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CONGREGATIONS AND COMMUNITY BANKING

PROBLEM: Low-income communities often have no access, or only limited access, to banking services and investment capital.

SOLUTION: Congregations have started credit unions to leverage the economic resources of their members and neighborhoods.

In many areas on the near east side of Indianapolis, prosperity is not evident, and reports of the "booming" economy appear to be a bad joke. The housing stock is deteriorating. The "business districts" along the major east – west streets – Washington, New York, Michigan and 10th – consist largely of bars and liquor stores, used car lots, pawn shops, and rent-to-own operations.

But nothing signals the area's isolation from the "other," affluent, America so dramatically as its high concentration of check – cashing shops. These businesses sell various products and services, but the bulk of their trade is cashing checks. In return for this "service", they keep a percentage of each check's value, up to 3 percent for a payroll check, and up to 20 percent for personal checks.

In the mid-1980s, there were approximately 2,000 check – cashing stores nationwide. By the mid-1990s, there were about 5,500. A study of check – cashing outlets in Milwaukee described the "emergence of a two – tiered banking system" in America, in which banks serve the needs of the middle and upper classes, while "fringe banking institution" – pawn shops and check – cashing outlets – serve the poor. This system, the authors write, "results from both financial hardships that disqualify some residents for bank accounts and exclusionary practices by financial institutions that deny services to bankable segments of these communities."

SERVING THE COMMUNITY

But if these "fringe banking" operations are the one response to the absence of banking services in some areas, they are not the only response. Credit unions are another.

Advocates describe credit unions as locally based, democratically controlled institutions that make members – not a corporation's profit margin – their priority. The fundamental differences between credit unions and banks center on their qualifying terms. Credit unions are not – for – profits that serve people with a common bond, such as place of employment or membership in an organization.

Additionally, a credit union's board of directors is chosen by, and from, its members, and every member has a vote. Advocates argue that this arrangement makes credit union members the "owners" of the institution – in contrast to banks, where customers have no vote, and decisions are guided by a relatively small group of investors.

Many credit unions serve middle-class and affluent populations. But "community development" credit

unions serve the residents of poorer neighborhoods. They pool residents' financial resources and use them to make loans to members – people whom banks would likely turn away because they lack a credit history or sufficient income. Any "profits" are returned to the credit union's financial reserves and loaned out again. This process keeps the neighborhood's financial resources circulating within the community and working to build up the local economy.

The Near Eastside Community Federal Credit Union has 2,600 members and about \$4 million in assets. NECFCU is small. Nonetheless, in two decades it has loaned out \$15 million in a neighborhood all but abandoned by first – tier financial institutions.

"This credit union was important to the neighborhood when it started, " says Barbara Black, manager of NECFCU since its founding in 1981. "And it's even more important now, because of what has happened in the last five years – the fact that most of the major banks have been bought out by out – of – state banks. This neighborhood has been affected dramatically by branch closings and mergers and by banks not interested in serving low – income communities."

After 20 years of offering basic savings and checking services, and making small home – improvement and car loans, NECFCU recently began offering home mortgage loans. Black expects to double the number of its members, to about 5,000, within three years.

"The more people learn about credit unions the more they like them," she says. "They're financial cooperatives – member-driven – and I think our members feel very fairly treated."

TARGETING RESOURCES

For congregations and religious organizations, credit unions are attractive because they put financial resources to work in a targeted way. The national Evangelical Christian Credit Union advertises that, in addition to a competitive interest rate, "Every dollar you deposit goes to work in the service of members and ministries – be it church construction, a missionary's travel expenses, or expanding a Christian school."

For the same reason, a group of seven pastors formed the Church of God Credit Union in 1962. It now serves about 1,800 members of the Anderson – based denomination. "When you save here, you know your money will be going to support causes that you approve of," explains the president of the institution. "It allows the family of God to help one another."

These credit unions are based on adherence to a certain belief system. But some congregations and denominations support or found a credit union to serve as an engine of economic development in their community, whether that is a congregation's membership or its neighborhood. In other parts of the nation, congregations are heavily involved in this form of economic development.

In the mid-1990s, five African-American churches near Atlanta formed the South DeKalb Federal Credit Union with about 800 members. Two years later, it had more than 2,000 members and began offering ATM services and credit cards.

