



CUNA & Affiliates
A Member of the Credit Union System

*Credit Union
National Association, Inc.*

601 Pennsylvania Ave. NW, South Bldg.
Suite 600
Washington, D.C.
20004-2601

Telephone:
(202) 638-5777
Fax:
(202) 638-7734

Web Site:
www.cuna.org

Appendix A

Underserved Area Survey

Summary Results

March 27, 2006

On Friday March 17th, 2006, the CUNA Policy Analysis division e-mailed a short survey to 182 single-sponsor or community credit unions with Underserved Area additions. On Monday, March 20th, all 182 credit unions were sent a facsimile reminder to participate in the survey.

By Wednesday, March 22nd, 52 credit unions responded to the survey, for a 29% response rate.

Using this data, we have developed estimates for a number of key operational and financial variables at single-sponsor or community credit unions that have added underserved areas (i.e., affected credit unions). The data clearly show that affected credit unions have a large presence, substantial member activity levels, and significant financial outlays in underserved areas. The likelihood for significant harm exists both to credit unions and to the members and potential members in their underserved areas should the affected credit unions be forced to discontinue service there.

1. In all, we estimate that 182 affected credit unions serve a total of 813 underserved areas throughout the nation.
2. The total costs affected credit unions have incurred in bringing service to underserved areas is \$1.3 billion.
3. Affected credit unions have an estimated total of:
 - 315 branches within underserved areas and 153 branches near underserved areas
 - 107 shared service centers in underserved areas and 35 shared service centers near underserved areas.
4. Affected credit unions have a total of 19 million potential members in the underserved areas. They have added, thus far, a total of 1.6 million actual members in those areas.



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5. Affected credit unions have substantial financial activity in the underserved areas that they have added: At year-end 2005, they have an estimated total of \$4.0 billion in outstanding loans and an estimated total of \$3.4 billion in savings deposits in their underserved areas.

A detailed overview of the survey findings follows:

- Responding credit unions serve a total of 281 underserved areas -- an average of 5.4 underserved areas per credit union. Roughly one-third of underserved area additions in responding institutions occurred in 2005 and two-thirds occurred in the two years ending 2005.

Number and Timing of Underserved Additions		
Year Added	Number Of Areas	Percent of Total
2002 and earlier	83	29%
2003	16	6%
2004	93	33%
2005	89	32%
Total	281	100%

- Respondents have added a total of 6.6 million potential members through underserved area additions. This translates to an average of 122,000 potential members per responding credit union, and an average of over 23,000 potential members in each underserved area at responding credit unions.
- Underserved area additions at responding credit unions have resulted in an addition of 539,000 credit union members. This translates to an average of roughly 10,000 actual members per responding credit union and an approximate average of about 1,900 actual members in each underserved area at responding credit unions.

Underserved Area Membership Profile				
	Total	Per-CU Median	Per- CU Average	Per-Area Average
Potential Members	6,575,729	50,000	121,773	23,401
Actual Members	538,981	2,800	10,169	1,918

- The overall membership penetration rate in underserved areas is 8.2%, calculated as the ratio of total actual members to total potential members.
- Survey respondents report a total of \$1.4 billion in outstanding loans in underserved areas at year-end 2005. The average total dollar amount of loans outstanding is \$25.4 million per responding credit union, while the median total dollar amount of loans outstanding is \$9.6 million. On a per-member basis the \$1.4 billion in outstanding loans translates to nearly \$2,600 per underserved area member.
- Survey respondents report a total of \$1.2 billion in member savings deposits in underserved areas at year-end 2005. The average total dollar amount of savings deposits is \$21.6 million per responding credit union, while the median total dollar amount of savings deposits is \$6.7 million. On a per-member basis the \$1.2 billion in total savings deposits translates to approximately \$2,200 per underserved area member.
- Survey respondents report a total of \$431 million in total costs incurred in establishing service to underserved areas. The average total dollar amount of costs incurred is \$8.3 million per responding credit union, while the median total dollar amount of loans outstanding is \$225,000. On a per-member basis the \$431 million in total costs incurred translates to approximately \$799 per underserved area member. This high level of per-member costs reflects substantial, largely sunk, start-up costs associated with developing new business in these areas. As new members in these areas join, the per-member costs will fall. If forced to stop serving these areas, these credit unions would be greatly harmed.

Financial Activity Levels in Underserved Areas					
	Total	Per-CU Median	Per-CU Average	Per-Area Average	Per-Member Average
Outstanding loans	\$1,372,558,249	\$9,609,309	\$25,417,745	\$4,884,549	\$2,547
Savings deposits	\$1,165,332,776	\$6,695,234	\$21,580,237	\$4,147,092	\$2,162
Costs incurred	\$430,890,753	\$225,000	\$8,286,361	\$1,533,419	\$799

- Overall, 77% of respondents indicate that their credit union has special loan programs designed specifically for members in underserved areas. Some examples of special programs cited by respondents include:
 - Credit builder loans
 - Spanish-language contracts and related loan materials
 - No-fee/low-fee and/or low-rate loans
 - Payday loan substitutes including salary advance loans and micro loans (principal balances of \$250 to \$500 not uncommon)
 - Risk-based lending programs
 - 100% automobile financing programs

- Overall, 67% of respondents indicate that their credit union has special savings programs designed specifically for members in underserved areas. By far, the most frequently cited examples of special savings programs include special no-fee/low-fee accounts such as no-cost checking and no-minimum balance accounts and/or low-balance certificate accounts.

- Overall, 65% of respondents indicate that their credit union has instituted member education/outreach programs specifically designed for underserved area members. Examples of some of these programs include:
 - Financial literacy classes
 - Credit repair classes
 - High school and special education classes
 - Identity theft classes
 - Financial planning classes
 - Homebuyer education classes

- In addition to special loan, savings and education/outreach programs, 54% of respondents indicate that their credit union has other programs specifically designed for underserved area members.
- Responding credit unions indicate that significant harm will be caused if their credit union is no longer able to serve underserved areas. Most claim that local communities would be harmed because their credit union is the only traditional financial provider within the area. Members would thus be forced to return to payday lenders and pawnshops and/or would face pricing increases at traditional financial institutions. Many respondents also claim that their credit union would be greatly harmed, essentially writing off significant investments in branch and other infrastructure. Some cited the harm to credit union image because members would feel that the credit union had “deserted them”. One responding credit union official, whose credit union has a particularly large presence in underserved areas, indicated that his board has instructed him to examine all available options including conversion to a mutual savings bank.