

SUBJECT: Low-Income and Community Development CUs

Introduction.....	1	Community Development Credit Union.....	2
Summary.....	1	Community Development Financial Institutions Program.....	3
Low-Income Designation.....	1		
Benefits of Low-Income Designation.....	2		

INTRODUCTION

This release applies to all credit unions, state and federal. It describes low-income credit unions, community development credit unions, and community development financial institutions.

SUMMARY

The terms “low-income credit union” “community development credit union” and “community development financial institution” are related (and often confused), but they are not the same.

Whether state- or federally chartered, a CU can apply for a low-income designation. An FCU would apply to the NCUA Regional Director for designation of low-income status. Under NCUA rules, a CU will qualify for low-income designation if a majority of its members are low-income. The biggest benefit: *A low-income credit union may receive non-member deposits from any source, private or public, individual, organizational, or corporate, located anywhere.* Low-income credit unions also may participate in the NCUA’s Community Development Revolving Loan Fund (CDRLF) program. Low-income and community development credit unions are exempt from the member business lending aggregate loan limits under federal and Wisconsin law.

A community development credit union is a credit union with a special mission of serving low-income people and communities. Often, the term “community development credit union” is used interchangeably with “low-income credit union.” They are not synonymous. The great majority of community development credit unions have low-income designation, but most credit unions with low-income designation are *not* community development credit unions. There is no special community development credit union charter or designation from NCUA or Wisconsin’s Office of Credit Unions. Generally, community development credit unions are members of the Federation of Community Development Credit Unions.

Being certified as a Community Development Financial Institution is separate from being designated as a low-income credit union or being called a community development credit union. Under the Community Development Financial Institution program, the U.S. Department of Treasury operates a Community Development Financial Institution Fund, which provides financial and technical assistance in the form of grants, loans, equity investments and deposits to selected Community Development Financial Institutions.

The NCUA issued a Letter to Credit unions in 2010, to provide guidance on the characteristics, benefits, and challenges of low income credit unions and community development credit unions. The Letter has an appendix that lists resources available to credit unions with low-income designations, and those credit unions that are self-designated community development credit unions. It also highlights additional sources of funding available, including Community Development Revolving Loan Fund access, Treasury Department-Administered Community Development Financial Institution grants, as well as non-member deposit and secondary capital funds. The letter can be found [online here](#).

LOW-INCOME DESIGNATION

Whether state- or federally chartered, a CU can apply to the NCUA for a low-income designation. A state-chartered, low-income credit union must abide by requirements and conditions identical to those imposed on low-income FCUs.

Under NCUA rules, a CU will qualify for low-income designation if a majority of its members are low-income. The NCUA defines a low-income credit union as one:

...where a majority of its members [i.e., 50.1%] either earn less than 80 per cent of the average for all wage earners as established by the Bureau of Labor Statistics, or whose annual income falls at or below 80 per cent of the median household income for the nation."

The term "low income member" also includes members who are full-time or part-time students in a college, university, high school, or vocational school.

Your local NCUA examiner or the *Office of Consumer Protection* can assist your credit union in determining if you may qualify for a low-income credit union designation. More information is available in the *Credit Union initiative* of the NCUA website.

Chapter 23 from the NCUA Examiner's Guide deals with low income credit unions, and offers a useful overview of the requirements for low-income designation. It is available *online here*.

Benefits of Low-Income Designation

A low-income designation benefits a CU in many ways:

- A low-income credit union may receive non-member deposits from any source, private or public, individual, organizational, or corporate, located anywhere. Under Wisconsin's newly enacted Financial Modernization Law, this benefit is now available to state-chartered, low-income credit unions. Non-member deposits in low-income credit unions are insured on the same basis as member deposits, although there is a ceiling: *Under NCUA regulations, federal credit unions and federally insured, state-chartered credit unions may receive public unit and nonmember shares in an amount up to 50% of the credit union's net amount of paid-in and unimpaired capital and surplus less any public unit and nonmember shares, or \$3 million, whichever is greater. In addition, they must develop a plan detailing the intended use of any borrowings, public unit or nonmember shares, that taken together exceed 70% of the credit union's paid-in and unimpaired capital and surplus. They do not need to submit these plans for approval, but instead simply maintain the plans and make them available to examiners. See §§701.32(b)(1) and 741.204(a) of the NCUA Rules & Regulations. Previously, the NCUA limited the maximum amount of all public unit accounts and nonmember shares to the greater of \$3 million or 20% of the total shares of the credit union. The NCUA's regional director could grant exemptions. Such exemptions are no longer available. Waivers granted prior to Jan 29, 2020, should be considered expired as of that date, the NCUA has written.* The most common sources of private non-member deposits are banks (in fulfillment of their Community Reinvestment Act requirements); other credit unions; foundations; municipal agencies; individuals; and religious organizations (local and national).
- Low-income and community development credit unions are exempt from the member business lending (MBL) aggregate loan limits under NCUA commercial lending rules, and they can request an exemption from Wisconsin MBL aggregate loan limits.