Atlanta is also home to the nation's oldest congregation – based, African-American credit union, established in 1956 by Wheat Street Baptist Church. The operation now has 1,000 members and assets of more than \$1 million. Using the credit union as its financial base, the church has branched into other areas of economic development. Wheat Street has about \$33 million in real estate holdings, including two housing developments, an office building, and a shopping center.

Near Oakland, Calif., Allen Temple Baptist Church has developed the nation's largest faith – based, African-American credit union. In 20 years of operation, its assets have grown to \$10 million. This credit union is only one facet of the church's strong commitment to its community; it recently opened a 60,000-sq.-ft. Family Living Center to provide activities for all ages.

In Indianapolis, the NECFCU is an indirect result of congregational activism. In 1970, a group of clergy formed the Near Eastside Community Organization as an umbrella group for neighborhood associations and as

a catalyst for neighborhood improvement. At NESCO's meetings in the late 1970s, residents frequently complained of their inability to get loans and about the exodus of banks from the area. These complaints moved the area's community center and its community development corporation to collaborate on starting the credit union.

Today, religious groups are still important to the credit union. Several congregations are members, and nationally based denominational bodies have also deposited funds, some up to \$100,000. These deposits earn a lower interest rate than they would elsewhere, but the benefit to denominations is that their money – which is federally insured, just like a bank deposit – is used to help the people of a struggling community.

Despite NECFCU's roots in church activism and its ties to religious groups, though, NECFCU is not a faith – based credit union, and Indianapolis does not have the kind of explicitly faith – based, multimillion – dollar credit unions common to other cities. The nearest thing to those operations is the Mount Zion Federal Credit Union.

Mount Zion Baptist Church/Mount Zion Federal Credit Union

A sign posted outside Mount Zion Baptist Church declares that the church is "stretching beyond our breakpoint, with the help of God, to give life to church and community."

On Boulevard Place, which runs along the west side of the church, apartment complexes stand as testimony to the church's mission. They were built by Mount Zion during the tenure of Rev. R. T. Andrews, the church's pastor from 1939 until his death in 1984.

Providing senior citizens with safe, low – cost housing was only one component of Andrews' grand vision of "cradle – to – grave" services for Mount Zion and its community. Under him, the church also established a day care center, a geriatric center, and a credit union.

Rev. Andrews started the credit union in 1965 with 11 charter members who contributed \$5 each. Today, the Mount Zion Federal Credit Union has about 600 members and assets of \$600,000. It provides two basic services: personal loans and share accounts (the equivalent of banks' savings accounts). The credit union is open to Mount Zion's 550 members and to others who are connected to the church, such as employees or members' relatives.

Bobby Conner, president of the credit union for the past 12 years and a board member for 20, says the operation has had ups and downs. When he first joined the board, the default rate on loans was 25 percent – extraordinary in a business in which 1 to 3 percent is the norm. The situation was so bad that the National Credit Union Association, a federal regulatory agency, nearly forced the credit union's closure. But Mount Zion began pursuing delinquencies more aggressively and explaining up front its expectations of members. As a result, the default rate has fallen to below 1 percent.

"We tell people that even though we're a church operation, they have to pay us back," Conner says. "When people come to us now, they know we're not only church – based, but that we're also a financial institution, a business."

Conner is so confident of the credit union's health that he is working on a proposal to allow other churches to become partners in its neighborhood – the United Northwest Area, one of the poorest neighborhoods in the city. If that worked well, Mount Zion would open up membership to all churches in the Indianapolis area.

Conner says several churches are already interested. "Members of the church community see that if we merge our resources, we can become a multimillion-dollar operation" promoting the "economic empowerment of churches," he says.

The proposal will be ready by the end of the year. Conner hopes the first stage will take effect in 2001. In addition to expanding the membership, the proposal would allow the credit union to offer check cashing, which it does not now.

Due to its restricted scope, MZFCU serves the small – loan requirements of its members but does little to affect the economic fate of its area. In its 35 years of existence, the credit union has loaned out more than \$3.5 million – a significant accomplishment, certainly. But the credit union's limited size and service prevent it

from financing large – scale development projects. Whether that will change after the planned expansion remains to be seen.

