Community Development Banking Institutions (CDBI): Providers of Retail Financial Services for Migrating Underserved Communities into Mainstream Financial System and for Asset Building

Lessons Learnt from Implementation by NCIF Retail Financial Services Participants

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I. Preface & Acknowledgements

National Community Investment Fund seeks to provide private equity capital and best practices to strengthen Community Development Banking Institutions (CDBIs[1]) – community banks, thrifts, and credit unions – so they are both effective agents of local community development in distressed communities and sound financial institutions. NCIF also runs a CDBI Exchange Network to promote research, product development, and knowledge sharing. Through this network, it brings together senior executives to share business models, product research, and best practices in the areas of resource generation, financial performance, and development impact.

NCIF would like to acknowledge the generous financial support of The Annie E. Casey Foundation in supporting this valuable analysis of the ***Lessons Learnt from Implementation by NCIF Retail Financial Services Participants***. Without their assistance this analysis would not have been possible that has created a body of knowledge for the industry. We also thank the original supporters of the Retail Financial Services Initiative – The Annie E. Casey Foundation and the Ford Foundation for their support over the initial phases of the program and in commemorating the impact of community development banks and credit unions.

Our gratitude to the three RFSI Participants and Project Leaders for their willingness to provide data and work with NCIF as we collected the results. Margaret Henningsen, Co-founder, Legacy Bank, Ed Jacob, Chief Executive, North Side FCU and Bill Myers, Chief Executive, Alternatives FCU provided keen insights that will be valuable to newer financial institutions as they contemplate replicating this work.

We would also like to acknowledge the ongoing support of NCIF Investors and supporters – Bank of America, Washington Mutual, Ford Foundation, Annie E. Casey Foundation, F.B. Heron Foundation and the CDFI Fund for building and developing the NCIF platform that helps in promoting the work done by CDBIs.

Finally we would like to thank Matthew Roth, who led this analysis, helped in designing the approach, collecting and analyzing the data, and iterating with the the RFSI Project Leaders. His diligence and thoughtfulness will help the industry move forward and, in the ultimate analysis, will help our clients – the underserved.

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[1] National Community Investment Fund coined the term, Community Development *Banking* Institutions (CD*B*Is), to denote banks, thrifts and credit unions that have this mission of community development. This is an attempt to increase the number of institutions that could be certified as Community Development *Financial* Institutions (CD*F*I).

II. Executive Summary

Community Development Banking Institutions (CDBIs) are financial institutions that have a mission of serving low to moderate income communities directly and in collaboration with partners. They provide an array of services that introduce unbanked and underbanked individuals and businesses to the mainstream. Policy makers and funders provide support to ***scale*** the smaller CDBIs so that these efforts are leveraged. Following are areas in which the CDBIs serve the underserved.

1. Credit products for Asset Building and as Alternatives to Predatory Lending
   CDBIs provide responsible saving and loan products that gradually build assets among underserved communities.

2. Retail Financial Services in Underserved Areas
   It has been observed that there are large communities in rural and urban America that are mostly served by high cost alternative financial service providers like check cashers and pay day lenders. Community development banks, thrifts and credit unions have filled this gap successfully and complement the efforts of the larger banks.

3. Partnerships and Development Services
   CDBIs build partnerships with non-profit organizations, larger banks, governments and regulators to attempt holistic development of low income communities.

With the objective of documenting and supporting the CDFI industry in their above efforts, NCIF launched a 3-year Retail Financial Services Initiative, in 2002. In this initiative it invested in 12 banks and credit unions, helping them develop, test, and implement new products and strategies aimed at bringing the "unbanked" and "underbanked" into the financial mainstream.

In 2006, NCIF launched an Analysis of Lessons Learnt from the Implementation of these initiatives by attempting to quantify the market and financial success that three of these institutions produced. This guide details the analytical findings from this effort, with the perspective of creating a body of knowledge that can be used by other financial institutions attempting to launch similar services. The objective was to produce quantitative and qualitative findings that would demonstrate the replicability of these business models.

To assess program success, NCIF developed an approach that calculated firstly the profitability of the RFSI service on a stand-alone basis and secondly profitability on a customer relationship perspective by determining the extent to which new customers acquired additional products.

It is important to note that the three institutions individually tackled an important element of economic development for low-income consumers:

- Legacy Bank, Milwaukee, WI, created deposit products for individuals who were unbanked, often because they were turned away by mainstream banks due to their credit history.
- North Side Federal Credit Union, Chicago, IL created a short-term, small-dollar loan product to combat predatory lenders in PayDay lending.
- Alternatives Federal Credit Union, Ithaca, NY offered free tax preparation services to increase the comfort level for underbanked individuals with financial institutions resulting in greater deposit and loan relationships.

All three institutions posted results that met original expectations, with modest volumes, earnings levels and significant cross selling potential, suggesting opportunities exist for replication. As institutions consider replicating these experiences, they need to consider not only the quantitative results but also the qualitative findings provided by the lead project sponsors who are also the chief executives at these institutions.

Legacy Bank, an African American-owned bank in Milwaukee, wanted to address the large numbers of individuals denied deposit accounts due to various factors that led to their being on systems such as ChexSystems. Legacy introduced Financial Liberty First Accounts, available to all those who did not have any records of fraud, and set up procedures to closely manage and monitor these accounts.

Over 1,500 customers have opened accounts at Legacy through the Financial Liberty First Accounts program, and deposits exceed $300K. The minimal out-of-pocket expenses required to support this program help make it modestly profitable, generating about $5K per quarter in contribution. More importantly, individuals and small business owners who first became Legacy customers through Financial Liberty First Accounts have over $1.5 million of outstanding loan balances, and this generates roughly $50K in annualized contribution to the bank.

North Side Federal Credit Union, based in Chicago, set out to combat the proliferation of PayDay loan stores and other predatory lenders in the small dollar, short-term loan sector (this has become a significant issue as evidenced by the Talent Amendment and also the FDIC's emphasis on this issue through the Alliance for Economic Inclusion[2]). North Side's objective was to offer a superior loan structure to consumers that would be at responsible interest rates, present acceptable credit risk to the credit union, and yet be profitable on a relationship basis after factoring in deposit and loan business that new members would generate.

[2] National Community Investment Fund and North Side Federal Credit Union are both members of the FDIC Alliance for Economic Inclusion as are other CDBIs around the country.

Branded as “PAL” (PayDay Alternative Loan) loans, these are 6 months amortizing loans for a typical amount of $500. Unlike payday lenders, North Side generally does not permit more than 1 rollover (there were some exceptions) helping borrowers become more responsible and enabling them build assets rather than enter into a debt trap. As a result of loan losses in the initial periods, North Side restructured its underwriting procedures in late 2004, which resulted in substantially improved credit performance. Moreover, while PAL loans on a stand-alone basis lost about $30K over the life of the program (before grant income), members who joined the credit union with PAL loans now maintain over $100K in deposit balances and produce a modest contribution to the credit union’s overhead. Overall, North Side expects improved financial performance from the PAL loans as part of its overall suite of products.

Alternatives Federal Credit Union, in Ithaca, New York, wanted to leverage the benefits of the IRS’ Volunteer Income Tax Assistance (VITA) program – but in a unique way. Rather than partnering with an existing VITA site, Alternatives observed the lack of VITA sites in its community and opened one in its credit union. Management believed that controlling the site would maximize its ability to convert VITA participants into members of the credit union. Also, Alternatives set as an objective a Refund Anticipation Loan (RAL) product that would offer individuals a much lower priced alternative than those offered by many tax preparers.

Demand for Alternatives’ tax preparation service has been strong and is growing, in part evidenced by over 2,300 returns completed for the three tax years 2003-2005. The service is offered at no charge, so the only revenues are associated with the RAL’s extended to those awaiting tax refunds. Approximately $125K of these loans were originated in the past two years, which generated a very modest positive contribution. Moreover, over $80K is now held in deposits by individuals who joined the credit union through the VITA program, and an additional $115K in loans has been made to them. Factoring in the costs of staffing and maintaining the VITA site, a $3K-$6K loss (before grant income) is generally posted on a quarterly basis from the program. The infusion of new members, however, remains an unqualified success to Alternatives’ management, and it is believed the continued growth in the program will continue to fuel deposit and loan growth.

Overall, these three institutions have demonstrated that the retail financial services that they provide (and are provided by CDFIs in general – for a full list of NCIF Investees serving the underserved, please see Appendix A) can be replicated in a profitable manner.

