

Bismillah

No-Interest Credit Union Proposal

Create a Credit Union to provide
interest-free loans to our
community, InshAllah

How typical Credit Unions work

- A CU uses your deposits to make loans; your deposits are insured by NCUA, a federal agency, up to \$250,000
- CUs are non-profits; members elect the CU's board
- The CU's field of membership defines who can join
- CUs charge interest on loans to pay for the CU's expenses, pay interest to depositors, and to build the CU's Net Worth (capital).
- CUs must maintain Net Worth of at least 7% of total assets, to absorb loan losses, unexpected expenses, etc.
- CUs generally rely on donations for startup capital

How the No-Interest CU will work

- Will not charge interest nor pay interest
- Will use deposits to make no-interest loans
- Will use member fees to pay for most of its operating expenses (\$3/month)
- Will use voluntary fees/donations to help pay for expenses and build its capital (\$7/month)
- Rely on voluntary fees to help build capital to enable more lending (\$25-\$250/month)

Jafari Interest Free Loans

- Started in Ramadhan, 2007 to make interest-free loans to members who have existing interest-bearing loans (student, college, car)
- Members contribute \$25-150/month; funds are pooled and lent to a member who has an existing loan with the highest interest rate
- As Borrower pays back, funds are refunded to the contributing members
- Contributions are voluntary and can be stopped or changed at any time

Jafari Interest Free Loans

- (Nov 2015) Has 196 members in 14 states; 150 from Houston; JIFL receives \$13-14,000/month to lend
- Made 73 loans for \$743,000, saving \$263,000 in interest
- \$423,000 has been paid back and refunded to members
- 29 loans paid off in full; 3 borrowers are behind; 41 borrowers are on schedule
- Members contributing \$50 for last 7 years get \$40 in monthly refund; net cash effect is \$10/month.
- Members donate \$1/month for JIFL expenses
- A JIFL loan for a \$18,000 7.75% student loan will save \$4,800 in interest and be paid off 2 years sooner
- JIFL is 501(c)(3) non-profit

Why create a Credit Union

- Some people are more comfortable with a regulated entity like a CU than an organization like JIFL
- A CU can use deposits to make more loans
- A CU can have liens on cars and homes to provide more protection to the lender
- A CU provides better governance and continuity

No-Interest Credit Union

- Annual expenses \$18-24,000/year
- Savings account only (no checking, debit card, etc.)
- \$3/month fee per member
- Voluntary fee/donation \$7/month
- Another voluntary fee \$25-\$250/month. This fee should go down the longer a member participates
- Who can join: People in Houston, Dallas and Austin, and any of their family members living **anywhere** in the US
- Once we reach 500 members InshAllah we will apply for a federal charter; then we can apply to add community members in other US cities (with some restrictions)

Current Application Status

- Approval process can take three or more years
- Filed application with state in Ramadhan, 2012 and received approval from Texas CU Dept May 2013
- Filed for approval with NCUA July 2013 and have been providing additional information requested by them; now in the **final** stages of NCUA review.
- The more people and centers who show support for the CU, the stronger our application
- Joining Jafari Interest-Free Loans also demonstrates community's support for the Credit Union

How you can help

- Inform family and friends about the proposed credit union. Google Jafari No Interest Credit Union
- Ask your centers to consider issuing a Letter of Support for the proposed Credit Union
- Visit www.jafari-ifl.org and click **Proposed CU** for application, by-laws, business plan, 3 year financial projection, pledge form
- Pledge funds to help the CU with start-up costs and capital
- Send email to notify@jafari-ifl.org for any CU or pledge question

Q & A

- **DISCLAIMER:** There are a lot of details not covered in this presentation. Please visit the Texas state web-site <http://cud.texas.gov> for details, applicable laws, rules, regulations, etc.
- We are learning too as we go through the CU application process. The business plan will change according to any requirements of the Texas CU department and/or the NCUA.