



Helping to Alleviate the Financial Strain of Angelenos

Bill Cheney, CEO, California and Nevada Credit Union Leagues

The City of Los Angeles, while a great city, faces many challenges. A key problem facing Los Angeles and its citizens is overall affordability, including the high cost of credit. Over 40 percent of the mortgage holders and renters in the Los Angeles area are spending more than one-third of their household incomes on homeownership costs or rent. In a time when access to financial services and credit is taken for granted by many, there are thousands of people in Los Angeles who either lack access to credit or are struggling to afford what credit they have secured, which in turn limits their ability to accumulate wealth and help the City to thrive. Additionally, limited access to financial services has forced many individuals to use high cost financial alternatives, including those who engage in predatory practices.

Credit unions are a solution for Angelenos struggling with affordability and the high cost of credit. As not-for-profit cooperatives, credit unions generally provide financial services to members through lower loan rates, higher saving rates, and lower fees than for-profit banking institutions. Credit unions can make more of a difference to the social and economic health of the people in Los Angeles, but they need the help and support of the City.

To play a more active role in ensuring its citizens have access to consumer-friendly financial products and services, the City can support current efforts to allow credit unions to serve low-income designated areas wherein the residents have the greatest need for affordable credit products and are most likely to be vulnerable to 'fringe' providers – check cashers and payday lenders. That support can come in the form of advocating for credit unions at the local, state, and national level as well as providing development grants to credit unions and investments/deposits in credit unions in Los Angeles' low-income areas to ease the financial difficulties associated with serving distressed neighborhoods.

The City should also seek out partnerships with local Los Angeles credit unions to implement programs for citizens

receiving aid payments to receive their disbursements via direct deposit, thus introducing them to credit union services. By funding credit union individual development account (IDA) programs, the City could help citizens accumulate savings for business ventures or educational efforts to break the poverty cycle.

The City can also help Angelenos avoid financial distress by promoting financial literacy programs. Many credit unions offer financial education to their members and local communities to help break the cycle of payday loans. To play a more active role in financial education outreach efforts, the City can provide grants to credit unions to be used to develop and host financial workshops as well as encourage those with the greatest need to attend such workshops by hosting and promoting these events.

Working with the Los Angeles School District, the City can effect real change by introducing its future leaders to credit unions by bringing financial literacy curriculum into its schools. Credit unions can be a key component to such an initiative by providing their expertise in the classrooms. Educating young people early on will help to ensure their financial success with credit and affordability.

The Credit Union National Association (CUNA) estimates that California credit unions provided over \$1.3 billion in direct financial benefits to the state's 9.8 million credit union members during the twelve months ending June 2006. Individuals conducting most of their financial business with California credit unions save over \$140 annually in credit costs, return on savings, and fees:

- ★ California credit unions offer more affordable credit products compared to the state's banking institutions, charging an average 2.07 percent less on a 60-month new auto loan, 2.39 percent less on a 48-month used auto loan, and 2.04 percent less on a classic credit card.

- ★ Affordability is further promoted by credit unions through richer returns on savings products. California credit unions pay an average 0.27 percent more on regular savings, 0.57 percent more on money market accounts, and 0.41 percent more on retirement accounts than the state's banking institutions.
- ★ Affordability is further enhanced by credit unions' reduced fees. A credit card late payment fee is \$14 less at an average California credit union as compared to a California bank while the average California credit union member will save almost \$2,000 on his/her mortgage closing costs as opposed to a bank customer.

Credit union members are not the only consumers that gain from the existence of credit unions. By creating competition in the marketplace, credit unions make financial services more affordable to all consumers, which in turn helps keep bank fees and interest rates in check. But, the greatest benefits are enjoyed by those residents who belong to their local credit unions.

Looking ahead, the City's involvement and attention to affordable credit, financial education, and partnerships with credit unions will help ensure that Los Angeles is a thriving community, with opportunities for all of its citizens now and far into the future.