III. Introduction

In 2002, the National Community Investment Fund (NCIF) launched its Retail Financial Services Initiative (RFSI) to help foster innovative approaches to bring both unbanked and underbanked consumers into the financial services mainstream. Through RFSI, NCIF supported 12 banks and credit unions to develop, test, and implement new products and services aimed at this market. The initiative, in its initial phase, lasted three years and culminated in a report, A Guide to Building Products and Strategies for Underbanked Markets, which detailed the strategies of each of the participating financial institutions and the challenges and issues faced during implementation of each strategy. Excerpts of the report can be found in the Appendix; its highlights are as follows:

- The market segment of unbanked and underbanked (those individuals with checking or savings accounts at depository institutions who continue to use alternative financial providers) consumers is large and growing. According to various industry reports, the combined market for unbanked consumers and sub-prime borrowers comprises 30 million to 40 million households.
- The inability of these largely low-income consumers to enter the financial mainstream limits access to quality, low-cost financial services.
- Alternative financial service providers do not foster asset building strategies for low-income individuals nor do they allow for the strengthening of credit histories.
- Strategies aimed at bringing unbanked and underbanked consumers into the financial mainstream should include the following:
    - Assess consumer needs and design products in a manner that matches the competition as it relates to accessibility and product features, though with responsible pricing.
    - Offer transactional products, but structure them in a way that leads to products that place consumers on the path to the financial mainstream.
    - Cultivate relationships with community partners to help with marketing outreach, financial education and product development.
    - Ensure alignment of product objectives with organizational goals, and have a senior executive champion the product.
    - Commit the financial and human capital required to support.
- Results after three years are encouraging. Many participants designed services which filled customer needs in a manner that promoted a path to the financial mainstream, enjoyed growth in customer/member ranks, were able to appropriately manage risks, and deepened their relationships with their communities.

Phase 2 Objectives

In 2006, NCIF partnered with three of these 12 financial institutions for evaluating the Lessons Learnt from the Implementation of their initiatives. The objective of Phase 2 was to define success from the following two perspectives:

1. Market Success: to be measured by quantifying both the number of customers acquired through the RFSI service and the ability of each institution to up-sell customers acquired through the RFSI service into mainstream deposit and credit products (i.e., "Product Migration").

2. Financial Success: to be measured by determining the profitability of both the service launched to attract new customers as well as the overall profitability of the relationship after considering product migration.

NCIF believes that results from Phase 2 will result in a body of knowledge which can be leveraged in the industry as other banks and credit unions introduce similar products and services in their efforts to serve the underserved. Lessons learnt from the evaluation will guide them in replicating the strategies or modifying them, as appropriate in the local setting.

The RFSI Phase 2 institutions, products, and project leaders are as follows:

Institution	**Product/Service**	**RFSI Leader**
Legacy Bank Milwaukee, WI	Financial Liberty First Accounts	Margaret Henningsen *Co-Founder and Vice President*
North Side Community Federal Credit Union *Chicago ,IL*	PayDay Alternative Loans (PALs)	Ed Jacob *Chief Executive Officer*
Alternatives Federal Credit Union Ithaca, NY	Free Tax Preparation and Refund Anticipation Loans (RALs)	Bill Myers *Chief Executive Officer*

As part of the collaboration, each participant maintained records of the volume, revenue and expense associated with its RFSI service, and made available its deposit and loan data to allow for an analysis of product migration. The report is organized as follows:

1) Summary of RFSI service offered by the institution.
2) Key learnings.
3) Methodologies and assumptions employed in the profitability analysis.
4) Key analytical findings on market and financial success.
5) Overall program assessment.

IV. Legacy Bank: Financial Liberty First Accounts

Background

Market Need

One of the biggest impediments for individuals to enter the financial services mainstream is likely to be the approval process used by financial institutions to screen applicants for deposit products in general and checking accounts in particular. Banks often rely on one of several third party systems to evaluate applicants. ChexSystems is the most common of these, and this tool is essentially a database of all individuals that have had an account closed at some point, due to overdrafts, check fraud, identity theft, etc. If a customer's name appears on this list, financial institutions utilizing ChexSystems are likely to deny his/her application and hence the individual is unlikely to be able to open an account with the bank. Generally speaking banks do not check as to whether the account closure was due to simple issues like inadvertent account overdrafts or whether it was due to more serious issues. There are also more sophisticated auto-decisioning systems (e.g., Decision Power) available to screen applicants, with similar outcomes.

Legacy's Response

Legacy Bank, a $155 million African American-owned bank in Milwaukee launched a program in 2003 to test opening checking accounts to individuals who otherwise would have been rejected by these systems. This section details the outcomes of this particular program.

Legacy's Financial Liberty First Accounts program was comprised of opening both checking and savings accounts for individuals who had not committed fraud in their past. Accounts were monitored closely to ensure that accidental overdrafts were handled appropriately and controls were put in place to minimize the credit and fraud risk Legacy incurred as a result of ATM cards and transactional capabilities. Key product attributes of the checking account are as follows (see Appendix E for more detail, as shown on Legacy's website):

- $10 minimum deposit to open an account[3]
- No minimum balance required
- No monthly service charge
- ATM/debit card provided with direct deposit
- Non-interest bearing

[3] Legacy restructured the product in early 2007 and raised its minimum opening deposit to $50

Key Learnings

Volume

A key challenge faced by Legacy was to get traction for the product and in a community which had largely been rejected by other banks. Legacy learnt that it was very important to work with partners in the community and leveraged relationships with 25-30 different community organizations to:

a) spread the word of the Financial Liberty First Accounts program,
b) place financial literacy classes into the community, and
c) enhance the level of trust for banks that is sometimes lacking in unbanked and underbanked communities.

Risk

Legacy started with a hypothesis that the risk of individuals with minor credit deficiencies in their histories, who had been otherwise rejected is actually not that high. Banks rigorously screen these applicants, even at the expense of rejecting potentially “safe” customers due to the concern of the potential magnitude of credit and fraud losses that can result from these accounts.

Legacy management was intent on controlling the risk of the portfolio and demonstrating that these customers, when given a second chance would actually be acceptable credit risk. Some of the strategies adopted by Legacy were:

a) Oversight - Closely monitor activity in ALL of the accounts in this portfolio and in so doing it learned that this indeed can be very effective in managing losses.
b) Financial Counseling – Legacy introduced a requirement that anyone who overdrafts their account three times was required to take a remedial financial education class to maintain their account.
c) Leadership from Senior Management – This project was led by one of the three co-founders of the bank, Margaret Henningsen, who believes that this level of sponsorship is important in ensuring that the program is correctly implemented and the policies are adhered to.

One of the successes of the program is that fraud and credit losses on this portfolio since 2003 have been minimal.

Earnings

Legacy has successfully demonstrated that Liberty First Account customers can be a source of significant cross-selling opportunities.

For example, opening doors for individuals previously shut out of the system has proven to be an unexpected entrée to developing small business relationships. There are numerous examples of individuals who had minor credit deficiencies in their history, opened Financial Liberty First Accounts, and have now started small businesses. These entrepreneurs have remained loyal and maintained their commercial deposit and loan business with the Bank.

Methodology/Key Assumptions

The following approach and assumptions were used for calculating the profitability of Legacy's Financial Liberty First Accounts on a stand-alone and relationship basis:

Liberty First Account Revenues & Expenses

- Liberty First Account deposit files were analyzed for the five consecutive quarters ending September 30, 2006 to ascertain deposit balances by product type (e.g., Checking) and fee income.
- Interest expense was derived by applying product pricing in effect at the time against aggregate balances.
- Credit was given to these deposits by assuming balances were invested in treasury securities at 4%.
- Non-interest expense equal to the account fees charged by Legacy's deposit processing vendor were charged against revenues; no incremental personnel or marketing expense was incurred as these accounts are embedded in the overall activity of the bank and are thus not separated out.
    - A dedicated resource is required for the start-up phase (6 months) of a program such as this, but as this period does not fall into the period analyzed it does not appear in the resulting financials.

Migration Volumes

- Legacy's bank-wide deposit and loan file as of December 2006 was used to quantify incremental business stemming from Liberty First Account depositors.

Migration Revenues & Expenses

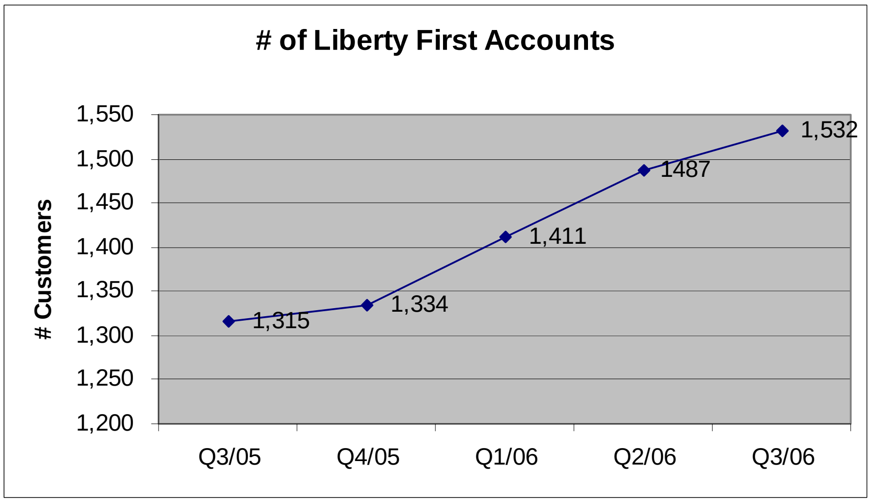
- Customer-specific yields for deposit and loan products were applied against respective balances.
- Loans were assumed to be funded first through raised deposits; as loan volume exceeded deposits, loans were assumed to be funded by wholesale deposits, at 4%.
- Legacy's aggregate charge-off rate for its consumer loan portfolio was applied to loan balances that stemmed from Financial Liberty First Accounts.
- Non-interest expense related to charges by Legacy's deposit processing vendor; no other incremental personnel or marketing expense was incurred.

