



Self-Help: Scaling Microfinance in California

A Case Study of Business Model Innovation

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National Federation of Community Development Credit Unions

Scaling Up Microfinance



Introduction

Self-Help is a family of nonprofit organizations whose mission is to create and protect ownership and economic opportunity for all.¹ Together the Self-Help affiliates provide financing, technical support, consumer financial services, and advocacy for those left out of the financial mainstream. Founded in 1980, Self-Help serves women, low-income, low-wealth, rural and minority communities across North Carolina, California, Washington, D.C. and other states across the country.

As a depository institution, Self-Help is able to offer a comprehensive range of microfinance products and services to its members, including microsavings, credit building, transactional products, and small dollar loans. As Steve Zuckerman, President of Self-Help Federal Credit Union and Self-Help's California operations, explains, Self-Help believes "responsible retail financial services are a critical foundation to protect the limited wealth of low-income families and create a foundation for further wealth building."² This belief laid the groundwork for the organization's dramatic expansion in microfinance activity over the last two years.

In particular, Self-Help has created two divisions that have assisted in this push to scale microfinance operations:

1. **Community Trust** – a mechanism to facilitate mergers between community development credit unions and to provide affordable, responsible financial services to low-wealth and underserved communities and families.
2. **Prospera** – a replicable hybrid check-casher and credit union model that is designed to reach unbanked customers by providing check cashing, remittances, and other financial services in unique locations.

This case study will focus on the evolution of the Community Trust and Prospera Divisions integral to Self-Help's expansion in California, outlining the challenges and opportunities of developing and implementing new, innovative business models to best meet the needs of the underserved.

Business Model Innovation

A community development financial institution (CDFI) with an explicit commitment to fulfillment of its mission and willingness to innovate, Self-Help's business model is notable in three aspects. First, its diverse *affiliated structure* allows for advocacy and higher risk lending as well as more heavily regulated depository and lending activities. Second, Self-Help's expansion into California intended to help prevent widespread foreclosures by preserving access to financial services for low-resource people. The strategy to accomplish this goal was the creation of a federally-chartered credit union through which to facilitate *multiple mergers* with struggling community development credit unions (CDCUs). Third, the development and expansion of a *Prospera Micro Branch* model incorporating hybrid check casher and credit union branches designed to explore the replicability of a model to reach unbanked low-income and low-wealth individuals.

Each of these three structural developments – an affiliated organizational structure allowing national advocacy on behalf of low-income, low-wealth communities; a new federal charter, geographic

¹ Source: Self-Help Annual Report 2011.

² Steve Zuckerman, President of Self-Help Federal Credit Union. Interview with author. (December 2012)

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expansion, the integration of multiple newly merged credit unions; and a Micro Branch model simulating features of check cashing operations – is mission-driven, embodies risk, and has direct impact on the organization's complex and evolving business model.

Self-Help's Affiliated Structure

Self-Help is a model of successful structural linkages between multiple affiliated institutions providing direct financial services, technical assistance, and consumer advocacy. There are multiple examples of community development credit unions using an affiliated structure similar to the Self-Help model in order to increase their ability to provide microfinance services and expand their reach in the low-income communities they serve.³

Self-Help is comprised of the following primary affiliated institutions:⁴

- Two regulated financial institutions (Self-Help Credit Union and Self-Help Federal Credit Union)
- One 501(c)(3) charitable nonprofit organization that develops and coordinates Self-Help's programs, raises resources, and advocates for economic opportunity (Center for Community Self-Help)
- One 501(c)(3) loan fund capitalized with loans and grants from foundations, religious organizations, corporations, and government sources to manage higher-risk business loans, real estate development, and home loan secondary market programs (Self-Help Ventures Fund)
- One national nonprofit, nonpartisan research and policy affiliate dedicated to protecting home ownership and family wealth by working to eliminate abusive financial practices (Center for Responsible Lending)



The potential for increased replicability of an affiliated model is being actively explored by community development credit unions around the country. This type of structure can provide a framework for

³ Alternatives Federal Credit Union in New York, Santa Cruz Community Credit Union in California, and ASI Federal Credit Union in Louisiana are examples of community development credit unions with affiliated 501(c)3 nonprofits.

⁴ Self-Help, <http://www.self-help.org/about-us/about-us/our-mission.html>



increased non-regulated activity, such as advocacy for asset-building opportunities for low-income and low-wealth people; increased opportunities for microfinance-related funding, such as grants for expanded financial education programs for youth in immigrant communities; and increased ability to test innovative financial transaction products for expansion into a pre-bankable market, as was the case in Self-Help's expansion into the California market.

Self-Help Federal Credit Union: Responding to Crisis, Expanding into California

As the national financial crisis deepened, many community development financial institutions came under increased financial and regulatory pressure. This was particularly evident in California where inflated home values plummeted, leaving millions of low-income homeowners unable to make their mortgage payments and facing the prospect of losing their homes. At the same time, millions of very-low and low-income residents, including credit union members, used financial services such as payday loans from predatory financial service providers.⁵

In response to the widespread loss of profitability for community development credit unions serving low-income communities, Self-Help wanted to ensure that CDCUs serving these low-income communities could find a financially strong merger partner committed to maintaining and expanding access to responsible financial services for low-income and low-wealth members. Self-Help also wanted to stop the drain on family financial resources for people turning to exploitive check cashing or payday loan providers.

