BEYOND BANKING:
THE CRUCIAL ROLE OF IMPACT-DRIVEN BANKS AND CREDIT UNIONS IN UNDERSERVED COMMUNITIES

Impact-driven banks and credit unions form a crucial community financial ecosystem across the United States working closely with underserved[1] communities, representing their needs and providing responsive and responsible products tailored to individual markets.

Deposits provide the capital to drive lending in underserved communities. Social impact deposits from outside the community are a vital source to scale institutional balance sheets and dramatically increase lending to underserved community members. Deposits in locally owned and controlled banks and credit unions build individual wealth and community wealth simultaneously.

A stable supply of longer-term deposits enables banks and credit unions to finance high-impact community development initiatives, such as providing affordable housing, creating jobs, and supporting small businesses, as well as functioning as a tool for promoting financial inclusion.

Intentional cash allocation strategies by corporations, public entities, and individual investors can help create sustainable communities, provide resources for small businesses, promote homeownership, and contribute to the overall financial health of historically underserved communities.

Mission-driven banks and credit unions are also first responders in times of financial crisis or uncertainty. Not only are these institutions generating impact and solving problems in communities, but they are also the largest and often unsung actors in the community development lending sector in the United States.

$699B

in total assets held at CDFI and MDI banks and credit unions[2]

$595.4B

in total deposits held at CDFI and MDI banks and credit unions[3]

$475.7B

in total loans outstanding at CDFI and MDI banks and credit unions[4]

$307.7B

or 90% of total CDFI assets are held by CDFI banks and credit unions, with CDFI loan funds and CDFI venture capital funds holding the remaining 10% of assets[5]

What are Impact-driven banks and credit unions?

Impact-driven banks and credit unions are regulated financial institutions and, just like mainstream financial institutions, deposits under the $250,000 limit are fully insured by the Federal Deposit Insurance Corporation (FDIC) for banks and the National Credit Union Administration (NCUA) for credit unions. Impact-driven banks and credit unions focus their lending to underserved communities and are accountable to the communities they serve. These banks and credit unions may hold multiple designations including:[6]

- **Community Development Financial Institutions (CDFIs)** are certified by the U.S. Treasury as having a primary purpose of promoting community development. These institutions target at least 60% of their total lending and activities to underserved communities including BIPOC and low-income communities and customers. CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. **The US Treasury's CDFI Fund publishes a list of certified CDFIs.**
- **Minority Depository Institution (MDI)** designations indicate that the majority (>50%) of a bank or credit union's ownership is held by minorities. MDI status is provided by the FDIC and NCUA. **The FDIC publishes a list of bank MDIs. NCUA publishes a list of credit union MDIs**.
- A **community development credit union (CDCU)** is a term Inclusiv developed in 1974 to define those credit unions with an explicit mission of serving low- and moderate-income (LMI) and Black, Indigenous, and People of Color (BIPOC) communities. CDCUs meet the eligibility criteria as a CDFI, MDI or both, but not all CDCUs have chosen to obtain the certifications.

Impact-driven banks and credit unions responsively meet the diverse needs of the communities they serve.

Impact-driven banks and credit unions invest in historically underserved communities with responsive and responsible capital and financial products. Embedded in the communities they serve, these financial institutions design solutions tailored to fit the needs of BIPOC, LMI individuals, women, and other populations that have lacked access to safe and affordable financing. These lenders have a strong track record of reducing the wealth gap through homeownership and small business ownership, addressing climate justice through green financing and natural disaster lending, and increasing financial inclusion through access to secure and affordable banking products and services.

