



HOPE FEDERAL CREDIT UNION

hopecu.org

ABOUT THIS PROJECT

Hope Credit Union is a “low-income designated credit union,” as defined by the federal government. Because of this designation, credit unions like Hope can accept secondary capital deposits. These deposits, while structured as subordinate loans, function as equity when credit union regulators or examiners review financial statements and test for compliance with minimum equity requirements. To achieve a high rating, credit unions need to have about 10% equity on their books. Kresge made the \$3 million secondary capital investment to allow Hope to grow deposits by up to \$27 million, as well as add a branch in Memphis, grow its membership and depositor base, and increase its lending activity.

IMPACTED LOCATION



MEMPHIS

YEAR APPROVED

2016

TYPE OF TRANSACTION

PRI LOAN



WHY WAS THIS NEEDED?

CHALLENGE: Low-income communities and borrowers typically lack access to equitable financial services that serve them well. The targeted communities are underserved by traditional banks, whose product offerings are often high-cost and designed with higher-wealth customers in mind. Check cashers and payday lenders often fill this gap and offer low-quality services that can take advantage of vulnerable populations. **RESPONSE:** Low-income designated credit unions such as Hope offer an alternative by providing branch access and offering lower cost, asset-building, products and services that foster social and economic mobility. Our investment allowed Hope to grow its equity, which enabled it to add a branch in Memphis, a focus city for Kresge’s American Cities Practice, while growing its membership base and its overall community-banking activity. Additionally, this investment demonstrated to other potential investors that a foundation can make and manage a secondary capital loan directly to low-income serving credit unions, rather than loaning through an intermediary, such as a nonprofit affiliated with the credit union. Which is often a hurdle for foundations and low-income serving credit unions alike.

KRESGE PROGRAM

AMERICAN CITIES PRACTICE

AMOUNT OF INVESTMENT

\$3 MILLION

TERM OF INVESTMENT

10 YEARS



ABOUT THE BORROWER

Hope Federal Credit Union's vision is to provide a substantial number of low-wealth people and communities with the financial tools and resources needed to achieve a better quality of life and to influence policies and resource allocations that impact those constituents. Hope Federal Credit Union is countering the effects of chronic disinvestment by making transformative investments that create mobility pathways. It is led by Bill Bynum, a strong leader and member of the U.S. Partnership on Mobility from Poverty. This low-income Federally Designated Credit Union has 18 locations, including three in Memphis and two in New Orleans. Hope, along with another Kresge partner, Self-Help Credit Union, have pioneered the use of secondary capital as a tool for credit union growth and expansion. Hope also serves as a resource and technical assistance provider to other Community Development Finance Institutions and community banking institutions in Memphis and throughout the South.

Key Considerations



Joe Evans
Portfolio Manager
Social Investment
Practice

- » Hope is known for doing high-quality work in financial services, payday alternatives, financial capability and access to opportunity and was already present in Memphis.
- » Kresge had strong support on this transaction from the foundation's CIO because of the structure – providing high-risk capital that can leverage other people's money for the type of activity we want to see in a place.
- » Foundations have typically invested in secondary capital through a non-regulated affiliate of the credit union, to avoid what is perceived as higher risk and more onerous process to invest directly in a low-income designated credit union. We accept that higher level of risk because the direct loan approach is better for the credit union and doesn't bog down another nonprofit's balance sheet with pass-through debt.
- » The National Credit Union Administration, the credit union regulator, must approve repayments of secondary capital. This is part of the challenge to investors becoming comfortable making direct loans to credit unions.



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