

## Project/Program Profile

**Name of Project/Program:** Pacoima Development Federal Credit Union (PDFCU)

**Organization:** Valley Economic Development Center (VEDC)

**Location of Project/Program:** 13168 Van Nuys Boulevard, Pacoima, CA 91331

**Year Project Completed/Program Began Operation:** 2005

**Funding Sources:** Initial startup capital provided by Wescom, Wells Fargo, Citibank, Economic Development Administration; Valley Economic Development Center; National Credit Union Foundation

**Populations Served:** Low income residents within the City of Pacoima and surrounding areas.

**Number of People Served:** 1200 members

**Number of Staff:** 3 - 2 full time and 1 part time

**Total Cost of Development/Operation:** \$245,000 – 250,000 per year

**Partners:** Wells Fargo, Citibank, Wescom Credit Union, Valley Economic Development Center, San Fernando Valley Financial Development Corporation, California Credit Union League, and National Federation of Community Development Credit Unions

**Services Provided:** Provides unsecured loans, new and used auto loans, savings accounts, certificates, SBA 7(A) loans as well as job readiness workshops, job placement assistance, financial literacy training

California Community Economic Development Exempt Practices Project

**LENDING: Credit Unions**

(Italicized portions offer further explanation. If the standard is not fulfilled by the project, it is noted in the italicized explanation. Crossed-out portions are not applicable.)

**Level 1: Program Feasibility Assessment**

1. NEED

a. Community Need

i. The credit union serves those without access to conventional financing.

1. *Pacoima had an underbanked population. There were only 2 banks to serve 90,000 residents.*

b. Market Study/Needs Analysis

i. The market study confirms the need for, and viability of the credit union.

1. There are no other credit unions in the area that can work with the target population.

a. *Prior to this credit union, only 2 commercial banks had presence in Pacoima.*

2. There is enough demand and sources of funding to support the credit union.

a. *There was a needs assessment conducted in 2000 by VEDC and Los Urban Funders. The needs assessment confirmed the need for the credit union.*

b. *Due to its low-income designation, the credit union has plenty of deposits from members.*

ii. The market study informs the organization about demographics of the area, competition, and barriers to entry.

1. *The needs assessment provided information the demographics of residents and businesses.*

2. The credit union's interest rates and terms are comparable to or better than those of the local area.

a. *The interest rates and terms are comparable to those of conventional banks in the area.*

c. Local Support

i. The beneficiaries of the credit union, such as businesses within the area, support the credit union.

ii. Neighbors and local community members support the credit union.

iii. The credit union is in alignment with local city, county, state and/or federal development goal(s)

2. ORGANIZATIONAL READINESS

a. The organization is willing and able to do the credit union.

b. The credit union is in alignment with the mission of the organization.

i. *VEDC's mission is "to be the leading provider of consulting, training, financing and workforce solutions to the business community," and the credit union provides financing.*

c. The Board of Directors embraces a CED strategy and/or embraces the credit union as a part of the CED strategy.

d. The organization and/or its partners have a track record of participating in similar credit unions.

- i. The organization has experience in providing financial services to small businesses through its business services and its subsidiary, the San Fernando Valley Financial Development Corporation.*
- e. The organization has the financial and operational capacity to undertake the proposed credit union.
  - ~~i. The organization can support the additional debt (if any) created by the credit union.~~
    - 1. There is no debt created by the credit union.
  - ii. The organization has qualified staff that can undertake the credit union.
  - iii. The organization has access to reliable, qualified vendors and service providers.

