John Parsons, Mission Federal Credit Union’s senior vice president for strategic development, faced a difficult decision in October 2000. The credit union, in existence for more than forty years in the San Diego area, was considering opening a student-run branch in an inner-city area of San Diego. If opened, this would be the first student-run branch in the country that, rather than operating on a “closed” campus, open only to students and staff, would be open to the local community. The new branch, the brainchild of a member of the credit union’s board of directors, would be more a social than an economic venture—and would thereby contribute to Mission Federal’s vision as well as enhance its reputational standing in the community. However, Mission Federal’s philanthropic efforts in the past had been directed at numerous “pet” charities long favored by individual board members. The new branch would represent a major (and perhaps continuing) departure from this practice. Further, a new and aggressive board member was spearheading this initiative. Other concerns, including the slim profit potential and inner-city location of the branch as well as the board’s commitment to other strategic initiatives, argued against the proposal. Parsons knew that if he were to support this initiative a strong justification for the branch would be needed in order to overcome these concerns and to convince board members to divert money from their preferred charities.

Credit Unions

Credit unions are financial institutions that operate in many ways like banks or savings and loan associations. That is, credit unions offer customers savings and checking account services, loans, and at times insurance and investment options. By the end of the twentieth century, credit unions also were offering technologically advanced services, such as automatic teller machines and Internet account services.

However, credit unions differ from banks in one critical way: they are not-for-profit cooperatives owned by their members—those who put money on deposit there. Credit unions do not have shareholders. Typically, this ownership difference manifested itself in three ways. First, costs to members for services are lower than similar costs for bank customers (in other words, loan interest rates are lower, as are transaction fees). Second,
returns to members on their deposits (the interest paid on deposits) are higher than for bank customers. Third, because of their not-for-profit status, credit unions typically devote more resources to customer service than do banks, resulting in higher levels of customer (member) satisfaction.

The concept of a credit union originated in Europe in the 1840s. Cooperative unions of workers or farmers began to extend credit to their members. Although the idea crossed the Atlantic Ocean in the late nineteenth century, attempts to start credit unions in the United States were not initially successful. The first credit union in North America was founded in the Canadian province of Quebec in 1900. In 1909 Massachusetts became the first state in the U.S. to pass a credit union law. In the 1920s and 1930s, the number of credit unions grew dramatically, and in 1934 Congress passed a federal credit union law, allowing credit unions to be formed anywhere in the country. Growth continued after World War II, and in 1970 Congress created the National Credit Union Share Insurance Fund, which provided $100,000 in insurance for each depositor in each credit union. With the creation of this fund, credit union deposits became as safe as bank deposits guaranteed by the Federal Deposit Insurance Corporation.

Credit unions were first organized to serve a specific group of people, who became the base group eligible to join the credit union (the field of membership). Often, this group had something to do with employment (either an entire industry, such as education or health care, or a firm, such as Boeing or IBM). Other fields of membership were defined by locality or religious institutional affiliation. It was not uncommon for the original field of membership to expand over time, through changes in corporate charters and/or mergers among credit unions.

As did banks, credit unions had a tradition of giving back to their communities. However, banks typically invested in their communities to gain better public relations or in response to regulations such as the Community Reinvestment Act (CRA), which required most financial institutions (but not credit unions) to institute programs to serve their communities’ needs. Credit unions, on the other hand, invested in their communities because they were not-for-profit organizations owned by community members who expected and authorized such investments—“people helping people.”

**MISSION FEDERAL CREDIT UNION**

Mission Federal was founded in 1961. Its original name indicated both that it was federally chartered and that its field of membership included students and teachers in San Diego’s education community. In 1978, that field of membership was expanded to include all people in San Diego County with ties to education, including not only current students and teachers but additionally staff, alumni, members of Parent Teachers Associations (PTAs), and retired teachers, as well as family members of those within this field of membership. It was at that time that the credit union’s name was changed to Mission Federal Credit Union. In 1999, Mission Federal converted to a community charter, allowing it to further expand by accepting as a member any person who lived or worked within San Diego County, without the requirement of an educational affiliation.

