions about what families at different income levels are likely to buy and these estimates are based on our calculations of what it would cost to attain these items. We also take account of what families at different income levels actually spend on non-aspirational items (food, clothing, utilities, and taxes) based on the best available expenditure data. Adding these expenses together, our budgets indicate how a family at a given income level might choose to allocate their money across different goods and services in order to achieve their middle class aspirations. As we emphasize below, different families will make different trade-offs and some will choose to spend more on some items and less on others. And, as we also emphasize, many families will find these suggestive budgets unrealistic and will not be able to attain all of the items that make up a middle class lifestyle.

We focus on two different types of families in this report:

- A four-person family with two parents and two children under age 18 who are both in school; and
- A three-person family with one parent and two children under age 18 who are both in school.

About 38% of Americans live in married-couple families with one or more related children under age 18; another 13% live in other family arrangements with at least one related child under age 18, predominantly single-mother families. It is important to consider what it means to be middle class for persons who live in other types of families, including retirees, older workers without children at home and younger people just starting out. This is beyond the scope of this current report, however.
We draw on many different sources to inform our cost estimates of each component of a middle class lifestyle at various income levels. We necessarily make some basic assumptions about when various life milestones take place in order to provide structure for our estimates. For instance, we assume that parents save for retirement over their entire career. Details on how these cost estimates are derived, and the assumptions that underlie them, are in Appendix Table 1.

We recognize that many families incur expenses for child care when children are young. This is a particularly important issue for single-parent families but is also a major concern for two-parent families in which both parents work. We assume that families begin to save for college when the second child enters kindergarten. The presumption is that child-care costs prevent earlier college savings. Any ongoing child-care costs for families with school-age children are subsumed in the ‘other expenditure’ category.

The estimates that we present describe a single year, providing a snapshot of hypothetical family finances during the period after both children start grade school and before they start attending college. We do not model the complete lifecycle of consumption and income paths for our hypothetical families. If we did so, we might have them spend more in certain periods of their life and save more in other periods. Or we might have them pay off big expenses in ‘lumpy’ ways, rather than spreading the cost of items like a car over long periods of time through borrowing. The intent of this paper is not to replicate family finances over their lifetime, but to show what a reasonable set of possible expenses might look like for families at different income levels who seek a middle class lifestyle.

A. Middle Class Spending for Two-Parent Families with Two Children

To illustrate how families might achieve middle class status, we focus on three hypothetical two-parent two-child families at three different income levels. We start by looking at a family whose income is at the median income level for two-parent two-child families in the U.S., and investigate what their expenditure patterns might look like if they wanted to attain those things we characterize as goals of the middle class. This family has $80,600 in total annual income, as we saw in Table 1. But we want to see how these goals might be attained by higher- and lower-income families as well. So we also consider families whose income is at the 25th percentile ($50,800 in income) and at the 75th percentile ($122,800 in income) of income among two-parent two-child families. This allows us to observe the additional trade-offs lower-income families would have to make, or what additional luxuries higher-income families could afford.

Appendix Table 1 lays out our cost estimates in more detail. A quick description here is probably useful. We have six middle class items we assume these families want – home ownership, cars, college education for children, family vacations, health security and retirement security. We estimate the cost for each of these items, except housing, using the data described in Appendix Table 1. We use published estimates of what similar families are paying in federal, state and local income taxes. Using data on family consumption expenditures, we estimate the actual dollars spent on all other items (i.e., everything except the six things in our middle class consumption bundle) by families at these income levels. Hence, we allow these families to spend on average as much on ‘everything else’ as they do in reality. Finally, we estimate how much money this leaves in the family
budget for house payments and estimate the affordable mortgage (and the resulting value of the house) that these families can pay each month. In this sense, housing is our ‘residual item’ and we balance the family budget by having them purchase only the house that they can afford.

Figure 1 demonstrates our hypothetical budgets for these three married-couple two-parent two-child families. Table 2 provides more details about the costs and expenditures in these budgets.

Figure 1
**Hypothetical Budgets for Married-Couple Families with Two School-Age Children**

Selected Points in the Income Distribution for Two-parent Two-child Families

*See Appendix Table 1 for data sources.*
### Table 2

**Hypothetical Budgets for Married-Couple Families with Two School-Age Children**

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>$50,800 (25th percentile)</th>
<th>$80,600 (50th percentile)</th>
<th>$122,800 (75th percentile)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>House</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total house value</td>
<td>$143,800</td>
<td>$231,400</td>
<td>$400,300</td>
</tr>
<tr>
<td>Annual cost</td>
<td>$10,900</td>
<td>$17,600</td>
<td>$30,400</td>
</tr>
<tr>
<td><strong>Annual medical expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumes children are covered by CHIP and a parent purchases health insurance through employer.</td>
<td>$3,800</td>
<td>Out-of-pocket premiums for employer-sponsored health insurance plus non-covered expenses.</td>
<td>$5,100</td>
</tr>
<tr>
<td><strong>Car ownership</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two small used sedans with $7,500 purchase price, driven a total of 25,000 miles/year.</td>
<td>$7,900</td>
<td>Two medium-sized sedans each with $20,000 purchase price, driven a total of 25,000 miles/year.</td>
<td>$12,400</td>
</tr>
<tr>
<td><strong>Saving for college education to cover 75% of expenses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two years of community college plus two years at an in-state public college, with financial aid; assumes live at home with parents.</td>
<td>$1,800</td>
<td>Four years at in-state public college with financial aid; live at home with parents for one year.</td>
<td>$4,200</td>
</tr>
<tr>
<td><strong>Family vacation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One week family vacation travel every other year.</td>
<td>$1,500</td>
<td>One week family vacation travel every other year.</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Annual retirement savings needed to achieve a 50% income replacement rate in combination with Social Security</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.0% saving rate = $1,000</td>
<td></td>
<td>3.2% saving rate = $2,500</td>
<td>3.3% saving rate = $4,100</td>
</tr>
<tr>
<td><strong>Annual food, clothing, utilities, and other &quot;non-aspirational&quot; expenditures</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$17,900</td>
<td></td>
<td>$23,200</td>
<td>$30,300</td>
</tr>
<tr>
<td><strong>Taxes on income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average federal rate</td>
<td>2.20%</td>
<td>5.30%</td>
<td>10.20%</td>
</tr>
<tr>
<td>Average state &amp; local rate</td>
<td>1.90%</td>
<td>2.50%</td>
<td>3.50%</td>
</tr>
<tr>
<td>FICA rate</td>
<td>7.65%</td>
<td>7.65%</td>
<td>6.33%</td>
</tr>
<tr>
<td>Total tax rate</td>
<td>11.75%</td>
<td>15.45%</td>
<td>20.03%</td>
</tr>
<tr>
<td>Total annual cost</td>
<td>$6,000</td>
<td>$12,400</td>
<td>$24,600</td>
</tr>
</tbody>
</table>

See Appendix Table 1 for data sources.

Note: FICA = Contributions to Social Security’s Old-Age, Survivors, and Disability Insurance and Medicare’s Hospital Insurance programs under the Federal Insurance Contributions Act. CHIP = Children’s Health Insurance Program.
As is apparent from the table, families at these different income levels will have to make quite different choices in order to live within their budget. The range in income from $50,800 to $122,800 is wide. Nonetheless, with careful planning, some families at all these levels can realize these aspirations.

- **Homeownership.** Housing makes up a significant portion of any household’s expenses. These costs will vary among families depending on a variety of factors. Geographic location matters since housing prices throughout the country vary considerably. There are also other trade-offs families make in selecting affordable housing. For example, many urban families must choose between living in the far suburbs with long commuting times in exchange for a larger house at a given price versus living closer in but making do with less living space. Others choose between lower down payments and higher monthly mortgage costs.

  We assume that all families would pay 20% down on a house and take out a 30-year fixed mortgage for the remaining 80% of house value. We estimate that middle-income two-parent families will be able to afford a $231,400 house, while our lower-income two-parent family can only afford a $143,800 house. Our higher-income family can afford a $400,300 house. This compares to an overall median house price in the U.S. of $197,600 in 2008 (U.S. Census Bureau, 2008a).

  These housing expenses as a share of annual income range from 21.5% for the 25th percentile family to 24.8% for the 75th percentile family – well below the 30% of income rule of thumb often used as a benchmark of housing affordability (Stone, 2006). For the nation as whole, 30.9% of owner-occupied housing units with a mortgage were valued at less than $150,000 (U.S. Census Bureau, 2008b), suggesting that home-ownership is possible in some places even for the 25th percentile family.

  Of course, housing prices differ across and within regions, reflecting differences in housing quality and size, as well as important neighborhood characteristics such as crime levels and school quality. Middle class families will have to adjust their housing budgets in different regions of the country, and may be forced to make trade-offs in their housing choices.

  In order to compare our estimated housing values with actual housing values in different parts of the country, Figure 2 shows median values of owner-occupied housing in nine major regions.

  The data in Figure 2 imply that attaining the middle class dream of owning a home is likely to be difficult for many at the lower end of the income scale. We estimate that our middle-income two-parent family can afford a mortgage for a house worth $231,400. According to Figure 2, while this amount is sufficient for purchasing the median house in certain parts of the country, in other regions (particularly in the Northeast and West) this amount will fall short. This suggests that many of these families may have to devote more of their income to housing or perhaps live in smaller houses or in neighborhoods with lower school quality than they might prefer. As we will see below, the situation is much worse for single-parent families who have significantly lower incomes.
As it turns out, wages and cost of living are correlated, so family incomes also vary regionally. Incomes on average are higher in some of the high housing-cost areas like the Northeast and West regions. This somewhat offsets housing cost differences. These regional income differences are, however, outside the scope of our estimates.

**Figure 2**

**Median House Value of Owner-Occupied Housing, 2008**

Source: U.S. Census Bureau, 2008a.

Note: The high point for housing price in the 2000s occurred in 2007. Prices fell in 2008 but year-to-date data in 2009 show little further decline.

- **Health security.** All two-parent two-child families, regardless of income, are assumed to be covered under an employer-sponsored health insurance plan, and to pay the average employee share of health insurance premiums as well as expenses not covered by insurance. We estimate these premiums and expenses cost $5,100 for both the median and 75th percentile married-couple families with two children.

However, the 25th percentile family income is low enough that the children in these families are eligible for low-cost health insurance under the Children’s Health Insurance Program (CHIP) in many states. (Based on October 2009 eligibility rules following enactment of the Children's Health Insurance Program Reauthorization Act of 2009, 53% of the population of the United States live in states where children in such families would be covered by CHIP (Center for Children and Families, 2009).) We assume that the parents of such families purchase health insurance only for themselves through their
employer. Out-of-pocket premiums and uncovered medical expenses are estimated to total $3,800 for these families. This corresponds to 7.5% of annual income for our lower-income family, which is a significant share (absent CHIP eligibility, the cost would be 10.0%). For our higher-income family, medical expenses account for a smaller 4.2% of income.

In the absence of health insurance, it would be difficult for a family facing serious illness to maintain other elements of a middle class lifestyle. If at least one parent does not have employer-provided health insurance available through his or her job, the cost of directly purchasing health insurance on the open market is high. The average annual premium for non-group family coverage on the open market can be twice as high as out-of-pocket premiums under employer-sponsored plans, roughly $6,200 compared to $3,100 in 2005-2006 (Bernard and Banthin, 2008). Unfortunately, employer-based health insurance coverage has been declining, from 64.2% in 2000 to 58.5% in 2008 (U.S. Census Bureau, 2008c), suggesting that more families are struggling to find health insurance coverage.

- **Car ownership.** We assume all two-parent families would like to own two cars, one for each adult. We assume each car is driven the national average of about 12,500 miles per year, but that the likely size and purchase price of cars would increase with income. We assume these cars are bought with a loan and that the monthly costs include the loan repayment fees. We also include the cost of gas and car maintenance expenses. We estimate the annual cost of owning cars would range from $7,900 (15.5% of annual income) among lower-income families to $15,400 (12.5% of annual income) among higher-income families. All three of our families spend a significant share of their income on cars.

- **Saving for college.** Family expectations about the type of higher education institution their child will attend and their child’s living arrangements in college will likely vary by income level. This is one of the trade-offs that families at lower income levels make. We assume that a family at the lower end of the income distribution would plan for their children to attend a community college for two years and then transfer to a four-year public institution, receiving financial assistance that provides a considerable discount from published tuition and fee rates. Their children are assumed to live at home to save on room and board expenses. Of course, this assumes that a family lives within commuting distance of a community and/or four-year college. While this is true for most urban and suburban families, it may not be possible for rural families.

We assume that a medium-income family would plan to send their children to a four-year public institution for a full four years. On average, 25% of students at public institutions live at home. We embed this into our family cost estimates by assuming the child lives at home for one year (25% of their time). A higher-income family is presumed to plan to send their children to live and study at a private four-year college or university.

We also assume that 25% of out-of-pocket college expenses (equivalent to one year’s expense) will be financed by loans incurred by college students. College saving by parents for the remaining 75% of expenses ranges from $1,800 (3.5% of annual income) for our
lower-income family to $6,800 (5.5% of annual income) for our higher-income family. Higher-income families must save a larger fraction of their income to meet college expenses.

- **Family vacation.** We estimate the cost of one week of travel for a family vacation. This could involve a visit to national parks and historical sites, to a theme park, or to an interesting urban area. For many families, such vacations often include time with relatives. We assume that the frequency of such vacations increases with income: a lower-income family would take a week’s travel vacation every other year, while a higher-income family would take two week-long vacations every year. We estimate one week’s travel, lodging, and expenses for this family at $3,000. This means that vacation costs range from $1,500 (3.0% of annual income) to $6,100 (5.0% of annual income) among our families. Of course, although we characterize this as ‘one week’, many families may choose to spend this money on several trips over the year rather than during a single week.

- **Saving for retirement.** Social Security replaces a decreasing share of pre-retirement earnings as incomes rise, so families with higher incomes need to save at a higher rate in order to attain our assumed target (namely, a high-enough savings amount by age 65 so that the annuity income combined with Social Security equals 50% of pre-retirement income). As a result, retirement saving rates range from 2.0% for a lower-income family to 3.3% for a higher-income family.

The sum of retirement savings plus college savings indicate the total amount of savings needed to meet middle class aspirations. For two-parent two-child families, total saving as a share of income ranges from 5.5% at the 25th percentile to 8.9% at the 75th percentile. As a share of after-tax income, the saving rates are 6.2% and 11.1%, respectively.

These rates are higher than the aggregate savings rates that are published regularly. Among all households, savings rate averaged 4.2% of after-tax income during 1990-2008 (Bureau of Economic Analysis, 2009), which is lower than our estimated total saving rates. Saving rates were particularly low in the mid 2000s but have risen since the recession that began in 2008. Is it reasonable for us to suggest higher savings for our three hypothetical families? Families with pre-college-age children are typically headed by middle-aged persons, who tend to save more than younger persons (who have not yet reached their full earnings potential) and older persons (who may be working fewer hours.) (For example, see Dynan, et al., 2009.) A broader definition of savings that includes capital gains, however, would also add to the savings rate among families with children. This is because capital gains on houses (and to a lesser extent on retirement and college investments) would loom larger for typical middle-aged adults with two children at home than for younger families (who have fewer assets) or older persons (who are more likely to spend down savings after retirement).

Our estimates underscore the fact that saving is an important component of any middle class lifestyle. However, when families face high expenses, whether for housing, child care, education or other needs, savings are often sacrificed first. A previous report for the Middle Class Task Force discussed various tax-advantaged plans that encourage saving, such as Section 529 college savings plans (U.S. Department of the Treasury, 2009).
As some have suggested, low saving rates among American families in the recent past may indicate that some families believed that their appreciating housing values in the mid-2000s meant they did not have to save in other ways. But, as we also show below, over the past decade many families have faced significant costs that rose faster than their income. One response to this may have been lower savings.

**Other living expenses.** All families have to pay certain basic expenses. Our calculation for expenditures for non-aspirational items is based on average expenditures for consumption items such as groceries, clothing, and utilities for families at each income level, although it also includes non-essential expenses, such as entertainment expenses and the purchase of food at restaurants. Such expenses will clearly vary among families and perhaps across geographic areas where costs differ, although the regional differences in prices for these items are quite small relative to the differences in housing prices.

We estimate that these other living expenses vary from $17,900 for families at the 25th percentile to $30,300 at the 75th percentile. Because this category includes many items often considered necessities, expenditures do not vary as much across households as other items.

**Taxes.** Before families can decide how to spend their income on purchases or savings, they have to pay taxes. We estimate that tax rates will range from 11.75% to 20.0%. This means that after tax income for these three families will range from $44,800 to $98,200. However, it should be noted that a large share of taxes represents contributions toward future Social Security and Medicare benefits; absent such programs, a significant share of such contributions would have to be saved to ensure similar security after retirement.

What do these budgets show for our married-couple four-person families? First, they suggest how families who do not face unexpected expenses can attain a middle class lifestyle at quite different income levels. Second, they show the differences in quality and quantity of goods that families at different income levels must purchase, so that our lower-income family makes different car, vacation, and college choices.

Finally, it should be clear from these budgets that many families will face difficulties achieving their middle class aspirations. Families without employer-provided insurance may face much larger out-of-pocket medical expenses. Families in rural areas may face much greater car and transportation costs. Families in high-cost housing areas may be unable to afford a three-bedroom house (or any house.) Many families may find that their college or retirement savings disappear in a year when they face unexpected expenses. While our hypothetical budgets show that some families can attain a middle class lifestyle at quite different income levels, the assumptions necessary to make these family budgets balance also suggest that many families will find this difficult.

**B. Middle Class Spending for Single-Parent Families with Two Children**

We now turn from married-couple families to single-parent families with two school-age children. Table 1 showed that families at the 25th percentile of the income distribution for this group had only $13,200 in income and were below the poverty line. A family income at or below the poverty
line for single-parent families cannot sustain the middle class lifestyle that we define in this report. Therefore, this report considers only hypothetical budgets for two sets of single parents, at the median ($25,200 annual income) and at the 75th percentile ($44,000 annual income).

Single-parent families with two children have only three people to support while the two-child married-couple families that we discussed in the last section supported four people. Hence, single-parent families need less income to live an equivalent lifestyle. The differences in income between these two types of families are much, much larger, however, than any adjustment for family size would suggest. Because of their low incomes, these families will have to make steeper trade-offs than any except the lowest-income married-couple families in order to maintain a middle class lifestyle.

Why are incomes among single-parent families so low? One-parent families generally rely on only one primary earner while many two-parent families have two earners. One-parent families are typically headed by women who work in lower-wage jobs and (often because of child-care responsibilities) work fewer hours. Furthermore, parents in one-parent families have less education, on average, than parents in two-parent families, and this also limits their earning potential.

Figure 3 shows the potential budget that single-parent families at these two income levels would have to maintain in order to attain a middle class lifestyle, while Table 3 provides more details on the hypothetical expenditures that underlie these budgets for single-parent two-child families. The text following the table highlights the assumptions and implications of the findings. Appendix Table 1 indicates in more detail how we calculate these expenditure levels.

**Figure 3**

**Hypothetical Budgets for Single-Parent Families with Two School-Age Children**

See Appendix Table 1 for data sources.
### Table 3
Hypothetical Budgets for Single-Parent Families with Two School-Age Children

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>$13,200 (25th percentile)</th>
<th>$25,200 (50th percentile)</th>
<th>$44,000 (75th percentile)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>House</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total house value</td>
<td>$104,900</td>
<td>$175,500</td>
</tr>
<tr>
<td></td>
<td>Annual cost</td>
<td>$7,950</td>
<td>$13,300</td>
</tr>
<tr>
<td><strong>Annual medical expenses</strong></td>
<td>Assumes children are covered by CHIP and parent is uninsured.</td>
<td>$700</td>
<td>Assumes children are covered by CHIP and parent purchases health insurance through employer.</td>
</tr>
<tr>
<td><strong>Car ownership</strong></td>
<td>One small used sedan with $7,500 purchase price, driven a total of 7,500 miles per year.</td>
<td>$3,000</td>
<td>One small used sedan with $10,000 purchase price, driven a total of 12,500 miles per year.</td>
</tr>
<tr>
<td></td>
<td>Annual cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Saving for college education to cover 75% of expenses</strong></td>
<td>Assumes a combination of financial aid, loans taken out by students, and living with parents cover full cost to parents.</td>
<td>$0</td>
<td>Two years of community college plus two years at an in-state public college, with financial aid; assumes live at home with parents.</td>
</tr>
<tr>
<td></td>
<td>Annual cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Family vacation</strong></td>
<td>One week family vacation visiting relatives/friends every other year.</td>
<td>$500</td>
<td>One week family vacation travel every other year.</td>
</tr>
<tr>
<td></td>
<td>Annual cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual retirement savings needed to achieve a 50% income replacement rate in combination with Social Security</strong></td>
<td>1.2% saving rate= $300</td>
<td>2.0% saving rate= $900</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Annual cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual food, clothing, utilities, and other &quot;non-aspirational&quot; expenditures</strong></td>
<td>$14,200</td>
<td>$16,100</td>
<td></td>
</tr>
<tr>
<td><strong>Taxes on income</strong></td>
<td>Average federal rate</td>
<td>-14.50%</td>
<td>1.55%</td>
</tr>
<tr>
<td></td>
<td>Average state &amp; local rate</td>
<td>1.10%</td>
<td>1.88%</td>
</tr>
<tr>
<td></td>
<td>FICA rate</td>
<td>7.65%</td>
<td>7.65%</td>
</tr>
<tr>
<td></td>
<td>Total tax rate</td>
<td>-5.75%</td>
<td>11.08%</td>
</tr>
<tr>
<td></td>
<td>Total annual cost</td>
<td>-$1,450</td>
<td>$4,900</td>
</tr>
</tbody>
</table>

*See Appendix Table 1 for data sources.*

Note: FICA = Contributions to Social Security’s Old-Age, Survivors, and Disability Insurance and Medicare’s Hospital Insurance programs under the Federal Insurance Contributions Act. CHIP = Children’s Health Insurance Program.
Income levels among single-parent two-child families are low and this is a major constraint on their ability to achieve middle class goals. For the two families that we consider, at the median and the 75th percentile of income, a middle class lifestyle can be achieved but only with substantial budget discipline. Emergencies don’t fit into these budgets.

- **Homeownership.** A median-income single-parent family can afford only a $104,900 home, while the higher-income single-parent family can afford a home valued at $175,500. Note that the 75th percentile single-parent family can afford a higher-valued house than the 25th percentile married-couple family, despite the similarity in their incomes. We estimate that the median single-parent two-child family would spend 31.5% of their annual income on housing, while the 75th percentile family would spend 30.2%. These expenditures approximately meet the traditional 30% of income affordability benchmark.

In 2008, 16.1% of owner-occupied housing units with a mortgage nationwide were valued at less than $100,000 (U. S. Census Bureau, 2008b), which suggests that in some parts of the country it may be feasible – albeit challenging – for the median single-parent two-child family to afford a house, given our hypothetical budget. According to the housing data presented in Figure 2, however, it is probably impossible for median-income single-parent families to attain homeownership in many parts of the country. No matter where they live, they will have to buy a small home, well below the median-priced house in their area. In many areas, these families are likely to end up renting a lower-cost apartment or living with others and will have to give up the middle class dream of homeownership.

- **Health security.** We assume that single-parent family medical expenses would be lower than for married-couple families, reflecting smaller family size. We assume children in both the median and 75th percentile families are eligible for CHIP coverage. (The income of the 75th percentile family is 250% of the federal poverty guideline for a family of three – $17,600 in 2008 – used by the states to determine eligibility.) Given their low overall incomes, however, we assume that median-income parents decline to purchase health insurance for themselves through their employer and opt instead to apply the money that could have been spent on out-of-pocket premiums toward housing expenses. Consequently, medical expenses ($700) account for only 2.7% of income at the median for these families, but these lower costs come with much less security in health care.

We assume that parents with the 75th percentile income do purchase health insurance for themselves through their employers and incur costs totaling $1,800 (4.1% of income). If the parent does not have a job that provides health insurance (and this is common among jobs held by lower-wage female earners) or lives in a state with less generous CHIP eligibility requirements, this family will almost surely have to forego health insurance coverage or forego other middle class goals in order to either buy high-priced health insurance on the open market or to pay health expenses if a family member becomes seriously ill.

- **Car ownership.** We assume single-parent families would own one car, but that the likely size, annual mileage, and purchase price of a car would increase with income. The cost of
car ownership ranges from $3,000 (11.9% of income) to $4,300 (9.8% of income) for the median and 75th percentile families, respectively.

- **Saving for college.** We assume that the 75th percentile single-parent family would plan for their children to attend a community college for two years and then transfer to a four-year public institution, while living at home to save on room and board expenses; children would be expected to borrow to cover 25% of their college expenses. This requires them to save $1,700 each year.

  The median-income single-parent family does not have the money to save for college and must forego the security of college savings. Because of very low family income, however, if the children have reasonably good high school grades and standardized test scores, they will be able to receive financial aid from almost any college to which they apply. We assume that this aid, combined with loans incurred by the children, will cover all college expenses.

- **Family vacation.** All families want occasional vacations. This may be more difficult to attain for single-parent families but it is likely that vacations are considered desirable and important. We assume that the median and 75th percentile families spend a week traveling every other year, but the median-income family spends less and must stay with relatives and friends.

- **Saving for retirement.** The median-income single-parent family would need to save an estimated 1.2% of income for retirement – less than the higher-income family because of higher Social Security replacement ratios for lower-income workers. This is a very low estimate of needed retirement savings. Living on 50% of current income after retirement will be a challenge, given these parents’ low income levels during their working years.

- **Other living expenses.** This calculation is based on average expenditures on consumption items such as food, clothing, and utilities among families at this income level. These expenses are likely to vary among families and perhaps across geographic areas where costs differ.

  We estimate that these living expenses vary from $14,200 (56.3% of annual income) for families at the median to $16,100 (36.6% of annual income) at the 75th percentile.

- **Taxes.** Tax rates range from -5.75% to 11.1%. This means that after-tax income ranges from $26,650 to $39,100. The middle-income single-parent family has a negative tax rate and is actually receiving some money back from the government, because the parent is eligible for the Earned Income Tax Credit.

The budgets for single-parent families are much tighter than for most two-parent families. It may be possible for these parents to attain a middle class lifestyle and to do the saving necessary for retirement and college if the family lives in a low-cost housing area. But any sort of emergency, from unemployment to illness to unexpected home or car repairs, will make these budgets difficult, if not impossible.
IV. How Is This Income Earned?

While the focus of this report is on the expenditures that different families would have to adopt in order to attain certain middle class goals, it is perhaps valuable to say something about the sources of income that these families are likely to have. Table 4 shows the share of families with different numbers of earners among both two-parent two-child families and among one-parent two-child families. We show the number of earners among income groups that bracket our 25th, 50th, and 75th percentiles of income.

A substantial minority (22.7%) of married-couple families has only one earner, while 76% have at least two earners. Most of these families are able to maintain their income because both parents are employed. Earnings from employment accounted for 95% of total family income in 2008 for married-couple families with two children. Lower-income married-couple families are more likely to have only one earner, suggesting that some of them may be trading off lower incomes for one parent’s time at home.

Among single-parent families, the majority (55.2%) has only one earner and 12.1% have no earners. Single-parent families with no earners are likely getting income from other sources whether governmental (e.g., Social Security or disability income) or private (e.g., child support, alimony or retirement). Many of them are likely to be living with other adults. Table 4 suggests one reason why many single-parent families have much lower incomes than married-couple families. They have far fewer earners. Earnings from employment accounted for 81.5% of total family income in 2008 for single-parent families with two children. The parents in these single-parent families (who are typically mothers) have less education than the typical parent in a married-couple family, which also reduces their income.