### 3. FINANCIAL FEASIBILITY

- a. Program cost
  - i. The credit union is affordable to the organization, and the projected cost is appropriate to the concept.
  - ii. The operator or staff providing the cost estimates is qualified and experienced with credit unions.
- b. Funding sources
  - i. There are enough sources of funding for the uses.
    - 1. The credit union has enough sources of funding for its operation.
    - 2. The credit union could always use secondary capital because there aren't sufficient sources to keep with the deposits.
  - ii. The organization has endeavored to secure all available competitive and noncompetitive funding sources for which the credit union qualifies.
  - iii. The actual disbursement of each source is timely and in sync with the needs of the credit union.
  - iv. The organization is aware of the compliance implications of each source.
- c. Cash flow
  - ~~i. The credit union produces enough cash flow to support the proposed debt structure (if any).~~
    - 1. *There is no debt.*
  - ii. The credit union minimally pays for itself over time. It has a sustainable cash flow, or the credit union is subsidized enough to sustain itself.
  - iii. The credit union can survive beyond the first year.
    - 1. *The credit union has been in existence since 2005.*
  - iv. The credit union will be able to capitalize itself each year.
    - 1. *The credit union is able to capitalize itself each year, but a source for capitalization is not needed every year.*

### Level 2: Practical Considerations

These criteria are essential for a successful, operating credit union.

- 1. MARKET BARRIERS
  - a. The organization understands why past credit unions have not worked and instead addresses prior issues in innovative and alternative ways.
    - i. The organization understands the market that was underserved by banks and can work directly with them to serve their needs.*
- 2. DEVELOPMENT TEAM & PARTNERSHIPS

- a. The organization has assembled the best team for the credit union, including vendors, employees, trainers, outreach coordinators, underwriters, and management staff.
  - b. If the organization is lacking in any area (financial, experience), it has partnered with another entity to operate the credit union.
    - i. *Well Fargo, Citibank, Wescom Credit Union, Valley Economic Development Center, San Fernando Valley Financial Development Corporation, California Credit Union League, and National Federation of Community Development Credit Unions have served as mentors that have provided technical assistance to the credit union.*
  - c. The credit union is supported by public sector, private sector, and community partners.
  - d. Through an open dialogue with the community, the organization has sought and incorporated community participation in the credit union.
    - i. *The credit union holds an annual meeting with its members.*
    - ii. *The credit union conducts ongoing community outreach. The credit union is a member of the local chamber of commerce. The credit union is active in the Volunteer Income Tax Assistance (VITA) program. The credit union supports school and community based organizations' financial literacy programs.*
3. SITE CHARACTERISTICS
- a. The area that is served by the credit union makes sense.
    - i. *The credit union serves Pacoima, which was underbanked.*
  - b. The offices of the credit union are located near or adjacent to transit.
4. PROGRAM DESIGN & OPERATION
- a. The credit union is run in the appropriate language(s) for the clientele in the area.
    - i. The credit union provides services in English and Spanish.
  - b. The credit union is culturally appropriate to the clientele in the area.
  - c. The credit union is tailored to the specific geography of the clientele in the area.
    - i. *Compared to the average bank, the credit union's products are the same. However, the marketing and customer service process are different. The credit union makes loans for its members that conventional banks would not be able to. Those with recent credit issues or those who have lost homes might be able to extend their credit or take out a loan at the credit union. The process is very personalized.*
  - d. The credit union has lending guidelines.
  - e. The credit union has underwriting guidelines.
    - i. *Guidelines are similar to those of big banks, but the language allows for case-by-case flexibility.*
    - ii. *Due to the credit union's low-income designation by both the National Credit Union Association and the Community Development Financial Institutions Fund, the credit union can take on "riskier" loans as long as the risks are acknowledged and mitigated.*
  - f. What types of documentations is required?
    - i. *Documentations required are exactly those required by conventional banks. However, the credit union will provide paperwork, such as W-7 forms, to help potential members receive the necessary documentation.*
  - g. The loan committee consists of members with expertise in the industry, whether through past experience or current employment.
    - i. *Currently, the loan committee consists of one board member with banking experience, a VEDC senior loan officer with extensive underwriting experience, and a consultant serving as the credit union's chief credit officer.*
5. PORTFOLIO MANAGEMENT

- a. What percentage is the loan loss reserve?
  - i. *The loan loss reserve is minimal. It is not a flat percentage, but it is based on the last 12 month history. Typically, the reserve is 2-3% against the previous year's loan history, but it is reduced if the borrower performs well.*
- b. Loss tolerance: when do losses become a concern?
- c. The organization has established key ratios that it abides by to manage the credit union.

### **Level 3: From Feasible to Exemplary**

These criteria elevate a credit union to an exemplary one.