Mission Federal offered various services to its members, including deposit accounts, several types of loans, investment services, and insurance (the latter two through an affiliated broker, CUSO Financial Services, L.P.). Its mission statement promised “high quality financial and related services to meet the needs of a growing and diverse membership base over their lifetime.” It aimed to fulfill this promise through “maintaining soundness of earnings, growth, and reserves to promote member confidence and trust,
while providing a challenging and rewarding environment for employees that results in a high level of service to members.” Finally, the credit union promised to “respond and contribute to the social and economic well-being of the community we serve.”

Mission Federal employees were active in their community through volunteering, thereby raising funds for and awareness of important causes in the San Diego area. Schools were a particularly important and appropriate area of support, given Mission Federal’s origins. Branches partnered with local schools for tutoring, fund-raising, career days, and other activities. The credit union funded scholarship programs for colleges and universities in the area. It also supported activities of local PTAs.

**The Board of Directors at Mission Federal**

Mission Federal’s board of directors, like that of most credit unions, was composed of volunteers from among the membership. In Mission Federal’s case the board included nine individuals, five of whom had been on the board for twenty years or longer by the time the student-run branch became a topic of discussion. Each director well understood that his or her primary fiduciary responsibility was to ensure the safety and security of the members’ deposits. Six of the directors were men and three were women; of the latter group, one was Latina and another African-American. Each director was affiliated with either an individual school or a school district within the county. The majority were recruited from the business and financial affairs side, rather than the academic side, of school administration; as such, they were well versed in the economics of enterprise operations. It is fair to say the board was fairly conservative, both in politics and in investments.

The board met with members of senior management at every meeting, meaning that few opportunities existed for the board to independently evaluate management proposals. Much of the power to shape the credit union’s strategy was housed in an executive committee, which included a subset of the board and the credit union’s CEO, Ron Martin. Board members rotated on and off the executive committee—in the opinion of former board member Craig Dunn, being “co-opted” by senior management during their time on the committee, and thereby losing the “capacity for objective oversight.” However, John Parsons thought “people [directors and managers] could say what they thought. For the most part the board has an appropriate understanding that they set policy and set direction, with execution being the responsibility of the senior management team.”

**Philanthropic Activities**

The credit union had financially supported activities related to education for a long time. Each of the twenty-three credit union branches partnered with a local school. The branch provided monetary support and encouraged employees to volunteer at the school. Such volunteer activities included tutoring, helping with fund-raising, and participating in career days. Credit union employees worked with local PTAs as another way to support the local schools. Another annual program funded about $10,000 in scholarships for students attending local colleges and universities. A third program, started in 1994, supported schools for homeless and underprivileged children in San Diego. An annual golf tournament raised money for such schools. In 1997, another program focusing on financial education for high school students was begun.
In spite of the broad range of philanthropic activities, Dunn’s view was that “there was no sense of strategic philanthropy whatsoever,” with donations and community activities failing to clearly support the purpose and mission of the credit union. Rather, funding decisions seemed to be politically instrumental, in that monies were directed toward directors’ favorite projects, in return for a measure of support within the board for management proposals. For example, the golf tournament was organized primarily because several long-time board members enjoyed the game. At one point, when Dunn asked Parsons how philanthropic decisions were made, “he did not have a ready answer,” Dunn reported.

**Craig Dunn and the Student-Run Branch**

In April 1998, Craig Dunn, a professor at San Diego State University, joined the Mission Federal board of directors to serve the last year of the term of a retiring board member (the normal term was three years). Dunn was an associate professor of management specializing in social issues and ethics in management. He became interested in serving on the board primarily because he had several close friends who were credit union employees, and he believed that employee interests were overlooked much of the time by the board and top management. “While I understood that the principal responsibility of a director was for the safety and security of the members’ assets,” Dunn said, he wanted to represent employees—who he felt were “treated more as ‘means’ than ‘ends.’”

Dunn viewed his role as that of critically evaluating management proposals, something he felt the majority of his fellow board members were not doing. “I was not perceived as a ‘team player,’ of that I am certain,” Dunn noted. “And I certainly was too socially progressive to be a ‘good old boy.’” In his view, his direct style made his situation even more uncomfortable: “Too often this criticism lacked the tact which would have made it more palatable to the audience,” he admitted.

