



# The HBCU CU Concept

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# Concept

*"What you learn at an HBCU is you do not have to fit into somebody's limited perspective on what it means to be young, gifted and black."*

-Kamala Harris, Vice President of the United States of America

- By embracing the foundational “cooperation among cooperatives” tenet of the non-profit cooperative movement, the nation’s credit unions and the partners that support them endeavor to effect meaningful change for people of color beyond which any of them can unilaterally provide.
- Through cooperation and collaboration, credit unions, trade associations, vendors, and other stakeholders are exploring the feasibility of creating a de novo credit union to provide low-cost financial services and high-quality financial education tailored to meet the unique needs of the HBCU community.
- As envisioned, the HBCU CU (a placeholder name) would be a digital-only credit union - owned by and operated exclusively for the students, alumni, faculty and staff of Historically Black Colleges and Universities (HBCUs) - for the express purpose of delivering value-added financial services and objective financial education to the HBCU community.

# Anticipated Benefits to the HBCU Community

- Access to low cost or no cost transactional services
- Access to low-cost consumer, student, mortgage and business credit as well as valued added deposit products
- Access to objective financial education and financial resources, to include integrated small dollar investing options, credit building, debt management and wealth building resources, and tools and calculators geared toward members' life stations (i.e., current students, alumni at various stages of their careers, small business owners or budding entrepreneurs, retirement planning for mid-to-late career staff, faculty and alumni, etc.)
- Scholarships and other student aid programs for students
- Support to participating HBCUs and/or their alumni associations, other clubs and associations, the Greek system, athletic departments, cultural programs, community outreach programs, etc. through sponsorships, licensing agreements and card affinity programs
- An introduction to the financial services industry in general – and to credit unions in particular - to HBCU students through jobs, internships and volunteer opportunities at the HBCU CU and other credit unions throughout the nation

# Conceptual Organizational Structure

*"If our historically black colleges and universities didn't exist, we ought to create them. These are special mission institutions, where what they do and what they provide is what we hope is a great education, but they provide an atmosphere where a student's humanity is never challenged."*

-Dr. Johnnetta Betsch Cole, former president of Spelman & Bennett Colleges

- HBCU CU is envisioned as a digital only – mobile first - credit union, with no physical branches
  - Pew Research estimates that the smart phone adoption rate for Blacks and Hispanics exceeds 80%
  - Assume that the adoption rate is much higher among the students, faculty, staff and alumni of HBCUs.
  - Pew also asserts that Blacks and Hispanics are more likely to use their smartphones, as opposed to laptop and desktop computers, to access the internet
- Start-up capital will be used to develop a state-of-the-art mobile banking platform that will also serve as a gateway to objective financial education and related financial resources
- The CU is envisioned as a “network” CU, governed by single volunteer Board of Directors and a central administration that will deliver services to participating HBCU campus divisions (i.e., “XYZ University Credit Union, a division of the HBCU Credit Union”)
  - While the marketing and branding strategy has yet to be determined, the option exists for each participating campus to have separately branded (yet centrally managed) mobile banking applications, web-sites, debit and credit cards, etc.

# A Resource Instead of a Threat

- It is important to note that the HBCU CU would not target campuses served by credit unions chartered to exclusively serve them and would not seek to merge them into the network
- Concept is for the HBCU CU to offer the existing CUs serving HBCUs the opportunity to build scale, expand their service offerings, and lower their cost of operations (which, in turn, will allow them to offer better pricing to their members) by accessing the technology, products and services of the network
- The network would, in essence, serve as an outsourced back office for existing CUs serving HBCUs – and perhaps other small CUs serving people of color – in a manner that will allow them to enhance member service and member value without merging

# Conceptual Operating Structure

*“Historically Black Colleges and Universities, or HBCUs, have played an important role in enriching the lives of not just African Americans, but our entire country.”*

-Ric Keller. Former US Congressman

- The success of the HBCU CU will hinge on its ability to build scale while maintaining very low operating costs.
- Operating costs as a percentage of average assets will be targeted in the 2.00% to 2.50%, on par with the nation’s largest credit unions. In so doing, it will allow the CU to profitably operate with a net interest margin (a proxy for member value) well below the CU average.
- Operating expenses will be lower than traditional credit unions through a focus on branchless service delivery and outsourced alliances

# Outsourcing and Facilities

- The CU will have exceptionally low office occupancy expenses
- COVID-era has taught us that CUs can remotely fulfill their core operational requirements
- As such, we envision a 100% remote work force, to include IT operations, call center and digital branch operations, and all administrative functions.
- The HBCU CU will rely on alliances with third party providers to handle most administrative functions
  - IT operations (i.e., a cloud-based service bureau approach offered by the leading IT vendors in the CU space)
  - Card and payments services (and perhaps even call center and loan processing services) through COOP or PSCU
  - Consumer, mortgage, commercial and student loan origination systems and new account origination systems via several providers in the CU and fintech arenas
  - Personnel and other administrative services through relationships with outsourced back office service providers (i.e., something akin to what Plexcity provides to trade associations), CUSOs, natural person credit unions or corporate credit unions.
- In the event that office space is required, the CU will attempt to lease space at discounted rates (1) on participating HBCU campuses to provide local jobs for students and others in the community and (2) from credit unions or other stakeholders that support the concept.