#### **1. FUNDING & FUNDING REQUIREMENTS**

- a. The credit union uses a funding program or funding source that is new and innovative.
  - i. *The most constant sponsor of the credit union is the Valley Economic Development Center.*
- b. Each funding source was heavily leveraged to gain further resources.
- c. Certain features of the credit union were adapted to capture funding, but the credit union was not completely changed in order to capture one particular funding source.
- d. There are multiple stakeholders providing funding, and this mix of funding sources maximizes the feasibility of the credit union.
  - i. Funding includes conventional funding from bank.
    1. *Wells Fargo and Citibank provided start up funding.*
  - ii. Funding includes nonconventional funding, such as start up grants.
    1. *Another credit union, Wescom, provided start up funding.*
- e. The credit union exceeds minimum standards required by funding sources.
  - i. There is deeper low and moderate income targeting than required by funding sources.

#### **2. FUTURE PROJECTS**

- a. The credit union strengthens the position (financial, political, capacity, experience) of the organization.
- b. Through the credit union, the reputation of the organization was enhanced. Issues that the staff faced were dealt with in a diplomatic manner, enabling future programs.
- c. The success of the credit union will enable future funding on other programs.
- d. The community is happy with the credit union and will participate in more/similar programs in the future.
- e. The community is more knowledgeable about credit unions.

#### **3. ENVIRONMENTAL IMPACT**

- a. The credit union has less environmental impact than traditional banks during construction and during operation.
  - i. *There are no green features.*
- b. The credit union meets green building standards such as adaptive reuse or LEED certification.
  - i. *There are no green features.*
- c. The credit union conserves energy and water.
  - i. *There are no green features.*
- d. The credit union has an effective recycling program.
  - i. *There are no green features.*
- e. The credit union fulfills the triple bottom line.
  - i. *There are no green features.*
- f. The credit union stimulates green job creation.

*i. There are no green features.*

4. ECONOMIC IMPACT

- a. The credit union attracts customers and new businesses to the area.
- b. The credit union helps retain existing businesses.
- c. The credit union stimulates long-term job creation.
- d. The credit union encourages development, redevelopment, and investment.

5. PORTFOLIO ANALYSIS

- a. There is a diversity of loans in sizes, terms, and types.
  - i. For personal unsecured, loans range from \$500 - 2500 because of the higher risk associated with them.*
  - ii. For new and used auto loans, they are \$50,000 – 60,000 at most.*
  - iii. The credit union recently began offering a new product, the home equity term loan.*
  - iv. For the U.S. Small Business Administration 7 A program, loans can go up to \$350,000.*
  - v. Another new product, the payday advance, is capped at \$500 or 50% of the member's direct deposit amount.*
- b. The credit union funds green projects/programs and creates green jobs.
- c. The credit union funds food security projects.
- d. There is a low cost per loan disbursed.

6. MISSION ADHERENCE

- a. The financial products are accessible to or benefit the local community.
- b. The credit union stays true to its mission during tough economic times.
- c. The credit union serves neighborhoods and projects that are more complicated and require more time and effort, and are generally undesired by conventional lenders.

7. COMPREHENSIVENESS

- a. The organization provides or connects to other programs that provide multiple services e.g. technical assistance.
  - i. Typically as one of the "last stops" for consumers, the credit union is the last entity that can provide financial assistance. However, due to the credit union's close relationship to VEDC, some cases are referred to VEDC's other services.*

8. DIVERSITY

- a. The credit union serves a mixed income clientele.
- b. The credit union encourages mixed age, gender, ethnic, etc. participation.
- c. The credit union supports minority businesses.

9. PUBLIC BENEFITS

- a. The credit union provides financial services that are needed by the community but are currently not provided or accessible.
- b. The credit union results in other positive physical impacts.
  - i. The availability of funding to local residents who may not qualify for conventional loans can mean that they can invest in homes locally.*
- c. The credit union results in other positive economic impacts.
  - i. The availability of funding to local residents who may not qualify for conventional loans can mean that they invest in small businesses.*

10. REPLICABLE/SCALABLE

- a. This credit union can be replicated in other communities, regions, and/or states.