Market Success – Analytical Findings

Volume Growth/Deposit Activity

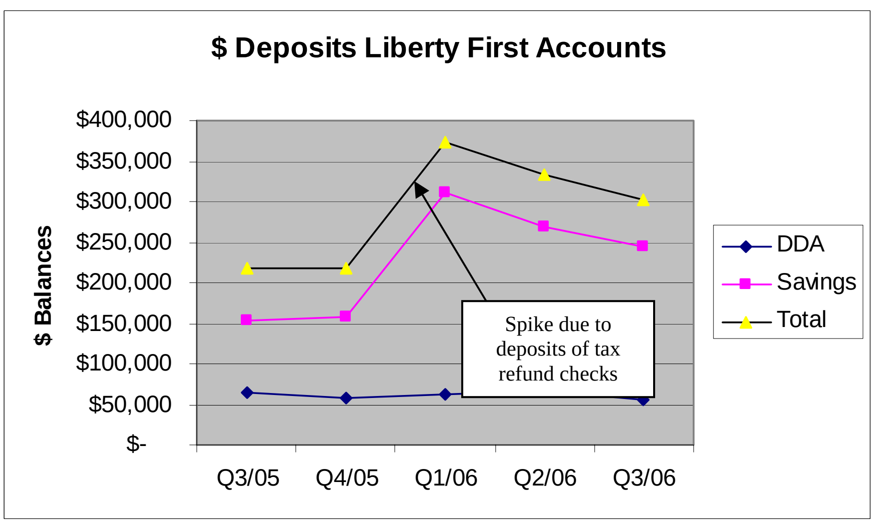
As shown in Exhibit 1, Legacy witnessed steady growth in its Financial Liberty First Accounts program, with a cumulative total of over 1,500 new customers as of September 30, 2006.

Exhibit 1



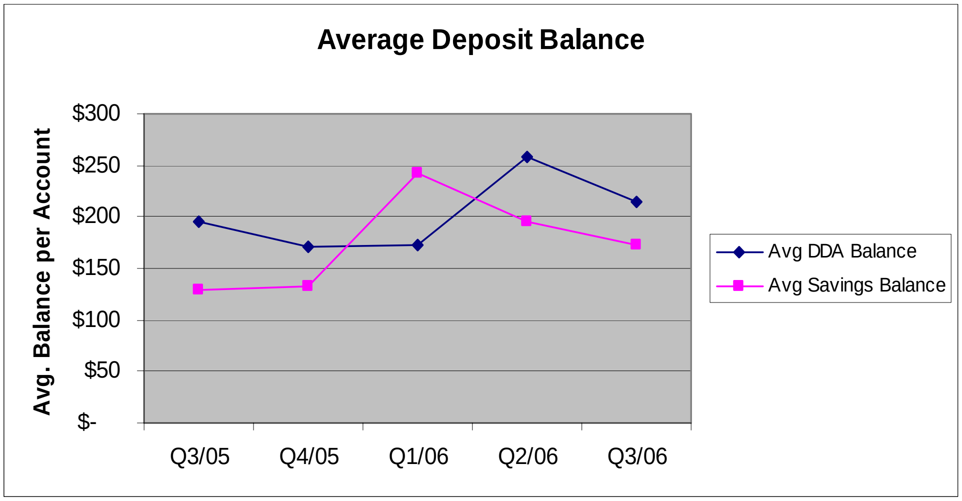
As seen in Exhibit 2, deposits of these customers peaked during Q1/06 at nearly $375,000. Most of the total deposits resided in savings accounts, with just over $50,000 in checking account balances. The spike in Q1/06 stemmed from tax refunds, and adjusted for seasonality it appears $300,000 is more reflective of average deposit levels.

Exhibit 2



Given that Liberty First Account depositors were low to moderate income individuals, it was expected that the account balances would not be that high. This turned out to be true as is show in Exhibit 3.

Exhibit 3



<u>Financial Success – Analytical Findings</u>

Financial Liberty First Accounts: Stand-Alone Basis

The balance sheet on a stand-alone basis is portrayed in Exhibit 4, for the five consecutive quarters ending September 30, 2006. Liberty First Account deposits grew strongly year over year, increasing from $217K at Q3/05 to $302K at Q3/06. This growth reflected the effectiveness of Legacy's community outreach efforts.

Exhibit 4
Balance Sheet: Stand-Alone Basis

		Q3/05		Q4/05		Q1/06		Q2/06		Q3/06
Securities	**$**	**217,290**	**$**	**216,797**	**$**	**373,578**	**$**	**334,357**	**$**	**301,783**
Checking Deposits	$	64,372	$	58,843	$	63,079	$	66,117	$	56,569
Savings Deposits	$	152,918	$	157,954	$	310,500	$	268,240	$	245,213
Total Deposits	**$**	**217,290**	**$**	**216,797**	**$**	**373,578**	**$**	**334,357**	**$**	**301,783**

Similarly on a stand-alone basis, Financial Liberty First Accounts generates earnings to Legacy, albeit modest, largely due to fee income[4] on these accounts.

Exhibit 5
Income Statement: Stand-Alone Basis

	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06
Interest Income - Securities	$ 2,173	$ 2,168	$ 3,736	$ 3,344	$ 3,018
Interest Expense - Deposits	$ 765	$ 790	$ 1,552	$ 1,341	$ 1,226
Net Interest Income	**$ 1,408**	**$ 1,378**	**$ 2,183**	**$ 2,002**	**$ 1,792**
Fee Income	$ 11,841	$ 13,716	$ 8,622	$ 12,060	$ 13,335
Total Revenues	**$ 13,249**	**$ 15,094**	**$ 10,805**	**$ 14,062**	**$ 15,127**
Personnel Expense	$ -	$ -	$ -	$ -	$ -
Other Noninterest Expense	$ 9,054	$ 9,240	$ 9,882	$ 9,750	$ 10,068
Contribution	**$ 4,195**	**$ 5,854**	**$ 923**	**$ 4,312**	**$ 5,059**

Migration

Exhibit 6 illustrates the balance sheet impacts of First Account customers who opened up lending relationships and/or who graduated to more traditional deposit products (i.e., migration). Given the relatively high usage of savings accounts for Liberty First Account customers, it can be observed that over 75% of follow-on accounts are in checking accounts and the remainder is in CDs. In total, an incremental $217K in deposit balances is held by individuals who initially became Legacy customers through the Financial Liberty First Accounts program. These deposit balances, however, were dwarfed by over $1.5 million in loans held by one-time First Account customers as of Q3/06.

Exhibit 6
Balance Sheet: Migration

	Q3/06
Loans	$ 1,557,876
Checking Deposits	$ 168,471
CD Deposits	$ 138,679
Total Deposits	**$ 217,290**
Wholesale Deposits	$ 1,340,586

[4] Fee income is mostly comprised of NSF (insufficient funds) fees

As shown in Exhibit 7, the $1.5 million in loans on the books as of Q3/06 give rise to an estimated $50K in annualized earnings. The important thing to highlight here is that there is profitability in the cross selling activity even though the excess loans were funded by wholesale deposits. Once (and if) deposit balances from Financial Liberty First Accounts increase this profitability will increase further.

This also provides strong evidence of Legacy's ability to profitably up-sell Liberty First Account customers. Additionally this earnings stream is much more based on net interest income, vs. fee income, than the Liberty First Account's profitability on a stand-alone basis.

Exhibit 7
Income Statement: Migration

		Q3/06		Annualized
Interest Income - Loans	$	30,294	$	121,176
Interest Expense - Deposits	$	1,007	$	4,029
Interest Expense - Wholesale Deposits	$	13,406	$	53,623
Net Interest Income	**$**	**15,881**	**$**	**63,524**
Fee Income	$	478	$	1,912
Total Revenues	**$**	**16,359**	**$**	**65,436**
Net Charge-Offs	$	3,895	$	15,579
Personnel	$	-	$	-
Other Noninterest Expense	$	186	$	744
Contribution	**$**	**12,278**	**$**	**49,113**

Overall Assessment

Legacy's Financial Liberty First Accounts program has achieved the goals set out by management when it was launched in 2003. Financial Liberty First Accounts fulfill a market need as an accessible deposit alternative for formerly underbanked and unbanked individuals. This is evidenced both by the aggregate number of new customers Legacy has acquired and the steady growth in these accounts.

Moreover, the combination of a well-executed strategy of working with community organizations, fee income on deposit transactions, aggressive portfolio management, and expense control has allowed these accounts to generate a small positive earnings contribution on a stand-alone basis. Most importantly, the analysis conducted above demonstrates that these customers can become a source of profitable relationships to the bank.