Financial Inclusion

The UN Sustainable Development Goals framework notes that access to financial services is integral for "furthering vital development goals such as poverty reduction, job creation, gender equality, and food security.[7] "Within the United States, 5.9 million households are unbanked (meaning no one in the household had a checking or savings account at a bank or credit union) and an additional 18.7 million are underbanked. According to the FDIC, underbanked means the household was banked and in the past 12 months used at least one nonbank transaction or credit products or services that are disproportionately used by unbanked households to meet their transaction and credit needs.[8]

5.9M

households are unbanked

Households in rural areas have a much higher rate of being unbanked (9.2%) compared to small (7.6%) and large (5.7%) metro areas. In addition:

Black and Hispanic households have higher aggregated unbanked rates relative to the national average (11.3% and 9.3% versus 4.5%) and are more likely to be unbanked compared to white households at every income level.

Impact driven financial institutions increase financial inclusion by leveraging deep relationships with their customers and members to provide banking services to underserved communities in diverse geographies across the country. As flexible lenders, these institutions rely on a range of tools to extend credit to those who are overlooked by conventional lenders, including utilizing character-based underwriting criteria, alternative credit sources, and combining financial education, technical assistance and support into the lending process.

Racial equity

The nation's impact-focused financial institutions play an essential role in closing the racial wealth gap. Asian, Black, Hispanic, and Native MDIs all originate a substantially higher share of mortgages, small business loans, and other products to their respective minority groups relative to other banks and credit unions. 45% of MDI bank branches are in socially vulnerable counties, as designated by the Centers for Disease Control and Prevention (CDC), as compared to 18% of non-MDI bank branches and 37% of MDI bank mortgage originations are to minority borrowers compared to 13% for non-MDI banks.[9] When looking at MDI credit unions, 60% serve primarily low-income communities and 92% of MDI credit union branches are in communities where there are severe COVID impacts and low community resilience.[10] Similarly, 83% of the branches of CDFI banks are in areas considered by the CDC to be of high or moderate social vulnerability and 56% are in areas of high social vulnerability.[11]

45%

of MDI bank branches are in socially vulnerable counties

Despite their proven track record, MDIs are deeply undercapitalized. While MDIs represent 3% of all banks, they only control 1% of the total assets in the banking sector. And if the median asset size for MDI banks were tripled overnight, that would reflect a jump from $400 million to $1.2 billion. MDI credit unions represent more than 10% of all credit unions, but control only 3% of total credit union assets, with the vast majority of MDI credit unions managing assets under $100M. These institutions have suffered from the very same investment bias that has directed capital away from their communities for generations. To reverse this trend, massive investment in these institutions is warranted. While large corporations make pledges to advancing racial equity – the best way to ensure those commitments live on for generations is to invest in the very institutions owned and controlled by leaders and communities of color.

Economic Justice & Revitalization

Impact-focused banks and credit unions are engines of economic growth in their communities. The mix of loan products and services offered by each institution varies depending on the needs of the community. CDFI and MDI banks play a particularly important role in financing small business and commercial activities. Among CDFI banks, nearly half of their collective outstanding portfolios are dedicated to this type of financing. Unlike large, traditional financial institutions, CDFI and MDI banks specialize in providing financing tailored to meet the needs of small business and other commercial enterprises. Financing small businesses and commercial enterprises facilitates entrepreneurship and job creation, and promotes wealth creation in low-income urban and rural communities.

Climate Justice

Just as the legacy of redlining and financial exclusion has resulted in a racial wealth gap where Black and Hispanic families have an average net worth that is less than 10% of the average white family, the current energy system also disproportionately burdens communities of color. Research shows that Black and Native American households spend about 45% more, and Hispanic households spend 20% more, of their income on energy costs than non-Hispanic white households.[12] Communities of color do not have equitable access to affordable climate-friendly financing that would help them to reduce energy cost burdens, increase climate resiliency, and expand energy efficiency and renewable energy efforts in their communities. Community credit unions and banks finance consumer, residential, and small business energy projects such as: efficient home appliance upgrades; energy efficiency upgrades; electric vehicles; solar and solar-powered battery storage projects; and operating capital to grow small businesses that provide clean energy, and energy efficiency installation and contracting services.