Table 4
Percentage of Families by Number of Earners, Selected Income Groups, 2008

a. Married-Couple Families with Two Children

<table>
<thead>
<tr>
<th>Number of Earners</th>
<th>All</th>
<th>Less than $70,000</th>
<th>$70,000 to $90,000</th>
<th>Greater than $90,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>1.3</td>
<td>3.3</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>One</td>
<td>22.7</td>
<td>34.8</td>
<td>16.0</td>
<td>14.3</td>
</tr>
<tr>
<td>Two or more</td>
<td>76.0</td>
<td>61.9</td>
<td>84.0</td>
<td>85.7</td>
</tr>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

b. Single-Parent Families with Two Children

<table>
<thead>
<tr>
<th>Number of Earners</th>
<th>All</th>
<th>Less than $20,000</th>
<th>$20,000 to $30,000</th>
<th>Greater than $30,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>12.1</td>
<td>27.4</td>
<td>5.6</td>
<td>3.4</td>
</tr>
<tr>
<td>One</td>
<td>55.2</td>
<td>52.7</td>
<td>63.7</td>
<td>53.5</td>
</tr>
<tr>
<td>Two or more</td>
<td>32.7</td>
<td>19.9</td>
<td>30.7</td>
<td>43.1</td>
</tr>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

V. Changes Over Time

It is interesting to consider how the situation of these families might have changed over the last two decades. In order to look at changes in the situation of those who seek to attain a middle class lifestyle, we compare the estimates above from 2008 with data from 1990.

Figure 4 shows how incomes among our two types of families have changed over these two decades. In 1990, two-parent two-child families reported a median income of $67,100, increasing to $80,600 by 2008, a 20% increase. (All of these income data are reported after adjusting for inflation by stating the 1990 data in 2008 inflation-adjusted dollars using the Consumer Price Index Research Series, known as CPI-U-RS.) Families at the 25th percentile of the income distribution of two-parent two-child families experienced an income increase of 14% and those at the 75th percentile experienced an income increase of 28%.

One-parent two-child families also experienced substantial income gains. At the median, their income went from $20,800 to $25,200, a 21% gain. At the 75th percentile of the income distribution of one-parent two-child families, income rose 10%. (As noted previously, we consider it almost impossible for one-parent two-child families at the 25th percentile of the income distribution among these families to achieve a middle class lifestyle and do not include them in our analysis. All of them are below the poverty line.)

These are substantial income gains. However, as also shown in Figure 4, incomes rose significantly for families during the 1990s but few gains occurred during the decade of the 2000s. For two-parent two-child families, the gains in income between 1990 and 2000 ranged from 17% at the 25th percentile to 23% at the 75th percentile. For one-parent two-child families, the gains were 32% at the median and 20% at the 75th percentile. However, incomes for most of these groups either stagnated or declined during the 2000s. (Note that this is not a function of using 2008 as the end-point in this analysis. Although 2008 was a recession year, the income gain patterns would look very similar if we used 2007 as our end-point comparison year.)
Figure 4

Family Income Over Time

All 1990 and 2000 data are adjusted for inflation and expressed in 2008 dollars

a. Married-Couple Families with Two Children

b. Single-Parent Families with Two Children

The income gains over these two decades for our two-child families are far higher than that indicated by the aggregate data, which show that median income rose only 9% between 1990 and 2008 among all American households. Why are the gains so much larger among these two-child families?

There are four reasons (Appendix Table 2 provides background information for the facts cited below):

- Almost all of these families show greater hours of work in 2008 than in 1990. For instance, two-parent families have experienced a 5% increase in their annual work hours (from 3,567 to 3,747, equivalent to almost 5 weeks of additional full-time work). Single-parent families have experienced a 13% increase in work hours. Increases in work hours can help families raise their income, but this comes at the cost of less time at home with children and less time for non-market-work activities. This might also mean greater child-care expenses, which are not accounted for in this analysis.

- Parents of two children are a different group in 2008 than in 1990. They are older and better educated. This reflects both increases in the age of first births and increases in education levels (particularly among women). The median two-parent family is now headed by someone with more years of college than in 1990. The median one-parent family is now headed by someone with some college rather than by someone with only a high school degree. More skilled and older parents have higher earnings and hence higher incomes.

- Families with two children are a declining share of the overall population, with particularly large declines in the share of the population living in two-parent two-child families. More people are living in single-parent families (even though the share of people in families with single parents and two children has fallen), living alone or living in families without children. So, even while incomes among families with two children are growing, aggregate incomes are growing much more slowly because fewer people are living in this family structure.

- Finally, there have been real gains in wages over these time periods among female workers at all skill levels and among more educated male workers. One reason why incomes at the 75th percentile went up more rapidly than at the median is that wage gains over the past two decades have been concentrated among higher-skilled and higher-wage workers.

This means that families who strive to attain middle class status have more income now than in the past, although they are also working more. This suggests that it would be easier to reach middle class goals with their income in 2008 than in 1990. Unfortunately, income gains have to be contrasted with changes in the prices of goods that middle class families strive to attain. And the unpleasant fact is that the prices of some of the biggest expenditure items for middle class families have increased much more rapidly than their incomes.

Table 5 shows how prices have changed for three of the major components in the middle class family budgets we describe above, namely, housing, health care, and college. In putting this table together, we try to compare items that are as identical as possible in both years. The first three
columns on Table 5 present the actual price levels for 1990 and 2008 and the change in these prices from 1990 to 2008. The last three columns look at inflation-adjusted price levels and changes. We adjust the 1990 prices for economy-wide inflation levels (using the CPI-U-RS price series), so the last column shows the increase in the price of these items over and above the average level of inflation. Hence, the price changes from the last column of Table 5 can be directly compared to the increases in income between 1990 and 2008, shown in Figure 5, since incomes are adjusted for inflation in the same way.

As Table 5 indicates, the actual price of the median house has increased by 150%, from $79,100 to $197,600 over the past two decades. The last column indicates that this was 56% faster than the overall rate of inflation. This means that the equivalent down-payment and mortgage payments for a house have gone up at a rate faster than the increase in family incomes for many families.

As many have noted, the price of health care expenditures paid by families, including both premiums and out-of-pocket medical expenditures has soared over the past two decades. We estimate this has gone from $1,200/year to $5,100/year, a 325% increase in price. This is 155% more than the overall rate of inflation and far above the rate of increase in incomes.

Finally, the price of college has also gone up rapidly. Tuition, fees, and room and board at four-year public colleges have increased 60% faster than the overall rate of inflation over this time period, while they have increased 43% faster at four-year private schools.

Figure 5 compares the gains in inflation-adjusted median income between 1990 and 2008 among our two types of families with the increases in prices (after adjusting for economy-wide inflation) of housing, health care and college. Parents with growing children are most likely to make investments in housing and in college, and to care about purchasing health insurance for their families. Hence, they are more affected by these large price rises than are other persons. Prices of other items (not listed on Table 5) that are likely to be consumed by the average family do not show increases of the same magnitude. For example, prices of toys, apparel, televisions and computers have declined during the last two decades while prices of food, new and used vehicles, and furniture have increased at less than the rate of overall inflation.

Even though incomes among families with two children have been rising, equivalent families are likely to feel further behind in 2008 than in 1990. The main reason is that prices for some of their big-ticket expenditures are much higher, relative to their incomes, than they were in 1990. In addition, the adults in many of these families are working more hours to support their increased income. We conclude that it is harder to attain a middle class lifestyle in 2008 than it was two decades ago. The goods that parents want to buy for themselves and for their children to live a middle class lifestyle are harder to attain now at current income levels than they were in the past.
Table 5

<table>
<thead>
<tr>
<th></th>
<th>Actual 1990 prices</th>
<th>Actual 2008 prices</th>
<th>Actual price changes</th>
<th>Inflation Adjustment 1990 prices in 2008 dollars</th>
<th>Actual 2008 prices</th>
<th>Actual inflation-adjusted price changes in terms*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Housing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Median value)</td>
<td>$79,100</td>
<td>$197,600</td>
<td>150%</td>
<td>$126,600</td>
<td>$197,600</td>
<td>56%</td>
</tr>
<tr>
<td><strong>Health Care</strong></td>
<td>$1,200</td>
<td>$5,100</td>
<td>325%</td>
<td>$2,000</td>
<td>$5,100</td>
<td>155%</td>
</tr>
<tr>
<td>(Premiums and out-of-pocket expenses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>College</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four-year public college</td>
<td>$5,200</td>
<td>$13,400</td>
<td>158%</td>
<td>$8,400</td>
<td>$13,400</td>
<td>60%</td>
</tr>
<tr>
<td>(Tuition, fees, and room and board)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four-year private college</td>
<td>$13,200</td>
<td>$30,400</td>
<td>130%</td>
<td>$21,200</td>
<td>$30,400</td>
<td>43%</td>
</tr>
<tr>
<td>(Tuition, fees, and room and board)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* One way to interpret this column is to recognize that it shows price changes in excess of economy-wide inflation.

Sources:

Housing: U.S. Census Bureau, 2008 American Community Survey (Table B25077) and 1990 Decennial Census (Table H023B).


Note: While we calculated the 1990 and 2008 prices for housing, health care and college using actual information on their cost, there are also published price indexes for housing, medical care, and college. Consistent with this table, all of these indexes also show substantially higher price increases in these commodities than is shown in the aggregate CPI.
VI. Conclusion

Families across the income spectrum often report themselves as middle class. This suggests that most American families share the desire for economic stability and a better life for their children. Income may not be the primary determinant of whether a family considers itself middle class, although income will shape and constrain choices. We assume that families that strive to be middle class want to attain certain things, including their own home, a car for each adult, retirement and college savings, adequate health care, and a regular family vacation.

Our hypothetical budgets indicate that a middle class lifestyle is possible even among relatively lower-income families under the right circumstances. Of course, lower-income families will face many more trade-offs and saving will be much harder for them. Single-parent families face particular difficulties in reaching these goals because of their lower income levels.

Yet, it should be clear that only a few unplanned expenses can dispossess any of these families from their middle class dreams. Loss of a job, unexpected illness that isn’t covered by health insurance, or the need to help out an elderly parent can create a severe budget crisis for any of the families that we describe above. This will require them to forego some of the things that middle class American families expect.

See Figure 4 and Table 5 for data sources.
Housing is the biggest wild card in these budgets. In some areas of the country, even the two-parent family at the 75th percentile of the income distribution would be unable to buy the average available house and would have to select a smaller-than-average house or live further away from their jobs and pay higher commuting expenses.

In fact, while we’ve focused particular attention on the lower-income families, it is easy to see why even the 75th percentile family may feel very budget-constrained. We are not assuming an extravagant lifestyle for this family. Particularly if this higher-income family lives in a high-cost housing area and wishes to send their children to a private college while also accumulating adequate retirement savings, the family will quickly face real difficulties putting together a workable budget.

Not all families will value the aspirations that we describe in this report and this is both expected and appropriate. There is no reason to expect that all families want the same things. Some families consider two or even three cars essential for their well-being, while others prefer to rely on public transportation. Similarly, some families may choose to forgo vacations and other luxuries to send children to private colleges. These are all personal preferences and trade-offs across these choices are expected.

The income of families with two children has risen substantially over time, in part because the parents of two children are a different group now versus two decades ago. They have become more educated and older, earning more income and working more hours. At the same time, despite these income increases, these middle class goals have become harder to attain because the costs of three big items – housing, health care, and college – have risen faster than their incomes. Thus, we conclude that it is harder to attain a middle class lifestyle now than it was in the recent past.

A major conclusion to be drawn from this report is that planning and saving are critical elements in attaining a middle class lifestyle for most families. Under the right circumstances, even families at the lower end of the income scale may be able to achieve many of the aspirations listed if they are willing to undertake present sacrifices and necessary saving, and if nothing unexpected happens to their income or their budget needs.

One of the hallmarks of America has been the common dreams among families of all backgrounds for economic security and a better life for their children. Many middle class families have been able to achieve this dream. Unfortunately, not all families are able to afford the sort of expenditures that we lay out in this report. Even those families that can afford a middle class lifestyle must make regular sacrifices and may be one unexpected event away from disaster. To provide stability for American families, our nation needs a healthy economy, a responsible private sector that offers decent jobs with health care and pension plans, and an effective public sector that provides high quality schools for all children. When these goals are met, more families will be able to reach their middle class dreams.
REFERENCES


Cashell, Brian W. “Who are the Middle Class?” *CRS Report for Congress*. October 22, 2008.


Pew Research Center, *Inside the Middle Class: Bad Times Hit the Good Life*. April 2008.


Appendix 1
Assumptions, Sources and Methods Used in Tables 2 and 3

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Married-Couple Families with Two Children</th>
<th>Single-Parent Families with Two Children</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$50,800 25th Income Percentile</td>
<td>$80,600 50th Income Percentile</td>
</tr>
</tbody>
</table>

**Annual Income**


**House**

The house value is determined by how much disposable income is left over after accounting for all other aspirational and non-aspirational expenses. We assume that a 20% down payment is made and that a fixed rate mortgage is obtained to finance the rest of the house value. The costs of repairs, maintenance, and insurance are assumed to vary in direct proportion to the cost of the house. Sources: **Rate for conventional fixed-rate 30-year mortgage**: 4.94% (http://www.federalreserve.gov/releases/h15/updated/). **Property taxes** ($2,779) and maintenance, repairs, insurance, other expenses ($1,616) for average home-owner with mortgage from "Table 7. Housing tenure and type of area: Average annual expenditures and characteristics, Consumer Expenditure Survey, 2007" (http://www.bls.gov/cex/2007/Standard/tenure.pdf) and scaled by value of house.

**Medical expenses**


2006 mean out-of-pocket expenditures for employer-sponsored health insurance premiums for two-person families ($2,490). 2006 mean out-of-pocket expenditures on health care services for families with two adults and at least one child with partial public health insurance ($959).

2006 mean out-of-pocket expenditures for premiums among 3+ person families with private coverage all year ($2,846). 2006 mean out-of-pocket expenditures on health care services among families with 3+ members with private coverage ($1,795).

Premiums = $0 (Assumes CHIP coverage for children; parent declines to purchase insurance coverage for self). 2006 mean out-of-pocket expenditures on health care services for families with one adult and at least two children with partial public health insurance ($616). 2006 mean out-of-pocket expenditures on health care services for families with one adult and at least two children with partial public health insurance ($616).
### Car Ownership and Operation

<table>
<thead>
<tr>
<th>Sources:</th>
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</thead>
<tbody>
<tr>
<td>Interest rate (3.43%) and approximate term of loan (5 years): Federal Reserve Board G19 (Consumer Credit) release; July 2009 &quot;new car loans by auto finance companies&quot; (<a href="http://www.federalreserve.gov/releases/g19/current/g19.htm">http://www.federalreserve.gov/releases/g19/current/g19.htm</a>), All other items: American Automobile Association. <em>Your Driving Costs 2008 Edition</em>. Assumes interest and principal for car loan are averaged over eight years (assumed life of car).</td>
<td>Costs per mile: Gas: $0.1067 Maint.: $0.0467 Tires: $0.0085 Fixed costs: Ins.: $907 License, registration, taxes: $562</td>
</tr>
</tbody>
</table>

### College Education

| Four-year public college: Published tuition: $6,585; books: $1,077; transportation: $1,010; other expenses: $1,906; room & board (full year): $7,748. | Four-year private college: Published tuition: $25,143; books: $1,054; transportation: $807; other expenses: $1,397; room & board: $8,990. |
| Ratio of grants to published tuition: 2-parent, 2-child $50,800 income: 70% 2-parent, 2-child $80,600 income: 35% 2-parent, 2-child $122,800 income: 35% 1-parent, 2-child $25,200 income: 124% for 2-year college; 257% for 4-year public college 1-parent, 2-child $44,000 income: 88.5% for 2-year college; 78% for 4-year public college | Ratio of grants to published tuition: 2-parent, 2-child $50,800 income: 70% 2-parent, 2-child $80,600 income: 35% 2-parent, 2-child $122,800 income: 35% 1-parent, 2-child $25,200 income: 124% for 2-year college; 257% for 4-year public college 1-parent, 2-child $44,000 income: 88.5% for 2-year college; 78% for 4-year public college |

### Table: Income and Expenses

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<thead>
<tr>
<th></th>
<th>Married-Couple Families with Two Children</th>
<th>Single-Parent Families with Two Children</th>
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<td>$80,600</td>
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<td>Income</td>
<td>25th Percentile</td>
<td>50th Percentile</td>
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<td>Car Ownership and Operation</td>
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<td></td>
</tr>
<tr>
<td>College Education</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources:

- Gasoline price: [Energy Information Administration](http://www.eia.gov)
- Interest rate (3.43%) and approximate term of loan (5 years): Federal Reserve Board G19 (Consumer Credit) release; July 2009 "new car loans by auto finance companies" ([http://www.federalreserve.gov/releases/g19/current/g19.htm](http://www.federalreserve.gov/releases/g19/current/g19.htm)), All other items: American Automobile Association. *Your Driving Costs 2008 Edition*. Assumes interest and principal for car loan are averaged over eight years (assumed life of car).

### Costs per Mile

- **Car:**
  - Gas: $0.0812
  - Maint.: $0.0398
  - Tires: $0.0055
  - Fixed costs: Ins.: $949
  - License, registration, taxes: $410
- **Maint.**
  - Ins.: $907
  - License, registration, taxes: $562
- **Fixed Costs**
  - Ins.: $907
  - License, registration, taxes: $562
- **License, Registration, Taxes:**
  - Ins.: $907
  - License, registration, taxes: $562
- **Other Expenses**
  - Ins.: $907
  - License, registration, taxes: $562

### Interest Rate

- 3.43%

### Loan Term

- 5 years

### College Expenses

- **Public Two-Year College**
  - Published Tuition: $2,402
  - Books: $1,036
  - Transportation: $1,380
  - Other Expenses: $1,895
  - Room & Board: $0
- **Public Four-Year College**
  - Published Tuition: $6,585
  - Books: $1,077
  - Transportation: $1,010
  - Other Expenses: $1,906
  - Room & Board: $7,748
- **Private Four-Year College**
  - Published Tuition: $25,143
  - Books: $1,054
  - Transportation: $807
  - Other Expenses: $1,397
  - Room & Board: $8,990

### Ratios of Grants to Tuition

- 2-parent, 2-child $50,800 income: 70%
- 2-parent, 2-child $80,600 income: 35%
- 2-parent, 2-child $122,800 income: 35%
- 1-parent, 2-child $25,200 income: 124% for 2-year college; 257% for 4-year public college
- 1-parent, 2-child $44,000 income: 88.5% for 2-year college; 78% for 4-year public college
<table>
<thead>
<tr>
<th>Family Vacation</th>
<th>General</th>
<th>Married-Couple Families with Two Children</th>
<th>Single-Parent Families with Two Children</th>
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<td>$50,800 25th Income Percentile</td>
<td>$80,600 50th Income Percentile</td>
<td>$122,800 75th Income Percentile</td>
</tr>
<tr>
<td></td>
<td>$25,200 50th Income Percentile</td>
<td>$44,000 75th Income Percentile</td>
<td></td>
</tr>
</tbody>
</table>

For median two-parent two-child family: benchmarked to cost of one-week vacation package to Disney World originating in Chicago, including air fare, hotel, and park admission (package offered by Southwest Airlines for February 2010). Cost halved for 25th percentile two-parent two-child family and doubled for 75th percentile two-parent two-child family. Cost for 75th percentile single-parent two-child family is two-thirds of cost for 25th percentile two-parent two-child family; this cost is halved for the median single-parent two-child family.

**After-tax savings rate needed to achieve a 50% income replacement rate in combination with Social Security starting at age 65.**

**Interest rate:** Assumed at 5%.

**Annual rate of salary increase:** 4% (average growth in average wages by Social Security over past 10 years).

**Life expectancy at 65 for all persons:** Statistical Abstract of the United States 2008 (http://www.census.gov/compendia/statab/tables_09s0101.pdf).


**Average Wage Index in 2008:** $41,334.97 (http://www.socialsecurity.gov/OACT/COLA/awidevelop.html)

- Social Security replacement rate: 36% (assumes career-average earnings at "scaled medium earnings" = about 100% of the national average wage index (AWI)).
- Social Security replacement rate: 27% (assumes career-average earnings at mean of scaled medium and scaled high earnings = about 130% of AWI).
- Social Security replacement rate: 24% (assumes career-average earnings at "scaled high earnings" = about 160% of AWI).
- Social Security replacement rate: 43% (assumes career-average earnings at "low earnings" = about 45% of AWI).
- Social Security replacement rate: 36% (assumes career-average earnings at "scaled medium earnings" = about 100% of AWI).
### General

"Non-aspirational" Expenditures


<table>
<thead>
<tr>
<th></th>
<th>Married-Couple Families with Two Children</th>
<th>Single-Parent Families with Two Children</th>
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<td>$50,800</td>
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<td>$122,800</td>
</tr>
<tr>
<td>25th Income</td>
<td>50th Income</td>
<td>75th Income</td>
</tr>
<tr>
<td>25th Income</td>
<td>39.75% average for $40,000-$49,999</td>
<td>34.1% average for $80,000-$99,999</td>
</tr>
<tr>
<td>50th Income</td>
<td>30.8% share for income households</td>
<td>30.8% share for income households</td>
</tr>
<tr>
<td>75th Income</td>
<td>53.3% average for income households</td>
<td>53.3% average for income households</td>
</tr>
<tr>
<td></td>
<td>1.4% of all income plus 6.2% of income up to 2008 Social Security Wage Base ($106,800).</td>
<td>1.55% average of rates for families with AGI = $35,000 (-0.5%) and $50,000 (3.6%)</td>
</tr>
<tr>
<td>FICA:</td>
<td></td>
<td></td>
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<tr>
<td>Federal Income</td>
<td></td>
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<tr>
<td>Taxes</td>
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<tr>
<td>FICA:</td>
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<tr>
<td>State and Local Income Taxes: Average tax rates are population-weighted averages for the largest city in each state and the District of Columbia, based on Government of the District of Columbia, Office of Revenue Analysis Tax Rates and Tax Burdens in the District of Columbia—A Nationwide Comparison 2008. (September 2008), (<a href="http://www.cbo.gov/cms/pdffiles/cfo/report/08study-final.pdf">http://www.cbo.gov/cms/pdffiles/cfo/report/08study-final.pdf</a>) and ESA calculations.</td>
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<td>3.5% average rates for families with AGI = $100,000 and $150,000</td>
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<td>1.1% rate for family with AGI = $25,000</td>
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### Taxes

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<th>Married-Couple Families with Two Children</th>
<th>Single-Parent Families with Two Children</th>
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<tbody>
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<td>75th Income</td>
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<td>2.5% rate for family with AGI = $75,000</td>
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<td>1.9% rate for family with AGI = $50,000</td>
<td></td>
</tr>
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Appendix 2

Data for Section V: Changes Over Time

Family Characteristics at Selected Percentile Ranges of Family Income

Part 1. Married-Couple Families with Two Children

<table>
<thead>
<tr>
<th></th>
<th>1990</th>
<th>2008</th>
<th>Change*</th>
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<tbody>
<tr>
<td><strong>a. 20th to 30th percentile of Family Income</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Age (in years) of Family Head</td>
<td>35.2</td>
<td>37.6</td>
<td>2.5</td>
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<tr>
<td>Average Education (in years) of Family Head</td>
<td>12.4</td>
<td>13.2</td>
<td>0.9</td>
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<tr>
<td>Annual Hours Worked, all Adults in Family</td>
<td>3,167</td>
<td>3,303</td>
<td>4.3%</td>
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<tr>
<td><strong>b. 45th to 55th percentile of Family Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age (in years) of Family Head</td>
<td>37.1</td>
<td>38.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Average Education (in years) of Family Head</td>
<td>13.1</td>
<td>14.3</td>
<td>1.1</td>
</tr>
<tr>
<td>Annual Hours Worked, all Adults in Family</td>
<td>3,567</td>
<td>3,747</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>c. 70th to 80th percentile of Family Income</strong></td>
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<td></td>
</tr>
<tr>
<td>Age (in years) of Family Head</td>
<td>38.7</td>
<td>40.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Average Education (in years) of Family Head</td>
<td>14.3</td>
<td>15.5</td>
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</tr>
<tr>
<td>Annual Hours Worked, all Adults in Family</td>
<td>3,878</td>
<td>4,011</td>
<td>3.4%</td>
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Part 2. Single-Parent Families with Two Children

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<th>2008</th>
<th>Change*</th>
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<tr>
<td><strong>a. 45th to 55th percentile of Family Income</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Age (in years) of Family Head</td>
<td>33.9</td>
<td>35.4</td>
<td>1.4</td>
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<tr>
<td>Average Education (in years) of Family Head</td>
<td>11.9</td>
<td>13.0</td>
<td>1.1</td>
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<tr>
<td>Annual Hours Worked, all Adults in Family</td>
<td>1,890</td>
<td>2,143</td>
<td>13.4%</td>
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<tr>
<td><strong>b. 70th to 80th percentile of Family Income</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Age (in years) of Family Head</td>
<td>36.9</td>
<td>38.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Average Education (in years) of Family Head</td>
<td>13.1</td>
<td>13.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Annual Hours Worked, all Adults in Family</td>
<td>2,328</td>
<td>2,389</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

* Change was calculated using unrounded data.


Note: Education is a rough approximation for 1990.
Within the Middle Class, Four in 10 are Struggling

A bit fewer than half of Americans count themselves as middle class – but many of them aren’t sure how long it’ll last: Among people who say they’re in the middle class now, four in 10 also say they’re struggling to remain there in this difficult economy.

A big factor: educational attainment. Among middle-class Americans with college degrees, 75 percent say they’re “comfortably” middle class or even moving up; 25 percent are struggling. But among those without a college degree, this poll for ABC World News with Diane Sawyer finds that about twice as many, 49 percent, are fighting to hold their place. (Education relates to income, and it’s less well-off people in the middle class who are more likely to be struggling to stay there.)

All told, 45 percent of Americans define themselves as middle class (about what it’s been on average in polls since the 1960s), compared with 39 percent who see themselves as working class or less well-off than that, and 14 percent as upper-middle class or better off. Women are slightly more likely than men to consider themselves middle class, 48 percent vs. 42 percent, and
more seniors put themselves there – 51 percent, vs. 43 percent of middle-aged adults. (Seniors have had more time to save, and have smaller households and Medicare coverage, among other factors.) Nearly half of whites call themselves middle class, compared with 38 percent of racial minorities.

While 52 percent in the middle class say they’re there comfortably, it’s perhaps a sign of the times that very few of those in the middle class – 6 percent – see themselves as moving up beyond their current status.

INCOME and MORE – Average incomes for people who call themselves middle class are about $55,000 a year, vs. about $35,000 for those who call themselves working class or lower and about $95,000 for those who say they’re upper-middle class or better off. But income is far from the sole determinant of self-defined middle class status, likely because family size, expenses, local costs of living and other circumstances also come into it. Even among people with incomes under $25,000 a year, 41 percent describe themselves as middle class. So do 38 percent of those with household incomes over $100,000.

Education again matters. People with college degrees are more apt than others to consider themselves middle class, upper-middle class or better off than that. Just 20 percent of college graduates call themselves working class or lower, compared with 46 percent of Americans who haven’t completed college.

While a range of people consider themselves middle class, there is broad agreement on what it means: Anywhere from 67 to 80 percent say “a necessary part” of being middle class means being able to afford things like an occasional new car and vacation travel (these two are at the lower end, cited by 67 and 71 percent, respectively), and to be able to save money, buy little luxuries and own a home, seen by 77 to 80 percent as necessary elements of a middle-class life.

There’s of course another way to look at the middle-class, not by self-definition but by income groups. For purposes of the analysis that follows we’ve defined middle class as the 41 percent of Americans with household incomes from $35,000 to $100,000 a year.

In ABC News and ABC News/Washington Post polls conducted in recent months, a majority in this middle income range, 58 percent, are worried about their family’s financial situation, and about as many, 56 percent, report personal stress as a result of the current economy. Both those are roughly in between the levels of worry and stress reported by those less-well off (more worried and stressed) and those in the upper-income group (less so).
In another measure, 60 percent in the middle-income group express worry about maintaining their standard of living; it’s similar among better-off Americans, 55 percent, but spikes to 72 percent among those with lower incomes.

Underscoring the depths of the economic crisis, 28 percent of middle-income Americans say someone in their household has been laid off or lost a job in the last year. That jumps even higher, to 39 percent, among lower-income Americans, and drops considerably to 16 percent of those with $100,000-plus incomes. There’s a difference in impact at the low end: Less well-off people are much more apt than those who are better off to say the layoff caused them serious financial hardship.

Also in recent ABC/Post polling, 57 percent of middle-income Americans said the U.S. economy is in “long-term decline”; it was about the same among those better-off, compared with 68 percent in the lower-income category. And in the ABC News Consumer Comfort Index, 57 percent of middle-income adults rate their own finances positively; that jumps to 84 percent in the higher-income category, and dives to 27 percent among people with lower incomes.