Self-Help made the decision to expand its operations to address two critical challenges:

1. How to best assist low-income, low-wealth communities survive a looming foreclosure crisis by supporting and expanding the reach of the struggling community development credit unions serving those communities.
2. How to reach unbanked and underbanked residents by incorporating key operational elements of check cashing enterprises in a non-predatory manner that would encourage members to save and build assets.

CDCU Mergers: Formation of the Community Trust Division

Self-Help Federal Credit Union (Self-Help FCU) was chartered in 2008 with an explicit goal of preserving and expanding responsible financial services in low-income communities; and informing and strengthening Self-Help's advocacy and policy work, particularly related to foreclosure prevention. With its national charter, Self-Help was able to expand its credit union operations to California.

Needing to respond rapidly to accelerated demand for merger assistance, Self-Help FCU formed the Community Trust Division. In three years, Self-Help FCU merged with seven struggling community development credit unions serving diverse California communities in the San Francisco Bay Area and the

⁵ California has one of the highest concentrations of predatory financial service providers in the nation, including subprime home lenders, check cashers, payday lenders, and pawn shops.

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Central Valley.⁶ When merging the smaller credit unions, Self-Help was able to draw on its strong capital position to bring the consolidated credit union operations to profitability and align the branch operations within Self-Help's newly expanded organization.

From a comprehensive business model perspective, integration of the disparate operations of seven credit unions, including different core operating system technologies, complex human resources and management issues, and the branding and marketing of the evolving unified credit union structure, required a significant investment of financial and human resources. Self-Help consolidated the core operating system technology, developed a unified staffing structure for the branches, and designed a Community Trust brand. This strategy has allowed Self-Help to stabilize the restructured California operations and position the organization for continued growth and scale throughout the state.

As part of an evolving market segmentation approach, the Community Trust Division focuses on attracting families who are currently customers of other financial institutions and are dissatisfied with the products or experience they encounter at those institutions. Community Trust credit union branches encourage unbanked people to become members, but they are not the primary member/customer of the division.

Self-Help FCU is showing growth in both the number of members and in member savings. The Community Trust Division branches offer an array of microfinance products and services, including microsavings, small dollar loans which are used for personal and business purposes, and financial education for members.⁷ As a result of the organization's expansion into California and the merger of multiple CDCUs, Self-Help FCU has become a full service retail credit union serving approximately 50,000 members through branches in thirteen cities, call centers, and an on-line platform.⁸

Reaching the Unbanked: The Prospera Division

The Prospera Division, based on the experience of developing a single Micro Branch in 2007, focuses on bringing unbanked people into the financial mainstream through a hybrid check cashing/credit union model. The original goal of the Micro Branch was to develop a replicable model to expand Self-Help's reach to unbanked members of the community. By expanding into the large unbanked and underbanked market, Self-Help could increase the scale of its operations in the state and also help its low-income and low-wealth members move toward greater economic stability and build family assets.

Based on the lessons learned in the early years of operation, Self-Help has modified and expanded its original Micro Branch concept and branding. In talking with members and potential members, Self-Help found the name "Micro Branch" was ineffective in the marketplace. In 2012, the Micro Branch in San Jose was renamed "Prospera" to strengthen its branding resonance. Also in 2012, Self-Help purchased five check cashing stores in the Los Angeles area and plans to fully convert them to the Prospera model in January 2013 when the systems conversion is complete.

⁶ Credit unions merged with Self-Help Federal Credit Union: People's Community Partnership Federal Credit Union (2008), Community Trust Credit Union (2009), El Futuro Credit Union (2010), Kern Central Credit Union (2010), United Savings Credit Union (2010), 1st Pacific Credit Union (2011), Mission SF Federal Credit Union (2011).

⁷ At the present time, small dollar loans are made as personal loans. Self-Help is exploring offering an explicit small dollar loan product for microbusinesses in the future.

⁸ In North Carolina, Self-Help Credit Union combined with six credit unions in seven years including: Wilson Community Credit Union (2004), Scotland Community Credit Union (2005), Cape Fear Credit Union (2006), Carolina Mountains Credit Union (2009), Carolina Family Credit Union (2010), and Choice Community Credit Union (2010).

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Based on a strategy to achieve sustainability of the Prospera concept, the check cashing stores provide a cluster of branches that can share leadership resources and branch staff, as well as immediately provide an established customer base, rather than having to build one from the ground up as was the case with the original San Jose branch. This is a critical element of the organization's strategy to achieve scale in its microfinance activities in the state.

The primary customers of the Prospera Division branches are unbanked and underbanked people currently exploited by check cashers, pay day lenders, and other predatory financial service providers. The Prospera Division branches offer check cashing, microsavings, remittances, and financial education to their members.⁹ Self-Help actively works with its Prospera members to help them move from being primarily financial transactors to being able to save, build their credit, and create assets.