For institutions seeking to replicate this experience, several comments should be made. First, as mentioned above, the program does require a dedicated senior management resource to manage product design and initial implementation. Second, management focus is required to monitor accounts and encourage behaviors that will allow consumers to properly utilize these products in the context of their budgets. Third, institutions with less developed networks with community organizations may want to consider low-budget marketing programs to increase awareness of the program. Last, institutions may actually spend less than Legacy if they do not pay their deposit vendor on a per account basis. This pricing schedule resulted in an incremental expense of roughly $10K per quarter for Legacy.

On the whole, Legacy's experience appears replicable and could be an attractive source of new business and profitability to any institution that wishes to launch a deposit product to this market segment.

V. North Side Federal Credit Union: Pay Day Alternative Loans

Background

Market Need

The prevalence of Payday Loan stores and Pawn Shops offering short-term credit at exorbitant annual percentage rates (APRs) (often exceeding 300%) provided the impetus for North Side Community Federal Credit Union to seek out a more cost effective solution for consumers that would at the same time provide a sufficient financial return for the lender. This issue is receiving significant attention in today's environment, as evidenced by the FDIC's Small Dollar Loan Program (through its Alliance for Economic Inclusion[5]). It can also be seen on the legislative front through the Talent Amendment, which caps the annual percentage rate at 36% that can be charged to members of the U.S. military seeking PayDay loan products.

North Side's Response

North Side was at the forefront on this issue when it responded to this market dynamic in February 2002. Ed Jacob, the Chief Executive Officer, personally sponsored a PayDay Alternative Loan (PAL) product that was structured to offer consumers the ability to borrow $500 at a 16.5% interest rate for six months.

- The six-month maturity targeted the most egregious side of typical PayDay loans – 14-day maturities which ensure that customers get into a debt trap and roll over the loans several times with resultant new fees and higher and higher returns for the lenders.
- Additionally, PALs are structured as amortizing term loans that require bi-weekly or monthly principal payments. This helps inculcate discipline among borrowers and helps reduce reliance on these loans as permanent financing.
- Finally, North Side only charged a $10 application fee[6] and provided the same immediate credit decision and access to cash that PayDay Loan stores offered.

A copy of the streamlined PAL application can be found in Appendix E.

[5] National Community Investment Fund and North Side are both part of the FDIC's Alliance for Economic Inclusion Committee

[6] Increased to $30 after the pilot period

Key Learnings

Volume

Small-dollar loans require high volumes to be profitable as they are as dependent on fee income as net interest income. To drive volumes, the loans have to be structured to offer a superior value proposition to what is delivered through PayDay loan stores, and they need to be marketed in a cost-effective manner. North Side's product launch provided insights into whether this is possible and how to achieve it. As is evident from Exhibit 2, North Side's PAL product was well received in the market. This volume growth occurred without any formal marketing suggesting that:

- Volumes are generated due to the robustness of the product in serving market needs and competitive product offerings.
- Additionally word-of-mouth and partnerships with community organizations can be a very cost-effective means of marketing which reduces reliance on formal marketing methods (and attendant costs).

Risk

North Side experienced substantial credit losses in the pilot phase (Phase 1) of the program. Ed Jacob became very cognizant of the fact that the credit union would not be able to withstand these credit losses especially given the low interest rate and the high operating cost of the program. Hence as he moved from pilot phase to a sustainable roll-out (Phase 2), he adapted the PAL program in the following ways:

- Required higher risk new credit applicants (those with credit scores below 600) to enroll in a three-part financial education class before they could qualify for the loan. Moreover, these applicants had to have a one-on-one session with someone from the credit union to discuss budgeting.
- Encouraged direct deposit for repayment of the loan (requiring direct deposit as a condition of the loan is prohibited).

Earnings

North Side's experience suggests that very low pricing on both rate and fees may not provide enough revenues to cover costs and hence fees may need to be adjusted to pay for costs. Moreover, it is critical to view customers acquired through this product on a more holistic basis than just product profitability.

- As North Side moved to a full roll-out, it increased the application fee to $30 from $10 to better help cover costs. These fees are still lower than what are charged by payday lenders.
- Some PAL borrowers eventually migrate to become more creditworthy, regular borrowers with resultant earnings to the credit union. The level of charge-offs in the portfolio in Phase 1 emphasized the need to manage risk and cross sell products to qualify the PAL borrowers; success in

Phase 2 from a holistic customer profitability standpoint reaffirmed this hypothesis and strategy.

Methodology/Key Assumptions

The following approach and assumptions were used for calculating the profitability of PALs on both a stand-alone and relationship basis:

PAL Revenues & Expenses

- Each PAL originated by North Side since the project launch in 2002 was assigned revenue based on respective original principal balance, interest rate, and application fee.
    - o As such, PAL profitability on a stand-alone basis is portrayed for each of the five years the program has been in effect.
- Interest income was reduced pro rata to reflect loan amortizations and portfolio level charge-offs.
- All PALs were assumed to be funded from wholesale borrowings, at 4%.
- Actual charge-offs were assessed against PALs.
- No incremental marketing or personnel expense was incurred for this program; the only non-interest expense imputed was for printing and mailing costs. It is important to highlight that North Side believes that at the initial phase of introduction of a PAL program a financial services provider does not need to add any incremental staff.

Migration Volumes

- Deposit and loan volumes were ‘allocated to PAL program’ by matching the date when the PAL customer became a member against the date of the first PAL; PAL customers who became members within 45 days of the loan were included in Product Migration results[7].
- Actual deposit and loan volumes for the 4 consecutive quarters ending September 30, 2006 were tabulated for these customers.
    - o Note: as a result, migration profitability was determined for these four quarters.

Migration Revenues & Expenses

- Prevailing credit union-wide deposit rates were used for respective balances in DDA, Savings, and Holiday Club accounts;
- Loan yields specific to each non-PAL loan were applied to determine interest income on product migration to other loan products.

[7] For example, if an individual joined the credit union just before taking out a PAL, deposit balances held by that individual were included in the migration analysis. On the other hand, if an individual had been a member since May 1, 2004 and took out a PAL on July 31, 2004, deposit balances (more than 45 days) were not included in migration as it is conservatively assumed that these balances are independent of the PAL relationship.

- No incremental marketing or personnel expense was incurred to support additional deposit and loan products acquired by PAL customers.

<u>Market Success – Analytical Findings</u>

Portfolio Characteristics

Exhibit 1 illustrates North Side's cumulative PAL portfolio, from February, 2002 through December, 2006:

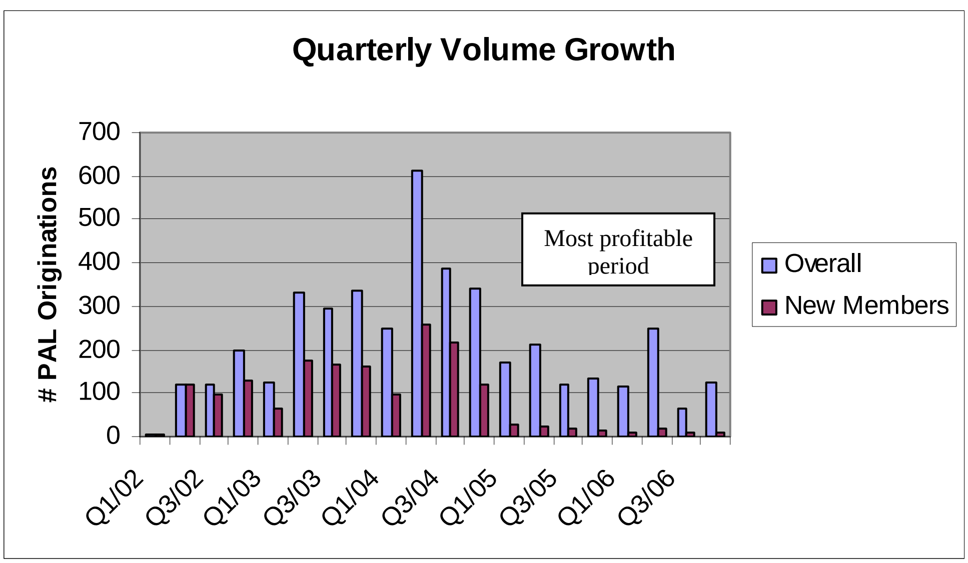
Exhibit 1

Total # Loans:	4,306
Total # Unique Customers:	1,735
Funds Disbursed:	$2,170,262
Median Maturity (Months)	6.3

Volume Growth/Loan Activity

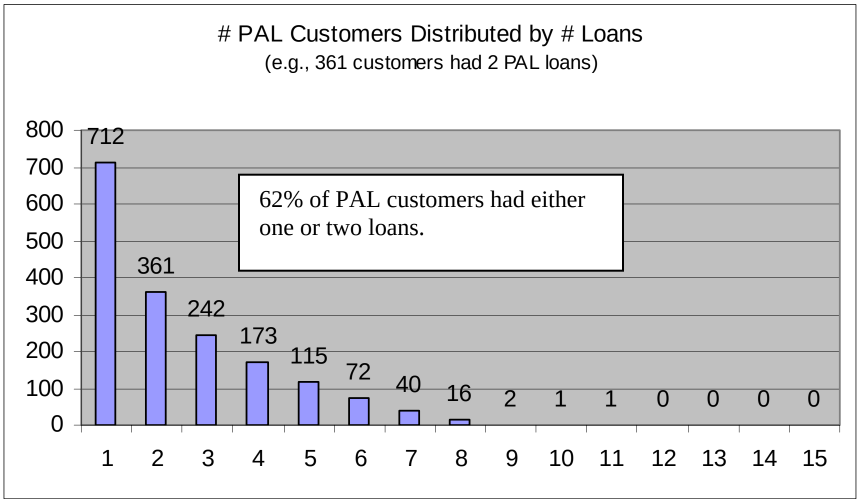
The summer of 2004 represented the peak period for the PAL program, both in terms of total number of PAL loans and new members generated by the program. Exhibit 2 shows that over 600 PAL loans were originated in Q2/04 alone. As management instituted more rigorous credit screening (in response to credit losses) and raised the application fee towards the end of 2004, volumes tapered off in 2005 and again in 2006. Ed Jacob expects 2006 volumes (approximately 550 loans) to now be the run-rate level of originations and volumes for the program.