Other results have been similar across these groups. Eighty-four percent of middle-income Americans say jobs are hard to find in their area, as do 79 percent of the better-off and 89 percent of those less well off. And regardless of income, more than seven in 10 adults have told us they’re worried about the direction of the economy over the next year.
METHODOLOGY – This ABC World News poll was conducted by telephone Feb. 26-March 2, 2010, among a random national sample of 1,005 adults reached by landline and cell-phone alike. Results for the full sample have a 4-point error margin; click here for a detailed description of sampling error. Sampling, data collection and tabulation by Social Science Research Solutions at ICR-International Communications Research of Media, Pa.

Analysis by Gary Langer.

ABC News polls can be found at ABCNEWS.com at http://abcnews.com/pollingunit

Media contact: Cathie Levine, (212) 456-4934.

Full results follow (*= less than 0.5 percent).

1-8 held for release.

9. Would you describe yourself as working class, middle class, upper middle class, or better off than that?

<table>
<thead>
<tr>
<th></th>
<th>Worse off than work. class (vol.)</th>
<th>Working class</th>
<th>Mid. class</th>
<th>Upper mid. class</th>
<th>Better off than that</th>
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<tr>
<td>3/2/10</td>
<td>2</td>
<td>36</td>
<td>45</td>
<td>11</td>
<td>3</td>
<td>2</td>
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10. (IF MIDDLE CLASS) Would you say you are struggling to remain in the middle class, comfortable in the middle class, or moving up beyond the middle class?

<table>
<thead>
<tr>
<th>Struggling to remain in mid. class</th>
<th>Comfortable in mid. class</th>
<th>Moving up beyond middle class</th>
<th>No opinion</th>
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<tbody>
<tr>
<td>3/2/10</td>
<td>41</td>
<td>52</td>
<td>*</td>
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11. Being in the middle class may mean different things to different people. For each item I name, do you think it is or is not a necessary part of being a member of the middle class?

3/2/10 - Summary Table

<table>
<thead>
<tr>
<th>Item</th>
<th>Is middle class</th>
<th>Is not middle class</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>78</td>
<td>18</td>
<td>4</td>
</tr>
<tr>
<td>b.</td>
<td>67</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td>c.</td>
<td>80</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>d.</td>
<td>71</td>
<td>25</td>
<td>4</td>
</tr>
<tr>
<td>e.</td>
<td>77</td>
<td>21</td>
<td>1</td>
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***END***
Credit Union Social Responsibility:
A Sustainability Road Map
Credit Union Social Responsibility: A Sustainability Road Map

Coro Strandberg
Principal
Strandberg Consulting
Deeply embedded in the credit union tradition is an ongoing search for better ways to understand and serve credit union members. Open inquiry, the free flow of ideas, and debate are essential parts of the true democratic process.

The Filene Research Institute is a 501(c)(3) not-for-profit research organization dedicated to scientific and thoughtful analysis about issues affecting the future of consumer finance. Through independent research and innovation programs the Institute examines issues vital to the future of credit unions.

Ideas grow through thoughtful and scientific analysis of top-priority consumer, public policy, and credit union competitive issues. Researchers are given considerable latitude in their exploration and studies of these high-priority issues.

The Institute is governed by an Administrative Board made up of the credit union industry’s top leaders. Research topics and priorities are set by the Research Council, a select group of credit union CEOs, and the Filene Research Fellows, a blue ribbon panel of academic experts. Innovation programs are developed in part by Filene i³, an assembly of credit union executives screened for entrepreneurial competencies.

The name of the Institute honors Edward A. Filene, the “father of the U.S. credit union movement.” Filene was an innovative leader who relied on insightful research and analysis when encouraging credit union development.

Since its founding in 1989, the Institute has worked with over one hundred academic institutions and published hundreds of research studies. The entire research library is available online at www.filene.org.
The author acknowledges the support of participating credit unions in helping to inform this guide. Their observations were insightful and their commitments inspiring. The Filene Research Institute deserves recognition and credit for perceiving the significance of this business trend to American credit unions. Finally, the author would like to thank her colleagues at Vancity Credit Union and the credit unions she has worked with over the years on sustainability strategy, as this experience has helped create the pioneering road map to progress the credit union movement toward economic, social, and environmental sustainability.
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There it was, the biology test question I had been dreading. The hard sciences were never very appealing to me as a student, so I tried to skate on the little I had gleaned from lectures. Question 17 is where my gleaning fell short: I couldn’t remember whether genotype or phenotype came first. I scribbled an opaque evasion, handed in my paper, and hoped for the best.

Fast-forward several years, and that casual grasp of biology has reemerged as Filene considers the relationship between credit unions and sustainability. With a little Internet help, I relearn that genotype comprises the bare genetic basis of an organism, the inherited instructions one carries in its genetic code. But what does that have to do with credit unions?

The genotype of credit unions includes sustainability. Sustainability, which also goes by the names of corporate social responsibility and corporate citizenship, is the premise that businesses, as participants in society, have a responsibility to improve society. Combine a cooperative founding, democratic governance, and a business imperative to put members first, and credit unions are case-in-point examples of businesses with a tangible altruistic mission—“people helping people” and “people before profits.” Credit unions’ history of serving common folk, encouraging thrift, and writing loans that others won’t lands them solidly in the sustainable camp.

Yet, despite their history, today’s credit unions are in danger of missing out on an important trend in consumer demand: the expectation that businesses should provide value both to the individual customer and to the broader community. Consider:

- 36% of consumers call corporate citizenship an important factor in deciding whether to buy a product.
- 49% say that when price, quality, and convenience are equal, they prefer to buy from companies they deem socially responsible.
- 79% consider corporate citizenship when buying something.¹

Perhaps even more importantly, these trends are increasingly prevalent among young, socially conscious generations, precisely the consumers and employees credit unions need to attract. But fully three-quarters of businesses admit they don’t understand their customers’ CSR expectations well.²
What Did the Researcher Discover?

Researcher Coro Strandberg is principal of Strandberg Consulting and a former chair of Vancity Credit Union, Canada’s largest single credit union. Rather than the typical what or why of a Filene research report, Strandberg’s task was to demonstrate how for credit unions interested in undertaking sustainability initiatives. On the strength of dozens of compelling examples and case studies, she explains the myriad forms a credit union’s social responsibility can take:

• **Governance management systems.** How ethically does credit union leadership act?

• **Environment.** How do the credit union’s operations and products affect the natural environment?

• **Community involvement.** How does the credit union interact with community stakeholders?

• **Human resource management.** How well does the credit union treat its talent?

• **Human rights.** How do the credit union’s practices affect—directly or indirectly—basic rights?

• **Member/customer relations.** How are members enriched (or not) by the credit union?

• **Products and services.** How does the credit union’s core business affect important social conditions?

• **Communication.** How does the credit union describe its work internally and externally?

---

**Figure 1: Corporate Social Responsibility Value Curve**

- **Legal and compliance**
  - Adherence to law in the countries of production, operation, and distribution

- **Strategic philanthropy**
  - Incorporates the company’s value system and/or code of conduct to guide business behavior

- **Alignment of charitable activities with social issues that support business objectives**

- **Values-based self-regulation**
  - Measurable cost savings through efficient or win–win scenarios

- **Measurable cost savings through efficient or win–win scenarios**

- **Efficiency**
  - Access to new markets, new partnerships, or product/service innovations that generate revenue

- **Growth platform**

---

More importantly, Strandberg outlines a straightforward process for credit unions to place themselves on the sustainability continuum—anywhere from pre-CSR (compliance-focused) all the way to mission-driven CSR, where sustainability suffuses everything the credit union does.

Beyond describing the many facets of sustainability, however, Strandberg calls out ways for individual credit unions to identify and execute their own sustainability priorities. This includes a 10-step plan and relevant case studies for making sustainability improvements, regardless of where you start. The steps include critical how-tos for committing, researching, implementing, reporting, and more.

**Practical Implications**

The ROI opportunities around sustainability include, among others, positive public relations, cost savings, talent acquisition, and access to new markets. Corporate social responsibility can attract a cadre of dedicated, profitable members, while extending a positive halo around the entire credit union. Customers who cite ethics as their primary reason for opening an account at the Co-operative Bank in England are both more likely than other customers to have multiple accounts and more likely to refer others to the bank.

But sustainability is like any other initiative. It needs its own goals, its own champions, and its own resources if it is to be more than a flash in any credit union’s pan. In fact, 92% of respondents in a 2008 Economist Intelligence Unit survey said that a board member or C-level executive was in charge of their company’s corporate citizenship projects. Sustainability needs a champion at the top.

As a strategic guide, this report is full of practical implications. Readers will discover where they stand on the sustainability spectrum and learn about the consequences of moving in either direction. They will learn whom to involve in conversations about improving their sustainable footprint. Most usefully, perhaps, they will learn from eight separate credit unions—with widely divergent priorities—from Australia, Canada, and the United States.

The second half of the answer to Question 17 is that the *phenotype* of an organism is simply what emerges—what the grown plant or animal actually looks like after it’s been bathed in its environment and rattled by outside forces. Today’s credit unions show a huge diversity of phenotypes: from $1 million (M) to $40 billion (B) in assets; from a lock box and ledger to hundreds of modern branches; from sustainably savvy to sustainably slow.
Regardless of your credit union’s phenotype, this report offers tangible steps and an opportunity to reassess the core sustainability principles that launched credit unions in the first place. Social responsibility will look different in every community, but it’s deep in every credit union’s genotype. How will you express it?
Coro Strandberg is the principal of Strandberg Consulting, which provides strategic, facilitation, and coaching services to businesses seeking to integrate social and environmental factors into their governance, strategy, and operations. She is a past director and chair of Vancity Credit Union, the largest credit union in Canada and among the largest in the world, where she was instrumental in helping to position the credit union as a world leader in corporate social responsibility. Coro provides training on corporate social responsibility to the Canadian credit union system and has helped more than a dozen credit unions develop CSR and sustainability strategies. She is a global thought leader in the areas of sustainable governance; sustainable purchasing; sustainable human resource management; and sustainable finance, insurance, and asset management. Prior to her consultancy, Coro was the director of social policy for the BC government, and prior to that she was the social planner for the city of Surrey, one of the fastest-growing municipalities in Canada.
This is a guide for credit union executives, staff, and board members who are interested in the opportunity of generating business and community value through the development and implementation of a sustainability strategy. The guide provides a general overview of sustainability as it relates to the retail banking sector, trends, and drivers, and a business case for integrating sustainability into your existing business plan. It introduces the idea of how credit unions can update their governance, operating, management, and reporting systems to further embed sustainability into their DNA and to empower employees, members, and communities to learn and innovate together along the sustainability path. A road map is provided that credit unions can follow to help them develop and implement their sustainability strategy in a stepwise fashion.

The guide is informed throughout by the experience of eight leading credit unions from the United States, Canada, and Australia that have been trailblazers in the development of sustainability initiatives and strategies. Case studies of these eight credit unions are presented throughout this guide, and advice and insights from their leaders are woven throughout the various chapters. Their thoughts on the business case, critical success factors, and the future of sustainable finance shed light on the opportunities and the challenges credit unions face as they embark on this journey. Key resources are provided for those credit unions that wish to explore this subject on a deeper level.

The guide focuses on community-based consumer finance. While many credit unions have insurance operations and offer wealth management services for their members, the bulk of this guide focuses on retail banking. Like banking, insurance and asset management are undergoing a transformation as these finance sectors tackle the opportunities and challenges of sustainability. A key resource in understanding the trends and drivers in these business lines is the United Nations Environment Program Finance Initiative Web site (www.unepfi.org). There you will find information on sustainable underwriting principles, sustainable claims management, and responsible investment guidelines.

Methodology
This guide was developed based on the experience of the author in the development and implementation of about a dozen sustainability strategies for Canadian credit unions, as well as sustainability strategies for other sectors such as insurance, asset management, transportation, sporting events, and forestry. Some of the trends, drivers, and best practice information were derived from a seminal study on
sustainable finance conducted by the author in 2005 for the Canadian credit union system (Canadian Credit Union Central of Canada/CUCC), which looked at global best practices and interviewed international thought leaders on sustainable finance (reference details are in the Resources section). Finally, the case study credit unions were selected in consultation with the Filene Research Institute through a process that identified leading credit unions in Canada, Australia, and the United States. The American credit unions were solicited via an open survey process on the Filene Web site for a one-month period. Sixteen credit unions answered several questions to assess their sustainability initiatives. Filene Research Institute’s chief research officer selected the final case study candidates based on a variety of factors, including sophistication of sustainability initiatives, demographic variables, and the likelihood that each case would contribute to a wider understanding of sustainability and its applications in credit unions. The Canadian credit unions were selected based on the duration and comprehensiveness of their sustainability strategies. The Australian credit union was selected because it has been implementing a comprehensive strategy for a number of years and because including it introduced geographic diversity.

The report is divided into four chapters: Chapter 1 provides the background and context of sustainability; Chapter 2 provides an overview of the trends, drivers, and business case for sustainability; Chapter 3 provides a road map for credit unions that wish to develop a sustainability strategy for their business; and Chapter 4 is a look into the future of sustainable finance and the implications for American credit unions.
Corporate social responsibility is a trend that is reshaping business. Grown from cooperative roots, credit unions have led in this area, but that lead is eroding. Credit unions can reimagine their relationships with their employees, communities, and members as well as the environment in which they operate in order to create both social and business value.
Credit unions were first founded in the United States over a century ago. Then and since, credit unions have been attracting members and growing their business through an unrelenting focus on the “credit union difference,” defined as not for profit but for service, democratic, and people helping people, including those of modest means. This democratic member orientation has generated a strong social brand for credit unions that has served them well to date. However, there is a powerful force reshaping the business landscape, known as sustainability, or corporate social responsibility (CSR). Businesses of all stripes are rethinking how they do business in the face of shifting consumer, investor, and regulatory expectations that businesses responsibly manage their social and environmental performance along with their financial or economic performance. Some businesses, including some financial institutions, are leading the charge, becoming leaders in their sectors and their markets as they innovate and invest in a renewed relationship with their customers, their employees, their communities, and the broader environment. This is a critical time for credit unions to reimagine their social contract with their employees, members, and communities. As other businesses, including credit union competitors, reengineer their business models to incorporate a social and environmental ethic, compelled by a range of financial and moral drivers, credit unions need to address their own response to this trend.

As U.S. credit unions have migrated from a small, narrow membership to a wider community membership, which has contributed to an erosion of their traditional affinity-based relationships, many are realizing they need to map out a new differentiation strategy. Many are coming to discover the opportunity to use sustainability as a marketplace differentiator. Over the coming decade, this author predicts, “the credit union difference” will be harnessed in service of a strategic and results-oriented social and environmental mandate in ways that create member, community, and business value.

This guide aims to help credit unions understand this territory by providing a definition, the business case, and key trends, including
competitor trends. It incorporates a road map for credit unions interested in managing this side of their business to cultivate new benefits in service to their members and communities. Credit unions that advance on this journey will realize a new social license to operate, a reinvigorated mission, and renewed relevance in the marketplace.

"Leading businesses of the future will be those whose core business directly addresses global challenges.”
—World Business Council for Sustainable Development

Defining Sustainability and Corporate Social Responsibility

There are innumerable terms synonymous with sustainability and corporate social responsibility. Many people, including the author, use these terms interchangeably. Some credit unions prefer the term cooperative social responsibility because it denotes their democratic roots. Other common terms include corporate citizenship; ESG (environmental, social, and governance factors in business); triple bottom line (environment, social, and economic bottom lines); corporate responsibility; sustainable development; and people, planet, and profits. This kind of diversity is common to any emergent trend and creates the opportunity for credit unions to adapt the terminology that best suits their culture.

However, regardless of the variety, there are a few core elements common to all of these terms that comprise a basic definition of sustainability, applied to the business context: The balanced integration of social, environmental, and economic factors in business decision making, including governance, strategy, and operations, along with consideration of stakeholder interests.

This report will primarily use the term sustainability, while the five key elements of the definition—balance; integration; social, environmental, and economic; business decision making; and stakeholders—will be further elaborated on, particularly in Chapter 3.

It bears noting that this orientation to sustainability is rooted in the international cooperative principles that govern all cooperatives, including credit unions. They include:

• Voluntary and open membership
• Democratic member control
• Member economic participation
• Autonomy and independence
• Education, training, and information
• Cooperation among cooperatives
• Concern for community
These principles—guidelines by which cooperatives put their values into practice—have been updated by the International Co-operative Alliance over the years to maintain their relevance, the most recent revision of which was in 1995. That year, the seventh principle was added, which states in full: “Cooperatives work for the sustainable development of their communities through policies approved by their members.” This commitment provides the direct line of sight from credit union sustainability strategies to the cooperative sector’s defining principles, framing part of the credit union value proposition and helping to distinguish credit unions from their banking competitors.

The concepts of corporate sustainability and cooperatives’ concern for community can be further refined from the perspective of the financial sector. The unique sustainability risks, impacts, and opportunities of the financial sector, as distinct from other industries such as mining, manufacturing, and retail, become important to understand. As financial institutions concerned with deposit-taking, lending, insurance provision, and wealth management services, credit unions have particular roles to play when it comes to social and environmental considerations. This is often referred to as the field of sustainable finance. As with sustainability, sustainable finance does not have a universal definition. Indeed, global and regional banks are experimenting with the concept, competing on these grounds in many markets. Essentially, however, sustainable finance refers to the incorporation of environmental and social goals into banking, insurance, and asset management, including products and services and the overall management of the financial institution.

So credit unions, when thinking about their role in sustainability, need to consider how best they can leverage their unique competencies as financial institutions to build their business and enhance community and environmental welfare. They also need to look hard at the ways in which lending, deposit-taking, and the other services they provide enhance or impede environmental and community progress.
Now that we have defined sustainability, considered the cooperative principle that is home to the sustainability concept, and realized that the financial sector has a particular role in the economy with respect to sustainability, it is important to also understand that the past 20 years or so of social experimentation with sustainability concepts applied to business have generated some norms concerning what it means to be a sustainability leader. Credit unions contemplating developing a sustainability strategy for their operations need to build their approach in recognition of the fact that much of this terrain has been mapped by other industries and other financial institutions in the United States and beyond. Globally, there is considerable cross-fertilization between different industries and geographies, and alert managers and boards need to be aware of these emergent standards.

The author has proposed a continuum of CSR leadership that is very similar to other continuums of sustainability leadership developed around the world. In this continuum, there are five levels of CSR competency, from pre-CSR to basic, proactive, integrated, and mission-driven CSR. In workshops with credit unions, the author typically finds that when studying the continuum, many (not all) credit unions that thought they were leaders in CSR quickly realize that in fact they might be at the basic or proactive CSR stage.

Indeed, it is the author’s contention that credit unions (and other cooperatives) can claim ownership of the highest form of sustainability leadership: mission-driven, in which the mission or purpose of the business is to improve conditions in society, the environment, or both. Credit unions were founded to fill credit gaps in the marketplace; as such they are fundamentally and philosophically mission-driven. However, the author finds it interesting that when credit union representatives review the continuum, some aspire to stage four, while others believe that with dedication, focus, and strategy, they can reach stage five. This diversity speaks to a key philosophical challenge for the credit union sector in terms of how it will evolve in the years ahead. Can credit unions be the “category killer” of mission-driven sustainability in the banking sector in the United States and around the world? If they can take their social purpose to the next level by proactively managing their social and environmental performance to achieve historic levels of sustainability impact, will this position them for a market niche they can uniquely own?
Sustainability Leadership
To position themselves as market leaders, of course, credit unions would have to model the characteristics of a sustainability leader, which include competencies in the following five areas:

- **House in order.** Leaders get their house in order. In other words, they ensure their governance, strategy, and operations take social and environmental factors into account. They are reducing their negative and enhancing their positive direct impacts on society and the environment.

---

**Figure 2: CSR Continuum**

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<thead>
<tr>
<th>Stage</th>
<th>Approach</th>
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</table>
| 1. Pre-CSR          | - Does not view itself as responsible for its social or environmental performance  
                      - Sees no obligation beyond profits  
                      - Adheres to the lowest acceptable or legal standard |
| 2. Basic CSR        | - Subscribes to basic level of CSR performance as “good business”  
                      - Doesn’t believe business has a responsibility to improve social or environmental conditions  
                      - Manages its liabilities by obeying the law and labor, environmental, health, and safety regulations  
                      - Bases decisions on compliance considerations—i.e., compliance with norms and laws: What is legally required and charitable?  
                      - Takes an ad hoc approach to CSR, typically in response to crisis or vocal stakeholder concerns; focuses on external relations issues |
| 3. Proactive CSR    | - Perceives CSR as a strategic business opportunity; identifies areas where CSR can be good for business and invests in those as opportunities  
                      - Moves from defense to offense: realizes it can save costs with proactive eco-efficiency and community investment programs  
                      - Business model is not influenced by firm’s CSR objectives  
                      - Bases decisions on traditional benefit/cost analysis: What is financially justified? |
| 4. Integrated CSR   | - CSR objectives affect business model: CSR institutionalized by embedding CSR policies, procedures, and practices throughout operations to ensure integration of sustainability into decision making  
                      - Integrates CSR into key business strategies  
                      - Anticipates wider consequences of decisions and builds this awareness into decision-making processes  
                      - Uses CSR practices as a strategic differentiator  
                      - Bases decisions on emerging global norms of integrity, ethics, and justice: What is morally expected? |
| 5. Mission-driven CSR| - Mission or purpose of business is to improve conditions in society or the environment |
• **Products and services.** Leaders incorporate sustainability considerations into their products and services. In other words, the negative social and environmental impacts of their products and services are reduced and/or they have features that help customers reduce their own impacts or contribute to better community and environmental conditions.

• **Investments and procurement.** Leaders integrate sustainability considerations into how they invest their assets and how they source goods and services in the marketplace. In other words, their

<table>
<thead>
<tr>
<th>Stage</th>
<th>Sample practices</th>
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</table>
| 1. Pre-CSR  | • Fights against regulations that promote sustainability  
• Defends against attacks to its reputation that in the short term could affect sales, recruitment, productivity, and the brand  
• Avoids environmental and social measures not required by law                                                                                                                                                                                                                               |
| 2. Basic CSR| • Has informal or limited corporate commitment to CSR  
• Has informal and ad hoc CSR programs  
• Has charity, staff, customer, and environmental programs that are basic, traditional, and minimal  
• Treats environmental and social initiatives as costs  
• Develops and implements policies and procedures in order to minimize any social or environmental damage that might result from their business activities  
• May inform selected stakeholders of activities, for example, customers or government  
• Focuses communication on marketing and public relations  
• Does no CSR reporting, beyond a basic promotional summary of community activities                                                                                                                                                                                                |
| 3. Proactive CSR | • Incorporates CSR into vision, mission, and values, though doesn’t integrate CSR system into its performance management program  
• Has one or two CSR business strategies to grow markets, generate revenue, and improve conditions—e.g., a renewable energy business line for an oil and gas company, affordable housing or microfinance programs for banks and credit unions  
• Manages sustainability function entirely in specialty department  
• Develops partnerships with stakeholders to identify innovative product and service solutions  
• Does more substantive CSR reporting, including a few CSR indicators                                                                                                                                                                                                 |
| 4. Integrated CSR | • Incorporates CSR into vision, mission, values  
• CSR overseen by board and CEO management/leadership  
• Integrates CSR into performance management systems  
• Makes CSR commitment, develops policy to formalize commitment; creates programs to implement policy; evaluates success and measures progress; involves stakeholders in program development and evaluation; reports on CSR progress  
• Establishes formal and consistent CSR programs; CSR is integrated into corporate objectives, key business strategies, and business plans  
• Identifies and manages its positive and negative socioeconomic and environmental impacts  
• Establishes and tracks performance against stretch indicators of success; benchmarks performance against other companies and industries  
• Engages stakeholders in two-way CSR dialogues; involves them in developing strategic business objectives as they relate to CSR goals  
• Promotes CSR within industry  
• Focuses marketing efforts on reputation management                                                                                                                                                                                                                               |
| 5. Mission-driven CSR | • Uses all integrated CSR practices plus products, services, processes, and profits to advance sustainability and improve world conditions  
• Creates opportunities for customers and the public to advance sustainability  
• Develops partnerships with stakeholders to tackle social and environmental issues  
• Initiates public policy dialogue on key CSR issues  
• Focuses marketing efforts on social and environmental causes to create awareness, change public and corporate behavior, and move public policy toward greater sustainability                                                                                                                                 |

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*Figure 2: Continued*
investments and their purchases take social and environmental factors into account.

- **Stakeholder engagement.** Leaders engage their stakeholders, including employees, customers, communities, the public, and others, to help them reduce their negative and enhance their positive sustainability impacts. In other words, they use the influence they have with their key audiences to raise awareness, educate, and provide opportunities for action on important sustainability issues, typically tied to their business.

- **Advocacy.** Leaders use their influence as businesses to promote public policy and public interest issues to governments, regulators, their own industry or trade association, and the general public. In other words, leaders identify key sustainability issues that affect their sector, their customers, and their communities and engage in the public debate to tackle global challenges such as poverty and climate change.

### Sustainability Management

Just as sustainability leadership has come to be defined over the years, so is the case with sustainability management. While diversity still reigns, sustainability management typically covers how an organization is governed from a sustainability point of view, how it embeds sustainability into its products and services, the way in which it integrates sustainability into its business strategy, how it manages its sustainability performance, and its operational decision making. Thus, an organization’s governance, products, strategy, performance management, and operational decision making are in scope for a comprehensive sustainability program. Effectively, this signals the emergence of a framework to guide the management of a credit union’s social and environmental performance—areas of a credit union’s business where there are typically some strengths and some weaknesses.

Core subject areas within this sustainability management framework commonly include the following business issues:

- **Governance, ethics, and management systems.** The board’s role in governing the credit union’s sustainability performance, ethical conduct, and the systems in place to implement the credit union’s sustainability commitments.

- **Environment.** An assessment of the credit union’s impacts on the environment and efforts to reduce its environmental footprint and to improve local environmental conditions.

- **Community involvement.** The credit union’s relations with its community, including the engagement of community members in setting the credit union’s strategic sustainability direction. It
also includes donations, sponsorships, partnerships, employee volunteering, and the use of the credit union’s business assets to improve community and environmental well-being.

- **Human resource management.** This includes the credit union’s relations with its employees and concerns matters such as diversity, workplace quality, work–life balance, professional development, health and safety, fair wages and benefits, and employee engagement and satisfaction. Often it incorporates commitments to be a “best place to work.”

- **Human rights.** The basic rights to which all human beings are entitled: civil, political, economic, social, and cultural. In an American sustainability context, this typically pertains to a concern with the prevention of human rights abuses within the supply chain, sometimes called “ethical sourcing.” It could also be more broadly defined to include the degree to which a credit union is inclusive of minority groups in its operations and markets, sometimes referred to as “social inclusion” or “serving the underserved.” Hiring, purchasing, and accessibility are key aspects of social inclusion.

- **Member (customer) relations.** This includes the credit union’s relationships with its members and involves member satisfaction and engagement. As member-centric organizations, credit unions typically excel in this sustainability component. In the context of sustainability, this could encompass member rights and privacy, accessibility, fair marketing, member health and safety, complaint and dispute resolution, consultation, and sustainability education and awareness.

- **Products and services.** This includes the degree to which credit union products and services reduce negative and enhance positive social and environmental impacts. This can include microfinance, affordable housing finance, green products and services, green lending, socially responsible investment, and other social markets—creating opportunities for credit unions to both fill a social need and generate new business opportunities. To some extent, this is a human rights issue, a key focus for credit unions nationwide.
and environmental product features. It can also include matters pertaining to sustainable consumption, which considers the role credit unions can play in reducing the environmental damage and resource depletion that arise as a result of our society’s consumption.

- **Supplier and business partner relations.** This pertains, firstly, to fair and ethical treatment of suppliers and business partners, and secondly, to the incorporation of sustainability factors into supplier and business partner selection and engagement.

- **Communications.** There are a few elements central to sustainability communications: internal and external communication of the credit union’s sustainability commitments and efforts; staff, member, and community engagement in achieving the credit union’s sustainability objectives; the credit union’s sustainability branding and marketing program; and credit union reporting on its sustainability performance.