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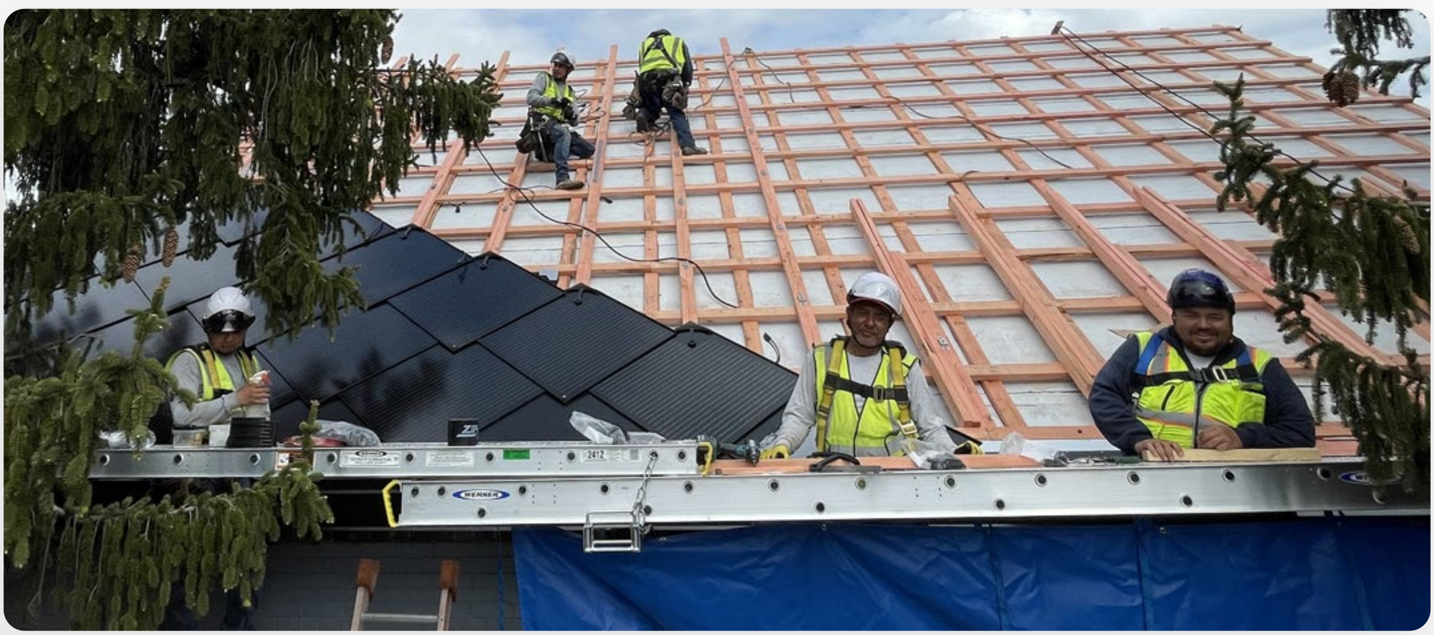

Flywheel Development, a leading sustainable development company, received loan capital from Virginia Community Capital to support the Solar for All program, which aims to bring the benefits of solar energy to 100,000 low- to moderate-income families.

Photo credit: Flywheel Development

Impact deposits create outsized social and environmental impact

Deposits provide the capital to drive lending in underserved communities. While the vast majority of deposits come from the communities and consumers served by these lending institutions, average deposits in lower-income communities are lower than a large national bank can amass. Social impact deposits from outside the community become a vital source to scale institutional balance sheets and dramatically increase lending to underserved community members.

A stable supply of longer-term deposits enables banks and credit unions to finance high-impact community development initiatives, such as providing affordable housing, creating jobs, and supporting small businesses, as well functioning as a tool for promoting financial inclusion. By offering accessible and affordable deposit accounts, banks and credit unions can help to bring low-income households into the financial mainstream, promoting economic stability and mobility.