# Staffing

*"Being on an HBCU campus, I felt I had no excuse for failure. The level of accountability presented directly by friends from around the country – and indirectly by the vision of a sea of brown faces going to class, studying, serving and leading – was enough to inspire me to be the best version of myself. That feeling stayed with me, and as a result, the Harvard experience was socially and psychologically easier for me than it was for many other black students."*

-Mia Hall, Hampton University alumna

- The credit union will recruit talented and passionate credit unionists from across the country
- Key personnel will be recruited to lead critical divisions, manage outsourced service providers and, where necessary, to lead internal teams (i.e., it may prove more cost effective to create a call center and a loan processing team, for instance, than to outsource these functions). Whenever possible or practical, personnel will work remotely
- Its commitment to diversity, equity and inclusion – Mr. Smith's 8th CU Cooperative Principle - will be incorporated into its mission, and its staff will reflect the richness of our diverse nation and the HBCU community



# Conceptual Capital Accumulation Plan

- The HBCU CU would launch as a low-income credit union (LICU), thus enabling it to receive secondary capital.
  - Secondary capital is subordinated debt, typically in the form of a ten year note with full capital recognition in years one to five and declining levels of capital recognition in years six to ten
  - We believe, but have yet to confirm, that the credit union community, especially large credit unions, will be a ready source of start-up secondary capital in an environment in which the industry is flush with cash and the opportunity costs associated with long term loans to the HBCU CU are at historic lows (i.e., overnight rates of returns are at or about 10bp and long term investment rates are below 1%)
- The CU would seek certification as a Minority Depositor Institution (MDI) and a Community Development Financial Institution (CDFI)
  - Though such designations are not immediate, every effort would be made to expedite them
  - Such designations will allow the credit union to receive grant funds from governmental agencies, banks with community uplifting initiatives and/or those with a need to earn Community Re-investment Act (CRA) credits, corporations with a social mission and/or those with philanthropic divisions/initiatives that are actively supporting Black owned businesses, and non-profits similarly focused on uplifting communities of color in a period in which racial injustice is at the center of public consciousness.
- As envisioned, secondary capital will be used to develop the infrastructure, products and services for the CU as well as to cover start-up operational expenses.

# Grant Funds and Donated Capital

*"At [predominantly White institutions], Black people are ignorant until they prove that they're smart. At an HBCU, Black people are smart until they prove that they're ignorant."*

-Dr. Julianne Malveaux, former Bennett College president

- Grant funds and donated capital will be used to develop educational content as well as to be a source of loan loss reserves, product and service subsidies, scholarship funds and other community support initiatives.
- The CU would also launch a 501(c)-3 foundation to provide yet another path for corporations and non-profits, many of which have regulatory, tax, or bylaw restrictions that restrict them from investing in - or donating to – a credit union, to support the mission
- Funds donated to a foundation cannot be counted as capital by the CU, they could be used to develop financial education programs and other services directly related to the CU's mission.

# Questions to be Answered

The HBCU CU concept is just that. It has not advanced beyond the idea stage. As such, our assumptions need to be validated and scores of questions need to be answered, to include:

1. Is there truly a need for a new credit union to serve the HBCU community?
2. Will the HBCU community embrace and support the concept?
3. Will a mobile first, digital only credit union be embraced by its target membership?
4. What will the start-up costs be to build out the technology platform and operating infrastructure, to attract and retain the talent, to forge the alliances with third party service providers, to develop and implement the requisite service delivery, business development and marketing/advertising plans, and to cover for all costs necessary to bring the CU to market??
5. Will the proposed CU be able to attract the capital necessary to build a truly state-of-the-art digital credit union?
6. Will the credit union community embrace and support - with their capital, personnel, and operational resources - this concept?
7. Will banks, corporations and non-profits support the concept with grant funds, secondary capital, donated capital or other support?
8. Will credit union vendors signal their allyship with the concept by providing free or discounted services at start-up?
9. Will regulators support the concept? If so, will it be possible to charter the HBCU CU and gain support from potential stakeholders within and outside the CU community before the bright light shining on racial injustice fades in our nation?
10. How will the small credit unions chartered to exclusively serve a few HBCUs respond to the HBCU CU concept?
11. How will larger credit unions with HBCUs in their fields of membership (i.e., community credit unions or credit unions that have one or more HBCUs as Select Employee Groups) respond to the concept?
12. Will the CU qualify to gain certification as a CDFI in short order and will it be able to compete for governmental grants?
13. Are leaders within the CU industry in the position to lend their time, in the midst of the worst health crisis in a century and an economic crisis with a still unknown severity and duration, to a cooperative concept that will not generate any direct revenue or benefit to their respective institutions?
14. What can we learn from the pioneering digital credit unions (i.e., Civic CU and Superbia CU)?
15. What can we learn from the new Greenwood Bank, a digital-only bank founded to serve Black and Hispanic consumers from across the nation?

# Next Steps

- Seek counsel from trusted leaders within and outside the CU system
  - HBCU administrators, students and alumni
  - Young leaders within the CU space, especially those that may be HBCU alums or those with a passion for community uplifting
  - CU CEOs
  - Trade Association CEOs
  - Regulators
  - Fintechs and other potential partners/service providers
  - Banks, corporations and non-profits
  - Governmental agencies
  - Politicians
- Identify additional questions and get the answers
  - Fill in the research gaps on the size of the HBCU community
  - Make a “go/no go” decision based on the findings
  - If go, develop a business plan and GO TO WORK!!