In the spring of 2000, Dunn (having been nominated and elected to the board to serve a subsequent three-year term) received a grant from the Coca-Cola Foundation as part of his work at San Diego State. Part of that grant was used to fund an entrepreneurship program in public schools. A model for such a program was in place in Bakersfield, California, so Dunn went to Bakersfield to observe it. One of the corporate partners in the Bakersfield program was a local credit union that had helped start a student-run branch on the campus of a local high school.

This was not a new idea to Dunn. “As part of the initial proposal to Coca-Cola perhaps a year earlier I had floated the idea for a student-run credit union,” he remembered, “but there was little interest from them [Coca-Cola] to fund such a project.” The Bakersfield project was very successful, however, so Dunn raised the idea again with Parsons, the credit union’s senior vice president for strategic development.

**John Parsons**

John Parsons had joined Mission Federal in the fall of 1997 as senior vice president of marketing. Parsons had worked with Ron Martin, Mission Federal’s CEO, at Technology Credit Union as vice president of marketing when that credit union was the fastest-growing in the country. He was promoted to senior vice president of strategic development at Mission Federal in the fall of 1999.
Parsons was a colorful character. He lived life to the fullest, both professionally and personally. Thoughtful and compassionate, Parsons loved to debate matters of social justice. He well understood that this is not a fair world, and was visibly moved when confronted with evidence that the downtrodden were exploited by those holding influence and power. Seeming to lack the ability to edit himself, Parsons sometimes would use coarse language to express his frustration with situations he found oppressive. He was passionate in every sense of the word, to the point of being unapologetically flirtatious. And when selecting a company car for himself, Parsons didn’t opt for a Lincoln Town Car, as had the vice president for lending, but instead settled on a Saab convertible.

Consistent with Parsons’s overall social perspective, Dunn characterized his views on credit unions as “somewhat” progressive. “John well understood that one of the primary purposes of credit unions is to ‘serve the underserved,’” he said. Although Parsons and Dunn had clashed on some issues early in Dunn’s term, Parsons recognized that Dunn appreciated, as Parsons put it, “the very sincere differences between the philosophical and marketplace perspectives” on credit union operations.

One of Parson’s areas of focus from the beginning of his tenure at Mission Federal was financial literacy; in fact, the financial literacy program at Mission Federal dated from his hiring. He and Dunn had discussed the concept of a student-run branch before, so Dunn felt comfortable raising the issue with Parsons once again.

CITY HEIGHTS

While not geographically located in downtown San Diego, City Heights could well be considered part of the urban core of the city. Originally developed as East San Diego by land speculators during the 1880s, City Heights was annexed by the city of San Diego in 1923. In 2000, City Heights had a greater population density than perhaps any other community within the city. Per capita income was less than $10,000 annually. Fewer than ten percent of residents held a college degree.

One of the hallmarks of the area was its ethnic diversity, in large part a function of newly arrived immigrant communities. The area was home to those of Hispanic, East African, African American, Indian, Middle Eastern, and Southeast Asian descent. This ethnic diversity had given rise to racial tension, culminating in 1993 as three teen boys were killed in a gang-related fight at Hoover High School. One year prior, the City had adopted the City Heights Redevelopment Plan. Subsequently city officials and private
philanthropists developed a collaborative initiative to include construction of a new police substation and associated community facilities.

The driver for immigration to City Heights had almost universally been the quest for economic opportunity. One of the distinguishing characteristics of new immigrant populations was entrepreneurial initiative. A strong work ethic coupled with creativity and both business and educational opportunity had proven to be the recipe for enterprise success. Mission Federal executives and managers had long recognized the potential for young first-generation immigrants to be loyal and productive front-line employees for the credit union.

**REACTION AND DECISION**

Parsons had seen student-run branches in other localities. Some of them had succeeded, and others had failed. The basic idea in this case was to open a branch that would be operated entirely by students with a credit union employee as manager. The branch would be “open” as opposed to “captive,” meaning that any credit union member could use the branch, and instead of being on a high school campus, it would be located nearby. Parsons and Dunn were in agreement that the branch needed to be open to the community in order to have any chance of attracting enough new members to make this a financially viable project—and thereby to have the support of the Board.