Deposits in locally owned and controlled banks and credit unions build individual wealth and community wealth simultaneously. For example, as community-controlled not-for-profit financial cooperatives, CDCUs reinvest member savings and outside capital into affordable loans to consumers, homeowners, and small businesses. Earnings remain in the community; thereby building individual and community wealth simultaneously. Similarly, investing in MDI banks is building collective wealth of shareholders of color while expanding access and capital in these communities.

To support this critical investment nationally, corporations, public entities, and even individual investors can play a significant role. By allocating a portion of their cash reserves to deposits in community banks and credit unions, these entities can help drive economic development in marginalized communities. This strategy channels funds in a manner that provides a financial return to the investor while also yielding social and economic benefits.

For corporations with substantial cash reserves, even a small percentage directed towards these community-centric financial institutions can represent a significant influx of capital. Public entities, such as local and state governments, can reallocate portions of their treasury holdings to these banks, bolstering their ability to loan out money to local businesses and homeowners. Individual investors, particularly those interested in socially responsible investing, can make a difference by choosing to deposit in these financial institutions.

Some of the team from One Detroit Credit Union

This kind of intentional cash allocation strategy can help in creating sustainable communities, providing resources for small businesses, promoting homeownership, and contributing to the overall financial health of historically underserved communities. It's a win-win scenario: Investors can still earn returns while helping to foster financial inclusion and economic growth in local communities.

About the Impact Deposit Collaborative[13]

About Community Development Bankers Association (CDBA)

CDBA is the national trade association for community development banks with the aim to promote economic justice, racial equity, and a sustainable world for future generations. Our focus is on Federal policy education and advocacy and programming to build the capacity of the sector to reach deep into their communities to promote financial inclusion. The large majority of CDBA members are banks that are certified as Community Development Financial Institutions (CDFIs). As CDFIs, they have a primary mission of promoting community development and target at least 60% of their total lending and activities to low-income communities and customers that are underserved by traditional financial service providers. As of May 2023, there are 198 CDFI banks and 162 CDFI bank holding companies, of which 32 are also Minority Depository Institutions (MDI), with more than $110 billion in total assets. In addition, the community development banking sector also includes a small, but growing cadre of mission-focused banks specifically focused on environmental finance.

About CNote

CNote is a women-led impact platform on a mission to close the wealth gap through financial innovation. Using the power of technology and a community-first framework, CNote enables corporations, institutions and individuals to efficiently invest at scale in fixed-income and time deposit products that advance economic equality, racial justice, gender equity and climate change adaptation. CNote delivers regular reporting on the social impact of deposits and investments made through its platform. A Certified B Corporation, CNote was a B Lab "Best for the World" honoree in 2019 and was named "Best Women-Owned Business" by the U.N. Women's Empowerment Principles program in 2020.

About Inclusiv

Inclusiv represents the Community Development Credit Union (CDCU) movement, which is committed to promoting financial inclusion and equity, and made up of not-for-profit financial cooperatives, including Minority Depository Institutions (MDIs) and certified Community Development Financial Institutions (CDFIs). Inclusiv channels capital, makes connections, builds capacity, develops innovative programming, and raises visibility for CDCUs and the communities they serve. The Inclusiv Network serves more than 18 million residents of low-income communities across the U.S. through close to 500 CDCUs with collective assets of more than $260B. More than 50% of Inclusiv Network members are led by and serve majority communities of color. All Inclusiv members are committed to promoting financial inclusion and building wealth for people and households underserved by the financial system. Founded in 1974, Inclusiv is headquartered in New York, NY, with offices in Madison, WI, Atlanta, GA, Albuquerque, NM and San Juan, PR.

About National Bankers Association (NBA)

Founded in 1927 as the Negro Bankers Association, today, the National Bankers Association still works to support and strengthen America's minority-owned and -operated banks. Through unmatched networking and federal advocacy, the NBA provides its members with opportunities to have a voice in national conversations about closing the racial wealth gap.

