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BANKING ON SOCIAL ENTERPRIS

A stylized illustration of a city street scene. In the foreground, a yellow taxi is driving on the left. Several people are walking across the street, some in groups and some alone. The background shows multi-story brick buildings with fire escapes and a traffic light. The overall color palette is dominated by teal, yellow, and red tones.

Less than a year after **Justine Zinkin '02** earned her MBA and began her dream job as executive director of Credit Where Credit Is Due (CWCID), she had to raise \$160,000 in six weeks or Neighborhood Trust, the community development credit union CWCID founded, would be closed by regulators.

Headquartered in small, windowless offices in the George Washington Bridge bus terminal, CWCID specialized in helping low-income New Yorkers move beyond crisis mode through intensive financial counseling—but was now in crisis itself. Zinkin had already whittled her staff down to two (including herself) and closed the credit union's second branch. "We were in a death spiral," Zinkin remembers.

It was 1 a.m. when Zinkin spotted Mark Willis, then Chase's director of community development, at the coat check after a gala dinner for Common Ground, the New York-based nonprofit where Zinkin used to work. Although Zinkin had never met Willis, she knew who he was—and that he was interested in credit unions.

"I went up to him, introduced myself, and ended up telling him our story," says Zinkin. "I told him that if someone were to come through for us that this would be a pivotal moment."

And it was.

BY SIMONE GUBAR | ILLUSTRATION BY KATE MILLER

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Willis connected Zinkin with others in the banking and philanthropic communities and a few weeks later HSBC sponsored a luncheon for potential funders. Armed with an unwavering belief in CWCID and the credit union's potential to help the most vulnerable New Yorkers achieve long-term financial stability, Zinkin persuaded everyone at the table to take a leap of faith. The group's aggregate \$160,000 capital contribution allowed Neighborhood Trust to stay open and to access a \$200,000 grant from the Community Development Financial Institutions Fund.

Six months later, the Robin Hood Foundation stepped up with a major grant to support CWCID's financial education programs, and in 2005 philanthropist and Columbia Business School Board of Overseers member **Russ Carson '67** gave CWCID and Neighborhood Trust the largest grant the organizations have received to date. (Zinkin recalls approaching Carson at a School alumni event: "I'd like to meet with you and convince you of the work I'm doing.")

In her first job out of business school, Zinkin had shown an intangible ability that many CEOs take years to develop: a clarity of vision coupled with a gift for persuasion. Over the next eight years, Zinkin honed Neighborhood Trust's hybrid approach to fighting poverty—intensive financial counseling offered in tandem with affordable banking services—and proved that it is a sustainable alternative to the city's debt-driving "fringe banking" business: check-cashing outlets, wire-transfer agencies, and pawn shops that map to the city's poorest neighborhoods.

As a community development credit union [see box], Neighborhood Trust targets such marginalized groups as recent immigrants, public assistance recipients, domestic violence survivors, and the formerly homeless. (Neighborhood Trust and CWCID recently merged under one name.) For 40 percent of its constituency, the credit union represents the first relationship with a financial institution.

Community Development Credit Unions: Fighting Poverty, Building Community

Neighborhood Trust is one of approximately 200 community development credit unions (CDCUs) in the country. CDCUs are federally regulated depository and lending institutions, each dedicated to a specific low-income population. "There are no financial institutions closer to 'Main Street' than CDCUs," Clifford N. Rosenthal, president and CEO of the National Federation of Community Development Credit Unions, has said. To learn more, visit the National Federation of Community Development Credit Unions online at www.natfed.org.

"If Neighborhood Trust had closed, it never would have reopened," Zinkin says in retrospect. "With community development credit unions, there is always a skittishness in the philanthropic community around, 'is this model sustainable?' Every time an institution fails, it's another example that questions the model."

UNCOMMON FOCUS

Neighborhood Trust's success is a testament to Zinkin's long-standing commitment to helping the most vulnerable members of society become more self-sufficient. After graduating from Brown with a BA in philosophy, Zinkin worked as a foster care social worker, helping teenage moms transition to independent living. At Common Ground, a nonprofit that fights homelessness, Zinkin developed job-training programs for low-income people, and at the New York City Department of Housing Preservation, she expanded her focus to the improvement of affordable housing. Zinkin has always been drawn to the question of structural change: How can you develop sustainable models that improve the systems available to people who are poor and need help?

"I realized that job placement and affordable housing were only part of the puzzle," Zinkin says. "It was clear that they only made a difference alongside other support structures that enabled small wages to translate into real financial security."