- **Aboriginal relations (where relevant).** Credit unions sometimes operate in markets where there is a local indigenous community. In this case, Aboriginal relations can become important aspects of sustainability and include access to financial services, financial literacy, Aboriginal hiring, and sourcing from Aboriginal firms.

These are core sustainability subject areas relevant to today’s marketplace. However, as sustainability is a dynamic process, further areas are likely to emerge as important topics in the future.

In Chapter 2, best practice examples of the financial sector will be summarized, demonstrating sustainability leadership and management attributes in action. Chapter 3, which provides a road map for credit union sustainability strategy, will unpack these 5 characteristics of leadership and 10 components of management. Of course, some credit unions may not find it in their best business interest to be a leader of sustainability in their market or to have good practices in all areas of sustainability management. This is perfectly acceptable. The key reason for credit unions to become familiar with sustainability leadership qualities, a sustainability management framework, and
The International Organization for Standardization (ISO) is developing a guidance document on CSR, referred to as ISO 26000. The standard is expected to be finalized by the end of 2010, while draft copies are available online. This is a useful background document for credit unions seeking to understand basic CSR and sustainability. The current draft includes Seven Principles of Social Responsibility, including:

- Accountability.
- Transparency.
- Ethical behavior.
- Respect for stakeholder interests.
- Respect for the rule of law.
- Respect for international norms of behavior.
- Respect for human rights.

Next we explore the trends and drivers, including the business case, of sustainable finance.
Sustainable finance—the integration of social and environmental goals into banking—is becoming mainstream. While credit unions often engage in sustainability efforts because it is the right thing to do, there are business benefits in investing in corporate social responsibility. There are economic and social gains to be had for those who strategically manage their social and environmental performance.
That sustainable finance is a growing business trend is evidenced by the fact that the global finance sector has established a networking consortium where more than 170 institutions, including banks, insurers, and fund managers, work with a UN program called the United Nations Environment Program (UNEP) to understand the impacts of environmental and social considerations on financial performance. A criterion of membership is that participants endorse the UNEP Statement by Financial Institutions on the Environment and Sustainable Development (see www.unepfi.org). The statement commits signatories to regard sustainable development as a fundamental aspect of sound business management and to recognize that the financial services sector is an important contributor toward sustainable development. Principles such as environmental management, the development of products and services that promote environmental protection, setting and reviewing sustainability goals, raising awareness with relevant audiences, and sharing best practices set the stage for rapid learning and innovation for participants.

A North American Network

A few credit unions belong to UNEP, which includes such American heavyweights as Citigroup, Bank of America, and JP Morgan Chase. Banks participate in regional task forces; the North American group

“is working to incorporate the principles of sustainable development as normal business practice throughout the North American financial sector, the specific goals of which are:

• To create a forum for North American Signatories to the UNEP FI Statements to exchange ideas and best practice in the area of finance and sustainability.

• To explore and raise awareness on specific environmental and social issues, such as climate change, and its impact on the North American financial sector.

• To identify and disseminate risks and opportunities related to social and environmental issues for the financial services industry in North America.”
UNEP FI’s publications reveal their priorities: climate change, water, property management, reporting, sustainability risk management, products and services, and human rights. In 2007 the Task Force commissioned a study on green financial products and services, which pointed to the emergence of “green” mortgages, home equity loans, commercial building loans, car loans, and credit cards. The study concluded that there are three overarching drivers and trends behind the emergence and growth of green product and service demand: environmental knowledge and media coverage, environmental awareness and public opinion, and environmental regulation and legislation.

Key Sustainability Issues in Financial Services

The 2005 CUCC trends study, conducted by the author and referred to earlier, revealed a number of key trends that are similarly transforming the financial services sector, including that sustainability is becoming a mainstream issue for financial institutions. More and more financial institutions are adopting a sustainability ethic and working to embed social and environmental considerations into their business models. A growing number of financial institutions are disclosing their social and environmental performance in triple bottom line accountability reports. Financial institutions are coming to see sustainability as a business strategy issue and a risk management issue. The key concerns of financial institutions were identified as climate change on the environmental side and poverty, both domestic and international, on the social side. Financial institutions are deepening their understanding of how climate change and rising poverty can impact their businesses, and they are grappling with how they can positively influence these trend lines through their core business activities. Helping to grow the emerging carbon market, launching products to help their customers reduce their carbon footprints, supporting financial literacy and accessibility initiatives, and financing microcredit programs domestically and internationally are some of the key means financial institutions have been using to leverage their resources to tackle growing global challenges.

Driven in part by campaigning nongovernmental organizations (NGOs), banks that engage in project finance for the World Bank’s International Finance Corporation (IFC) have adopted a set of sustainability principles, known as the Equator Principles, to address environmental and social risks in project financing. Today, banks that approve loans for IFC projects valued at more than $10M must adhere to these principles, which are designed to ensure bank-financed projects are developed “in a manner that is socially responsible and reflect sound environmental management practices. By
doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated, and/or compensated for appropriately.”8 These commitments have begun to affect other business lines for signatory banks, such that increasingly banks are adopting sustainability guidelines and practices that influence their approach to financing most of their commercial sectors. To implement these guidelines many banks are training their staff in social and environmental risk management and due diligence.

Among a range of environmental concerns, carbon is taking center stage with many financial institutions. A number have efforts under way to understand how climate change will affect the risk landscape globally, with the result that financial institutions are developing expertise in evaluating how climate change factors can affect their financial performance. Some financial institutions are accounting for

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GLOBAL BANKS AND CLIMATE CHANGE

- By 2007, banks had issued nearly 100 research reports on climate change and related investment and regulatory strategies.
- Many have set greenhouse gas reduction targets for their internal operations: They have calculated and disclosed their greenhouse gas emissions from operations, they have established greenhouse gas emissions reduction targets, and they are declaring targets to achieve carbon neutrality.
- Many are providing financial support for alternative energy projects.
- A number have made formal public policy statements on climate change.
- They are creating executive-level committees, working groups, or task forces focused on climate change; in some instances, new executive positions and departments are being defined around climate change specifically.
- They are starting to calculate the carbon risk of their loan portfolios, incorporating greenhouse gas emissions and climate-related risks into their analyses.
- A number of banks are offering climate-oriented investment and retail products, such as credit cards, auto financing, and home loans aimed at making a contribution to combating climate change.
- Some are offering preferential terms on loans for energy conservation projects, green buildings, or hybrid cars; others are partnering with reputable nonprofit organizations in developing climate change strategies or broader sustainability initiatives.

carbon costs in their lending decisions. When lending to the U.S. power generation sector, Barclays Bank, for example, incorporates an assumed cost of carbon in their financial modeling. Water is coming on the heels of carbon as the next environmental issue, specifically water quality and quantity and its management. The tools and skill sets that financial institutions are developing around climate change are being readily adapted to other environmental and social risks as they emerge in the economy.

Cooperative institutions, it turns out, have led the way in applying social and environmental criteria to those they conduct business with, likely started by the Co-operative Bank in the UK with its 1992 Ethical Stance and Vancity Credit Union in Canada with its 2002 Baseline Ethical Policy. These are among the best practice trends that are in ascendancy in primarily European and North American markets. Other best practice trends chronicled in the CUCC trends study include the development of mission statements by financial institutions to frame their sustainability commitments, the adoption of sustainability governance frameworks for boards of directors seeking to understand their role, and an emergent mindset that sustainability provides business opportunities for entrepreneurial and focused financial institutions.

**Integrating a Sustainability Strategy**

Sustainability-oriented financial institutions are assigning a senior manager to assume responsibility and authority for implementing their sustainability mandates, training staff in their new sustainability roles and including sustainability deliverables in executive and staff performance contracts. In their efforts to “do good and do no harm,” financial institutions are setting targets to guide their operations; one common best practice target is carbon neutrality, wherein the organization reduces its greenhouse gas emissions as much as possible and funds organizations to “offset” their remaining emissions through investing in incremental greenhouse-gas-reducing initiatives. Many leading financial institutions are engaging their customers, community, suppliers, and NGOs to develop social and environmental policies, partner on new solutions, and provide input into their sustainability strategy. A number participate in long-term partnerships on significant and pressing sustainability issues. And they use their product and service array to catalyze further sustainability, often by offering discounted pricing or offset programs as incentives. Finally, banks and other financial institutions are retooling their community programs to garner greater leverage and impact than they had in their earlier checkbook philanthropy days. Increasingly, best practice community involvement is focused on “strategic charity,” in which
charitable investments are aligned with the core competencies of the financial institution and its business development goals.

While mainstream financial institutions are building out a sustainability value proposition, a niche sustainable finance sector continues to grow and thrive, especially in the current economy. In the fall of 2009, a new network of sustainable banks, Global Alliance for Banking on Values, was launched with 11 sustainable finance institutions that serve more than 7 million customers in 20 countries, with a combined balance sheet of over $14B. Members include ShoreBank Corporation, the first community development and environmental bank holding company in the United States, based in Chicago; BRAC Bank, the world’s largest microfinance institution, based in Bangladesh; and Triodos Bank, Europe’s leading sustainable bank. Their purpose is to build organizations that are better-suited to long-term sustainable thinking and new forms of ownership and economic cooperation.10

Competitor Trends

U.S. banks are also moving forward on the sustainable finance path. A review of Web sites and sustainability reports reveals a number of leading sustainability efforts. The following examples are derived from an analysis of JPMorgan Chase, Wells Fargo, Bank of America, and Umpqua Bank.

Community

- Support for the construction and rehabilitation of affordable housing, special-needs facilities, and commercial projects in low- and moderate-income communities.
- Creation of community development corporations to disburse loans and financing to qualifying businesses, nonprofits, and cities.
- Products and services tailored to small businesses (especially minority- and women-owned businesses).
- Financial literacy classes, homeownership/homebuyer workshops, and foreclosure prevention programs for low- and moderate-income households.
- Employee volunteer and gift-matching programs, in which employees are granted volunteer leave with pay, and their charitable donations are matched up to a specified amount, such as $5,000.
- Grants and community programs focused on community development, education, and arts and cultural programs.
Environment

• Senior-level internal environmental committees, sometimes including the CEO or reporting to the CEO, which advance the company’s environmental efforts.

• Formal environmental policies and commitments.

• Sustainability reports, some of which adhere to international sustainable reporting standards (see Global Reporting Initiative at www.gri.org).

• Climate change initiatives, including:
  ▪ Energy conservation measures, such as using Energy Star qualified appliances, qualifying for renewable energy credits (tax credits offered as an incentive to install and operate renewable energy systems such as solar or wind power), and improvements in heating, lighting, and air conditioning systems.
  ▪ Construction of green branches and green buildings, often toward achievement of LEED certification, an international standard for environmentally sustainable building construction.
  ▪ Greenhouse gas reduction efforts focused on employees, including public transit reimbursement programs, offsetting employee air travel, and supporting employee hybrid vehicles.
  ▪ Investment in renewable energy projects and funds, such as large-scale wind- and solar-energy projects and loans and leases to power purchase agreements, energy services agreements, energy tax credits, tax-advantaged structures, and tax-exempt and CREBs (clean renewable energy bonds) financing.
  ▪ Carbon advisory and risk-management services, and financing for LEED buildings.
  ▪ Energy-efficient mortgage products and online information and tools for customers interested in green home improvements.
  ▪ Incentive programs, such as Visa cards that allow points to be used to fund renewable energy projects, or per-account donations to a tree-planting program when customers move to electronic statements.
  ▪ Increased use of paper with post-consumer recycled content.
  ▪ Reduced paper use through increased use of electronic communications.
Grants and sponsorships for nonprofit organizations working on climate change, biodiversity, forestry, and water conservation issues.

While these efforts may not immediately threaten credit union turf, as these banks continue to engage their assets and resources with sustainability issues and risks over time, they might well challenge credit union leadership in social responsibility. A number of credit unions in the United States and around the world have built strong sustainability programs, providing models of sustainable finance in their local markets and well beyond. They are in the vanguard of credit union leadership in sustainability and can provide considerable insight into how to get started on strategic sustainability. The credit unions profiled in this report have identified a number of compelling drivers that influenced their sustainability investments, some of which are derived from their philosophical roots and others that reflect more commercial interests.

Credit Union Sustainability Drivers
The credit union representatives interviewed for this report identified various and divergent reasons for their focus on sustainability. They include:

- **External stakeholders.** Members and community representatives often approached the credit union to become engaged in strategic sustainability initiatives, encouraging the credit union to be more proactive on environmental and social justice causes. Sometimes the members ran for the board of directors to drive change through governance.

- **Internal champions.** In other instances the drive came from within, whereby staff members with strong social and environmental interests introduced opportunities to the credit union.

- **Social license to operate.** Some credit unions believe that in order to earn the broad acceptance of its community, it must “give back” and act in ways that the community regards as socially responsible. They perceive that this reciprocity—the community accepts its right to exist and the credit union contributes value back to the community—is a key motivation for sustainability.

- **Altruism.** Some credit unions point to the ideal of helping those less fortunate as a reason to engage in sustainability and corporate social responsibility.

- **Return to roots and founding mission.** Credit unions were initially founded to serve the underserved—those without basic access to savings accounts and loans. A desire to “return to our roots” influences some credit unions, which aspire to renew their investments in underserved markets, including the environment. Similarly,
some credit unions perceive their sustainability efforts as being aligned with the original mission of the credit union, which guides their ongoing efforts.

• **Need for focus and differentiation.** Some identify the driver of a sustainability strategy as the need to focus the credit union’s social and environmental efforts on investments with the greatest return and the greatest alignment with its business and community objectives. Many credit unions lacked clarity on their priorities and how they wished to differentiate themselves in the market; a sustainability strategy helped them to focus and differentiate from other financial institutions.

• **Linked community success.** Some credit unions perceive a link between their financial success and the economic health of the region in which they operate and see a need to invest in regional sustainability for mutual benefit.

• **The business case.** A number of credit unions identify the business case as a driver of their sustainability efforts; more and more are tracking and measuring the financial value-add of their investments in their environmental and social sustainability initiatives.

### Credit Union Business Case for Sustainability

Leaders considering sustainability initiatives must think through the financial ROI. After all, improving communities is good, but

> “We will not be sustainable unless our communities are sustainable.”

—Credit union interviewee
Credit unions are businesses, not charities. Credit union boards and management often confront questions about the economic returns of diverting money and resources to sustainability initiatives when there are so many competing priorities.

“We see there is a very close correlation between financial sustainability and sustainable development and so we take financial performance extremely seriously,” says Rowan Dowland, general manager of development at MECU in Australia. “Indeed, our financial performance usually quietens the critics of sustainable development who regard it as a cost to the business. We are confident that commitment amongst staff leads to engagement, which in turn increases productivity. This ensures cost-efficiency, which leads to price competitiveness and increased member benefit.”

As credit unions come to better understand the business case benefits of their sustainability strategies, they are sharing this information with others. MECU, for example, defines its business case this way:

- Integrating sustainable development into policy reduces risk, improves staff morale, and provides a strong and confident long-term constructive relationship with members and stakeholders.
- Taking into account economic, social, and environmental aspects of business operations improves efficiency and effectiveness, improving the bottom line and creating long-term value.
- Responsible business conduct is a good means of building and maintaining brand reputation.
- Internal transparency improves external dialogue and internal communication. It increases stakeholder confidence, helps overcome regulatory and cultural barriers, and contributes to workplace diversity.
- Growing demand for more responsible corporate behavior creates new business opportunities.

Vancity defines its sustainability business case as:

- Operating efficiency.
- Brand.
- Share of market.
- Recruitment and engagement.
- Innovation through partnerships and collaboration.
- Blended value.
Globally, considerable effort is under way to determine sustainability’s ROI. A recent A.T. Kearney analysis, for example, found that sustainability-oriented companies achieved above-average performance in the financial markets during the recent recession. “In 16 of the 18 industries examined, companies recognized as sustainability-focused outperformed their industry peers over both a three-month and six-month period, and were well protected from value erosion. Over three months, the performance differential across the 99 companies in this analysis worked out to 10%; over six months, the differential was 15%. . . . This performance differential translates to an average $650M in market capitalization per company.”

Featured in the study, a global consumer packaged goods company believes

“its long-term success depends on creating value for shareholders and for society. The company views sustainability as not just a philanthropic endeavour but as a fundamental part of its business strategy, driving sustainability practices from the top down. . . . Despite increasing production volume by 76% since 1998, the company has reduced its greenhouse gas emissions by 16%, energy use by 3%, and water use by 28% over this period. Improved energy efficiency saved the company approximately $30M in 2007, while optimized packaging volume saved more than $500M over the past 16 years.”

The theme of saving money is consistent across the sustainability business case literature. Environmental footprint reduction efforts can reduce operating costs by way of savings in fuel, energy, water, materials, and waste management. A results-oriented focus on a firm’s social and environmental performance can generate improvements in its operational efficiency and productivity. Essentially, sustainability management results in improved overall management and more informed decision making. Often, sustainability management considerations foster enhancements in organizational management, leading many to believe that a prime benefit of a sustainability

“It will attract new people to credit unions—it will bring in new markets.”

—Credit union interviewee

• “I learned if you focus your competitive advantage on values, you create value.”
• “I learned people join credit unions with an expectation that credit unions are responsible businesses; members have an expectation that this is the way we run our business.”
• “I learned this is good business.”

—Credit union interviewees
overlay is quality management. (Indeed, it is expected that in the future, the term *sustainability* will become absorbed in quality management ideals.)

Business growth is another common benefit. Many studies point to opportunities to access new markets and gain market share, with consumers increasingly interested in and monitoring the social and environmental performance of firms, products, and brands.

The 2009 Cone Consumer Environmental Survey of a demographically representative U.S. sample of 1,087 adults revealed that “despite the dire state of the economy 34% of American consumers indicate they are more likely to buy environmentally responsible products today, and another 44% indicate their environmental shopping habits have not changed as a result of the economy,” with fewer than 1 in 10 (8%) less likely to buy based on environmental factors. The study reveals that American environmental interest has not waned, with consumers “inclined to hold companies accountable for their environmental commitments today and in the future:

- 35% of Americans have higher interest in the environment today than they did one year ago.
- 35% of Americans have higher expectations for companies to make and sell environmentally responsible products and services during the economic downturn.

**THE ROI OF SUSTAINABILITY: THE CO-OPERATIVE BANK**

The Co-operative Bank in England was one of the first financial institutions to focus on sustainability, and it is still among the most prominent. Indeed, its market differentiator is summed up by its tag line: “Good with money.” To the Co-operative Bank, investment in and focus on sustainability have been not just a cost but a boon to business. In a 2005 study, 26% of its customers cited the bank’s ethical stance as a reason they opened an account—the most frequently cited reason.

In addition, the Co-operative Bank’s “ethical” customers are more profitable. They are both more likely to have multiple products with the bank and more likely to recommend the bank to others. And 34% of the bank’s 2005 profits were attributable to customers who cited ethics as important. Half of those profits (17% of the total) were attributable to customers who called ethics the *most* important factor.

These numbers suggest that the Co-operative Bank, which grew assets 29% from £11.9B at the end of 2005 to £15.4B in June 2009, is growing by actively promoting itself to those who take an interest in social and environmental issues and express that interest in their choice of financial institutions.
WHAT IS THE BUSINESS CASE FOR SUSTAINABLE DEVELOPMENT?

Pursuing sustainable development makes firms more competitive, more resilient, and more nimble in a fast-changing world and more likely to win and retain customers. It can also help them find and keep some of the best brains on the market. In addition, it can make them more attractive to investors and insurers, while reducing their exposure to regulatory and other liabilities.


• 70% of Americans indicate that they are paying attention to what companies are doing with regard to the environment today, even if they cannot buy until the future.16

A similar national consumer survey from 2007 of 2,007 adults—the BBMG Conscious Consumer Report—found that nearly 9 in 10 Americans say that the words “conscious consumer” describe them well. These Americans are more likely to “buy from companies that manufacture energy-efficient products (90%), promote health and safety benefits (88%), support fair labor and trade practices (87%), and commit to environmentally friendly practices (87%), if products are of equal quality and price.”17

In terms of sustainability-oriented products and services, according to UNEP FI’s 2007 study of this topic, the case for green financial products can include:

• Improved market share.
• Increased profits.
• Customer acquisition and loyalty.
• Higher employee satisfaction and retention.
• Reputational benefits (improved brand image).
• Positive media attention.
• Environmental awareness and benefits.
• Improved license to operate.
• Strengthened relationships and partnerships with external stakeholders.18

“Consumers today are looking for a relationship, not just a transaction. CSR and sustainability can be an effective way to build relationships.”

—Credit union interviewee
Talent recruitment and retention is another consistent business case concern. Typically, studies of business and other graduating students reveal a priority interest to work for socially responsible firms. For example, in 2007 the Aspen Institute surveyed students from 15 business schools on their attitudes toward the relationship between business and society. They found that “MBA students are expressing more interest in finding work that offers the potential of making a contribution to society. Twenty-six percent of respondents say this is an important factor in their job selection compared with 15% in 2002.”

MBA students were asked what they believe are the primary responsibilities of a company. One-third believed these to include “create value for the local community in which it operates.”

Many studies and much anecdotal experience are revealing a link among sustainability-oriented workplace cultures, employee satisfaction, and employee productivity. For example, a GlobeScan 2006 study found that 83% of employees in G7 countries say a company’s positive CSR reputation increases their loyalty and motivation. Firms with strong sustainability brands find they are better able to attract the best and the brightest and experience reduced employee turnover. Indeed, employee recruitment and retention benefits are typically a chief rationale for small-business investments in sustainability.

Reputation and brand management are other common business benefits. Credit unions, banks, and other firms have realized competitive advantages from their sustainability efforts. Those that position themselves as part of the solution often generate favorable publicity, goodwill, and greater public trust.

Some are predicting that the innovation benefits from a sustainability lens applied to business will drive financial performance in the future. By integrating sustainability into its operations and strategy, a firm can improve its relationships with its stakeholders and position itself to attract new business opportunities from a “preferred partner” status. Stakeholder contact and consideration of sustainability issues and concerns can enhance a firm’s capacity for innovation, through its exposure to new perspectives.

Firms at several points in the supply chain are increasingly subjected to purchasing requirements related to managing their social and environmental performance. Walmart, for example, has launched a Sustainability Supplier Assessment among its 60,000 suppliers in which suppliers are asked to indicate their approach to managing carbon, materials, and community relations, among other factors.

“Our employees tell us it provides them challenges and inspiration and ties in with their personal values.”

—Credit union interviewee
Credit unions and other financial institutions are likely to become increasingly subject to similar requirements over time.

Finally, a business consideration not to be overlooked is the opportunity of “first mover” advantage. What business wants to be seen as following the pack, especially on key consumer concerns such as environmental and social quality of life, as the world increasingly confronts diminishing resources and a growing domestic and international gap between the rich and poor? And worse—what business wants to be left behind as other sectors and firms experiment with finding the economic, environmental, and social blended value proposition for its business and key stakeholders? Those firms that embrace the innovation opportunity and imperative found in a sustainability strategy are bound to reap these and other benefits in the years ahead.

Credit unions that carefully invest in initiatives that generate business value by enhancing their current market position, aligning with their strategic business priorities, and helping them to reduce costs and increase their revenues will become and remain leaders in their marketplace. The development and implementation of a sustainability strategy can be the route to unearthing the sweet spot of member, community, and business interest, which can provide lasting differentiation.

The next chapter lays out the road map for credit unions interested in improving their social and environmental performance and leveraging the business, member, and community benefits that await.
Credit unions that wish to strategically manage their social and environmental performance should develop a specific sustainability strategy for improved results and greater benefit to their members, employees, and communities. All of the steps are important, but credit unions must adapt the processes to their own unique circumstances.
Most of the pioneering credit unions profiled in this study did not have a guide book or formula to direct their sustainability strategy efforts. They followed credit union principles and good business sense in conceiving their sustainability plans. Nonetheless, experience from these leaders and other business sectors reveals there are 10 basic steps to building and executing a sustainability strategy, as laid out in Figure 3.

**Figure 3: Sustainability Strategy Road Map**

A process for the design, implementation, and renewal of sustainability/corporate social responsibility strategy to be tailored to the organization and its context.

- **Prepare**
  - Define sustainability
  - Agree on business case and rationale
  - Recruit steering committee
  - Assess baseline

- **Commit**
  - Develop board-approved sustainability commitment/policy
  - Incorporate sustainability into mission, vision, values
  - Communicate commitment

- **Research**
  - Research best practices and trends
  - Understand stakeholder priorities
  - Understand key impacts, risks, and opportunity areas
  - Conduct gap and opportunity analysis

- **Improve**
  - Assess strengths and weaknesses
  - Identify opportunities for improvement
  - Use cost savings to fund strategic investments
  - Celebrate successes

- **Report**
  - Determine report scope and target audience
  - Communicate progress on performance

- **Monitor**
  - Regularly review performance
  - Implement course corrections as necessary

- **Implement**
  - Communicate to staff and other stakeholders
  - Assign responsibilities and resources
  - Renew steering committee
  - Integrate into performance systems and training
  - Establish measurement system

- **Govern**
  - Develop board sustainability mandate
  - Implement mandate

- **Prioritize**
  - Develop long-term sustainability vision
  - Determine sphere of influence
  - Determine leadership orientation
  - Identify blended value
  - Determine priorities

- **Target**
  - Develop medium-term goals, objectives, and targets
  - Develop key performance indicators
  - Develop short-term action plan
  - Incorporate quick wins and cross-departmental initiatives

**Continuous improvement**

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This chapter will review each of these steps in order to demystify the basic process for sustainability strategy development. Most readers will recognize these steps, as they generally reflect a very typical R&D and business planning cycle. However, a few key concepts unique to sustainability thinking will be explained along the way. One caveat to understand at the outset is that these 10 steps provide a general orientation as to how a sustainability strategy can be developed and implemented. In practice, things can unfold differently depending on the particular circumstances of the credit union—including availability of resources—and efforts previously expended in sustainability strategy development. Credit union managers should adapt these steps to their own needs and interests, treating the steps as a menu of factors to take into account on their sustainability journey.

**Step 1: Prepare**

Before jumping into goal and target setting, it is important to pave the way for strategy development. Success is predicated on the degree to which there is a common definition for sustainability or CSR. While sustainability is often interpreted to imply green or environmental concerns, it fundamentally incorporates social along with environmental considerations, as a few of the definitions profiled in this report reveal. Conversely, many associate CSR with social concerns, such as community donations and community relations. However, it, too, takes environmental and other social factors into account. Take some time to define what sustainability means to your credit union, but don’t spend too long on this task and don’t get caught up in the jargon. Adopt a simple working definition, gain agreement, and move on.

Another important framing task is to gain consensus on the business case or rationale for sustainability at your credit union. The previous chapter reviewed some common business case considerations that could be your starting point for this exercise. Some organizations have found that clarity on the business case can be an important determinant of success.

Credit unions and other businesses often form a steering committee of staff, with responsibility for developing the sustainability strategy. Innovators sometimes like to add board members to the committee, or even members or community representatives. Whatever your approach, the steering committee should at least be broadly representative of the various functions within the credit union, including marketing, human resources, finance, branch operations, product development, etc. Membership might also include specific individuals who are key to the success of the effort, and representation from senior management.
SUSTAINABLE DEVELOPMENT AND SOCIAL RESPONSIBILITY DEFINITIONS

- ISO 26000 defines social responsibility as “the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, including health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behavior, and is integrated throughout the organization.”

- “Sustainable development at mecu means adopting systematic and balanced business strategies that satisfy the economic, social, and environmental performance expectations of stakeholders today while protecting, sustaining, and enhancing the financial, human, and natural resources that will be needed to develop mecu in the future.” —mecu Limited

- “CSR is defined as an organization’s commitment to operate in an economically, socially, and environmentally sustainable manner, while recognizing the interests of its stakeholders, including members, employees, business partners, local communities, the environment, and society at large.” —Alterna Savings Credit Union

- “We define sustainable development as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs.” —World Business Council for Sustainable Development

An initial task of the steering committee could be to conduct an assessment, or baseline, of the credit union’s current sustainability initiatives. This exercise often reveals a number of activities that are currently under way but also a number of obvious gaps that can be identified for the strategy development phase. For the baseline you will want to pull together the following:

- Sustainability mission, vision, values, commitments.
- Charitable donations/sponsorship policy.
- Employee volunteering or other community involvement policies and initiatives/projects/partnerships.
- Healthy workplace policies or initiatives.
- Employee code of conduct.
- Sustainable purchasing policy.
- Environmental policy/initiatives.
- Sustainability-oriented products and services.
In 2000 Vancity developed a Statement of Values and Commitments to guide their business decisions and strategies. They adopted six commitments reflecting their financial, member service, democratic, workplace, community, and accountability priorities, including, for example:

“We will lead by example and use our resources and expertise to effect positive change in our communities. This means we will:

• Leverage our unique skills and expertise as a financial institution to create solutions to social, environmental, and economic issues.