NBA members include Black, Hispanic, Asian, Pacific Islander, Native American, and women-owned and -operated banks across the country, all working to help low- and moderate-income communities who are underserved by traditional banks and financial service providers.

About Mastercard Center for Inclusive Growth

The Mastercard Center for Inclusive Growth advances equitable and sustainable economic growth and financial inclusion around the world and administers the philanthropic Mastercard Impact Fund to produce independent research, scalable global programs and an empowered community of thinkers, leaders and doers on the front lines of inclusive growth. Funding from the Mastercard Impact Fund, with support from the Mastercard Center for Inclusive Growth, enabled this research effort.

Staff of DREAM, a network of public charter schools and community youth development programs leveling the playing field for all children, that received vital funding support from Carver Federal Savings Bank

1 The Collaborative members use the term "underserved" to describe communities that have been disadvantaged with regard to access to safe and affordable financial services and community investment. Some people in community development fields use the term "under-resourced" to describe communities that lack resources, not only limited to economic resources, but also including "leadership, physical assets, money, power, political will, institutions, community cohesion, and services." (Burke, Natalie. "How to Fix a Broken Tongue") However, as the common understanding of "resources" tends to be economic in nature, the Collaborative uses "underserved" because of its broader connotations.

2 Source Inclusiv Insights: CDFI and MDI Quarterly Trends Report 4Q2022 and CDBA research using FFIEC 12/31/2021 Call Report bulk data.

3 Source: CNote research using, FFIEC and NCUA 12/31/2022 Call Report bulk data.

4 Source: CNote research using, FFIEC and NCUA 12/31/2022 Call Report bulk data.

5 Source CDBA research using data from CDFI Fund FY 2022 ACR Report, FFIEC and NCUA 12/31/2021 Call Report bulk data. Notes: Data adjusted for institutions excluded from the data sources by using the median institution size reported in the CDFI Fund's ACR analysis of 2021 data submissions for: 55 loan funds excluded from ACR, 66 credit union cooperativas not regulated by NCUA, and 3 venture funds excluded from ACR. Bank and credit union data from 12/31/2021 Call Report bulk data repositories via "Total Assets" codes "RCON2170" and "ACCT_010", respectively. Total assets from the 134 bank holding company were not included to avoid double counting with their respective bank subsidiaries.

6 Credit unions may also have a low-income designation from NCUA which indicates that a majority of a credit union's field of membership qualifies as low-income members. Many LID credit unions are also CDFIs and MDIs and as such are included in the data shared in this piece.

7 United Nations Sustainable Development Goals, Financial Inclusion, https://www.unsgsa.org/.

8 2021 FDIC National Survey of Unbanked and Underbanked Households. The FDIC provides the following list of nonbank transaction or credit products or services that are disproportionately used by unbanked households to meet their transaction and credit needs: Money orders, check cashing, or international remittances (i.e., nonbank transactions) or Rent-to-own services or payday, pawn shop, tax refund anticipation, or auto title loans (i.e., nonbank credit).

9 Cetina, Jill, Kelly Klemme and Michael A. Perez, "Minority depository institutions have vital role serving vulnerable communities," Federal Reserve Bank of Dallas, February 01, 2022.

10 Source: Inclusiv research calculated using NCUA bank branches data.

11 Source: Community Development Bankers Association research calculated using FDIC bank branches data, CDC data on socially vulnerable counties, and PolicyMap.com.

12 American Council for an Energy-Efficient Economy, "How High Are Household Energy Burdens? An Assessment of National and Metropolitan Energy Burdens across the United States." https://www.aceee.org/press-release/2020/09/report-low-income-households-communities-color-face-high-energy-burden

13 Funding from the Mastercard Impact Fund, with support from the Mastercard Center for Inclusive Growth, enabled this research effort.