Information on commercial lending is in *ii Release No. B027*.

- A low-income credit union may participate in the NCUA's Community Development Revolving Loan Fund (CDRLF) program. The CDRLF makes reduced rate loans and provides technical assistance grants so the participating credit union may provide needed financial services and help stimulate the economies in the communities they serve. The NCUA's policy is to resolve low-interest loans to qualifying credit unions as often as practical to gain maximum impact on as many participating credit unions as possible. The CDRLF supports low-income credit union initiatives that stimulate economic development and community revitalization efforts - increased income, education, home and business ownership and employment opportunities. *Click here* for a summary of CDRLF qualification requirements.
- A credit union may be eligible for technical assistance grants through the CDRLF program. Grants may be issued to increase member services or improve the long-term financial health and stability of the credit union. Some credit unions have received grants for such things as education and computer upgrades. The *NCUA's Office of Small Credit Union Initiatives* has more information on grants.
- A credit union with less than \$50 million in assets may receive assistance from NCUA's Small Credit Union Program. The *NCUA's Office of Small Credit Union Initiatives* has more information on available loans.

COMMUNITY DEVELOPMENT CREDIT UNION

A community development credit union (CDCU) is a credit union with a special mission of serving low-income people and communities. Often, the term "community development credit union" is used interchangeably with "low-income credit union." They are not synonymous. The great majority of CDCUs have low-income designation, but most credit unions with low-income designation are *not* CDCUs. Here is the distinction:

- There is no special CDCU charter or designation from NCUA or Wisconsin's Office of Credit Unions. Generally, CDCUs are members of the Federation of Community Development Credit Unions (NFCDCU). According to the NFCDCU, "Only members of the Federation are 'community development credit unions.'"
- Official designation as a low-income credit union must come from the NCUA and/or Wisconsin's OCU. This designation gives a credit union certain special powers, such as the right to accept non-member deposits. Calling a credit union a CDCU does not, by itself, give a credit union the legal power to accept non-member deposits; low-income designation is still required.
- NCUA does operate the "CDCU Revolving Loan Fund" for limited-income credit unions, as described above. A credit union does not need to be a participant in the NCUA program to join the NFCDCU.

A credit union does not have to include the term "community development credit union" in its name to be a NFCDCU member, nor does it need a community or geographic charter to join. Many NFCDCU members are faith-based, associational, employment-based, or serve a combination of membership types.

Member credit unions have access to a wide range of NFCDCU services and programs. The NFCDCU can provide technical help in many areas including organizing, accounting, regulatory compliance and relations, planning, policies, projections, marketing, fundraising and other areas. Also, the NFCDCU operates a private-sector "Capitalization Program for Community Development Credit Unions," which places deposits of up to \$100,000 in its member low-income credit unions.

More information can be found at the [NFCDCU website](#).

Low-income and community development credit unions are exempt from the member business lending aggregate loan limits under federal and Wisconsin law, as described earlier in this release.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS PROGRAM

Being certified as a Community Development Financial Institution (CDFI) is separate from being designated as a low-income credit union or being called a community development credit union.

Under the CDFI program, the U.S. Department of Treasury operates a CDFI Fund, which provides financial and technical assistance in the form of grants, loans, equity investments and deposits to selected CDFIs. Applicants participate in the CDFI Program through a merit-based application and selection process. Credit unions with a "primary mission of community development" are eligible to apply. To become a certified CDFI, a CU must submit an application demonstrating how it meets each of the Fund's six criteria:

- Have a primary mission of promoting community development;
- Be a financing entity;
- Principally serve a "target market" (e.g., an underserved area);
- Provide development services in conjunction with financing activities;
- Maintain accountability to its defined target market; and
- Be a non-governmental entity and not controlled by any governmental entities.

The CDFI has an online [Fund Information and Mapping System](#) to help identify whether a credit union is serving a "target market."

Once certified by the CDFI Fund, an institution can then apply to the CDFI Program for financial assistance. Program participants generally receive money from the Fund only after being certified as a CDFI and entering into an assistance agreement with the Fund. These assistance agreements include performance goals, matching funds requirements and reporting requirements.

For certification requirements, applications, general regulations and guidance (including an online help desk), visit the [CDFI Fund's website](#).

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Legal Affairs Department

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