• Model and advocate socially and environmentally responsible business practices.

• Seek business partners that practice progressive employee relations, contribute to the well-being of their communities, and respect the environment.

• Invest our dollars responsibly in the communities in which we live and work.”

“The heart of our core business is strengthening and growing our Northwest BC communities and members, and our organization.”

—Northern Savings Credit Union core business statement
Sometimes this commitment statement takes the form of a sustainability policy, a tool and reference point to help the organization set priorities and make day-to-day decisions. A policy can make the credit union’s sustainability commitments explicit and provide an umbrella or framework to house its sustainability efforts. Typical sustainability policies incorporate social, economic, and environmental aspects; take a holistic approach; speak to a vision for a more sustainable future; have a long-term perspective; position the organization as a catalyst for change; point to what the organization is striving to achieve; and reference stakeholders and the concept of interdependence. The policy needs to be lasting so the organization can have the confidence to build strategies and targets to deliver on its aspirations.

Policies and commitments typically address:

• Our definition or vision of sustainability . . .
• We believe . . .
• Our role . . .
• Our stakeholders/partners . . .
• Our unique contribution to sustainability challenges . . .
• We want to make a difference by . . .
• We are committed to . . .
• We want to be known for . . .
• Why we do it . . .

An exercise that organizations often undertake at this time is to revisit their corporate mission, vision, and values to ensure that sustainability is referenced or taken into account in these foundational statements. If updating these documents represents a significant undertaking, this task can be deferred to the priority-setting phase (Step 4), when the organization sets priorities and goals for its sustainability strategy.

Note that the development of a long-term sustainability vision (as distinct from a corporate vision) is recommended in Step 4. This is because it follows on the heels of the research phase, which can often inform the credit union about a larger, more substantive or

“Our purpose as a socially responsible and profitable financial cooperative is to provide accessible financial services for the well-being of our members, employees, and community; offer fair and meaningful employment in a safe and respectful workplace; and build partnerships that foster self-reliant, sustainable communities.”

—Mission of Assiniboine Credit Union
significant sustainability vision that it can undertake. Of course, if setting the sustainability vision at this stage suits your organization, this can be useful to frame the research and priorities that follow next.

**Step 3: Research**

The research, or R&D, phase is a key step in the development of your strategy. This is where the credit union expands its horizons to consider the broader sustainability field within and outside the financial services sector. Here the credit union will typically investigate best practices and trends in sustainable finance and corporate sustainability more generally. (See the Resources section for references to help with this phase.)

This guide profiles a number of best practices in the financial sector, which is a good starting point for your research. The CUCC study on trends and best practices in the financial sector is another key resource (see the Resources section). The UNEP FI and the World Business Council for Sustainable Development are valuable global resources. Typically, sustainability market leaders issue sustainability reports that profile their efforts to advance sustainability; these reports provide insight into many of their sustainability successes and failures, which can be useful guidance to early stage and advanced sustainability organizations.

You will also want to look at your own market. Who are the known local sustainability leaders in business? How have they earned their reputation? What works for them? What are your competitors doing on your home turf?

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**FINDING THE RIGHT SUSTAINABILITY TARGETS**

When developing its CSR priorities, Assiniboine Credit Union considered a number of “discovery papers,” including one on key CSR trends and best practices and implications for a financial institution in which CSR thought leaders were consulted for their views and opinions. A second paper presented the views of community and business leaders, who were asked to prepare short briefings on the key concerns in the community and the leadership role the credit union could play in their resolution. As a result, poverty, climate change, and skills shortages were identified as key issues. A third paper summarized the views of cooperative and credit union leaders, who were asked what leadership role Assiniboine could play in promoting and demonstrating the cooperative difference.
INCLUDING STAKEHOLDERS IN THE SUSTAINABILITY PLAN

Mecu has combined the job of risk management and coordination of its sustainability strategy into a position called “Risk Management Coordinator—Sustainability,” which helps to ensure that sustainability risks are identified and included in its sustainability management framework.

Some organizations conduct their baseline assessment at this stage, rather than earlier in the preparation stage. There is no one right way. Do whatever works for you.

Here, too, many credit unions reach out to their stakeholders to identify their key sustainability priorities and to canvass opportunities for strategic community partnerships. Typical credit union stakeholders include members, employees, and the general community, though a comprehensive stakeholder mapping exercise might also list suppliers, governments, regulators, media, business partners, the credit union and cooperative systems, and others. Some approaches include focus groups; surveys; task forces; interviews with thought leaders, experts, advocates, and opinion leaders; and commissioning of issue papers. It is best to be informed of best practice in sustainable finance and corporate sustainability generally prior to engaging stakeholders, as this will help to frame the discussions regarding opportunities.

Mecu has defined its stakeholders as members, employees, key representatives of its strategic communities, suppliers and contractors, regulators and political leaders, and credit union industry representatives. It aims to align its values with those of its stakeholders and ensure that their expectations of the credit union form a key part of its organizational strategy, culture, operations, and products. Mecu has a Stakeholder Engagement Policy, which provides a framework for the management of its stakeholder engagement process. Specifically, the policy aims to:

- Provide a basis for the identification and selection of the credit union’s major stakeholders.
- Allocate roles and responsibilities for the prudent management and control of stakeholder issues.
- Provide regular reporting to the board, relevant committees, senior management, and stakeholders.
- Articulate forms of stakeholder engagement and principles that will be adhered to.
- Specify how information from stakeholder engagement will be used and the type of information that is expected to be generated.

Reporting on stakeholder engagement actions to the board’s Sustainable Development Committee occurs quarterly.
As part of the research phase, you will want to understand your key impacts, risks, and opportunity areas. Your stakeholder consultation can inform your thinking here, as can keeping abreast of the sustainability literature, which tracks sustainability risks, opportunities, issues, challenges, and trends on a sector-specific and general basis.

Benchmark your efforts: Where is the organization strong and where is it weak relative to your peers, competitors, and best practice research? What environmental or social threats exist that can affect your credit union’s business success? What are the key positive or negative impacts of your credit union on the environment and society? What credit union assets are underleveraged in solving sustainability challenges in your marketplace? What preexisting policies and commitments have you made internally or externally? How well does your current business plan respond to these emerging challenges and opportunities? What aspects of your current business plan can be enhanced through strategic sustainability investments? If you haven’t performed the baseline assessment referenced in Step 1, now is the time to conduct one, or to revisit the outcomes of the initial exercise. What is your current performance in these areas?

“We need to strategically manage the social, environmental, and ethical risks and opportunities for our business.”

—Credit union interviewee

SUSTAINABILITY PLANNING ADVICE

• “Start your strategy by conducting a baseline; research to understand all the factors, including social, cultural, and environmental, within and outside the organization.”

• “Consult with thought leaders, advocates, and stakeholders. Survey community leaders, do focus groups, and conduct community consultations. Put together a task force and undertake best practice research and peer research.”

• “Leverage your core skills—how can you leverage the skills and resources you have to make a difference?

A financial institution’s unique role includes access to credit, lending criteria, serving the underserved, offering socially responsible investments, and microfinance.”

• “Focus on a few key impact areas where you can make a difference. Don’t try to do everything. Break it down into manageable components. Take a strategic approach, because otherwise you can get drawn into high-profile issues or one person’s passion.”

Source: Credit union interviews
Some roll these efforts up into a (1) benchmarking study and (2) gap and opportunity analysis. Once you understand your present situation, you are in a position to identify initiatives to help you close the gaps and leverage the sustainability opportunities that will benefit your members, employees, community, and, of course, your business. This assessment will help you to make informed decisions on your priorities going forward and determine where to invest within the framework of your sustainability strategy.

Step 4: Prioritize

After you benchmark your current practices and assess your key gap and opportunity areas, you are well placed to engage your credit union in the development of a longer-term sustainability vision of where you want to be in, say, 10 years or more. Here is

SAMPLE ACTIVITY: DEVELOPING YOUR CREDIT UNION’S SUSTAINABILITY VISION

- Name of activity: Developing a Sustainability Vision.
- Objective: Work together to create a common vision for a sustainable organization.
- Time: One hour.
- What you need: Flip chart paper and markers.

**TASK ONE: INDIVIDUAL VISIONING**
(10 MINUTES)
Ask participants to close their eyes and imagine the sustainability role their credit union will be playing in the future. Advise participants not to get stuck in concerns over how to make this work. This is about expanding possibilities.

**TASK TWO: GROUP BRAINSTORMING**
(25 MINUTES)
Now ask participants to share their ideas. This is a brainstorming stage, so have note-takers capture all of the responses on flip chart paper. Be as specific as possible. Themes will emerge as similar ideas are voiced by several participants. Cluster these themes to prepare yourselves for the next task.

**TASK THREE: DECIDING ON A COMMON VISION**
(25 MINUTES)
Using all the ideas generated by your participants, work together to create a vision that will inspire and excite. Create a storyboard, image, or short paragraph that captures your common vision. Guard against wordsmithing at this stage—leave final wording to your communications specialists, who can focus on editing the vision into its simplest expression.

*Adapted from the David Suzuki Foundation, “David Suzuki at Work,” p. 17. The workbook with full instructions and brainstorming questions can be downloaded at www.davidsuzuki.org/NatureChallenge/at_Work/sign_up.aspx.*
the opportunity to envision the sustainability future for your credit union and its role in advancing sustainability internally and among its stakeholders. You will be informed by your key gaps and opportunities, risks, and impacts, and with this knowledge you can chart the course for conceiving and then moving toward your vision—via your sustainability strategy.

See the sample activity on page 38 for one approach to the development of a long-term sustainability vision.

Your board-approved sustainability vision determines the overarching direction in which you want to go. Now comes the task of determining how to get there. A key input at this stage, in addition to your vision, is your gap and opportunity analysis. You may wish to deepen your insights into the possibilities for your strategic direction through consideration of:

- Your sphere of influence.
- Your leadership orientation.
- Blended value opportunities.

Some time spent in consideration of these factors will help you identify which of the many possibilities are worth the investment.

As with any organization, credit unions operate in a value chain of relationships. Upstream are suppliers, regulators, governments, and the credit union system. Downstream are the receiving environment, members, the business community, social and environmental organizations, the public at large, and future generations that will be impacted by the credit union’s business practices. Of course, internal relationships consist of your board and employees. Organizations have the ability to affect the behavior of parties with whom it comes into contact. Such parties are considered to fall “within an organization’s sphere of influence.”

PRIORITIZE INITIATIVES

- “Focus is the key. Don’t try to do everything. Once you have your focus, measure it and see how well you are doing.”
- “Hire a CSR specialist to help you prioritize and focus. This can bring a fresh perspective and help to overcome organizational politics.”

Source: Credit union interviews
In the context of an organization’s social responsibility, the emerging standard is that an organization’s “ability to influence others will be accompanied by a responsibility to exercise that influence” and the responsibility for exercising influence will increase with the organization’s ability to influence.\(^{26}\) In this instance, a credit union would have the responsibility to be alert to the impacts created by the decisions and activities of those entities in its sphere of influence. This concept creates opportunities and risks for the credit union. On the risk management side, it brings to mind questions such as the nature of its lending practices and whether they might generate any negative environmental or social impacts; on the opportunity management side, it brings up opportunities to engage suppliers, employees, members, and others in the community on sustainability projects and initiatives. Some organizations take the concept of sphere of influence even further, stating a desire to be a catalyst for a sustainable society. Other organizations seek to make their products and services serve as tools for social change, environmental enhancement, and economic resilience. As you consider your credit union’s sphere of influence, some opportunities and risks are likely to present themselves as most significant to your organization’s long-term sustainability vision, core competencies, and current business strategy.

These questions prompt consideration of the credit union’s leadership orientation. Leadership was defined earlier as comprising integrated and mission-driven practices, possibly including getting one’s house in order; incorporating sustainability into products, services, investments, and purchasing; engaging stakeholders in sustainability efforts; and participating in public policy advocacy on sustainability matters. At this point you may wish to review the draft of your
long-term sustainability vision, the CSR continuum (Figure 2), and the five leadership attributes to see which of these practices resonate for your credit union.

Finally, the determination of your blended value opportunities can help to laser focus your credit union’s efforts. As Figure 4 shows, the key test of your sustainability priorities should be whether they generate social/environmental value and business benefits for the credit union. This is where the definitional principle of balanced and integrated social, environmental, and economic considerations in business operations, strategy, governance, and management comes into play.

One way to do this is to leverage your sustainability strategy off your current business plan and core competencies. For example, what are your top business objectives? Launch a new brand, build member loyalty, enhance staff engagement, update the product array, increase market penetration, build a new branch? Your sustainability strategy can contribute to the achievement of these business objectives, helping you to generate business value while fostering social and environmental improvement.

Whatcom Educational Credit Union sought to build its market presence among immigrant and other unbanked communities in the region as a key business strategy. They hired a marketing representative with a social responsibility mandate to build community partnerships with community organizations, generating both business and social benefits for the credit union and its members. Further, the credit union is leveraging its core competencies in training frontline nonprofit staff to provide financial education to low-income members who are the targets of predatory lenders.

Your core competencies are a key lens to bring to your prioritization process. As a credit union, you have business skills, finance skills, community development skills, and democratic skills, all of which can be applied to your sustainability strategy. You are not a health care organization, a sporting goods company, or a social service, so making health care, recreational projects, or social services your focus would move you out of your core competencies. Further, financial institutions are best able to make a difference in areas where they have competencies that can be part of the solution. Poverty, financial literacy and access, unemployment, affordable housing, social enterprise, small business and cooperative financing, green property development, green business loans, and green auto financing are likely areas of credit union activity. Sticking to what you know when developing your sustainability strategy will help provide the discipline and focus you need to sort through competing priorities.
Stakeholder engagement may also be helpful at this stage. Credit unions can share their analysis with key stakeholders and seek input on key priorities for implementation.

It is important to limit the number of sustainability priorities. Often credit unions identify the following priorities in this round:

- Model best practice in sustainable governance and management.
- Reduce our environmental footprint; develop a sustainable purchasing policy.
- Advocate for credit union system sustainability leadership.
- Offer sustainability products; develop sustainability principles.
- Launch a sustainability brand and communications program.
- Launch a strategic community investment program.
- Become an employer of choice.

With your priorities in hand, the next step is to refine your goals and targets to flesh out your priorities and create the sustainability strategy to guide your efforts over the next three to five years, depending on your business planning horizon.

### Step 5: Target

The sustainability vision is the long-term road map for your organization. Your priorities, expressed as your sustainability goals, will point the way toward the achievement of your vision for the next few years, until you renew and update your strategy, typically after the third year (though the process of renewal will optimally commence during year three). The exercise at this point is to turn your priorities into medium-term goals. Your goals should link to both your sustainability vision and your sustainability policy. They should inspire action and communicate where the credit union seeks to focus its efforts over the business period.

Initially your goals might be fairly general; after a few years of practice you will be in a better position to set more focused goals for improvement. Your goal might be to reduce your environmental footprint, or it might be to reduce your carbon footprint, something...
Once you set the goal, you will need to identify your tactics—how you plan to achieve your goals—and the specific one-year deliverables (short-term action plan) that will be integrated into your credit union’s annual business plan. This requires another priority-setting process, in which the credit union turns its attention to one-year priorities. Choose initiatives that have impact and financial payback, are stepping stones to other initiatives, have brand value, add value to your current business plan, and possibly create opportunities for stakeholder partnerships.

“The goal-setting exercise addresses two questions: Given our priority, where will the credit union be in three to five years? and, How will we know we got there? This second question refers to the credit union’s target or measure of its success. If your goal is to reduce your carbon footprint, you may wish to set the target of becoming carbon neutral, referring to neutral (zero) total carbon release, often brought about by balancing the amount of carbon released with an equivalent amount sequestered.

The third question thus becomes, How do we measure carbon neutrality? In answering this question, the credit union will move into a discussion of its key performance indicators—that is, the identification of measurement indicators that the credit union will baseline and monitor in order to determine its performance relative to its strategic goal of, in this case, reducing its carbon footprint and becoming carbon neutral. In this instance, the credit union would likely identify greenhouse gas emissions as its key performance indicator.

As with any business plan initiative, the credit union will follow the process of identifying lead business groups and staff with responsibility for implementing components of its sustainability plan. It is important at this juncture to ensure the one-year plan includes some quick wins and some big wins. Quick wins mobilize enthusiasm and draw attention to the effort; big wins achieve cost savings, demonstrating the sustainability business case and possibly freeing up resources for further sustainability investments. Look for at least one group-wide project that everyone can get behind. Some organizations, once they have identified their strategic priorities and

Currently, Alterna Savings Credit Union is baselining its environmental impacts in order to identify goals, targets, and key performance indicators to reduce its environmental footprint. It is partnering with a local university to develop some community economic development (CED) measures to guide its CED strategy.
goals, circulate the sustainability goals to departments with a request that they self-identity sustainability initiatives for inclusion in their next-year business plan, thereby fostering engagement, buy-in, and bottom-up participation.

Those credit unions that include the development of a strategic community investment program among their priorities are typically focused on aligning their community programs and charitable donations with their core competencies and their business strategies. As such, their interests are generally in the areas of community economic development and specialized loan products for economically marginalized groups such as youth, immigrants, minorities, farmers, women, people with disabilities, and eco-businesses; affordable housing and homeownership initiatives; and financial literacy and responsible lending programs. Typically, at this stage of the process, the credit union undertakes a review of its community donations to ensure they are leveraged for the greatest value, often refocusing their grants to initiatives aligned with their sustainability strategy. Many find it beneficial to develop strategic partnerships in order to make their investments go further, secure expertise, enhance the profile of the initiative, build community and member loyalty, and increase the overall impact of the project.

“Leveraging partnerships is key because there are so many organizations that would love the added resources and expertise of a credit union. Our main area of expertise is finance, not green building or poverty reduction. Basically, you don’t have to go it alone.”

—Credit union interviewee

In consideration of their sphere of influence, credit unions seeking to contribute to community development through their core business processes may decide to proactively train and hire people with

<table>
<thead>
<tr>
<th>CSR strategic direction</th>
<th>CSR strategies</th>
<th>CSR goal and key performance indicators</th>
<th>Credit union vision</th>
</tr>
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<tbody>
<tr>
<td>Demonstrating leadership in community renewal, environmental sustainability, and the co-operative principles</td>
<td>Expand services to the underserved</td>
<td>Making a difference in our community</td>
<td>Financial co-operative of choice</td>
</tr>
<tr>
<td>Facilitate the success of community leaders</td>
<td></td>
<td>• Growth in community leadership portfolio</td>
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<tr>
<td>Model and facilitate climate change solutions</td>
<td></td>
<td>• Reduction in CO₂ equivalent emissions</td>
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<tr>
<td>Engage members and employees in making a difference</td>
<td></td>
<td>• Increase in member CSR engagement</td>
<td></td>
</tr>
<tr>
<td>Integrate CSR and the co-operative principles throughout ACU</td>
<td></td>
<td>• Increase in employee CSR engagement</td>
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</tbody>
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Figure 5: Assiniboine’s CSR Strategic Plan: 2009–2013
employment challenges to work in the credit union, source goods and services from businesses that create employment for marginalized communities (social enterprises), or provide products and services that improve community and global conditions.

As with other areas of the sustainability strategy, a community development, involvement, or investment program should set board-approved goals, targets, and means of measuring success or impact.

A more recent area of interest that regularly makes its way into a credit union’s sustainability strategy is the environment. Often communicated as “reduce our environmental footprint,” typical goals include: reduce our greenhouse gas emissions; reduce our energy use; reduce office waste; reduce and conserve water; reduce paper use (e.g., switch to electronic statements); develop or retrofit green branches and facilities; implement sustainable purchasing policy; engage employees and members on reducing their environmental impacts; develop products and services that create environmental benefits for our members; source renewable energy; find alternatives to toxins; green our meetings, including our annual meetings; develop green giveaways; encourage alternative transportation; reduce business travel; and promote a healthy workplace. Fortunately, many of these initiatives are cost-saving. Organizations sometimes create a special fund from these avoided costs to finance investments in more costly initiatives, such as installing showers and bike racks, offering transit passes to staff, or undertaking an energy-efficiency building retrofit.

**VANCITY’S SOCIAL PRODUCTS**

Vancity Credit Union offers Shared Growth term deposits to its members so they can invest in local projects that improve social and environmental well-being; their Shared World term deposit channels financing to microcredit programs in the third world. A Springboard Home Ownership mortgage helps low-income renters purchase homes. A portion of revenue from Vancity’s high-interest savings accounts is donated to a community service that helps people on low incomes move toward self-sufficiency. Microloan products are available to underbanked target groups. Vancity also offers socially responsible investment (SRI) products, which allow members to invest in mutual funds or develop investment portfolios that are consistent with their ethical values. SRI funds take social, environmental, and governance factors into account in the investment process.
The list of environmental to-dos can be overwhelming. A basic program would be to reduce energy use, waste, and paper consumption. In developing environmental priorities and targets, organizations often start by baselining their environmental impacts, sometimes outsourcing this to local businesses or environmental groups that offer environmental audit services. With an eco-audit in hand, credit unions are in a better position to identify their opportunity areas and to measure and monitor their ongoing environmental performance. (For guidance on environmental management, see the Resources section.)

At this stage of the strategy process, the board of directors will have been engaged at the commitment phase, the prioritization phase, and the target phase. The timing and degree of board engagement will naturally vary by credit union. However, it is often once the sustainability commitment, vision, and plans have been adopted by the credit union board that directors perceive a need to broaden their governance mandate to accommodate their new priorities. Thus, it is useful to consider the ways and means by which credit union boards can incorporate their new sustainability oversight role into their governance responsibilities.

**Step 6: Govern**

As credit union boards become increasingly committed to, and immersed in, the development of the sustainability strategy, it typically fosters questions regarding the board’s role. With the formalization of the strategy, including goals, tactics, and targets, directors come to see a new role for themselves in governing this aspect of the credit union’s performance. Indeed, this trend of sustainability governance is emerging as an important development in the sustainability field. Some boards are adopting a sustainability mandate because they believe it is part of setting the tone at the top and a starting point for fostering sustainability values throughout the organization; others are bringing it into the boardroom because they see it as part of their fiduciary responsibility. Still others see it as an important aspect of business strategy. Regardless of whether the sustainability strategy is business-led or values-led, more and more boards are grappling with the question of their role and mandate in this area.

Mecu’s Environment Policy sets out its approach to managing its impacts in relation to paper, waste, energy, travel, water, and land. They have an Energy Reduction Action Plan, a Green Travel Action Plan, a Water Reduction Action Plan, and a Waste Reduction Action Plan. It is developing an Environmental Management System (EMS) Guide to assist in meeting its environmental objectives. It intends to align its EMS with the ISO standard for environmental management systems, ISO 14001, which is likely to be a worldwide credit union first.27
The following are some of the green financial products offered by financial institutions around the world, including the case study credit unions:

- **Green mortgages**, which provide customers with lower interest rates if they purchase a new energy-efficient home or invest in retrofits, energy-efficient appliances, or green power.
- **Green home and home improvement loans**, which offer reduced rates for homes achieving a certain energy efficiency rating, for installation of environmentally friendly features in the home, for eco-audits, or for energy-saving renovations—e.g., mécu’s goGreen Home Loan and Home Improvement Loan and Vancity’s Bright Ideas home renovation loan. Northern Savings’ Smart Home Energy Loan offers rebates on home energy audits. Alterna’s GreenSaver Improvement Loan provides low-cost financing for energy retrofits to members’ homes and businesses.
- **Carbon offset products**, which offset the emissions associated with the financial product; e.g., for every year that a customer holds a mortgage, the Co-operative Bank in the UK pays to offset a fifth of a typical UK home’s greenhouse gas emissions on the customer’s behalf. mécu credit union offers its members biodiversity offsets (conservation land banking) on all new home construction loans.
- **Green car loans**, such as those offered by mécu and Vancity, with below-market interest rates for fuel-efficient cars.
- **Green credit cards** that are linked to environmental activities—e.g., the Barclaycard Breathe credit card funds projects that tackle climate change; the Vancity enviro Visa card allocates a percentage of profits to environmental initiatives voted on by cardholders; and a Co-operative Bank credit card supports ethical consumerism, with purchases from specified ethical partners attracting preferential interest rates.
- **Green car insurance**, whose premiums provide incentives to reduce distance traveled (such as mécu’s goGreen Motor Insurance), or where discounts are offered for hybrid or fuel-efficient cars.
- **Green home insurance**, such as Vancity’s Pure Home Insurance product, which provides supplemental coverage for environmentally friendly alternatives for replacing damaged property, flooring, adhesives, appliances, and fixtures, and for green upgrades to windows, appliances, and insulation.
- **Eco-advice service to business clients**, offering resources and one-on-one advice on ways to reduce energy consumption and initiate green business programs internally, how to cut carbon emissions, where to purchase green products and services, and how to access additional technical or financial resources.
- **Financing for eco-businesses**, such as Vancity’s Capital Partners, which provides subordinated debt financing for environmental and social enterprises.
- **Socially responsible investments (SRI)** for members interested in wealth management products. SRI products provide a means for members to invest in mutual funds that take social, environmental, and governance considerations into account in the investment process.
Examples of Sustainability Governance

Alterna Savings Credit Union’s board of directors adopted a CSR policy that it reviews and updates annually. The board of directors’ Member Relations Committee has overall governance for the credit union’s CSR strategy and policy. It also oversees the credit union’s accountability report and reviews and monitors stakeholder relations.

Mecu’s board of directors has a Sustainable Development Committee that meets quarterly and provides advice and recommendations to the board on matters relating to its responsibility for ensuring that mecu’s values and stakeholders’ expectations are reflected in its policies and practices.

Assiniboine’s board of directors has a Community and Member Relations Committee, which has oversight of relations with the community and members, including the community investment policy, stakeholder communications policy, and member engagement policy.

Northern Savings’ board of directors has a Donations and Community Reinvestment Committee, which has overall responsibility for the development and implementation of the sustainability strategy, including policy making, evaluating the effectiveness of the initiative, developing standards of corporate responsibility for the credit union, and providing oversight of the donations program.

A global study the author conducted of trends and best practice in CSR governance points to an important role for the board in providing oversight of the organization’s sustainability performance. Some boards establish sustainability committees; others see sustainability as an overall role of the board; others integrate a sustainability role within preexisting committees. There is no one right way; however, in the early phases of developing and implementing a sustainability strategy, boards often find it useful to assign this role to a committee to allow for greater in-depth discussion and monitoring. A road map for the board of directors can be found in the study on “The Role of the Board of Directors in Corporate Social Responsibility” in the Resources section.

Once the sustainability goals, tactics, and targets have been established, including key performance indicators to measure your ongoing sustainability performance, you are ready to begin the process of implementing your sustainability strategy. It is important at this point to ensure that the strategy is integrated into your annual and longer-term business plans to help with ongoing monitoring and review and to communicate its priority to the organization. As this guide demonstrates, sustainability needs to be treated and managed
as a core business strategy, as with product development, sales, marketing, IT, and talent management.

**Step 7: Implement**

The implementation process will be largely familiar to credit unions, as it follows a similar path to any implementation plan. However, there are some unique elements that bear reviewing, critical as they are for successful achievement of your goals and targets.

First is the communication phase. Once you have adopted your sustainability strategy, it is important to communicate it to your internal and external stakeholders, to demonstrate your accountability and transparency, to foster engagement and dialogue, to show how the organization is meeting its commitments, to engage and motivate employees and others, and to strengthen stakeholder

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**Assiniboine Credit Union** built a common understanding and definition of CSR among employees and the board. A CSR engagement index was developed to measure member and employee views on Assiniboine’s CSR performance, and a CSR awareness campaign was rolled out.

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**MECU’S SUSTAINABILITY STRUCTURE**

The mecu board of directors has a Sustainable Development Committee, which provides overall direction to management.