Exhibit 2



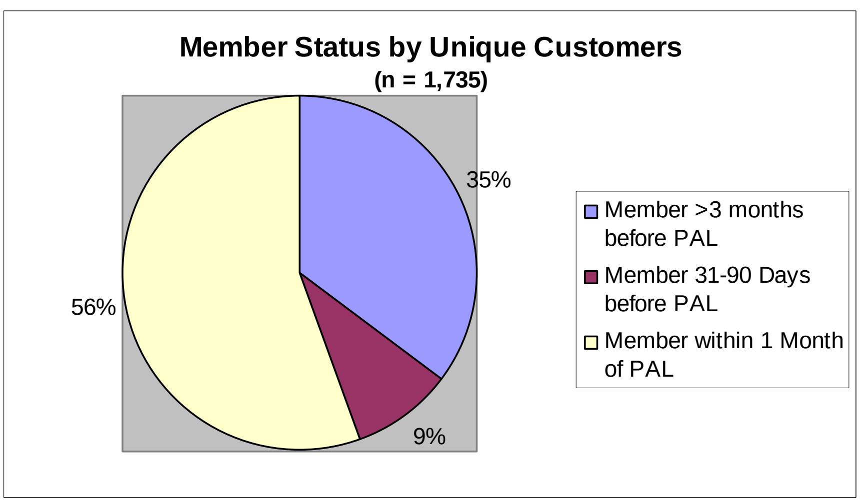
As mentioned above, it is believed PayDay loan stores make most of their volume and revenue on loans that get rolled over. While competitor data is not available, it can be observed below that North Side's PAL program does not overly rely on this phenomenon as over 62% of PAL customers have only taken out one or two PAL loans and less than 15% have taken out 5 or more PAL loans (Exhibit 3).

Exhibit 3



Customer Acquisition
An analysis of the over 4,300 PAL loans revealed that there were 1,735 unique members in the program. Of these unique PAL members, 56% joined the credit union at the time they applied for the PAL product. This finding validates North Side's attempt to build the PAL program in part as a means to enhance its overall membership ranks – the first step in up-selling customers.

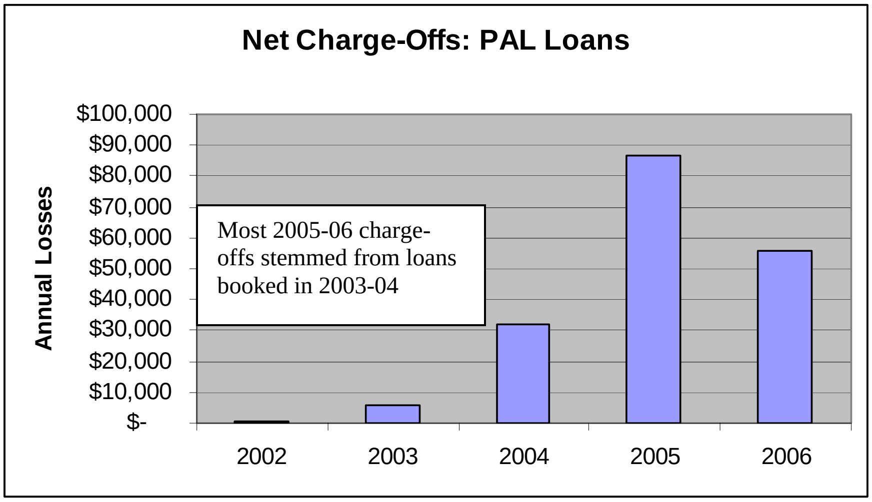
Exhibit 4



Risk
Losses on the PAL portfolio were negligible in the initial year of the program, remained modest in 2003 and then began to mount in 2004 when delinquencies soared and collection efforts got taxed by the number of troubled loans. While

most of the problems in the portfolio had their genesis in 2004, losses peaked in 2005 and remained high in 2006 (though almost the entire 2006 total was charged-off in February of that year). On a cumulative basis over $180K of PAL loans were charged-off against total originations in excess of $2MM. This amounts to a net charge-off rate of about 8% for the portfolio as a whole. The current run-rate for net charge-offs is significantly below this level, however, at approximately 3.6%.

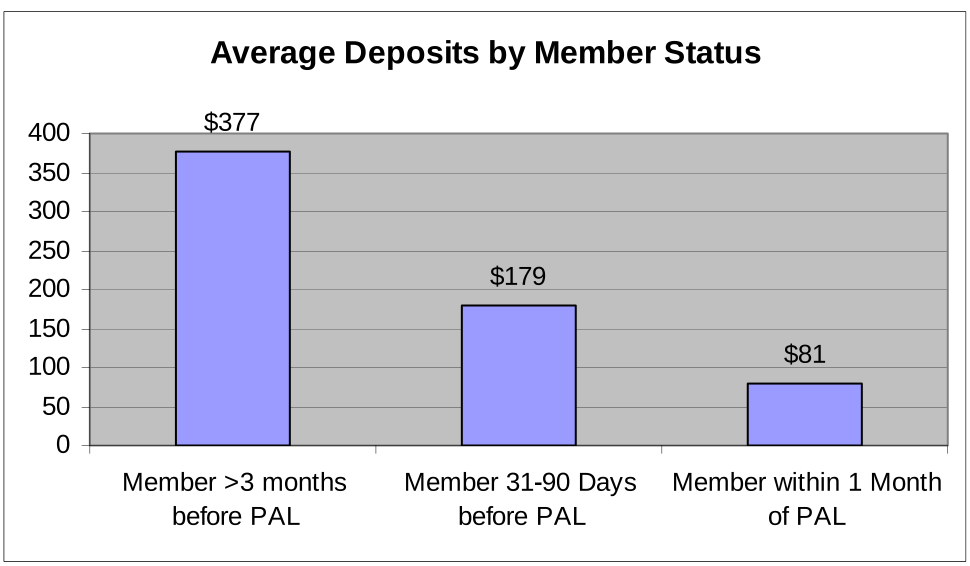
Exhibit 5



Migration

Given that consumers who are in need of short-term cash have very little cash, new members maintained significantly lower deposit balances than their longer-term peers. Over time, as PAL members "graduate" and more firmly enter the financial mainstream, it should be tested whether these members attain the deposit balance levels of longer-term members.

Exhibit 6



Financial Success – Analytical Findings

PALs: Stand-Alone Basis

Given that PAL loans are short-term in nature, year end numbers don't really capture the total activity in the product. Hence a balance sheet for PALs is not portrayed here. As seen in Exhibit 7, though, the product's income statement shows that PAL loans produced a modest negative contribution to North Side over the life of the program. This was driven by the high level of charge-offs incurred primarily from loans originated prior to 2005 (North Side received separate grants to cover these portfolio losses which, if included in program profitability allowed North Side to post cumulative contribution of almost $90,000). The more stringent underwriting standards that have currently been implemented is already yielding significant improvement in net charge-offs (currently at 3.6% of loans) and should improve product profitability in the future.

Exhibit 7
Income Statement: Stand-Alone Basis

	2002	2003	2004	2005	2006	Cumulative
Interest Income	$5,196	$20,713	$35,579	$20,133	$9,527	**$91,149**
Imputed Funding Cost	$2,204	$5,528	$8,009	$3,188	$2,774	**$21,703**
Net Interest Income	**$2,992**	**$15,185**	**$27,570**	**$16,945**	**$6,753**	**$69,446**
Fee Income	$4,360	$10,840	$15,900	$19,110	$33,273	**$83,483**
Total Revenue	**$7,352**	**$26,025**	**$43,470**	**$36,055**	**$40,026**	**$152,929**
Net Charge-Offs	$344	$6,079	$31,985	$86,533	$55,956	**$180,898**
Noninterest Expense	$65	$76	$541	$285	$236	**$1,204**
Contribution	**$6,943**	**$19,870**	**$10,945**	**-$50,764**	**-$16,166**	**-$29,173**
Grant Income	$20,000	$0	$25,000	$22,825	$50,000	**$117,825**
Adjusted Contribution	$26,943	$19,870	$35,945	-$27,939	$33,834	**$88,652**

Migration

North Side has been able to cross sell deposit and loan products to its PAL customers. The balance sheet portrayed in Exhibit 8 for product migration captures two elements of this phenomenon. First, for consumers whose first point of contact with North Side was through the PAL program, all deposits held by these individuals at each quarter-end is illustrated. Second, and more expansively, any loan held by an individual who at one time was a PAL borrower is included. This includes even loans to longer-time members of the credit union, as PAL loans represent a critical first step for individuals to demonstrate creditworthiness.