NUMEROUS OBSTACLES TO OVERCOME

Faith – based credit unions face a common, daunting set of challenges. The first is the expertise and energy required. Besides developing a proposal, congregations must also have volunteers or employees with the know-how to oversee a financial institution. "That's a huge undertaking," says Barbara Black of the Near Eastside Community Federal Credit Union. "It's a long road from saying, 'Hey, let's have a credit union,' to having a credit union that survives."

Another problem for faith – based credit unions is the erratic nature of funding. If members' paychecks were deposited electronically, the institution could depend on a certain minimum level of deposits each week. But few faith – based credit unions are equipped to offer that service. Instead, they must rely on members to appear in person with their paychecks (or cash) to make deposits.

This relates to a third problem: consumers have become highly demanding of their financial institutions. As the banking industry has become more competitive, banks have expanded their services. They offer better business hours and a wider variety of investment instruments than they did not long ago, and conveniences such as electronic deposit, automatic teller machines, and banking by phone are now standard. It is nearly impossible for small credit unions to compete.

These factors have combined to squeeze most small credit unions out of the industry. When Bobby Conner was elected to the board of Mount Zion Federal Credit Union in 1980, there were four faith – based African-American credit unions in the city. Mount Zion's operation is the only survivor.

The same story has been repeated across the state. In their heyday in the mid-1970s, there were more than 600 credit unions in Indiana. Today there are about 250. But the number of people served by credit unions is actually rising, even as the number of credit unions declines, reflecting the consolidation of smaller institutions as they try to compete with banks.

If few small credit unions have survived these trends, fewer still have been started in recent years. Lee Kestel, senior consultant for the Indiana Credit Union League, said that he could "count on one hand the number of credit unions chartered in the last 10 or 15 years." None was faith – based, and half the recent startups have already closed or merged with another institution.

Still, there are examples in other cities of faith – based credit unions starting, surviving, and contributing substantially to the economic development of their communities. So why not in Indianapolis?

The primary reason is likely the size of the city and its churches. Atlanta, the unofficial headquarters for this sort of activity, has several of the largest African-American churches in the nation – congregations with both the vision and leverage to make a difference in their communities. The five churches that formed the South DeKalb Federal Credit Union have a combined membership of 45,000 people – nearly the size of this city's near east side.

Another possible factor is "the environment, the way people view the relationship between the secular and the sacred" in Indianapolis, says Darren Cushman-Wood, pastor of the East Tenth Street United Methodist Church. He and other local clergy led protests in 1997 when Bank One decided to close its near-eastside branch.

"The clergy in central Indiana simply don't see these issues as a priority," Cushman-Wood says. "They view it as outside their training, outside the scope of their collaborations. Also, Indianapolis doesn't have strong neighborhoods – organic neighborhoods with clear boundaries – and the churches are only as strong as their communities."

Charles Guynn, director of the Indiana Black Expo Economic Development Corporation, observes that " a lot of education needs to be done. If the churches of the city were ever able to come together and pool their money...But they don't know about those kinds of things. Or, if they know about it, they're not sure how to do it.

Do we need a strategy? Yes. Should churches have more programs? Absolutely."

CONTINUING APPEAL

Still, in spite of the many obstacles, the idea refuses to go away. Credit unions seem to be the last, best hope for economic development in urban areas that lack the economic resources of suburban America. And, since congregations are the only institutions in many neighborhoods that are even remotely capable of organizing or implementing one, the idea of faith – based credit unions is particularly stubborn.

For example, in addition to Mount Zion's plans to expand, two congregations on the west side have been talking about starting a credit union. They periodically consult with Barbara Black of the Near Eastside Community Federal Credit Union, who has helped "walk them through the start-up process and the chartering experience" and has outlined the issues they need to consider. "It's a huge amount of work to start a financial institution that must be licensed and bonded and regulated and insured," she says. For now, the churches' plans remain indefinite.

Currently, Black's institution stands as the most successful model of a community development credit union in Indianapolis. It may also be the only viable model for local congregations interested in entering this field. Religious organizations played a key role in generating support for it, but they let other community organizations handle the technical details of chartering it.