Within the organization, a staff member from each division is nominated to be on the Staff Sustainability Reference Group, called Footprints. The group is chaired by staff members and is responsible for helping to champion and implement appropriate sustainability projects and initiatives across the organization.

Footprints is supported by a Sustainability Advisory Network, which is made up of representatives from each service center. They ensure that the appropriate initiatives are implemented in the service center and provide an important channel of information and ideas about how they can become more sustainable.

This structure provides mecu with a comprehensive network that ensures sustainability is implemented across all aspects of the business.

**Figure 6: mecu’s CSR Organization**

[Diagram of mecu’s CSR Organization]

CEO and all general managers coordinate the mecu approach.
trust. Communication channels can include meetings, public events and forums, press releases, newsletters, posters, intranets, voicemail, videos, Web sites, podcasts, editorials, supplier communications, product-related communications, and advertising.

At this stage, many organizations develop a sustainability brand or logo they use to communicate the sustainability theme. Sometimes the development of a sustainability brand, marketing, and communications strategy itself becomes a deliverable in the organization’s business plan, whether it is a stand-alone brand or incorporated into the credit union’s overall brand as a key message.

Of course, responsibilities and resources will be assigned to ensure effective implementation. The steering committee established in the early phase is often renewed at this point, re-mandated from strategy development to strategy delivery. Many credit unions appoint a senior executive to act as the sponsor of the credit union’s sustainability strategy. Successful implementation is usually dependent on whether a point person has been recruited to advance strategy implementation.

An important step at this point is to revisit your performance and compensation systems. Credit unions will want to ensure they are

“Mecu aims to become the pre-eminent socially responsible banking brand in Australia.”
—mecu Corporate Philosophy Statement

Bethpage’s community initiative brand: “The Heart of Bethpage.”

WHO’S IN CHARGE OF SUSTAINABILITY?

- Alterna: Senior vice president of Marketing, Communications, and Corporate Social Responsibility
- Assiniboine: Vice president, Corporate Social Responsibility
- Vancity: Senior vice president, Social Finance and Director of Community Leadership
- mecu: All senior executives have sustainability incorporated into their job descriptions, performance contracts, and remunerations. Currently the general manager of operations is responsible for coordinating and providing support for mecu’s approach to sustainability across the organization; this role is rotated among all general managers (executive).
sending the right signal to management and staff that they seek social and environmental results as well as economic and financial results. Your sustainability objectives need to be built into the recognition and performance appraisal system, including your orientation and training programs. (For guidance on this step see “CSR and Human Resource Management: An Issue Brief and Roadmap” in the Resources section.)

The targets and key performance indicators established in Step 5 provide a useful framework for the development of a measurement system and performance reporting to management, the board, and your stakeholders. For each goal and key performance area you will need to determine your approach to measuring your progress. Organizations that fail to establish their measurement system in advance find themselves in the awkward position of not being able to communicate their results to key audiences. An early investment of time to determine in advance the key impacts and results to be achieved, as well as the measurement protocols and data-gathering systems, will be time well spent.

The renewed steering committee often takes responsibility for putting these systems into place. Indeed, most organizations find it useful to have an ongoing implementation structure that can be responsible for fostering coordination, information sharing, and integrated decision making.

Northern Savings Credit Union has a comprehensive training program, including support for board and staff to attend regional and national CSR conferences, regular onsite board and staff training and workshops, and funding for staff skills development for key CSR deliverables.

Assiniboine uses a balanced scorecard approach to compensation, with CSR being one of five components. Weighting in 2009 included financial (45%), business excellence (15%), member (15%), employee (15%), and CSR (10%). The scorecard accounts for 50% weighting on individual performance plans for executive management.

Assiniboine has an internal CSR Council to share information, coordinate, and provide advice on the CSR strategy. Northern Savings has a Sustainability Leadership Council to provide support for, and advice on, strategy implementation and to support sustainability champions across the organization. Missoula Federal Credit Union has an employee Green Team, with a mandate to promote, educate, and engage staff and communities in environmentally friendly strategies and to form or assess strategic proposals relating to environmentally friendly practices.

It is common practice for organizations to establish “green teams” to engage employees in the environmental program. The green team can conduct outreach, providing education about the issues and solutions.
Terms of reference for an interdepartmental strategy and implementation committee include:

- Strategy development: Develop sustainability strategy.
- Performance monitoring: Monitor sustainability performance against the sustainability goals and targets.
- Trends and risk monitoring: Monitor sustainability trends and identify key sustainability issues, developments, risks, and opportunities that will affect the financial sector generally and the credit union specifically and should be considered in your strategic planning.
- Sustainability reporting: Provide input into, review, and recommend approval of the annual sustainability report.
- Role modeling: Set an example and act as advocates for the sustainability policy and strategy.

Other organizations recruit sustainability champions from within their operations and branch networks to help with employee, community, and member engagement on their sustainability priorities.

Credit unions—and other organizations—that have come this far in implementing their sustainability strategy typically have identified a number of fundamental issues in their business models that oblige them to consider adopting core principles to guide decision making in the organization. Sometimes this is addressed in the original sustainability or CSR policy; other times this necessitates the development of a unique policy or commitment statement regarding, in the case of credit unions, their approach to lending and investment. (In insurance, the issues are sustainable claims management and sustainable underwriting; in asset management, the issue relates to sustainable investing, etc.)

“...It’s a huge change management exercise. We are introducing new language, policies, and procedures in the organization and taking people out of their comfort zones. We are asking them to think of their connection to the world around them, locally and globally. We are asking them to think beyond traditional philanthropy.”
—Credit union interviewee

Leadership credit unions, thus, often develop overarching lending, investment, and sourcing guidelines aligned with their cooperative,
environmental, and ethical values as a means of integrating their sustainability ethic throughout the organization and fostering alignment throughout their operations. Inspired by the Co-operative Bank, which developed its Ethical Stance in 1992, many adopt board-approved frameworks to embed their sustainability principles in their core business operations.

The implementation phase naturally continues throughout the time frame of the sustainability strategy, typically from one to three years. Meanwhile, another three steps unfold along the sustainability path, which are as important as the first seven in ensuring successful implementation and sustainability progress.

**Step 8: Monitor**

As with any business plan, it is important to regularly monitor your progress. Are you achieving your goals? Are you securing the results you anticipated? Monitoring is a job for management and the board to ensure performance is regularly tracked and reported. The measurement system you set up in the implementation phase (Step 7) should help you in this regard. However, there is little mystery surrounding this phase; boards and management are very familiar with the tools of performance monitoring.

A few sustainability touchpoints include the desirability of measuring attitudes toward sustainability, the degree to which sustainability is integrated throughout the organization, and the degree to which principles and policies are adhered to in practice. Some yes-or-no
questions that show up in employee engagement surveys, for example, include:

- I am aware of and understand the sustainability strategy/policy and its core components.
- I believe my organization is making progress toward the implementation of the strategy/policy.
- The strategy/policy makes me feel good to be working for the organization.
- I believe the organization acts in alignment with the sustainability policy.
- I feel comfortable raising sustainability issues in the workplace.
- I believe my organization is a champion of sustainability to the community.

The organization can conduct similar reviews with its other stakeholders—members and community representatives, for example. Their views can be helpful in identifying new opportunities and changing expectations. The results of these reviews can be used to inform continual improvement in the sustainability strategy and

**HOW TO MONITOR PROGRESS**

Vancity tracks the percentage of employees and members who agree that the credit union uses its resources and expertise to benefit the community and the environment.

Mecu tracks the top 10 attributes members associate with mecu, including whether it practices socially responsible banking and is community-focused. Employee questionnaire items include: My immediate supervisor is enthusiastic about mecu’s commitment to sustainable development; mecu balances environmental and economic considerations effectively; I understand why mecu is embracing sustainable development; I support mecu’s commitment to sustainable development; I think mecu is taking active steps to become more sustainable; and I have a good understanding of sustainable development.

Assiniboine tracks the percentage of members who say it is important for the credit union to demonstrate a commitment to CSR, including sound environmental practices, serving the underserved, fair hiring and employment practices, and offering socially responsible investment choices.

Alterna has asked members about their overall satisfaction with Alterna’s efforts to conduct its business in a socially and environmentally responsible way and whether they agree with the following statement: “I trust Alterna to make socially and environmentally responsible business decisions.”
green budgeting at missoula federal credit union

A staff group at Missoula called the Green Team has a mandate to factor in environmental benefits when preparing their budget proposals: “Include all costs, initial and continuing, as well as describe the benefits to the environment. When possible, proposals should offer a comparison to traditional methods for costs and environmental impacts.” This approach to cost-benefit analysis allows the credit union to consider long-term economic paybacks on some of their upfront environmental investments.

Step 9: Report

Sustainability reporting is an important aspect of sustainability management and accountability. Much as credit unions are accountable for their financial performance through their audited financial statements, sustainability reporting can be a means of providing accountability on their social and environmental performance and impacts. Vancity and Alterna credit unions are global pioneers in sustainability reporting, helping to test the models of transparent disclosure to stakeholder groups. Ten years ago, when they started reporting in this fashion, there were no guidelines to inform their approach; today, credit unions can avoid reinventing the wheel by following the emergent international standard for sustainability reporting, known as the Global Reporting Initiative Guidelines, or GRI. Credit unions can use this standard as a tool to inform their approach to sustainability reporting. The litmus test of effective reporting is whether the organization reports its achievements and its shortfalls—known as “warts and all reporting.” Organizations that follow this key principle of disclosure will earn respect and build trust and loyalty among its stakeholders. The report should be a fair and complete picture of the organization’s social and environmental performance—it is not a marketing tool to communicate the organization’s community contributions.
The typical report starts with a statement from the CEO and chair of the board, followed by a description of the report’s scope and the methods by which sustainability issues were prioritized for inclusion. How the organization governs and manages its sustainability commitments and policies is a common feature, as is an “at a glance” summary of the organization’s key sustainability indicators and its progress in achieving the targets and goals it set for itself. Then, organizations typically structure their reports to communicate their sustainability performance in the areas of the environment, the community, employees, customers, and other important topics selected by the organization.

In scoping their sustainability reports, often the organization will consult stakeholders on key topics they would like to see covered. Some organizations put together “stakeholder maps” of their key stakeholders in order to take their perspectives into account in the development of the report. This step can help inform the credit union’s thinking regarding the report’s target audience, which typically includes employees, members, and the community but can also include regulators and the credit union system at large, among other stakeholders.

In the interest of ensuring their reports are aligned with stakeholder priorities, organizations often share draft copies of the report with stakeholders in advance to identify areas where disclosure could be improved. A few credit unions even have their reports verified as authentic by a third party.

The key to sustainability reporting is to think of it as a communication vehicle through which the credit union is disclosing progress on its sustainability strategy and its key social and environmental impacts, regardless of whether or not those impacts are being actively managed by the organization. In other words, the report answers the question, “How are we managing sustainability?”

The GRI reporting process may seem daunting to some credit unions. It is intended to serve as a guideline and not a prescription for reporting, however. Credit unions will likely find the metrics and measurement protocols helpful because they won’t have to reinvent the wheel and because their reports and progress can be readily compared to other organizations within and across industries. Consider

**Alternna produces a biannual CSR Accountability Report, the purpose of which is “to report on Alternna’s social, environmental, and financial performance to the members, clients, and communities served by Alternna Savings.” The credit union has a social audit task force, chaired by a board member, whose job it is to provide input into the scope of the report and recommend it to the board of directors.**
starting with a few key subjects and expanding your report over time as you gain experience.

Organizations typically find that the process of sustainability reporting can be instrumental to enhancing their overall sustainability management and to identifying areas for improvement. As a risk management tool, it can also help to flag areas of underperformance and weakness that were previously unacknowledged. (A URL for Vancity’s approach to accountability reporting can be found in the Resources section.)

Some organizations are beginning to combine their sustainability reports with their annual reports, to more effectively communicate an integrated approach to sustainability management. This is likely to become more common in the future.

**Step 10: Improve**

Having toiled through the process of putting together a sustainability report, organizations become ever more familiar with areas of strength and weakness. They are able to benchmark their performance to their peers and competitors, and this can become a tool to identify opportunities for improvement. Over time, the credit union will be able to monitor performance trends and ratios—much as it does on the financial side—and this can help to flag opportunity and risk areas in the credit union’s sustainability performance. Lessons learned can be institutionalized into the way the credit union conducts its business and incorporated into future phases of the credit union’s sustainability strategy. Quantification of the cost savings achieved can be used to fund future strategic investments. And, of course, this is the time to also celebrate the credit union’s progress along the sustainability path.

Credit unions will recognize this as a cyclical process. A continuous improvement orientation will ensure the credit union keeps embedding the learning and adapting its targets and goals to address new realities. Sustainability is often described as a journey, not a destination. Once the credit union has gone through these 10 steps, it will likely go through a process of recommitment, vision renewal, R&D, priority-setting, implementing, and reporting, but presumably from a deepened and more aware starting point.
Critical Success Factors for a Sustainability Strategy

The research associated with putting this guide together revealed the following critical success factors in developing and implementing sustainability strategies on the part of the case study credit unions:

- **Vision.** A vision for where you are going; alignment with and link to the mission, vision, and values of the credit union.
- **Business case.** An understanding of the business case and benefits of sustainability and the link between sustainability and the credit union’s success.
- **Commitment.** Board and management commitment, understanding, and buy-in.
- **Dedicated staff.** Staff who have been assigned responsibility for development and implementation.
- **Staff engagement.** Opportunities for staff across the organization to become engaged in the effort; staff training.
- **Implementation plan.** A plan that sets out goals, tactics, and targets to implement the sustainability vision.
- **Incentive systems.** Performance systems that reward and recognize sustainability efforts.
- **Communication.** Ongoing communication of sustainability progress and efforts.
- **Performance reporting.** Regular transparent disclosure of the credit union’s sustainability performance.

As your credit union arrives at the “improve” step of the sustainability strategy road map, you will likely identify similar underlying conditions as being critical to your successful journey. The road map’s 10 steps are designed to help you anticipate these requirements and ensure your approach is built upon the lessons of credit union pioneers around the world.
With declining natural resources, urban sprawl, and a widening gap between the rich and poor, the financial services sector faces significant shifts in the demand for and delivery of its products and services. Look for considerable innovation and experimentation—sometimes with credit unions in the lead—as financial institutions reevaluate their role as economic engines.
The case study credit unions were asked to comment on the future of sustainable finance and the implications for American credit unions. Some had a big-picture view, believing that the critical sustainability issues for financial institutions—and, by implication, credit unions—are global in nature. Financial institutions are perceived as being on the front line of sustainability—a future state in which human social and economic activity is in harmony with natural ecosystems. Their primary economic role is to facilitate commerce and thereby foster increased consumption and growth, aspects that are fundamentally in conflict with sustainability in that they generate pressures that the environment cannot sustain over time and can foster the growing divide between the rich and poor. Thus, some interviewees identified issues around finance’s role in fostering sustainable consumption, sustainable real estate development, and sustainable lending. Questions of whom we lend to, what type of house or car we finance, and the nature of the goods and services we provide credit for will become more central in the future.

Today, there is experimentation with these ideas on the margins—the carbon and biodiversity offsets provided by credit unions profiled in this study, for example. These are effectively measures that aim to restore the environmental systems that are being degraded through household and business economic activity. The emergence of credit union ethical lending and investment policies and the banking sectors’ Equator Principles are indicators of what the future might hold in this regard. The Co-operative Bank’s credit card, which creates incentives for “ethical purchases,” is another leading initiative. Green and social product innovations are early ventures into this terrain as well. And socially responsible investment products that have been around for a long time are part of this future business model, in which member investments are channeled into corporations and

“Sustainability will be a filtering mechanism for financial and other decisions made by credit unions and other financial institutions.”

—Credit union interviewee
industries that are reducing their negative social and environmental impacts.

“Our core business of financing houses and even cars has a negative effect on the environment. Everything we do and the areas we finance have the opportunity to make a positive or negative difference in the community.”
—Credit union interviewee

Many financial institutions are becoming engaged in carbon markets, providing investment, insurance, and derivative products as carbon trading expands globally. Other financial firms are launching clean-tech venture capital funds for investors to finance emergent environmental technologies. On the social side, global financial institutions are increasingly playing a role in expanding microcredit finance and creating opportunities for their investment clients to earn both social and economic returns.

Forward-thinking financial institutions are expected to be leveraging their core competencies to contribute to resolving the environmental and social challenges of our time, the priorities being climate and poverty. Innovating organizations are mapping out this terrain, including Ecosystem Marketplace, which has calculated the potential size of ecosystem markets, including the future financial value of biodiversity offsets, water quality trading, carbon trading, etc. (see “Payments for Ecosystem Services: Market Profiles,” a 2008 report by Forest Trends and Ecosystem Marketplace).

“The issue of sustainable consumption is important, as we are losing biodiversity, habitat, and precious ecosystems.”
—Credit union interviewee

The Microcredit Summit (www.microcreditsummit.org) is a global effort to scale up microfinance to ensure that 175 million of the world’s poorest families receive credit for self-employment and other financial and business services by the end of 2015 and that 100 million families earn more than a dollar a day as a benefit of microfinance.

At the credit union level, some interviewees predict that the focus will be not on whether to engage in sustainability, but on how to do it smarter and more strategically, and on how to integrate it into business strategies and operational decision making. The thinking here is that sustainability will become mainstream—it will be part of risk management and part of the credit union’s responsibility as a
community-based organization. Sustainability will not require special attention and special management systems—it will become part and parcel of how business is done on a day-to-day basis.

**Conclusion**

Sustainability is a key business trend impacting sectors and firms around the world. Social and environmental risks, challenges, and opportunities are impacting the business model, and many organizations are rethinking their approach to how they manage their social and environmental performance to create business value. Credit unions are no exception. Member-centric, community-based, and democratically organized, credit unions are attuned to the principles that are being defined to propel industry along a more sustainable path. However, more and more credit unions are finding that their principles and values are not enough. They need to proactively manage this side of their business in order to generate greater returns and to better position themselves in the marketplace as the leaders they are.

This guide has sought to unpack the basics of developing and implementing a sustainability strategy for credit unions so that those who see the business case of managing their social and environmental performance have a framework they can follow. As with any road map or guidance tool, it is important to adapt it to your own purposes. Many credit unions will find that they already have many good practices in place that they can leverage. This will be a sign that they are on the right path. The credit unions profiled in this guide by and large operated in a vacuum, experimenting, innovating, and often leading in their local markets. There is enough common practice in the credit union movement that it is now possible to disseminate the core approach to developing a sustainability strategy, as demonstrated in this guide. It is hoped that there will be something new here for every reader, whether they are just beginning the sustainability journey or are more advanced practitioners.

It is important to bear in mind that this is not a new direction for credit unions, but a deepening of their natural talents and contributions to community. As other industries catch up to the bar credit unions have set since their founding, it is now time for the sector to capitalize on their cooperative strengths to create the new value proposition for sustainable finance at home and around the world.
Case Studies

Globally, credit unions have been among the leaders in framing corporate social responsibility and sustainability. The following profiles of eight credit unions—three from the United States, one from Australia, and four from Canada—provide rich material for credit unions on a similar path to managing their social and environmental performance for greater results and enhanced employee, member, and community impact.

These profiles reveal that the Canadian and Australian case study credit unions have more advanced practices than their American counterparts when it comes to sustainability strategy and management and governance systems. It is interesting to speculate as to why this might be so, but judging from the author’s research and experience, the four international credit unions have interlocking connections and relationships. They have contacts with each other and are able to learn from each other.

Additionally, the four international credit unions are tapped into and part of the global international sustainability community, from which they can keep abreast of best practices. Further, these credit unions have been serving geographic communities for many years, and as such draw their board members from very diverse constituencies, including those with community and environmental leanings. In their quest for a unique value proposition to serve broad urban markets, the international credit unions have honed their expertise and insights into the ethical consumer market, where they are tapping into opportunities to create member and community—and thus business—value.

American credit unions, for their part, could similarly benefit from fostering closer connections among their fellow credit unions on the sustainability path, sharing their findings and lessons with each other. These credit unions can also leverage the models of their international cousins in Canada and Australia, so they needn’t reinvent the wheel and can capitalize on the investments these credit unions have already made in testing this new approach. This, after all, is the credit union and cooperative way, where pilots in one area of the credit union system are shared to create economies for others.

American credit unions with an eye toward trends in the consumer marketplace would do well to understand and prepare for these developments in the retail banking space. Given the fractured global economy and declining consumer trust, those credit unions able to
retool their business model to take social and environmental impacts and opportunities into account are likelier to succeed in the demand- ing markets ahead.

Bethpage Federal Credit Union

Location: Bethpage, New York
Assets: $3.6B
Founded: 1941

History and Status of Bethpage’s Sustainability Initiatives

Bethpage became community chartered in 2004 and at that time committed to becoming the premier community financial institution on Long Island, where it is headquartered. Their founding philosophy was, “If we are going to ask for business from the community we need to give back to the community.” The environmental prompt came from a community organization that sought out the credit union as a community partner. Its initial community charter plan, or strategic plan, set a goal to open one in four branches in underserved communities. The credit union has already exceeded this goal, with 8 of its 23 branches in underserved communities. One of its most recently opened underserved branches is in Roosevelt, New York, which has one out-of-town commercial bank and whose residents have been hoping for more banking services for 20 years. The credit union is using land cleaned up from a brownfield property (environmentally contaminated, underused commercial property) for the site.

At the outset of Bethpage’s founding, a number of its executives joined a few business groups to better understand the needs of the community, outreach was conducted in communities where branches were planned, and nonprofit leaders were contacted to identify the key concerns of the underserved in the area, such as homelessness, food banks, affordable housing, and underserved families. Scans were conducted of community development best practices of competing financial institutions to learn how best to leverage a community commitment.

It was originally determined to focus on media and branding to communicate the credit union’s social responsibility to its marketplace. This has become a marketing program called “The Heart of Bethpage,” which is the brand name given to its community initiatives. Central to the brand is the credit union’s signature initiative in which it selects four charities a year to be the recipient of a three-month print and radio advertising campaign. In addition, the credit union incentivizes Long Islanders to open a new account, which generates a $25 donation in the member’s name to the profiled charity. This has resulted in positive brand results for both the credit union and
the charities, with the community organizations benefiting from increased corporate support, volunteers, and new business.

Bethpage is engaged in affordable housing initiatives on a number of fronts, including participation in housing coalitions that promote affordable housing developments in the community. It also offers unsecured home equity loans at discounts to help members with housing finance. To further help with personal financing, the credit union offers a personal loan with a 50 bps discount for smaller purchases, a more affordable credit card alternative.

Bethpage’s financial education programs include a full-time financial education counselor to help members with individual and household budgets, credit issues, and long-term planning; and a Volunteer Income Tax Assistance Program, which provides free tax preparation for those who cannot prepare their own tax returns. The credit union has also played an advocacy role on equity issues, working with a local congresswoman to introduce legislation that would require tax preparers to disclose to their low-income customers that they have a free alternative, such as that provided by the credit union. Bethpage also offers mobile income tax assistance, providing on-site services at several nonprofits and businesses to reach those individuals who cannot get to a branch.

There is a strong ethic of volunteerism at the credit union, supported by the Bethpage Employee Volunteer Program, which grants staff up to three paid work days per year to volunteer for community organizations. Volunteer hours are tracked across the credit union, with 1,400 hours logged in 2008. The credit union is targeting 2,000 hours in 2009.

From time to time Bethpage provides seminars for not-for-profit organizations on board governance, budget management, and strategic planning. As an offshoot of this initiative, the credit union funded 19 nonprofit representatives to go to Washington, DC, to build relationships with decision makers and learn how Washington can help their community. As a result of this program, called “Fly-in,” a number of organizations benefited from government concessions and grants to further advance their missions.

When Bethpage launches a new initiative, it holds a series of roundtables with a large group of stakeholders, including businesses, nonprofits, community leaders, and governments, to identify key priorities. Over a six-month period, the credit union drafts a plan, receives and accommodates feedback, and launches the initiative with community support. It has done this successfully with, for example, the Latino community in order to develop an effective Latino outreach strategy.
As part of its community development mandate, Bethpage invests in other credit unions, putting money into their low or 0% interest CD products. The credit union also has $4M invested in the New York Credit Union Foundation to help it in its mission to support credit union development.

The credit union is in the early development stages of its environmental programs. Internally, the Facilities department is focused on improving the credit union’s environmental performance, including reducing paper use, and pursuing LEED certification as retrofits or new builds are contemplated.

Externally, Bethpage participates in two green initiatives, one in which it collaborates with and provides financing for a community campaign whose goal is to retrofit 17,000 homes in a suburb—the oldest suburb in the United States—with energy-saving equipment and home improvements at reduced cost and reduced financing rates, thereby reducing the area’s carbon footprint by 10%. The second partnership provides reduced-rate financing to homeowners for energy-saving home improvements, jointly promoted by the credit union and an environmental organization.

Sustainability Management and Governance System
The board’s Marketing Committee reviews and approves the credit union’s community development initiatives, while annual plans are approved by the overall board of directors. An assistant VP of community development manages the community portfolio, supported by three full-time employees in the Community Development department. The AVP reports to the VP of corporate development and government relations, who allocates about one-quarter time to community development initiatives. At this time, there is no lead staff member or strategic plan for the credit union’s environmental efforts, which are still in their infancy.
Missoula Federal Credit Union (MFCU)

Location: Missoula, Montana
Assets: $300M
Founded: 1956

History and Status of MFCU’s Sustainability Initiatives
Missoula Federal Credit Union (MFCU) has had a long-standing approach to social responsibility, including the provision of community grants and a donation-matching program (up to $100) for employees who want to financially support their favorite organizations. The credit union has a strong culture of employee volunteering, which it encourages through an employee volunteer program in which staff are given four hours of paid time per year to volunteer in the community.

The credit union focuses its social responsibility on financial literacy and youth. A full-time financial counselor provides members one-on-one financial counseling; payday alternative loans are also available. Presentations and workshops on financial education are provided for youth in the county by a full-time youth coordinator. A $1,000 youth certificate is offered that matures when the child turns 18; if the youth completes a series of financial education seminars, the certificate earns 10%, 8% more than a traditional deposit certificate. Additionally, some of the credit union staff are involved in affordable housing efforts in the region.

MFCU expresses its social responsibility philosophy on its Web site as “providing support for initiatives that are consistent with the credit union philosophy of improving credit union members’ well-being, promoting the credit union ideal of co-operative self-help, and bringing about human and social development.” These socially responsible programs are ongoing while over the past three years the credit union has begun to evolve its approach to its environmental responsibility. This started in 2007, with the CEO becoming interested in the opportunity to build a green branch; a year later, in 2008, the credit union opened the doors to one of two LEED Platinum buildings in all of Montana. The credit union calculates the green premium on the building as 5%–7%. However, operating costs have been reduced by $20,000 a year, generating an ROI on its initial capital outlay.

Since 2007, when MFCU committed to building a green branch, the credit union has launched a number of environmental initiatives, some internal and some member-facing:

- Created a green draft account that offers electronic statements, eliminating the paper, processing, and transportation costs of traditional statements. The credit union overall has close to 63%...
share draft penetration, of which about 70% is attributable to its green draft account.

• Created an employee Green Team to evaluate, suggest, and implement green policies and practices.

• Holds annual Sustainability Fairs in conjunction with the annual meeting to provide information to members about how to make their daily choices more eco-friendly.

• Held a Member Shred Day to allow members to bring their paper to be shredded and recycled (over 2,800 pounds of paper was saved from the landfill at the first event).

• Switched to printing messages directly on statements, rather than inserting a paper stuffer in member mail-outs.

• Piloted the installation of electronic signature pads at one of its branches, avoiding the need to print loan documents for signature. The pads will be rolled out to other branches over time.

The credit union’s social responsibility is part of its cultural fabric and thus is not considered a strategic program, while its environmental initiatives have been conceived and developed organically. Environmental sustainability is, however, a named deliverable in the credit union’s business plan, elevating this aspect of the credit union’s business to a higher-profile priority.