A total of 291 loans were originated to "PAL Graduates"[8] over the life of the program for slightly more than $1 million. On average, these were roughly $3,500 loans and while of a longer duration than PAL loans they were still generally short-term in nature. As a result, the point-in-time balances at each quarter-end were relatively low and peaked at $33K in Q2/06 (as shown in Exhibit 8). Deposit balances grew to exceed $100K, and are primarily held in savings accounts.

Exhibit 8
Balance Sheet: Migration

		Q4/05		Q1/06		Q2/06		Q3/06
Loans (ex. PALs)	**$**	**12,950**	**$**	**14,503**	**$**	**32,933**	**$**	**26,025**
DDA	$	3,075	$	973	$	2,302	$	3,417
Savings	$	86,628	$	92,187	$	90,894	$	93,197
Holiday Club	$	7,688	$	2,598	$	9,337	$	8,373
CDs	$	-	$	-	$	-	$	-
Total Deposits	**$**	**97,392**	**$**	**95,758**	**$**	**102,533**	**$**	**104,987**
Excess Deposits to Invest	$	(84,441)	$	(81,255)	$	(69,600)	$	(78,962)

As seen in Exhibit 9, these incremental deposits and loans generate a minor contribution to North Side. The weighted average loan portfolio yield is 9.36% but charge-offs, which was a problem area for the entire credit union in 2004-2005, had a dilutive impact on earnings. Ed Jacobs believes that charge-off levels, which ran at 4% on this portfolio, have declined significantly since mid-2006 and expects the portfolio to continue its improving asset quality.

[8] "PAL Graduates" are those individuals who first established a positive credit history through the PAL program, and whose repayment of those loans helped qualify them for other loans from the credit union

Exhibit 9
Income Statement: Migration

	Q4/05	Q1/06	Q2/06	Q3/06
Interest Income - Loans	$267	$299	$679	$536
Interest Income - Securities	$844	$813	$696	$790
Total Interest Income	**$1,111**	**$1,112**	**$1,375**	**$1,326**
Interest Expense - Deposits	$274	$250	$297	$296
Interest Expense - Wholesale	$0	$0	$0	$0
Total Interest Expense	**$274**	**$250**	**$297**	**$296**
Net Interest Income	**$837**	**$862**	**$1,078**	**$1,030**
Fee Income	$1,239	$877	$1,218	$838
Gross Income	**$2,076**	**$1,739**	**$2,296**	**$1,868**
Net Charge-Offs	**$130**	**$146**	**$330**	**$261**
Personnel	$0	$0	$0	$0
Marketing/Other	$0	$0	$0	$0
Total Noninterest Expense	**$0**	**$0**	**$0**	**$0**
Pre-Tax Contribution	**$1,946**	**$1,593**	**$1,965**	**$1,607**

Overall Assessment

Pioneering a responsible short-term, small-dollar credit product for individuals residing outside of the financial mainstream has proved to be a difficult yet rewarding effort for North Side. As originally structured, the PAL program yielded high credit losses that required outside support to allow North Side to withstand the P&L impacts. The changes made to improve underwriting have been paying off, however, as losses have declined. While 2006 earnings are negative (before grants), the high charge-offs were taken in the 1st quarter of 2006 and are running at a much reduced rate of 3.6%. This should allow the program to break-even on a run-rate basis.

These loans have met a huge need in the market for PayDay loans. Low-income consumers who otherwise would have paid exorbitant interest rates are both saving money and forming banking relationships that will prove beneficial to them in the long-term.

North Side has also witnessed benefits from product migration stemming from the PAL program. Most significantly, individuals who were outside of the financial mainstream were able to demonstrate creditworthiness through the repayment of their PAL loans and consequently qualified for more traditional credit products. In total, over $1 million in loans were originated to PAL graduates in addition to $100K in deposit balances. These volumes represent profitable business for the credit union, even more so as the credit quality of the portfolio continues to improve. Moreover, the addition of 1,735 new members is in and of itself a valuable tool for the credit union to grow its membership, which now stands at approximately 3,000.

It is important to note that North Side has been able to accommodate this new product and the resulting migration benefits using its current operational and personnel infrastructure. This is due both to the streamlined nature of the product itself (i.e., simplified loan application) and the capacity that exists at North Side. Ed Jacobs estimates that if volumes witnessed in 2004 had continued then he would have had to hire a part-time or full-time resource to meet the demands of the product. Other financial institutions, generating different volumes and with their own unique capacity issues, may have to maintain dedicated resources.

In sum, financial institutions can benefit from North Side's experience to structure a small-dollar loan product to minimize portfolio losses and break-even on a stand-alone basis. Then, as North Side's results show, opportunity exists to up-sell individuals to more traditional credit products and deposit accounts that can incrementally add to earnings.

VI. Alternatives Federal Credit Union: Free Tax Preparation and Tax Refund Loans

Background

Market Need

Consumer research has consistently shown that a major factor driving the behavior of unbanked individuals is the lack of comfort they have with financial institutions. For that reason, many financial institutions seek out partnerships with social service organizations to help build a sense of trust with the market that is necessary to bring the unbanked into the financial mainstream. An increasingly common approach to this is to forge partnerships with non-profit organizations offering free tax preparation services, usually through the IRS's Volunteer Income Tax Assistance (VITA) program.

At the same time, low income, and often unbanked, individuals who qualify for VITA services are frequently eligible for tax refunds through the Earned Income Tax Credit (EITC). The individuals often seek to gain access to these funds as soon as their taxes are filed. EITC refunds help nearly 20 million households in the U.S. and average nearly $1,700[9]. Given this high demand, tax preparers such as H & R Block and Jackson Hewitt aggressively promote high interest rate loans to bridge the two-week period tax filers usually have to wait to receive their refund. Known as Refund Anticipation Loans (RALs), these instruments capitalize on the need for short-term cash facing many of these families.

Alternatives' Response

In an effort to create a unique and superior outreach program that could attract unbanked individuals and provide them with cost-effective financial products, Alternatives Federal Credit Union of Ithaca, New York, opted to launch its own VITA site. This section details the progress to-date of Alternatives, which launched its VITA program in 2002.

Alternatives' primary objective in offering this free service was to attract new members into the credit union as there was only one VITA site operating in its geographic market at the time. A secondary objective was to offer a more consumer-friendly, yet still profitable, short-term loan product for families qualifying for large refunds due to the EITC.

[9] A Guide to Building Products and Strategies for Underbanked Markets, NCIF, 2005

Key Learnings

Volume

Alternatives experience has been instructive in demonstrating how a financial institution can properly structure a successful tax preparation service in its community. Following are a few key learnings:

- High volumes in tax preparation can be achieved by having dedicated hours and staff (as seen in Exhibit 1).
- Strong opportunity for cross selling: A positive customer experience in an ancillary service such as a VITA program have resulted in significant cross-selling opportunities, though management and staff have to continually emphasize the benefits of deposit accounts and lower-cost loan products.
- Staffing needs to be supported by volunteers and part time employees to take care of seasonal strong demand for resources which can stress a credit union's ability to engage in extensive financial education and cross-selling efforts.
- Some new members open accounts only to receive the Refund Anticipation Loans (RAL) and subsequently close their deposit accounts once their tax refunds were received. The value of maintaining a savings or checking account needs to be continuously reinforced.

Risk

Operating an in-house tax service and offering short-term loans gives rise to both operational and credit risk. The manner in which Alternatives addressed these risks can benefit other financial services providers.

- Project sponsor and Alternatives' CEO, Bill Myers, put in place an effective platform to handle the rush of tax season, and this is critical to a well-run VITA site.
  - The credit union's lobby is dedicated to tax filers from 3:00-7:00 p.m. each weekday during tax season.
  - The site is administered on a day-to-day basis by a full-time employee, who is further assisted by a part-time staff person. This is in addition to some 50 VITA volunteers.
- Alternatives' Refund Anticipation Loan (see Appendix E for collateral material) has provided key insights into structuring small dollar, short-term loan products. For example, applicants are required to open a savings account, into which the tax refund is direct deposited before being transferred to pay off the corresponding RAL.

Earnings

Given the no-fee nature of the service, it is imperative to build upon the relationship formed with the tax filer to yield future earnings.

- Refund Anticipation Loans (RAL), which require a savings account, give individuals an incentive to enter the financial mainstream with a deposit product. It also serves to begin building a credit history to many who either lack a credit history or have a checkered file.
- It remains unclear at this juncture the earnings impact of continuing to offer tax preparation services free of charge, which allows institutions to tap into a large volunteer base, vs. providing the service for a fee and maintaining a paid staff. Alternatives' is continuing to assess its program in this regard.