Thinking and reading about the role of the financial services sector, Zinkin found herself drawn to the credit union movement and its legacy of community empowerment. Credit unions have a long history of serving populations that have historically been unfamiliar with, or even suspicious of, conventional banks. Whereas banks maximize profits for shareholders, often funneling profits away from the communities they serve, credit unions are owned by the members who deposit funds in them. "The more I learned about the credit union movement, the more it spoke to me," Zinkin says.

After volunteering at a local community development credit union in Brooklyn, Zinkin decided to pursue her MBA at Columbia with a very specific goal in mind: to transition her career from the nonprofit sector to financial services—specifically, to a community development credit union.

At Columbia, Zinkin took the very first social enterprise class the School offered. "In a sense, this emerging discipline I discovered at Columbia—one dedicated to encouraging business solutions to the most intractable social problems—validated my career choice," says Zinkin.

Who Are New York City’s “Unbanked”?

A 2009 study by the Mayor’s Office of Financial Empowerment found that more than 13 percent of New Yorkers—approximately 825,000 people—do not have bank accounts, compared to 7.7 percent nationwide. These “unbanked” individuals reside primarily in black and Latino neighborhoods that have a median household income of about \$30,000—significantly lower than the citywide median income of \$47,500. According to the study, the No. 1 reason people avoid banks is a keen awareness of the risks of overdraft fees. There are also documentation challenges: recent immigrants, for example, are frequently denied access to mainstream banks because they don’t have a social security number.

She also participated in the Lang Center’s Small Business Consulting Program, which connected her with Fresh Youth Initiatives, a nonprofit in Washington Heights. It turned out that Fresh Youth’s executive director, Andrew Rubinson, was one of Neighborhood Trust’s first depositors. He introduced Zinkin to the credit union’s founder, Mark Levine, whose career Zinkin had followed for years.

Two weeks before Zinkin graduated, Levine told her that he was leaving and offered her his position—“a dream come true,” Zinkin remembers.

LOOKING AHEAD

Today, Neighborhood Trust is better capitalized than most major banks—and has grown from serving hundreds of low-income residents of Upper Manhattan to helping some 6,000 New Yorkers annually in the city’s poorest neighborhoods.

The financial crisis—in part a result of predatory banking practices—has only underscored the importance of Neighborhood Trust’s mission of financial literacy and ethical lending. In 2008, New York City Mayor Michael Bloomberg recruited Neighborhood Trust to offer one-on-one financial counseling at several newly created financial empowerment centers across Manhattan. And in response to increased demand, Neighborhood Trust is extending its reach, not by opening brick-and-mortar branches, but by embedding its financial education programming in nonprofits, government agencies, and other community development credit unions throughout the city.

Its impact is impressive. Within two years of completing Neighborhood Trust’s signature “Getting Ahead” program, 50 percent of participants open bank accounts. In that same time, each graduate, on average, reduces his consumer debt by \$5100 and saves \$1400. As part of the program, each participant receives a “starter banking” package: free

checking and savings accounts, and access to low-interest loans with an application process that considers an applicant’s credit union history and character references in addition to credit scores. There is a purposeful lack of small print. “Our products are as simple and transparent as possible,” says Zinkin.

Zinkin is also collaborating with behavioral economists to introduce asset development products that are tailored to the low-income market. This summer, for example, Neighborhood Trust will launch a

low-interest, short-term credit product in response to clients’ need for an affordable emergency loan. “There is a lot of research currently under way suggesting that products like these may be critical to bringing financial services to the unbanked,” says Ray Fisman, the Lambert Family Professor of Social Enterprise and director of the School’s Social Enterprise Program.

Ultimately, Zinkin hopes to improve the marketplace for effective financial products and services for low-income people. “As we continue to grow, there’s an opportunity to effect change in the financial services market,” says Zinkin. “You can imagine someone saying one day that ours is a much better model for reaching low-income people—one where everyone benefits.”

Zinkin’s optimism is made concrete in Neighborhood Trust’s new home, the “Getting Ahead Center,” a 7,500-square-foot space in the newly built Triangle Building in the heart of Upper Manhattan, on Saint Nicholas Avenue and 166th Street. Beginning this summer, the new space will headquarter both the credit union and its citywide financial education programs.

Still, Zinkin sees work to be done. “I always feel a little bit like Sisyphus—except I have that glimpse just over the mountain,” she says. “First it was about turning the organization around, and now it’s about scaling and perfecting the model. I’m always saying, ‘we’re not there yet, but I believe we’re going to get there.’ We’re going to have a huge impact.”

Want to read more about how Zinkin managed Neighborhood Trust’s turnaround? Columbia CaseWorks is developing a case about Zinkin and Neighborhood Trust. Find links to it and other related stories at www.gsb.columbia.edu/hermes/features.