**Sustainability Management and Governance System**

MFCU has formalized its environmental mandate in its current business plan, under its human resources section, as “form a Green Team, brainstorm ideas, and evaluate ways to be more green, more productive, and reduce expenses.” The Green Team adopted formal bylaws in 2008 to guide its role, which is to promote, educate, and engage MFCU staff and communities in environmentally friendly strategies, and to form and/or assess strategic proposals relating to environmentally friendly practices. The Green Team is given guidance on how to present proposals—an environmental budget management framework—to “include all costs, initial and continuing, as well as describe the benefits to the environment. When possible proposals should offer a comparison to traditional methods for cost and environmental impacts.” There are five to eight members of the team, all of whom are volunteers from across the organization, including two management liaisons who report to executive management on the team’s progress. The Green Team holds monthly meetings, which take place virtually through phone conferencing when possible. Employees are encouraged to submit suggestions on how to make MFCU more green through a virtual suggestion box (greenidea@missoulafcu.org). The Green Team discusses these ideas with appropriate managers at their monthly meetings to determine
the feasibility of implementing them. The Green Team may reward contributors with recognition or a nominal gift.

The green efforts at MFCU are the overall responsibility of the SVP of marketing and branch development and the SVP of finance and IT; the social initiatives are under the purview of the SVP of marketing and branch development. MFCU’s social and environmental initiatives are supported by staff resources across the credit union of three to four full-time equivalents spread over six positions, plus the Green Team.
Whatcom Educational Credit Union (WECU)

**Location:** Bellingham, Washington  
**Assets:** $595M  
**Founded:** 1936

**History and Status of WECU’s Sustainability Initiatives**

Whatcom Educational Credit Union (WECU) began a process to formalize its strategic sustainability journey in 2006 when the board of directors became interested in the opportunity to provide banking services for immigrant and neglected communities in the credit union’s region. The decision was made to create a position that would be responsible for coordinating social outreach to these groups, identifying their key social and banking priorities and helping them become better integrated socially and economically. A social responsibility manager (marketing representative/social responsibility) was hired the following year, and the sustainability portfolio has been building since then.

The initial phase involved outreach to community leaders to identify key issues and priorities and potential partners on community initiatives. In terms of social responsibility, the credit union established three priorities: Hispanic outreach, Native American outreach, and financial literacy. Over time the program has expanded to include financial education and wellness, including free financial counseling, high school money management presentations, grants, strategic community sponsorship, and, more recently, the environment.

In terms of its community initiatives, WECU is part of an asset-building coalition of community groups, private industry, and government, developing initiatives to raise the asset levels of the most needy. Building on the success of its tax initiative, in which it provides staff volunteer support to assist with free tax filing services, the credit union is now starting to train case managers on helping its low-income clients avoid predatory lenders, open bank or credit union accounts, and other financial education matters. It is hoped that by building the capacity of frontline nonprofit staff, the credit union can leverage its core competency in financial literacy to other organizations, thereby widening its impact. Additionally, WECU accepts government cards that allow consumers to access government funds such as social security and basic food benefits. It also makes its education center available to nonprofit groups free of charge as a community service. The credit union is focused on building partnerships with community organizations whose goals are moving people out of poverty through financial literacy and supporting children’s early years to provide them better prospects in life.
WECU’s environmental initiatives arose due to an internal champion who was very involved with a local sustainability-oriented nonprofit organization on personal time. This has evolved to the point that the credit union has a community partnership with the nonprofit, including grant and seed funding of new environmental initiatives such as a Buy Local campaign. As support for environmental leadership grew in the credit union, WECU committed to the development of a LEED Gold branch that became the first privately funded Gold LEED–certified building in its county, later followed by two new branches that qualified as Silver LEED. It worked with a local nonprofit to monitor energy usage on its older facilities and identify improvements; as a result, the credit union has initiated energy efficiency retrofits for its older buildings. WECU promotes alternative transportation to its employees by raising awareness about a local organization that provides incentives for car alternatives for employee commuting. WECU is interested in continuing to build out its environmental initiatives and is exploring the opportunity of providing green loan products to its members.

Sustainability Management and Governance System
The board of directors has had a Social Responsibility Committee since the late 1990s, with a mandate to review strategic grants, community partnerships, and sponsorships. The board and executive receive a report on the credit union’s social responsibility activities as part of the monthly marketing report; social responsibility is housed within the Marketing department. The social responsibility representative reports to the VP of marketing. While there is no formal social responsibility or sustainability policy, the credit union’s culture supports staff participation in social responsibility initiatives proposed by the social responsibility representative.

WECU has been able to advance on its social responsibility initiatives in part because of the internal structure that focuses on deliverables. The dedication of a staff position, the reporting structure, and the board’s Social Responsibility Committee help the organization prioritize the strategic initiatives and partnerships that have the greatest value for the credit union and the community. Environmental initiatives are not part of this management framework and are currently initiated through more ad hoc processes.
mecu Limited
Location: Kew Victoria, Australia
Assets: $1.52B AUD
Founded: 1957 originally (mecu was formed in 2003 by way of merger)

History and Status of mecu’s Sustainability Initiatives
In the late 1990s and early 2000s, mecu grew exponentially as a result of a number of mergers. Due to this rapid growth, the credit union found itself unable to articulate its competitive advantage or core purpose. With each merger, credit union staff increasingly began to question what differentiated the credit union from its traditional banking competitors. Board, management, and staff were in agreement about the need to clarify how the credit union created value for its members. Thus, in 2002, the credit union initiated a review of its business, starting with research into how other mutuals had tackled this question. An international study tour was conducted of leading sustainable finance institutions, including, among others, Vancity Credit Union and Citizens Bank in Canada, the Co-operative Bank in the UK, and Triodos in the Netherlands, in order to identify the “sweet spot” of member value. The major conclusion of the best practice benchmarking was that it was possible and desirable to achieve scale while fulfilling the core principles that accompanied the creation of the cooperative and credit union movement: advancement of social capital and social activism to help advance progress in society. The credit union thus embarked on a path to go back to its cooperative banking roots to develop a program for creating member value and competitive advantage.

With cooperative banking principles as its framework, mecu analyzed the key contemporary social and environmental issues that were relevant to its banking business—water conservation, climate change, high levels of personal indebtedness, affordable housing, and population growth and its impacts on biodiversity loss—and found these to be important leverage points for demonstrating the value and importance of the credit union or social enterprise business model. The credit union had also studied the Body Shop, well known for its sustainability-focused products, and wondered if it could similarly embed its values into its products, thereby helping its members align their values with their actions and investments.

The initiative was largely led by senior management, and a strategy session was held to consider management’s recommendations. To prepare for the strategy session, in addition to the study tour, a number of member and staff focus groups were formed, and research into the emerging ethical consumer movement was conducted. This background analysis revealed that there were business gains to be had by adopting sustainable development as part of the credit
union’s growth strategy. The credit union joined the United Nations Environment Program Finance Initiative (UNEP FI) and committed to follow its principles for sustainable finance. At the same time, the regional government, the State of Victoria, was establishing “covenants” with businesses that committed to improving their environmental practices. Mecu became one of the first partners to endorse a Sustainability Covenant with the government; the covenant includes commitments to increase the efficiency with which mecu uses resources to develop and deliver its products and services, to help alleviate negative environmental and social impacts through its products and services, to help members live more sustainable lifestyles, and to support developments within the finance sector that encourage others to embrace sustainability. Finally, mecu’s interest in sustainability reporting connected it to the Global Reporting Initiative (GRI), an international standard for social and environmental reporting. These three frameworks—the GRI, the Sustainability Covenant, and UNEP FI principles—shaped mecu’s approach to building its sustainability strategy and business model. Together, these commitments focused the credit union on taking a leadership position, identifying and managing its sustainability risks and opportunities, product development and innovation for sustainability and reducing its environmental footprint.

Mecu’s overarching sustainability objective is to become the preeminent socially responsible banking brand in Australia, and it is already meeting with some success: As of 2008, 87% of members agree that mecu practices socially responsible banking.

In 2004, mecu integrated its sustainability objectives into its corporate strategy; it is currently five years into its business strategy, some of the components of which are described next.

### MECU MILESTONES ON ITS SUSTAINABILITY JOURNEY

- **2003:** Became a signatory to UNEP FI (the first credit union in the world to do so).
- **2004:** Integrated sustainability objectives into its corporate strategy.
- **2005:** Published its first annual sustainability report.
- **2005:** Signed a three-year Sustainability Covenant with the government, which was extended for a further three years in 2008 (the first Australian business to do so).
The credit union is committed to becoming carbon neutral. As a socially responsible provider of finance for houses and motor vehicles, both of which produce greenhouse gases, mecu is designing features into its core banking products and services to tackle climate change; for example:

- Launching a suite of products that reduce members’ greenhouse gas emissions (see below for details).
- Development of the mecu Conservation Landbank, involving an investment in over 400 hectares of land to be used as a conservation area to offset the carbon emissions from the cars it finances and from credit union operations as well as the biodiversity loss associated with financing new home construction.
- Offering members e-statements so they can receive their statements online.

The credit union is also implementing a carbon management framework to reduce its direct greenhouse gas emissions, which—along with the energy and travel reduction efforts cited below—includes measures to reduce paper consumption, purchase recycled paper, and minimize paper sent to members.

Overall, mecu’s environmental policy articulates its approach to managing its impacts in relation to paper, waste, energy, travel, water, and land. This approach is now being formalized into an Environmental Management System (EMS), which is a planned and documented system to enable the credit union to better meet its environmental objectives and manage its environmental impacts. The mecu EMS aims to deliver environmental commitments made under mecu’s Sustainability Covenant and to continually improve environmental performance associated with activities undertaken across the organization.

In addition to paper reduction and land-banking, mecu’s key environmental initiatives include the following:

- Energy Reduction Action Plan to reduce the credit union’s energy use, including such efforts as installing timers to reduce nighttime energy consumption, installing energy-efficient lighting, upgrading PC monitors to more efficient models, and installing solar panels on the roof of the head office.
- Green Travel Action Plan, which encourages the use of the most benign transport feasible for its business (e.g., walking before public transportation, before car pooling, before driving); provides eco-Drive training in the orientation process for new employees; hosts Alternative Transport Day, where staff are encouraged to use a more environmentally friendly form of transport to get to and from work; and provides a carpooling register
on the intranet for employees to coordinate sharing the drive to work with colleagues in the local area. (With these and other initiatives, the credit union found that in 2007–2008 its overall business-related vehicle travel decreased by 15% compared to a year earlier.)

- Water Reduction Action Plan, which resulted in the installation of a rainwater tank at its head office to be used for toilet flushing and garden watering and the purchase of microfiber cleaning gloves and cloths to reduce the amount of cleaning products and water used, among other initiatives.

- Waste Reduction Action Plan, which supported initiatives to recycle plastic, glass, aluminum, liquid paperboard, and steel containers; promote organic recycling; donate excess electronic equipment and furniture to a nonprofit organization that recommissions the equipment and furniture for use by disadvantaged groups/communities; etc. Personal garbage bins have been removed from each workstation, and waste stations have been established in strategic locations to help increase the level of office recycling.

On the social side, the credit union’s Community Investment Program supports processes, events, and activities that make a positive, measurable, and sustainable difference to society. The program focuses on environment, education, science, and “beyond Australia” initiatives. Further, mecu is working with the affordable housing sector to finance affordable housing projects, develop capacity among participants in the sector, and support affordable housing policy development at a state and national level.

Mecu’s Community Support Policy outlines its commitment and approach to community support through fund-raising, payroll giving, and sponsorship activities. The credit union targets up to 4% of its budgeted post-tax profits to sponsoring community partnerships.

One of mecu’s main sustainability commitments is to develop products that make a contribution toward a responsible and sustainable society. To that end, it has developed a number of products with features that encourage members to be more environmentally responsible and that help alleviate social issues within the community. Descriptions of some of these products follow.

**Environment**

- The goGreen Car Loan offers a lower interest rate the greater the fuel efficiency and the newer the car; 100% of the CO₂ emissions produced by the car are offset for the term of the loan via mecu’s Conservation Landbank.
• The premium for a goGreen Motor Insurance policy is calculated on the basis that the insured car will be driven by no more than two covered drivers who are 25 or over, and that it will not be driven more than 10,000 kilometers during the period for which it is insured. The credit union also offers water-saving car wash kits free of charge with its insurance products.

• Homes achieving a certain energy efficiency rating qualify for the goGreen Home Loan, which offers a lower interest rate, where it is hoped that the lower rate can offset the additional cost of energy efficient additions and upgrades.

• The goGreen Home Improvement Loan offers a discount on the standard variable loan rate for environmentally friendly home improvements, such as solar paneling, wind electricity generation, grey water recycling systems, insulation, and rainwater tanks.

• Mecu's biodiversity offset on all new-home-construction loans is believed to be a world first.

Social
• The Premium First Home Buyers Loan offers a sharply discounted variable interest rate, helping members purchase their first home by reducing their home loan repayments.

• Mecu is the only credit card provider in Australia offering a 100% no-marketing guarantee. The credit union will not offer cardholders unsolicited increases to credit limits or incentives to increase cardholders’ level of spending.

The credit union’s Ethical Lending and Investment Policy outlines key lending and investment issues relating to ethics and corporate responsibility and details how mecu will ensure that ethical standards are maintained. This includes not lending money to or investing funds in activities that would be economically, environmentally, or socially irresponsible.

Mecu is also integrating its sustainability commitments into its supply chain. Sustainability requirements are incorporated into the tender process, service agreement, and contracts for all new suppliers and those undergoing renewal. In 2008, for example, mecu's mailing service, printing, marketing and agency service, and staff uniforms were changed on the basis of pricing and environmental improvements offered by competitors.

Sustainability Management and Governance System
Mecu is guided by its overall aim—to be become the preeminent socially responsible banking brand in Australia—and its values, which state that it will:
• Treat its members with dignity and respect.
• Value, encourage, and support its employees.
• Operate ethically and with integrity.
• Apply prudent financial and business practices.
• Be economically, environmentally, and socially responsible.
• Care for its communities.

To embed its sustainability ethic throughout its operations, mecu has adopted board-approved policies on community support, environment, ethical lending and investment, and stakeholder engagement, which are reviewed annually.

The board’s Sustainable Development Committee meets quarterly and provides advice and recommendations to the board on matters relating to its responsibility for ensuring that mecu’s values and stakeholders’ expectations are reflected in its policies and practices.

Rather than having one executive be responsible for its sustainability commitments, mecu gives the CEO and senior management team overall shared responsibility for embedding sustainability principles within the business and delivering strategy and leadership, product development, overall management, commercial oversight, stakeholder engagement, community partnerships, and sustainability communications. All senior executives have sustainability incorporated into their job descriptions, performance contracts, and remunerations. In this way, sustainability is recognized as a core part of the credit union’s business performance.

To foster employee buy-in and participation, a staff member from each division is nominated to participate in the Staff Sustainability Reference Group, called Footprints. The group is responsible for helping to champion and implement appropriate sustainability projects and initiatives across the business. Footprints is supported by a Sustainability Advisory Network made up of representatives from each of the credit union’s business locations. This network ensures that sustainability initiatives are implemented across the credit union and provides a channel for becoming more sustainable and meeting its sustainability commitments. The committee and network are currently supported by the general manager of operations, who is responsible for coordinating and providing support for mecu’s approach to sustainability across the organization. All general managers take turns performing this role.

Sustainability is further embedded in the business model by incorporating sustainability aspects into the core competencies established for staff, by including sustainability in new staff orientation, and by requiring all staff to take a one-hour training course. Staff are also required to complete an annual competency assessment that includes
a range of operational issues, including knowledge on sustainable development (e.g., “Name four mecu products that achieve social or environmental outcomes,” “What does Sustainable Banking mean?” and “What are the four levels that make up mecu’s Sustainability Governance Structure?”). Thirteen sustainability questions are asked for a total of 46 points in the overall assessment tool.

The credit union continues to focus on delivering on its sustainability commitments and is increasingly confident that this is the business model of the future for credit unions. It has witnessed record levels of member retention and satisfaction, profitability, organic business growth, and employee engagement and satisfaction since it started down this path. As part of its covenant goal to support developments within the finance sector that encourage others to embrace sustainability, mecu is supporting national and international system efforts to raise credit union awareness of this business approach. The credit union sums up its belief this way: “If credit unions don’t start from a place of values they can’t create value.” Its member satisfaction levels are a testament to this belief, at 94% in 2008, not to mention a member retention rate of 99%, while its world’s best practice levels of staff commitment and engagement are further testament to the value of adopting a values-based approach to banking.
History and Status of Alterna’s Sustainability Initiatives

Alterna has had a long and sustained commitment to social responsibility, particularly evident in the roots of its founding credit unions. About a decade ago one of the antecedent credit unions sought to focus its social and community programs to generate greater impacts. It started a process to formalize and communicate its efforts. This evolved into what it initially called the four-piller approach, which became five pillars five years later when the environment was added. Today the five pillars are community economic development, financial literacy, environmental sustainability, accountability, and philanthropy. All of Alterna’s sustainability efforts are advanced under this framework, which was guided by a priority to leverage its investments in areas aligned with Alterna’s core competencies as a credit union. It sees its role in CSR as a means to create shared value for the credit union and broader society. Thus, it focuses the bulk of its community engagement on community economic development and financial literacy, which generate increased business and member loyalty for the credit union and social and economic benefits in the region. The philanthropy pillar allows the credit union to maintain its involvement in traditional and undifferentiated philanthropy, though it understands that its ability to generate impacts in these areas is limited compared to that of its banking competitors with their considerably greater charitable donation budgets.

In 2007, on the heels of a merger between Alterna’s predecessor credit unions, the board of directors and management developed a five-year sustainability strategy in which they set goals and targets for the five pillars. The strategy session focused on how the credit union could leverage its unique capabilities against the issues where it could have the greatest impact. It is three years into its five-year strategy.

Currently the credit union is baselining its environmental impacts in order to identify goals, targets, and key performance indicators to reduce its environmental footprint. It is partnering with a local university to develop some community economic development measures to guide its strategy.

From time to time Alterna establishes task forces to delve deeper into the CSR priorities of the credit union, such as accessibility, youth engagement, and diversity. The task force process usually takes about six months to consider the issue and make recommendations to the board’s Member Relations Committee. The credit union is currently
establishing a consumer advisory panel of members and nonmembers who will be consulted on business and CSR issues on a monthly basis as a means to get input into the credit union’s business and CSR direction.

The credit union tracks its member and community investments; in 2007 it reported that “eighty-five cents of every dollar invested in the credit union is returned to our members in the form of loans and mortgages. And a significant percentage of our annual profits (2%) are reinvested in local community activities.”

Following are some of Alterna’s key CSR initiatives and programs.

Social
• The Community Micro Loan Program provides credit to micro-entrepreneurs to start and build their businesses, while the Immigrant Employment Loan Program provides credit to newcomers for Canadian training and accreditation in their occupation.
• For its financial literacy program, the credit union hosts financial education and networking events aimed at helping aspiring entrepreneurs manage their small businesses successfully. It also partners with government and community organizations to provide financial literacy workshops and materials to help new Canadians plan for their life in Canada.
• The Spare Change Program allows members to donate the “spare change” in their accounts (the amount under $1) to one of three pools of funds for community projects in the areas of children’s issues, the environment, and homelessness. More than 4,500 members participate annually. The program generated over $13,000 for distribution in 2008.

General CSR
• Scholarships and awards:
  ▪ Offers two university scholarships in Social Responsibility Leadership and Social Economy while supporting student-led social economy and CSR projects at the two universities.
  ▪ Co-sponsors two provincial awards to honor Ontario credit union members for promoting social responsibility and/or sustainability in credit unions. Along with the recognition provided by the award, $2,500 is donated on behalf of the recipient to the charity, organization, or project of their choice.
  ▪ To encourage employee involvement in CSR, the credit union has an award for employee leadership, called “CSR Idol.” Staff members nominate those they think have
contributed to the credit union’s CSR efforts, and the nominees are voted on by members at the annual meeting and online. The top CSR Idol is given the opportunity to travel to a developing country to work on credit union development. Runners-up are provided the opportunity of working on a local Habitat for Humanity affordable housing project.

- Offers its members socially responsible investment (SRI) products and is a member of the Canadian Socially Responsible Investment Organization to promote SRI in Canada.

**Environment**

- Investor in WindShare, a wind co-op that develops locally owned wind power projects.
- Held a carbon neutral Annual General Meeting, purchasing trees to offset the CO₂ emissions from staff, board, and member travel to the event. The speaker was from Al Gore’s Climate Team, and climate-friendly giveaways were handed out.
- Offers members the Alterna GreenSaver Improvement Loan, which provides low-cost financing for energy retrofits to members’ homes and businesses in partnership with a community organization.
- Targets recycling, waste generation, and electricity consumption at branches and corporate offices.

**Sustainability Management and Governance System**

Alterna’s board of directors adopted a CSR policy in 2008, which it reviews annually and updates as required. It lays out the credit union’s CSR philosophy and commitment, which is defined as “an organization’s commitment to operate in an economically, socially, and environmentally sustainable manner, while recognizing the interests of its stakeholders, including members, employees, business partners, local communities, the environment, and society at large.”

The board of directors’ Member Relations Committee has overall governance responsibility for the credit union’s CSR strategy and policy. It also oversees the credit union’s accountability report and reviews and monitors stakeholder relations. The nominating committee considers CSR competencies when undertaking director recruitment. The overall board of directors sets the CEO’s CSR goals and ensures there is a program in place for board member education on CSR. The credit union also has a Donations Committee comprised of two board members, two non-management staff, and two members at large recruited via branches and newsletters and selected by the board’s Member Relations Committee. The Donations Committee makes decisions regarding the philanthropy pillar of the strategy.
According to the board director’s list of responsibilities, the director is expected to model and promote credit union and socially responsible values in all board discussions and actions, foster linkages with the credit union sector and the broader cooperative movement, and foster linkages with local community organizations on issues of common concern as stipulated in the governance policy.

At the management level, CSR is the overall responsibility of the SVP of marketing, communications, and CSR. That executive is supported by a full-time CSR manager and two microcredit lenders. Internally, there is an Environmental Sustainability Committee comprised of employees and chaired by the SVP of marketing, communications, and CSR. The committee’s job is to review the credit union’s environmental footprint, develop a long-term action plan, and take advantage of some quick wins within the organization.

Alterna has been producing a biannual CSR Accountability report since 1993, the most recent of which is from 2006–2007. The purpose of the report is to “report on Alterna’s social, environmental, and financial performance to the members, clients, and communities served by Alterna Savings.” The credit union has a Social Audit task force—chaired by a board member, with another board member, senior manager, and members at large based on their CSR qualifications—whose job it is to provide input on the scope of the report and recommend it to the board of directors.

The credit union’s CSR strategy is housed within the marketing strategy and reported on regularly to the board of directors. The credit union is developing measurement systems for managing, monitoring, and reporting on its CSR progress. One of its top CSR performance indicators is member satisfaction with its CSR efforts. As part of its ongoing review of its CSR performance, the credit union tracks member satisfaction with Alterna’s efforts to conduct its business in a socially and environmentally responsible way. In 2006, 83% of members said they were relatively satisfied. In 2007, 77% of members agreed that they trust Alterna to make socially and environmentally responsible business decisions.

Alterna applies an ethical screen to its investments, partnerships, and suppliers. It modeled its screen on the credit union system’s socially responsible investment company’s investment screening program (Ethical Funds).
Assiniboine Credit Union (ACU)
Location: Winnipeg, Manitoba, Canada
Assets: $2.5B CDN
Founded: 1943

History and Status of ACU’s Sustainability Initiatives

Assiniboine Credit Union (ACU) attributes the emergence of its CSR strategy to a period in the early 1990s when members elected progressive board directors to champion the “greening of Assiniboine Credit Union.” One of the most important changes in the early years was the introduction of a strategic planning process that became a blueprint not just for operations but for social change. In 1996 a manager of community economic development (CED) was hired to develop partnerships with community organizations in order to advance economic opportunity in the service area. A decade later, ACU realized it needed to move beyond its CED efforts and make a broader commitment to CSR as the foundation for doing business. During a rebranding exercise, ACU committed itself to becoming a CSR leader. With a desire to move CSR forward in a broader way, in 2006 the credit union hired an executive-level CSR leader with expertise in credit union CSR strategy. That same year, members approved a merger with two other credit unions, which saw ACU double in size on January 1, 2007.

To put the CSR strategy together, the CSR vice president conducted an internal analysis of gaps, strengths, and weaknesses and identified key opportunities. As the credit union was now the product of a three-party merger, one of the first tasks was to build a common understanding and definition of CSR among employees and the board. A CSR engagement index was developed to measure member and employee views on ACU’s CSR performance, and a CSR awareness campaign was rolled out. Further development of the CSR strategy was integrated in the merged credit union's strategic planning process, which included a number of learning sessions for the purpose of exploring future strategic possibilities. Three CSR-related discovery papers were prepared to identify established, emerging, and disappearing trends. Based on these findings, the board and management explored the strategic implications for ACU. One of the papers was on key CSR trends and best practices and implications for a financial institution in which CSR thought leaders were consulted for their views and opinions. Another paper presented the views of community and business leaders who were asked to prepare short briefings on the key concerns in the community and the leadership role ACU could play in their resolution. Poverty, climate change, and skills shortages were identified as key issues. A third paper summarized the views of cooperative and credit union leaders.
who were asked their views on the leadership role ACU could play in promoting and demonstrating the cooperative difference.

At a board and management strategic planning retreat in early 2008, the long-term CSR vision and strategic direction for the credit union was developed; the five-year CSR strategic plan was approved later that year, which focuses on “making a difference in the community” by demonstrating leadership in community renewal, environmental sustainability, and the cooperative principles. (The credit union also set the goal of being an employer of choice, including building and enhancing appreciation for diversity and inclusion and closing the gap in hiring Aboriginal people and persons with disabilities.) Over the next five years ACU aims to be “positive agents of change because social responsibility and the co-operative difference are integrated into everything we do.”

With the five-year CSR strategic plan (see Figure 7 at the end of this profile) laid out and priority initiatives for moving the strategy forward identified, an internal review was conducted to identify and align existing initiatives in support of the new strategic direction. Examples include:

- Expand services to the underserved (79% of members say this is important):
  - Matched Savings Account: A special savings account for participants of Asset Building Programs, which helps people with low income save and create new opportunities for themselves. Run by a growing network of nonprofit organizations, Asset Building Programs provides participants with money management training and supports them to set and achieve their personal savings goals for expenses such as education, housing, starting a business, health care, household fixtures, or personal items (e.g., eyeglasses, computers).
  - A small, full-service inner-city branch operating successfully since 2001.
  - A community partnership in a second inner-city neighborhood to pilot a community financial services center so clients can open accounts, receive financial counseling, and be supported to establish a relationship with a mainstream financial institution such as ACU.
  - A pilot project to make homeownership affordable for modest-income families within the urban Aboriginal community.

- Facilitate the success of community leaders demonstrating leadership in community renewal, environmental sustainability, and co-op development (86% of members say it is important for ACU to contribute to the community):
- A specialized Community Business Services unit providing access to credit for businesses, nonprofits, and cooperatives unable to access conventional financing. In 2008 ACU provided 86 organizations with $12.2M in new financing for affordable housing, community facilities, and business start-up and expansion. At the end of 2008, $35M was invested in the community in these three areas.

- A partnership with a community fund to provide access to credit for microbusinesses, community programs, and housing projects that do not qualify for traditional financing. The fund provides a loan guarantee and ACU provides the credit. ACU administers the fund and offers community investment certificates for members to support the initiative.

- Community partnerships to provide workplace training and employment opportunities for economically marginalized members of the community, including Aboriginal people, new immigrants, and at-risk youth.

- Purchasing promotional items, gifts, supplies, catering services, courier services, cleaning services, and construction and renovation services from community businesses, including cooperatives and inner-city businesses and social enterprises.

- A sustainable community grants program to support initiatives that contribute to community renewal, environmental sustainability, and cooperative development. The credit union has a policy to donate a minimum of 2% of its pretax earnings (averaged over the previous three years) annually for community grants.

- Integrate CSR and cooperative principles throughout ACU (86% of members say it is important for ACU to demonstrate a commitment to CSR):

  - Diversity programs to attract and retain talented employees who mirror the community. Diversity targets are set annually with plans to address gaps.
  
  - Purchasing socially and environmentally responsible products and services, including ethically sourced promotional items, with a preference for purchasing from local businesses.
  