"There was a shared vision and a commitment to work together," says Rev. Phil Tom, who was pastor of Westminster Presbyterian Church on the near-east side at the time NECFCU was chartered. He now serves Immanuel Presbyterian Church on East 38th Street. "A cadre of core leaders got together. It was a remarkable time."

Tom says there is no reason that another era of grassroots, neighborhood – focused activism cannot – or should not – emerge. And as long as that hope survives, the idea of starting faith – based credit unions will probably endure.

"The role of religious institutions is to identify those needs that are not being met," Tom says. "I think the faith – based community – especially in the urban areas that the private sector has left – has to step in because it cares about the community holistically. We should help organize things, but we should not be the permanent solution. Helping people through banking is a task we can take on in the short term, though the short term may be 15 or 20 years."

POINTS TO REMEMBER

- The number of check – cashing outlets has risen dramatically in recent years, creating a thriving "alternative" banking system in America's low – income communities.
- Forming a credit union – or depositing money in one – allows a congregation or denomination to put its money to work in a targeted way, helping a neighborhood or supporting a cause.
- Nationally, there are many examples of faith – based credit unions becoming heavily involved in community economic development, but there are no examples locally.
- Credit Unions are difficult for congregations to begin and maintain because of numerous obstacles – among them, a lack of expertise, an uncertain funding base, and an inability to offer advanced banking services.
- The industry is in a period of consolidation, though the total number of credit union members is rising. This trend works against faith – based credit unions, which are usually small.
- Despite the obstacles, some faith – based credit unions have recently been chartered – and are thriving – in other cities across the nation. Locally, the idea endures because it offers the hope of economic empowerment in low – income communities where there are few other options.

CONTACTS & RESOURCES

Mentioned in this issue:

Church of God Credit Union
www.cogcu.org

Evangelical Christian Credit Union
www.eccu.org

Mount Zion Baptist Church

Mount Zion Federal Credit Union
3500 Graceland Ave.
Indianapolis, IN 46208
(317) 923-4010

Near Eastside Community Federal Credit Union
2230 E. 10th St.
Indianapolis, IN 46201-2006
(317) 633-3100
www.enn.org

Books and articles:

Caskey, John. *Fringe Banking. Check-cashing Outlets, Pawnshops, and the Poor* (1994). Recounts the history of fringe banking in America and describes the reasons behind the industry's rapid growth.

DePriest, Tomika and Joyce Jones. "Economic deliverance thru the church," *Black Enterprise*, February 1997. Surveys the important role that African-American churches play in economic development efforts, elaborating how they are "catalysts for black business." Examples of church-based credit unions are included. The text is available in the magazine's on-line archive; go to www.blackenterprise.com.

Fondation, Larry. "Collaborating with Congregations," *Harvard Business Review*, July – August 1999. Discusses several possibilities for faith-based organizations interested in community economic development. The text of the article can be accessed, for a fee, from the *Review's* on-line archive. The address is www.hbsp.edu/products/hbr.

Kretzmann, John and John McKnight. *Building Communities from the Inside Out: A Path Toward Finding and Mobilizing a Community's Assets* (1993). Offers an overview of numerous forms of community economic development efforts, including credit unions; examples of each; and a list of contacts for more information.

Internet:

The National Federation of Community Development Credit Unions is a trade association that represents credit unions serving low-income communities. It has a program specifically to promote and represent faith-based credit union. The web address is www.natfed.org.

The web site of the National Congress for Community Economic Development, www.ncced.org, has a section devoted to faith-based economic development efforts. Of particular note is its "faith-based resources" collection.

The Indiana Credit Union League is the trade association representing credit unions in Indiana. Its Web site, www.incuplace.org, offers statistics and other information about credit unions generally and Indiana's credit unions specifically.

The January 1999 Internet edition of the *Atlanta Tribune Magazine* has an article about the strong faith-based credit unions in the Atlanta area. The address is <http://atlantatribune.com>; articles in the archive can be accessed for free.

The Web site developed for the PBS special "Faith, Hope, and Capital" includes information about faith-based credit unions and other economic development efforts, stories about people who have benefited from them, and link to related sites. The address is www.newshour.org/capital.

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