Microfinance Activities

Within the microfinance umbrella of products and services, Self-Help's strategy in California is to start with an expansion of its reach with microsavings, credit building, and transactional products. Based on its positive experience to date, Self-Help is exploring the addition of formal microlending in the future. It is of note that Self-Help credit union members in California and in North Carolina frequently use unsecured personal loans to finance their self-employment and microenterprise activities. An experience commonly found in credit unions around the country, both borrowers and lenders of small dollar loans find it easier to qualify for and approve personal loan requests than to fit eligibility requirements of traditional or nontraditional commercial lenders.¹⁰

Impact Information

Self-Help's national impact is impressive, as seen in the following 2011 highlights:¹¹

- Economic Recovery
 - Created or maintained more than 1,500 jobs
 - Financed the construction or purchase and rehabilitation of 331 homes
- Education
 - Lent \$18 million to public charter schools and child care facilities
 - Created or maintained more than 2,300 spaces for mostly low-income children
- Outreach
 - Added 10 credit union branches
 - Grew credit union membership by 23 percent to nearly 90,000 members
 - Member savings increased by 50 percent to \$818 million

⁹ Prospera products are discussed in more detail in the New Products component of the Scaling Microfinance training curriculum.

¹⁰ In 2007, approximately 115 out of 193 of Self-Help's commercial loans were under \$50,000. Starting in 2008, in response to the economic recession, Self-Help needed to curtail its small dollar business lending due to its higher cost relative to the rest of the commercial loan portfolio. In 2011, approximately 15 out of 40 loans were under \$50,000, in part due to New Markets Tax Credits and other programs supporting larger loans for economic development purposes. Self-Help NC also experienced a weakening in small dollar business loan demand during the recession due to reluctance on the part of potential entrepreneurs to leave their jobs and take on the risk of self-employment, especially during a time when equity in their homes, typically a popular form of self-financing, had disappeared. Author interview with Laura Benedict, Director of the Development, Communications and Policy Team; Karen O'Mansky, Director of Commercial Programs; and Tracy Ward, Commercial Underwriter. (December 2012)

¹¹ Self-Help is exploring additional impact measurement metrics. New data is expected to be available in January 2013.

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Financial Information

The following financial information is from Self-Help's 2011 annual report.¹²

Balance Sheet	
(Dollars in Thousands – Unaudited)	2011
ASSETS	
Cash & Investments	232,536
Community Development Loans & Investments	1,265,015
Net Real Estate Assets	83,685
Other Assets	32,360
Total Assets	1,613,596
LIABILITIES	
Reserves for Secondary Market Assets	55,277
Credit Union Deposits	709,553
Notes Payable	388,922
Other Liabilities	66,369
Total Liabilities	1,220,121
Minority Interest in Subsidiaries	62,529
NET WORTH	330,946
Total Liabilities, Minority Interest & Net Worth	1,613,596
Guaranteed Community Development Loans & Investments	338,705

¹² Source: Self-Help website.

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Income Statement	
(Dollars in Thousands – Unaudited)	2011
REVENUE	
Investment Income	1,693
Loan & Secondary Market Interest	72,331
Rental Income	8,986
Fees and Other Income	8,881
Grants	32,992
Total Revenue	124,883
EXPENSES	
Interest and Dividends	31,152
Compensation & Benefits	26,713
Other Operating Expenses	31,264
Provision for Credit Losses	20,945
Depreciation	3,086
Total Expenses	113,160
NET INCOME	11,723



Small Group Discussion

Strategic Innovation

1. What do you consider to be the pros and cons of consolidating seven community development credit unions in California into Self-Help's Community Trust Division? Is this a replicable model for other credit unions and loan funds to reach scale in the future? Do you imagine areas of controversy within the community development financial institutions sector?
2. Self-Help has repeatedly demonstrated a willingness to take mission-driven risk and to make significant modifications to its business model. What examples of "creative destruction" do you see in this case study? What do you think might have been some of the key elements to Self-Help's successful innovation as a growing organization?

Business Model

3. The Business Model Canvas identifies nine building blocks in every business:¹³
 - Customer Segments
An organization serves one or several customer segments.
 - Value Propositions
It seeks to solve customer problems and satisfy customer needs with value propositions.
 - Channels
Value propositions are delivered to customers through communication, distribution, and sales channels.
 - Customer Relationships
Customer relationships are established and maintained with each customer segment.
 - Revenue Streams
Revenue streams result from value propositions successfully offered to customers.
 - Key Resources
Key resources are the assets required to offer and deliver the previously described elements...
 - Key Activities
... by performing a number of key activities.
 - Key Partnerships
Some activities are outsourced and some resources are acquired outside the enterprise.
 - Cost Structure
The business model elements result in the cost structure.

Select one of the business model building blocks and discuss its contribution to the successes and challenges of Self-Help's business model.

¹³ From Business Model Generation, by Osterwalder and Pigneur. (2010)