  - Training its investment advisors in socially responsible investment (SRI) using a dedicated SRI specialist who also makes presentations on SRI to community organizations and members. SRI products comprise about 28% of mutual fund assets under management (81% of members say it is important to offer SRI choices).
Model and facilitate climate change solutions (88% of members say it is important for ACU to demonstrate a commitment to sound environmental practices):

- Two new green branches, which have many environmentally friendly features and innovations, including high energy efficiency, water-saving measures, and the use of recycled and green products. Many local companies worked on the sites or provided products, including a social enterprise that creates jobs for inner-city residents. The most recent branch is targeting LEED certification.

- A waste management system to reduce waste, divert materials for reuse and recycling, and reduce environmental impact including greenhouse gas emissions. This includes a multiproduct and electronics recycling program in all branch and office locations. A waste audit was conducted to find out how much and what sort of waste is produced. In 2008 the credit union generated 49.6 metric tons of waste, an average of 99 kilograms of waste per full-time employee. About 55% of all ACU’s waste is currently being diverted from landfills through recycling; 24% of waste could be diverted through recycling or composting. ACU is setting targets to improve waste management practices and reduce greenhouse gas emissions over the next five years.

- Successful promotion of new environmental standards for member statements produced for credit unions in Manitoba. Statements will use Forest Stewardship Certified (FSC) paper that is made from 100% post-consumer mixed-office waste and is 100% processed-chlorine-free and acid-free.

- Switched to FSC-certified paper for more than two million envelopes used at ACU annually.

- Programs to reduce the environmental impact of employees commuting to and from work, such as subsidizing the cost of a monthly bus pass by 30%.

- Installing bike racks at all branches.

- Developing a climate change action plan, including measuring and setting targets to reduce energy use and related greenhouse gases.

Sustainability Management and Governance System

The credit union articulates its mission as: “Our purpose as a socially responsible and profitable financial co-operative is to provide accessible financial services for the well-being of our members, employees, and community; offer fair and meaningful employment in a safe and
respectful workplace; and build partnerships that foster self-reliant, sustainable communities.” One of ACU’s values is accountability: “We build trust that fosters organizational success and sustainability through our commitment to social and financial accountability.”

The board’s Community and Member Relations Committee has oversight of relations with community and members (including the community investment policy, stakeholder communications policy, and member engagement policy), and its HR Policy and Compensation Committee has oversight of employee relations.

The CSR strategy is led and sponsored by the VP of CSR, who reports to the CEO. A CSR manager and a community program manager report to the VP. The VP of CSR chairs an internal CSR Council that has membership of staff across the credit union, including CSR staff, the SRI specialist, the director of the member communications center, the inner-city branch manager, the manager of community business services (lending), the manager of employment and diversity, marketing and communications, etc. Members on the council share information, coordinate work, and provide advice on the strategy. The credit union follows a matrix model in which the VP of CSR has overall responsibility for the strategy, but a number of department heads are responsible for delivery on key objectives within the strategy. In this way, responsibility for strategy development and implementation is shared across the organization.

The credit union reports on its CSR performance annually through its annual report. In addition to including details of progress on its CSR strategy and initiatives and its social and environmental impacts, the report discloses stakeholder views of ACU’s performance through member and employee surveys. The surveys ask members and employees whether what the credit union does makes a positive difference in the community and environment, if this makes them proud to be a member or employee, and whether they trust ACU to make business decisions that are socially and environmentally responsible.

ACU uses a balanced scorecard approach to focus its performance. CSR is one of five components in the balanced scorecard, with the weighting determined annually. The weightings for 2009 were as follows:

- Financial: 45%
- Business excellence: 15%
- Member: 15%
- Employee: 15%
- CSR: 10%
The balanced scorecard accounts for 50% weighting on individual performance plans for members of the executive management team.

Figure 7 is a high-level summary of ACU’s CSR strategy.
Northern Savings Credit Union (NSCU)

Location: Prince Rupert, BC, Canada
Assets: $830M CDN
Founded: 1940

History and Status of NSCU’s Sustainability Initiatives
Throughout the late 1990s and early 2000s, BC’s northern economy was struggling with the virtual collapse of its fisheries and forestry resource base and the resulting out-migration. The board of directors and management of Northern Savings Credit Union (NSCU) were very aware that the health of their credit union was directly tied to the health of their regional economy. In 2005 the board adopted a Core Business Statement to clarify the credit union’s role: “The heart of our core business is strengthening and growing our Northwest BC communities and members, and our organization.” The CEO saw sustainability as a key priority and to implement the board’s commitment hired a consultant to conduct research on key community priorities and to identify internal capacity to support a community economic development role for the credit union. The consultant interviewed community leaders, board directors, and staff; conducted a study of credit unions and cooperatives; and researched CSR trends that identified a number of potential directions. A CSR specialist was hired to help prioritize and focus the activities, which resulted in three goals: strategic community development, great place to work, and embedding CSR into the organization. The strategy (referred to as “Community Reinvestment”) was adopted in 2006, and the consultant was hired on permanently as manager of Community Reinvestment.

A number of integration initiatives were implemented, including the creation of a board committee with responsibility for oversight of the Community Reinvestment (CR) Strategy, the formation of a Sustainability Leadership Council of senior staff across the credit union to provide input into and support for the strategy, and the recruitment of sustainability champions to help implement the credit union’s CR initiatives throughout its operations and branches. A budget was provided for the champions and leaders to help support CR initiatives and a new funding program was launched, referred to as the Community Reinvestment Strategic Grants Program, which supports identified community economic development priorities, including environmental leadership projects and capacity building programs in support of youth development, among other initiatives.

From 2006 to today, NSCU has been educating its board of directors and staff on sustainability and CSR, bringing in outside resources for workshops. Additional training is provided to staff to help them in their increased community development roles, for example in
the area of presentation skills. Staff and board members regularly attend conferences on CSR and sustainability within the region and nationally.

NSCU is now in the second phase of its strategy, having achieved many of the objectives it set for itself in the first three years. It is developing a sustainability framework predicated on its identification of four essential aspects of sustainability: social influence, environmental impact, human/organizational culture, and financial. It is seeking to deepen the sustainability commitment within its business and to strengthen the foundation for innovation and growth at the credit union. The commitment will be delivered through a number of social and environmental sustainability initiatives, including products and purchasing, and through incorporating its sustainability commitment into upgraded job descriptions.

A few of NSCU’s sustainability initiatives involve financial literacy programs, delivered through partner organizations, and support for community projects that build life skills and financial literacy for youth. In 2007 NSCU launched the Smart Home Energy Loan to incentivize members to improve the energy efficiency of their homes. It offers financing at prime or lower, plus a $300 rebate toward home energy assessment costs to those members who qualify and undertake an onsite home energy assessment. NSCU also assisted in the launch of an organization that has the goal to provide awareness, education, and training on sustainable living and sustainable communities, and it is financially supporting another organization to develop and implement a plan to grow food locally year-round (in a northern climate). In 2009 the credit union was named one of the 50 best employers in Canada in the small and midsize business category by Hewitt Associates and the *Globe and Mail*.

**Sustainability Management and Governance System**

NSCU has a Core Business Statement reflecting that the heart of its business is strengthening and growing communities, members, and the organization. It has five values, one of which is “positively impacting the communities we serve.” It has adopted a set of sustainability principles and goals to guide its plans, as follows.

**Principles**

*To build strong, resilient, and sustainable communities we are committed to the following principles:*

- *Collaborative engagement with NSCU employees, members, and local communities in setting priorities and implementing solutions, and regional replication of innovations initiated at the community level and at other credit unions.*
• Developing mutually beneficial partnerships with community,
business, education, and government organizations in the design
and delivery of priority initiatives.
• Unwavering focus on asset development and capacity building of
individuals, groups, and businesses for the long-term strength and
resilience of our region. We will be an advocate for, and champion
of, the social and economic health of our communities.
• Leveraging the credit union’s core competencies and assets,
including our strengths in financial services, governance, human
resources, business operations and development, facilities, net-
works, and co-operative development.
• Priority concern for sustainable communities and vulnerable
groups, particularly youth, Aboriginal people, seniors, and busi-
nesses classified as small or micro.
• Commitment to embedding corporate responsibility practices
throughout our organization, including measuring, monitor-
ing, and reporting on our progress and continuous learning and
improvement; we will build on best practices (including our own).

Long-Term Goals
• Strong, resilient communities.
• Enhanced trust and reputation.
• Increased member satisfaction and loyalty.
• Increased employee satisfaction.
• Enhanced community reputation and increased profile as commu-
nity leader and champion.
• Stakeholder awareness and understanding of, and support for,
NSCU community reinvestment strategy.
• Business growth.

The board of directors’ Donations and Community Reinvestment
Committee is responsible for providing oversight on the credit
union’s sustainability vision of “strong, resilient Northwest BC com-
munities and credit union, excellent financial services and enhanced
quality of life for members, and recognized by our employees to be
a great place to work.” The committee has overall responsibility for
the development and implementation of the sustainability strategy
(referred to as the Community Reinvestment Initiative), including
policy making, evaluating the effectiveness of the initiative, develop-
ing standards of corporate responsibility for the credit union, and
providing oversight of the donations program. The CEO plays a
central role in integrating sustainability throughout the organization,
including incorporating sustainability deliverables in the annual busi-
ness plan, participating in staff training programs, etc.
The manager of community reinvestment reports to the VP of human resources and works with three staffers on loan from other departments on key aspects of strategy delivery. The credit union’s sustainability commitment is being incorporated into job descriptions for launch in 2010. The team of sustainability champions supports staff, member, and community engagement throughout the credit union and works on projects they identify as important, such as internal green initiatives, staff health and fitness programs, and money management skills in the community. The sustainability leaders provide advice and support on the strategy and to the sustainability champions.

With the formal adoption of a Sustainability Commitment in 2010, including renewed sustainability principles, a sustainability framework, and sustainability key performance indicators to guide measurement and monitoring, NSCU expects to be well positioned for further innovation and engagement in the coming decade.
History and Status of Vancity Credit Union's Sustainability Initiatives

Vancity’s sustainability journey began in the mid-1980s when a number of members seeking to differentiate the credit union from its bank competitors were elected to the board of directors. By 1986 the credit union had established Canada’s first socially responsible investment product—a mutual fund referred to as the Ethical Growth Fund—and by 1989 the credit union had established the Vancity Community Foundation, with an initial $1M endowment whose purpose was to support affordable housing, community economic development, and microlending in the region. In 1990 the credit union turned its attention to the environment and launched enviroFund, in which profits from one of its Visa cards were channeled into a fund for environmental initiatives voted on by cardholders. In 1992 the credit union launched a third socially responsible product for its members, called the Community Investment Deposit, wherein members could opt for a deposit product with zero to market rates of interest, with the funding channeled into community economic development loans to members. Around that time, the credit union also became a signatory to the Ceres Principles, a 10-point code of corporate environmental conduct promoted by Ceres, a U.S.-based network of investors, environmental organizations, and public interest groups working with companies and investors to address sustainability challenges.

In the early 1990s, Vancity refocused its community giving program away from the more traditional funding of sports, education, and community events toward three priorities: economic resilience, community well-being, and environmental sustainability. Today it funds projects that benefit people with economic disadvantages and that are aligned with Vancity’s core interests of climate change, poverty, and the social economy.

In 1995 Vancity built a new head office with a number of environmental features, including siting above a major public transit station. In that period the credit union—through its socially responsible real estate division at the time—sought out opportunities to build affordable housing on top of its branches when branches required upgrading or redevelopment. In 1997 the credit union published its first third-party-audited social report, in which it followed emerging global standards for sustainability reporting. Around this time the credit union also formalized its sustainability strategy, which it
referred to as its CSR Role, and incorporated explicit targets and goals into the annual plan and five-year business strategy. In 2000 Vancity launched an international community investment product, modeled after its Community Investment Deposit, which channeled member deposits into third-world microfinance initiatives. In the same year it released its Statement of Values and Commitments, a set of guidelines for implementing its sustainability credo throughout its operations. It was developed in consultation with staff, members, and community representatives and serves to guide how Vancity does business. The following year the credit union launched the Vancity Award, in which six projects aligned with Vancity’s values were voted on by members who had the opportunity to choose which project would receive the $1M award. The first year, the prize went to an organization that wanted to build a cross-region bike path to support health and fitness and bike commuting; the award program continued for six years.

On the heels of this success, Vancity updated its sustainability strategy in 2004, referring to it as its Community Leadership Strategy. A board and management task committee was established that commissioned research into key social and environmental issues in the region, surveyed member perceptions of key issues, interviewed community leaders, and conducted a competitive analysis to feed into a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis. The credit union sought to build on its success by becoming clearer on its strengths and opportunities, using the four following strategy objectives as its guide:

- Ensure the sustainability product and services array generates value and impact.
- Provide a framework for the organization to “row together” for maximum impact.
- Respond to market opportunities and member issues/concerns.
- Create a framework to respond to competing “asks” and opportunities.

As a result of this focused effort, the credit union formalized its sustainability approach into the framework shown in Figure 8.

Vancity has been tracking the results it is achieving in these areas, some of which are listed here.

Growing the Social Economy
- Investments in more than 340 social enterprises over five years—through grants and microloans of $5,000 and up.
- Capacity-building for 60 social enterprises.
$11M in loan portfolio to support sustainable and social enterprises as of 2007.

Vancity has secured 25% of total nonprofit market share.

Facing Poverty

- 4,400 participants in Vancity-supported financial literacy programs since 2004 (1,600 of whom are youth).
- 454 participants in homeownership readiness workshops since 2006.
- Instituted a program to train staff to deliver financial literacy to diverse ethnic groups.
- Has provided $4.3M in financing to micro- and small-business start-ups.
- Provides basic banking services to low-income residents of Vancouver’s Inner City through a dedicated branch called Pigeon Park Savings.
- Adopted Asset Building Path (based on the Credit Path model developed by Alternatives Federal Credit Union in New York) to communicate and focus its work in low-income communities. The model (Figure 9) presents four steps that individuals can take on the path from poverty to economic self-reliance, along with the products, services, and community partnerships that will...
help them get there. Vancity further supports progress along the Asset Building Path by providing members with access to financial literacy education.

Acting on Climate Change

- Became the first North American–based financial institution to achieve carbon neutral status.
- Has shared its climate change message with 500,000 BC residents through member education and public forums.
- Cofinanced Dockside Green, a 15-acre mixed-use residential and commercial real estate development that has achieved the world’s highest LEED standard.
- Offers the Bright Ideas Home Renovation Loan, a personal loan at a beneficial rate for up to 10 years for homeowners who make approved energy efficiency retrofits.
- Offers the Clean Air Auto loan, which rewards members who buy cars with low carbon dioxide emissions by giving them preferential loan rates.
- Provides products and services to help small businesses reduce their energy consumption, including a Green Business Manager who meets with businesses one-on-one or can facilitate a green business learning session for staff.
- Launched a multiyear employee awareness program called GreenFeat, where staff are invited and incented to reduce greenhouse gas emissions and help Vancity achieve carbon neutral status.
- In 2003 set a target to reduce energy use per employee by 10% by 2008; by the end of 2007 it had met its goal.
- About 40% of Vancity’s total emissions are from employees driving alone to and from work. To help reduce that number, the credit union introduced a Guaranteed Ride Home program to provide employees who commute to work using sustainable transportation a free ride home in case of a family emergency, employee illness, or unanticipated overtime.
- Paper use per employee has dropped from 183 metric tons to 170. All of Vancity’s office paper is 100% post-consumer-waste recycled paper; envelopes are 30% post-consumer waste and 15% pre-consumer waste. Greenhouse gas emissions from paper use totaled 870 metric tons in 2006, or 0.37 metric tons per employee.
- Vancity achieved a 15% decrease in absolute greenhouse gas emissions from employee commuting from 2006 to 2008, along with

Source: www.vancity.com/MyCommunity/OurVision/FacingPoverty.

Figure 9: Vancity’s Asset Building Path

The path begins with basic banking—getting a bank account—through learning how to save and invest, build credit, and pay off loans, and finally, owning assets.
a 1% decrease in absolute greenhouse gas emissions from paper use over the same period.

- Since Vancity started reducing its energy use and emissions from its buildings, it has saved $2M in energy costs.

In addition to these climate change initiatives, Vancity has implemented a number of programs to reduce its waste. For example, it has a recycling program for paper, glass, cans, and plastic. Used electronic equipment is donated to nonprofit groups, given to companies that deal in obsolete electronics recycling, or sold to employees and their families. From Vancity’s waste audits it knows that the three main components of waste are recyclable paper products, food and lunch waste, and non-recyclable paper products, and it is implementing measures to further reduce the amount of waste that is sent to the landfill.

On the community side, Vancity refers to its community investments as Shared Success. It shares its profits with members and the communities it serves through its Shared Success program, in which each year up to 30% of profits are given back to members and the community via dividends and grants, respectively. Since 1994 Vancity has disbursed $138M in Shared Success funds, with members pocketing over $92M in membership dividends and $46M provided as grants to community organizations.

Vancity is using social media to engage its members in its initiatives and foster member loyalty. One tool, ChangeEverything.ca, is an online vehicle for people who want to change themselves, their communities, or their world. Members and nonmembers alike can post their ideas on what should change and share resources and ideas on how to advance the changes they seek. Vancity also has an online bulletin board for members to share their ideas for new products and services (weallprofit.vancity.com).

The credit union’s socially responsible product array includes wealth management services for clients seeking investment options that integrate social, environmental, and governance factors and a range of socially responsible mutual funds available in Canada. Vancity’s community investment deposit and international community investment deposit have been rebranded as Shared Growth and Shared World and continue to be offered to members, along with a number of products that feature an environmental component, as described earlier.

The board of directors has also adopted an Ethical Policy in which the credit union pledges to work with organizations that demonstrate a commitment to ethical business practices, environmental leadership, respect and fair treatment, and healthy and peaceful communities. The policy, which is reviewed annually, is also audited by an
independent third party to ensure Vancity is following these criteria in its loans, investments, and purchases, with the results published in Vancity’s Accountability Report.

In terms of its commitment to be a great place to work, Vancity is focused on employee satisfaction, the diversity of its workforce, providing equal opportunities for all its employees, promoting personal and professional employee development, the provision of a safe and healthy work environment, competitive salaries and benefits, and talent management overall. It tracks and reports on employee engagement and turnover, employee empowerment, workplace diversity, work–life balance, and overtime, among other topics.

Having defined its focus areas in its Community Leadership Strategy, Vancity has identified the means by which it can achieve outcomes in these areas, specifically, through:

- Community investments such as grants, loans, and equity.
- Specialized products and services.
- Purchasing power.
- Technical expertise.
- How it runs its operations.
- Communications and marketing.
- Advocacy.
- Community partnerships.
- Convening power.
- Member and employee engagement.

After five years of implementing its Community Leadership Strategy (2004–2009), Vancity is redefining its leadership role, with a focus on social finance. This new approach is expected to be launched in 2010 with goals to encourage entrepreneurial and risk-based investment in businesses, nonprofits, and cooperatives to generate economic, social, and environmental benefits while using its convening power and capital to redefine wealth for all.

**Sustainability Management and Governance System**

Over the past 10 years, Vancity has developed its overarching purpose statement, which is “to work with people and communities to help them thrive and prosper.” It has also adopted a Statement of Values and Commitments (SOVAC) and an Ethical Policy to govern its actions and focus its resources on meaningful social change.

The board of directors has a Community Leadership Committee, which approves strategic partnerships, projects, and grants. From time to time the credit union forms ad hoc task forces comprised of board members and management to develop and build out strategic
priorities; the Social Finance Task Force, for example, is currently developing a key aspect of Vancity’s future direction.

Vancity’s director of community leadership reports to the SVP of social finance. There are 12 staff members in the Community Leadership department and hundreds of sustainability champions across the organization who are helping to move Vancity’s sustainability initiatives forward. The role of this network of community leadership champions is to help communicate Vancity’s community leadership initiatives, goals, programs, and products and to provide feedback to the Community Leadership department about how things are working.

Since Vancity adopted its SOVAC in 2000 and established an accountability framework that identified the responsibilities of key executives for some of the sustainability deliverables, its core sustainability staff have become less responsible for initiatives and more responsible as advisors and champions to other business divisions, such as Purchasing and Community Banking. Some Community Leadership staff have been redeployed to other departments; for example, the social accountability staff who produce the sustainability report now reside in the Finance division, and Vancity is aiming to produce one integrated report on social, environmental, and financial performance. Increasingly, ownership of Vancity’s community leadership initiatives is spread throughout the credit union, with each line of business or subsidiary using its unique resources to make a difference. In 2007 the credit union embedded its community leadership initiatives into the majority of its business and departmental plans, as revealed in its 2006–07 Accountability Report. That year more than 75 community leadership–related deliverables were led by departments other than the sustainability (community leadership) group.

Vancity sees its sustainability reporting as an internal management system that ensures it continues to innovate in its social and environmental performance. The credit union produces an Accountability Report every two years, the most recent dated 2006–07. It has found its sustainability reporting program to be an important driver of member and community trust and loyalty.


Organizations

Best Practice Sustainable/Social Finance Banks Identified by Case Study Credit Unions
- Alternatives Credit Union
- Co-operative Bank
- Self Help Credit Union
- ShoreBank
- Triodos Bank

U.S. Credit Union Resources
- CUNA annual Dora Maxwell Social Responsibility Award
- Social Impact Management Institute (National Credit Union Foundation)

U.S. Sustainability/CSR Resources
- BALLE (Business Alliance for Local Living Economies): www.livingeconomies.org
- Business for Social Responsibility: www.bsr.org
- Ceres: www.ceres.org
- Green America: www.greenamericatoday.org
- Social Venture Network: www.svn.org

Global Sustainability Resources
- Global Reporting Initiative: www.gri.org
- UNEP FI: www.unepfi.org

Sustainability Principles
- Equator Principles: www.equator-principles.com

How-To Guides and Tools

Environment
- Small and Medium-Sized Business Environmental Road Map. www.corostrandberg.com/publications_Corporate_Social_Responsibility.html#1


CSR and Climate Change: The Credit Union Perspective. What Canadian credit unions are doing to address climate change, 2008. www.corostrandberg.com/publications_Climate_Change.html#26b.

Sustainability/CSR

Stuart Hart and Monica Touesnard, “Back to the Future: Integrating Sustainability Into Credit Union Strategy” (Madison, WI: Filene Research Institute, 2008).


Vancity Credit Union’s approach to accountability reporting is available at: www.vancity.com/AboutUs/WhoWeAre/CorporateReports/AccountabilityReport/0405AccountabilityReport/C5.LeadByExample/AccountabilityReportingProcessandEthicalPolicy/.
Report of July 20, 2010 Meeting
Report of the Outreach Advocacy Committee
(Sub-committee of Advocacy Policy Committee)

The Advocacy Outreach Committee met on July 20, 2010. Committee members present were Mark Outler, Chairman; Brenda Davidson, Thor Dolan, Doug Foote, Ken Merritt and Matthew Shepherd. Unable to attend the meeting were Kelly Garmon and Ron Tomlinson. Staff liaisons present were Mike Mercer, Mike Culbertson and Anita Paul. Other staff members present were Cindy Connelly, Kristi Arrington and Kay Lytle.

Committee Purpose:

The committee began its discussion by reviewing the charge of the committee, which is: To identify ways credit unions can serve people of modest means that contribute positively to the financial well-being of the credit union and serve to differentiate credit unions from the other for-profit suppliers.

The committee members discussed historical and present-day meanings of “people of modest means.” Some say median income of $65,000 to $75,000 per year qualifies as “modest means.” Others would say family size should come into play. NCUA now utilizes the term “working people.” In an attempt to define “modest means,” the group offered:

- Can’t routinely and reliably save 10% of their earnings
- Can’t retire comfortably
- Have been forced to deal with a payday lender
- Counting on Social Security to finance retirement
- No money left over after paying the bills
- Home worth under $100,000
- Define an income level
- Beacon scores
- Flow in and out of modest means because of life events...illness, divorce, etc.
- Cost of living index varies throughout Georgia to change the definition of modest means

Throughout the discussion of this topic, the members of the committee identified the difficulty of exactly how the term “modest means” should be defined. One of the resources for discussion by the committee was a report prepared by the U.S. Department of Commerce Economic and Statistics Administration for the Office of the Vice President of the United States Middle Class Task Force dated January 2010. The principle findings of this report are:

- Middle class families are defined by their aspirations more than their income. We assume that middle class families aspire to home ownership, a car, college education for their children, health and retirement security and occasional family vacations.
- Families at a wide variety of income levels aspire to be middle class and under certain circumstances can put together budgets that allow them to obtain a middle class lifestyle.
• Planning and saving are critical elements in attaining a middle class lifestyle for most families. Under the right circumstances, even lower-income families may be able to achieve many of their aspirations if they are willing to undertake present sacrifices and necessary saving.

• However, many families, particularly those with less income, will find attaining a middle class lifestyle difficult if not impossible. Areas with high housing costs can make even higher-income families feel pinched. Lack of employer-provided health insurance can confront a family with bankrupting health costs. And unforeseen expenses can ruin even the best-laid budget plans.

• It is more difficult now than in the past for many people to achieve middle class status because prices for certain key goods — health care, college and housing — have gone up faster than income.

The committee feels that it would be more beneficial to frame the intent of the committee to work around the idea of serving members that are defined by the above principles as middle class and working people who aspire to become part of the middle class. The committee feels that by changing its focus to the above principles, the confusion over the definition of “modest means” could be avoided. By focusing on the principles identified by the U. S. Department of Commerce and the general recognition by NCUA of working people, focus of the committee could be much more meaningful. It was agreed that Congress should not be permitted to define “modest means” for credit unions.

The committee also decided it should change the wording of the committee purpose slightly by modifying the words “can serve people of modest means” to “are serving middle or working class people” in the purpose statement.

**Importance of the Issue:**

The committee identified the importance of the need for providing objective and quantifiable evidence of the credit union industry activity in serving modest means consumers. The committee agrees that the legislative (tax exemption), regulatory (CRA), philosophical and good business (profitable) elements of serving modest means individuals should be germane to the operations and motives of credit unions. During the discussion of this agenda item, there was general consensus that the “importance” of this issue in the minds of most CEO’s is not among the top three or four objectives of most Georgia credit unions today. The main reasons for this identified by the committee members included more pressing issues…meeting regulatory and legislative requirements, operational challenges, profit pressures and other priorities that are set by the Board and management of credit unions.

The committee’s assessment of the level of importance of this issue includes:

• Urgency is missing…need to convinced of threat level
• What evidence would sway Congress?
• For years we’ve been asked for stories; quantifying the stories is difficult
• It’s very important not to lose the tax exemption.
• It’s not in CEOs’ top 3 concerns…or in the mission statement.
• Do CUs really do this in a measurable way?
While the committee agrees that the need for this focus is important, until an imminent crisis related to this issue surfaces, elevating the priority of this issue will continue to be a challenge. **The committee recommends continuing work to elevate the importance of this issue in the minds of credit union CEO’s.**

**REAL Deal – a Framework for Describing Georgia CU Outreach Impact:**

The REAL Deal Outreach Campaign is a program that helps people of modest means make good financial decisions and provides them with tangible programs that work. The program is a framework of four areas where credit unions help people to have the knowledge to make good financial decisions and provide them with tangible programs…REAL Sources, REAL Programs, REAL Community Help and REAL Partnerships. Seventy-five Georgia credit unions have reached the designation of “REAL Deal” credit unions.

REAL Solutions is a program of the National Credit Union Foundation to provide “Relevant, Effective, Asset-building, Loyalty-producing” financial services to working families with low wealth.

A REAL Deal baseline survey was done last summer. A second baseline survey will be conducted in the next few weeks. It is anticipated that it will be October before results of the survey will be tabulated. Staff was asked to include credit union CEOs as well as the REAL Deal liaisons in future correspondence so that the importance of the program and completion of the surveys can be stressed.

Credit unions will be asked to think about including this type of data in their annual reports. It was also suggested that GCUA publications such as Connection should include REAL Deal results being generated by specific credit unions to increase participation and competition from other CUs.

**Next Steps:**

The committee looked at several different things that could be identified as next steps for the ongoing direction of the committee. It was the consensus of the committee that the following should be included:

1. Survey of members – develop a survey to be used by credit unions in surveying their members to quantify the number of “middle and working class” individuals that credit unions serve today.
2. REAL Deal survey – complete an update of the current “baseline” survey to enable measuring the improvement in the number of middle and working class members that are offered REAL Deal services and programs.
3. Encourage CUs to provide REAL Deal info in future annual reports.
4. The next meeting of the committee will be held in the fall.