<u>Methodology/Key Assumptions</u>

The following approach and assumptions were used for calculating the profitability of Alternatives' VITA program, after taking into account the deposit and loan business that the credit union was able to cross-sell to VITA participants:

VITA/RAL Revenues & Expenses

- The VITA program itself has no revenues.
- Interest income for RALs was calculated by applying the standard product interest rate (11.5%) to the average duration (2 weeks) of loans originated.
- Fees for RALs were determined by multiplying the $20 application fee against loans originated.
- Dedicated staffing resulted in noninterest expense for Alternatives in running the program.

Migration Volumes

- Tax filers for the tax years 2004 and 2005 were coded to measure how many a) became new members, b) were existing members, or c) were not members of Alternatives at the time of their filing.
- Deposit and loan files for the 7 consecutive quarters ending September 30, 2006 were analyzed to measure the extent that new members held deposits and/or loans.

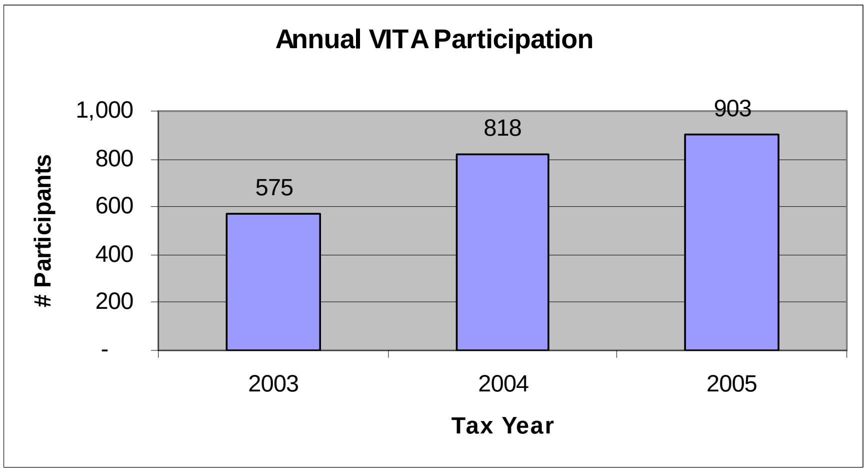
Migration Revenues & Expenses

- Account-specific rates were utilized for CDs and loans; weighted average yields were employed for savings accounts.
- Excess deposits were assumed to be invested in treasury securities while excess loans were assumed to be funded in the wholesale market, both at 4%.
- All loans were assumed to be performing.
- No additional noninterest expense was incurred above the staffing of the program staff as noted above.

Analytical Findings – Market Success

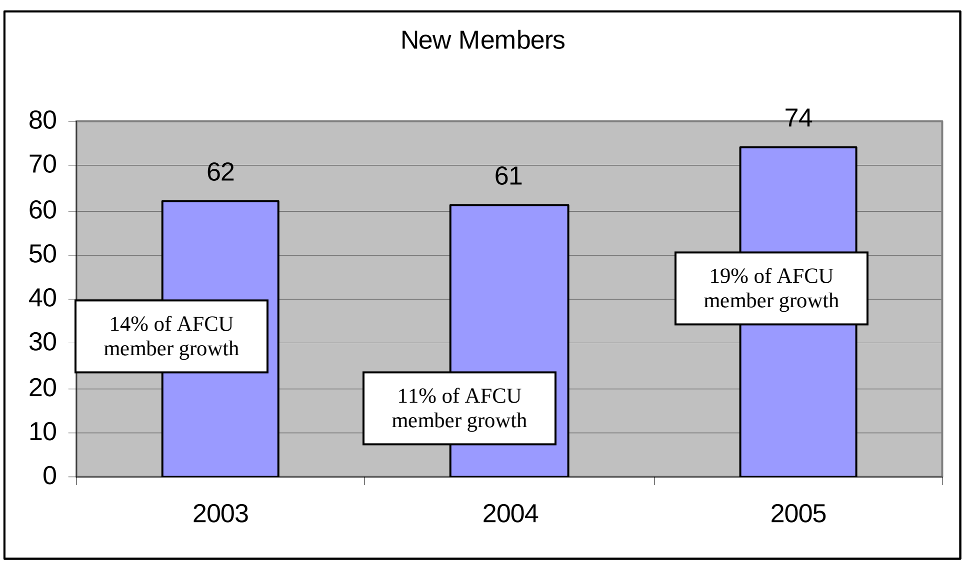
Exhibit 1 illustrates the strong market reception to Alternatives' VITA program and the steady growth that has been evidenced, as nearly 2,300 tax returns have been prepared at the site for tax years 2003-2005.

Exhibit 1



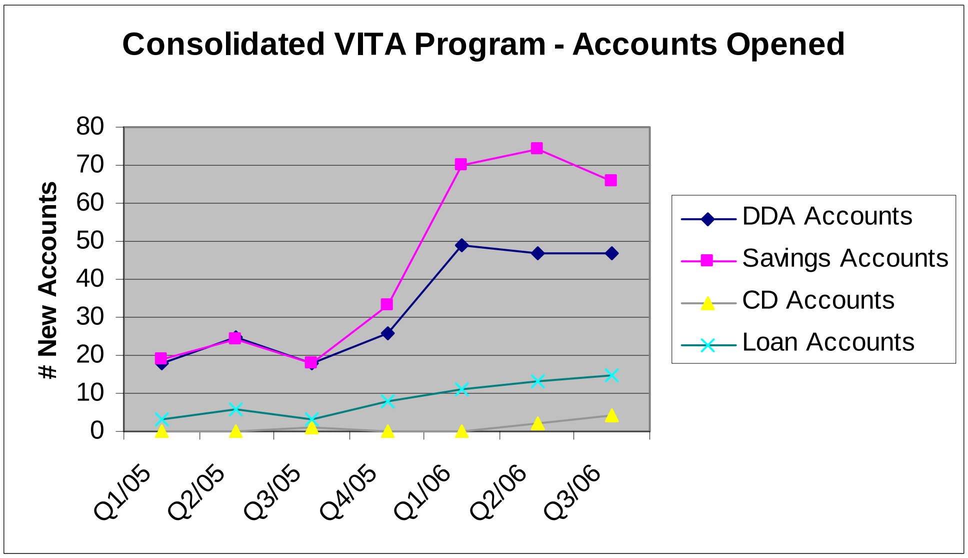
Moreover, the program has proven to be a stable source of new members for Alternatives, as shown in Exhibit 2, bringing in nearly 200 members over the three year period, and representing roughly 15% of the source for new members to Alternatives. While tax year 2006 is not over, Bill Myers is projecting adding another 100 or so members to the credit union from 2006 VITA participants.

Exhibit 2



Savings accounts have been the preferred entry point for new members, but checking accounts have also been popular. As of Q3/06, there were 15 loans outstanding to individuals who first came into the credit union through the VITA program. The cumulative number of accounts that were open at each of the corresponding dates and held by new members gained from tax years 2004 and 2005 is shown below. These totals portray active accounts, defined as accounts with deposit balances greater than $0.00.

Exhibit 3



Financial Success – Analytical Findings

Alternatives has been successful in consistently growing loan balances as seen in Exhibit 4. Loans to individuals who joined the credit union after being serviced through Alternatives' VITA site reached $116K by Q3/06. Deposits have tended to be more volatile, as a result of tax refunds, and stood at $83K at Q3/06. Not portrayed on the balance sheet are Alternatives' RALs because of their short-term nature. Roughly $125K in these loans was booked for an estimated 10 days in each of 2005 and 2006, and this had a negligible impact on earnings.

Exhibit 4
Balance Sheet: Migration

	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06
Loans	$15,386	$23,277	$15,386	$36,904	$113,766	$114,904	$116,352
DDA	$17,921	$18,458	$17,921	$16,928	$43,714	$35,235	$32,698
Savings	$19,327	$15,089	$19,432	$14,611	$121,000	$47,405	$44,487
CD	$0	$0	$1,001	$0	$0	$3,818	$6,127
Total Deposits	$37,248	$33,547	$38,353	$31,539	$164,715	$86,458	$83,311
Loans less Deposits	-$21,862	-$10,270	-$22,967	$5,365	-$50,949	$28,446	$33,041
Wholesale Funding	$0	$0	$0	$5,365	$0	$28,446	$33,041
Excess Deposits to Invest	$21,862	$10,270	$22,967	$0	$50,949	$0	$0

As the VITA service is offered for free, expenses incurred for the program have been matched against revenues from product migration. As shown in Exhibit 5, the program produced modest quarterly losses, ranging from $3,130 in Q1/06 to $6,035 in Q1/05. Alternatives has been successful in obtaining grant support for this program, however, and if included in the profitability analysis a positive contribution to earnings was generated, ranging from $3,190 in Q1/05 to $6,095 in Q1/06.

