

# Memorandum



**Date:** September 10, 2008

**To:** Honorable Chairman Bruno A. Barreiro  
and Members, Board of County Commissioners

**From:** George M. Burgess  
County Manager

**Subject:** Report on Feasibility of County Assistance Towards Development and Establishment  
of a Co-Op as Financing Mechanism for Homeownership

EDHS  
Agenda Item No. 7(A)

The following report is pursuant to a request at the February 19, 2008 meeting of the Economic Development and Human Services (EDHS) Committee, at which staff was by asked Senator Javier D. Souto to explore the feasibility of the County assisting residents of this community to develop and establish a Financial Cooperative (Co-Op) as a mechanism to expand homeownership opportunities.

## **Background**

In light of limited County resources utilized to provide assistance with down payments, closing costs and/or secondary mortgages for low- to moderate-income households, innovative and creative solutions are needed to expand homeownership opportunities. To this effect, staff's report, as requested by the EDHS Committee, examines financial co-ops that target a particular neighborhood or class of residents. Under both federal and state law, such co-ops are regulated financial institutions formed as credit unions.

## ***Credit Unions and Ownership Structure***

Credit unions are cooperative business ventures that are member-owned and democratically controlled by a volunteer board elected by the membership. Members pool their funds to make loans among themselves. In addition to receiving financial services tailored to the needs of credit union members, such members also are entitled to dividends. Credit unions may not take deposits from, nor provide financial services to, non-members. Most credit unions charge very low membership fees to join the credit union.

State law allows credit unions in Florida to offer membership in the credit unions to four distinct groups. One of these four groups are "persons who live or work within an identifiable neighborhood, community or county and members of the immediate family of persons within such group."

Credit unions have been established to specifically target low income residents of a particular neighborhood or have established branches within "under-banked" neighborhoods that offer financial services uniquely tailored to the needs of the residents. Under-banked households typically live in cash-based economies, predominantly rely upon fringe financial services such as check cashers, payday lenders and pawn shops and may make limited use of, or have no access to, transaction accounts at a mainstream bank.

In order to conduct business, the Florida Office of Financial Regulation must determine that: (a) there is sufficient interest on part of the proposed membership; (b) proposed board has sufficient qualifications to ensure compliance with applicable laws and sound financial and credit union practices; (c) establishing the credit union will benefit its target membership; and (d) the limited field of membership will be of sufficient financial viability to indicate promise of successful operation. Concurrently, the credit

union must apply for federal insurance from the National Credit Union Administration, which entails meeting stringent threshold requirements.

The credit union cannot accept any funds or commence business operations until the federal insurance and state certification have been issued. Furthermore, all pre-opening costs and expenses in connection with the organization of the credit union and preparation for opening for business must be paid from funds provided by the credit union organizers or sponsor.

### ***Role of Community-Based Credit Unions***

Larger credit unions typically offer financial services that mirror those of area banks, but offer more reasonable lending rates and reduced, or no, fees for services. Community-based credit unions, typically small-scale, as well as branches of larger credit unions, have been established to meet the unique financial service needs of low income or minority communities that are under-banked.

Mainstream financial institutions, banks as well as larger credit unions, generally do not provide financial services specifically tailored to the needs of an under-banked community operating in a cash-based economy. Such communities rely upon for-profit check cashing and pay advance outfits that charge significant service fees and interest. Local businesses will not accept checks and many residences are unable to secure credit cards. In absence of credit, residents may be limited to being served by rent-to-own stores, resulting in higher costs to purchase furniture, appliances and other goods.

These cash-based economies absorb a greater portion of household income for basic transactions that could be directed toward financial goals such as homeownership, vehicle purchases (allowing greater access to employment opportunities), or more advanced education and training. Cash economies preclude residents from building up credit necessary for large purchases such as homes.

According to a Fannie Mae study of eight counties, which included Miami-Dade County, under-banked, cash-based communities are low income and/or minority communities.

Community-based credit unions and special initiatives of larger credit units have developed the following alternative financial services to address the needs of under-banked residents living in a cash-based economy. Such include the following:

#### ***Alternative Financial Services and Products***

- No-fee checking accounts.
- Check cashing for minimal or no fees.
- Paycheck direct deposit and payroll deductions to savings accounts.
- Stored value cards, which are reloadable multipurpose cards similar to a pre-loaded gift card but can be used in the marketplace as a debit card. The customer can arrange in advance for a certain amount of funds to be directly loaded onto the card at specified times, (i.e. timed to direct deposit of pay). This product assists the member in managing their financial resources as well as enhances credit union savings products designed to help the member achieve financial goals such as homeownership.
- Alternative payday loans with extended payment plans (monthly payments over six to twelve months) and at lower rates than for-profit entities in the neighborhood.

*Wealth-Building Services and Products*

- Financial education programs to rebuild damaged credit and improved money management, some programs are tied to graduating financial services.
- Second chance loans for persons with poor credit, typically with terms of twelve months, that allow a member to rebuild credit as timely repayments are made.
- Individual development accounts (IDA) and other savings programs to achieve homeownership and other financial goals.
- Homebuyer assistance in the form of loans for down payments and closing costs, mortgages and home-improvement loans.

*Economic Development Lending*

- Micro-enterprise loans to members.
- If the credit union is sufficiently capitalized and allows organizations to become members, community organization lending.

***Community Partnerships with Large, Well-Capitalized Credit Unions***

A newly established community-based credit union may require time to build up solid capitalization to support the financial services desired by the members of the credit union. Some are not able to survive. For example, the Little Haiti-Edison Federal Credit Union was federally chartered in 1999 as a low-income community credit union to serve residents of Little Haiti. The credit union received substantial support from local governments and national organizations as well as substantial deposits from local non-profit members such as Miami-Dade Neighborhood Housing Services. The credit union struggled to maintain solvency and ultimately was placed into involuntary liquidation by the National Credit Union Administration in 2004.

One proven sustainable model that could be replicated in Miami-Dade County is Florida Central Credit Union's implementation of a branch offering alternative financial services to an under-banked Hillsborough County inner-city community. Fannie Mae, the National Credit Union Administration, the Neighborhood Reinvestment Corporation and NeighborWorks Campaign for Homeownership have highlighted the Florida Central Credit Union (FCCU) in case studies of proven models that successfully serve under-banked communities, improve neighborhoods, and increase homeownership.

The FCCU is a fifty-year old, extremely well-capitalized credit union with \$224.6 million in assets and 34,000 members. As a result of a joint initiative led by the Tampa Hillsborough Action Plan and the City of Tampa, FCCU opened and currently operates a branch in an inner-city Hillsborough neighborhood. To understand the financial needs of the neighborhood's residents, FCCU held focus groups with residents to learn about their financial habits, attitudes and preferences, ghost-shopped local fringe-lending outfits and conducted a survey of existing credit union employees, human resources departments, employee assistance programs, community leaders, non-profit organizations, and state regulators and legislators. The branch offers almost all of the financial services and products listed above. The branch initially did not break even; however, FCCU's institutional strength could absorb branch losses until the branch membership grew sufficiently. The branch now has approximately 9,000 low and moderate income members and is considered a successful and stable branch.

***Partnerships with Credit Unions***

The National Credit Union Administration also encourages existing credit unions to partner with NeighborWorks organizations by branching into low and moderate income neighborhoods served by these organizations. A model of partnering credit unions with these organizations as well as local community development corporations (CDCs) and other local organizations can significantly enhance efforts directed at wealth-building leading to homeownership and neighborhood revitalization.

**Staff Observation**

If the Board of County Commissioners were to request such an effort, the City of Tampa would serve as a model. The effort should 1) encourage large, well established credit unions in Miami-Dade County to establish branches in under-banked communities with alternative financial services tailored to the need of the residents and 2) allow credit unions to partner with NeighborWorks organizations, CDCs and other organizations focused on neighborhood revitalization, affordable housing development and wealth-building.



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