Exhibit 5
Income Statement: Migration

	Q1/05	Q2/05	Q3/05	Q4/05	Q1/06	Q2/06	Q3/06
Interest Income - Loans	$ 275	$ 498	$ 275	$ 912	$ 2,265	$ 2,356	$ 2,375
Interest Income - Securities	$ 186	$ 97	$ 218	$ -	$ 509	$ -	$ -
Total Interest Income	**$ 461**	**$ 594**	**$ 493**	**$ 912**	**$ 2,775**	**$ 2,356**	**$ 2,375**
Interest Expense - Deposits	$ 8	$ 9	$ 8	$ 16	$ 183	$ 114	$ 125
Interest Expense - Wholesale	$ -	$ -	$ -	$ 54	$ -	$ 284	$ 330
Total Interest Expense	**$ 8**	**$ 9**	**$ 8**	**$ 69**	**$ 183**	**$ 398**	**$ 455**
Net Interest Income	**$ 453**	**$ 586**	**$ 485**	**$ 843**	**$ 2,591**	**$ 1,958**	**$ 1,920**
Fee Income	$150	$128	$150	$196	$917	$368	$241
Gross Income	**$603**	**$714**	**$635**	**$1,039**	**$3,508**	**$2,326**	**$2,161**
Noninterest Expense							
Personnel	$6,409	$6,409	$6,409	$6,409	$6,409	$6,409	$6,409
Other	$230	$230	$230	$230	$230	$230	$230
Total Noninterest Expense	**$6,638**	**$6,638**	**$6,638**	**$6,638**	**$6,638**	**$6,638**	**$6,638**
Pre-Tax Contribution	**-$6,035**	**-$5,925**	**-$6,003**	**-$5,599**	**-$3,130**	**-$4,313**	**-$4,477**
Grant Income	$9,225	$9,225	$9,225	$9,225	$9,225	$9,225	$9,225
Adjusted Contribution	$3,190	$3,300	$3,222	$3,626	$6,095	$4,912	$4,748

Overall Assessment

The original objective of Alternatives' VITA program was to help fuel growth in membership. This goal has been met and the program continues to meet expectations in this regard. Moreover, the credit union has demonstrated that deposit and loan volumes can be built on the foundation of this program. To-date this has been achieved at essentially a break-even level to the organization, excluding grants, which offers an opportunity for other institutions assessing similar programs.

Alternatives has also succeeded in structuring a responsible Refund Anticipation Loan that is not predatory, meets the needs of the community, and serves the organization. It has published a paper on this product, Alternatives Federal Credit Union's Refund Express Loan: A Responsible First Step in Reducing Dependency on Predatory Refund Anticipation Loans, that also offers lessons for other financial institutions.

VII. Conclusions

Each of the three participants above has demonstrated an ability to structure a service to reach the unbanked segment of the population and bring in members and customers to their respective financial institutions. Importantly, each has learned a set of lessons that can be instructive to other banks and credit unions. These include risk management processes that will allow other institutions to minimize losses and allow for break-even to modestly positive levels of earnings. This phase of the RFSI work for the first time allows the industry to see, in quantified, measurable terms, the ability of banks and credit unions to up-sell customers deposit and loan products and thus facilitate a transition into the financial mainstream. It shows that this process of deepening customer relationships can occur in the short- to mid-term and points to promise for the ultimate profitability of these customer relationships.

On a broader level, with much discussion centered on small-dollar/short-term loan products and the high levels of declination for deposit accounts across the industry, the findings in this report can be used to support the efforts of financial institutions across the “development” spectrum to continue developing products that can best serve the unbanked population.

APPENDIX

Appendix A: NCIF Investees

The following is a list is of NCIF investees, virtually all of which offer products and services aimed at bringing the underbanked into the financial mainstream and offer asset building products.

Banks and Thrifts

1. Broadway FSB, Los Angeles, CA
2. Carver FSB, New York, NY
3. Central Bank of Kansas City, Kansas City, KS
4. City First Bank, Washington, DC
5. Citizens Savings Bank and Trust Company, Nashville, TN
6. City National Bank, Newark, NJ
7. Douglass National Bank, Kansas City, KS
8. Dryades Bank, New Orleans, LA
9. First American International Bank, Brooklyn, NY
10. Liberty Bank and Trust, New Orleans, LA
11. Mission Community Bank, San Luis Obispo, CA
12. South Carolina Community Bank, SC
13. Southern Development Bank, AR
14. University National Bank, St. Paul, MN
15. The Community's Bank, Bridgeport, CT

Credit Unions

16. Alternatives Federal Credit Union, Ithaca, NY
17. Appalachian Federal Credit Union,
18. Dakotaland Federal Credit Union
19. Latino Community Credit Union, Durham, NC
20. Lower East Side People's Federal Credit Union
21. National Federation of Community Development Credit Unions
22. Opportunities Credit Union
23. Saguache County Credit Union

Others

24. Hawaiian Community Assets, Maui, Hawaii

Appendix B: RFSI Phase 1 Participants

1. Alternatives Federal Credit Union, *Ithaca, NY*
2. Bethex Federal Credit Union, *Bronx, NY*
3. Central Bank of Kansas City, *Kansas City, MO*
4. Citizens Trust Bank of Atlanta, *Atlanta, GA*
5. Hawthorne Savings Bank, *El Segundo, CA*
6. Legacy Bank, *Milwaukee, WI*
7. Mission Community Bank, *San Luis Obispo, CA*
8. North Side Community Federal Credit Union, *Chicago, IL*
9. Opportunities Credit Union, *Burlington, VT*
10. SSA Baltimore Federal Credit Union (Security Plus FCU), *Baltimore, MD*
11. University National Bank, *St. Paul, MN*
12. Water & Power Community Credit Union, *Los Angeles, Ca*

Appendix C: RFSI Phase 1 Participant Reports

Appendix D: RFSI Phase 2 Participants: Contact Information

Institution	**Contact Name**	**Phone/Email**
Alternatives Federal Credit Union	Bill Myers, CEO	607.273.4611 wmyers@alternatives.org
Legacy Bank	Margaret Henningsen, Vice President	414.343.3003 mhenningsen@legacybancorp.com
North Side Federal Credit Union	Ed Jacob, CEO	773.769.5800 nosidefcu@aol.com

Appendix E: RFSI Phase 2 Participants: Collateral Material

Legacy’s Webpage – Financial Liberty First Accounts

North Side’s PAL Application

LEGACY BANK

CustomerService | ATM Locations | Contact Us | Sign Up Now

PERSONAL BANKING | BUSINESS BANKING | ABOUT LEGACY BANK

ONLINE BANKING

Access your account online »

Sign up here or learn more on how you can view your account online.

Click here to view our online demo. Disclaimer

Open an Account

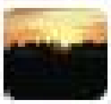
Checking Account | Go

Other Products and Services

I'm interested in....

Take our Online services for a test drive

Click here to view our demo now



Our 2005 Annual Report

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*ATM/Debitcard is issued with direct deposit to your Liberty Checking account.

Rates and Fees

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- No monthly service charge
- Excess ATM withdrawals are $2.00 per withdrawal
- Exceeding 12 checks per statement cycle will result be charged .75 per item

Account Services

- Unlimited free access to 24 hour automated phone service and online banking
- Monthly statement

NOTE: Some restrictions apply for the Liberty Checking account. You will be required to participate in a Legacy Bank financial management class.

Open an Account

Online Banking Plus

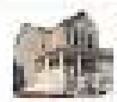
Enjoy the benefits of an Online Banking Plus Account!

Click here to learn more

Customer Service

Call 414-343-6800 to open an account

Click here for more options



Home Mortgage

Turn Renters into Buyers.

Click here to find out how

APPLICATION
(Please Print)

PAYDAY ALTERNATIVE LOAN (PAL)

$500 FOR

- Car Repair
- Insurance Payments
- School Expenses
- Security Deposits
- Other Emergencies

North Side Community Federal Credit Union is offering this Payday Alternative Loan to those members who are facing financial difficulties and may consider payday loans because they do not have any other option.

Do not patronize the payday lender industry!

Call us at **773-769-5800** for more information.

Account #______________

Date ______________

SSN______________

Name ______________

Address______________

City, State Zip ______________

Home Phone______________

Employer______________

Position______________

Address______________

City, State Zip ______________

Work Phone______________

Date Hired______________

Residence___Own___Rent___Other____

Purpose of the Loan______________

In the event my request is approved and issued, I agree to read and comply with the terms of the agreement which will be furnished to me. I further agree North Side Community Federal Credit Union may contact any source necessary to determine my credit/financial responsibility. I hereby acknowledge that the above information is true and complete.

Member's Signature:

X______________

Date: ______________

Meet These Minimum Requirements

- Be a Credit Union member
- Minimum monthly net income of $1,000
- You are eligible for this loan twice a year
- Loan must be paid back within six months
- No current loans with North Side
- **To receive this loan you need a credit score of 600 or higher. If your score is lower than 600 you will be required to attend our three financial literacy classes before receiving the loan.**

You must bring:

- 2 recent pay stubs if paid semi-monthly or every 2 weeks.
  OR
- 4 recent pay stubs if paid weekly
- **$ 30 non-refundable loan application fee.**

Get $500
Pay Only
$80.98/mo. for 6-Months!

FOR OFFICE USE ONLY

Date Joined______________

Status______________

Loan Officer______________

Date______________

Monthly Income ______________

pal1.pub