However, many considerations needed to come into play before they could take the idea to the board. Dunn’s proposal was that the branch would be located in the City Heights neighborhood near Hoover High School in a building owned by the San Diego State University Foundation. Safety concerns in the inner-city neighborhood would need to be addressed. With a captive student branch these concerns would be lessened, but since the proposal would be to have an open branch, they likely would be raised in full force.

Another concern stemmed from the nature of the branch itself. Mission Federal’s typical practice was to locate branches in the suburbs. A branch in the inner city would be a departure from that practice, and thus possibly be a move away from the credit union’s core competence. The branch’s potential profitability was also an issue. A branch located far from Mission Federal’s typical suburban setting might also mean it would be located away from Mission Federal’s members, begging the question of where the customers for the branch would come from. Few customers would mean no profit for the branch, perhaps even a loss. Such an eventuality could lead to several negative outcomes. First, the credit union would have a consistent financial drain on its hands. Second, other philanthropic projects closer to the hearts of the board members would need to be postponed or abandoned altogether. Third, given Parsons’s emphasis on financial literacy, a money-losing branch could set a bad example for the students who were operating it, as well as for other students.

Parsons had drafted a cost-benefit analysis showing that any profit from the branch would be long-term at best. Recent experience had indicated the cost of launching a new branch would exceed a quarter of a million dollars, with annual operating costs—even with the savings from hiring relatively inexpensive students—expected to easily exceed one hundred thousand dollars. With an enterprise-wide target return on assets (ROA) of a scant 1 percent, the investment needed in order to cover any branch shortfalls would be significant. The local population was simply too poor to have significant excess funds available to put on deposit with a financial institution. Most lacked an established credit history, making the prospect of lending to members of the local community a
financially risky option. The good news was that within the financial services industry, customer loyalty ran deep. If credit were extended to those in most desperate need, as they gained wealth, these loyal members would happily make deposits to institutions that had assumed lending risk on their behalf when they most needed it. And it was well known in the industry that a scant twenty percent of members contributed the totality of profit to any credit union, with the balance of members being considered unprofitable.

A separate problem, but one that could affect the board’s ability and willingness to start the branch, concerned CUSO Financial Services, the credit union’s investment and insurance arm. CUSO was organized as a for-profit affiliate of Mission Federal, but it was losing money, and Parsons had taken over responsibility for CUSO on a temporary basis. It needed an infusion of at least $1 million—and Parsons would be asking for this at the same time that he would be asking for money to fund the student-run branch.

Finally, there was the issue of the source of the idea. Dunn was a relatively new member of the board, and he described himself as “‘offensive’ on more than one occasion.” An idea coming from a director with such “baggage” might be shot down merely because of personality issues before it ever had a full hearing from the board. In fact, Dunn remembered, “I did not believe myself to have a lot of political capital.”

However, there were positives to the proposal as well. The charismatic Parsons, as a marketer, could see that the niche the branch would occupy would be “priceless” (to use Parsons’s word) to Mission Federal. Second, the branch could be used as a teller-training program, in which student tellers would move from the inner-city branch to other branches upon graduation. Since annual turnover among credit union tellers typically reached 50 percent, such a program could provide financial benefits even if it was running at a booked loss. Third, such a branch could be the first of several student-run Mission Federal branches. Eventually, more branches could be opened in northern and southern areas of San Diego County, closer to Mission Federal’s traditional territory and utilizing lessons learned at the Hoover High branch.

Perhaps most importantly, opening the branch at Hoover High would fit with the board’s vision of Mission Federal as, according to Parsons, a “credit union with a heart.” It would be a case, he said, of “people helping people. Not for charity, nor for profit, but for service.” This would be a case of what was called “social entrepreneurship,” actions taken to help solve social problems in an innovative and entrepreneurial fashion. It would be, in Dunn’s opinion, a project that would make the work of top managers “more meaningful—assisting those who are among the least advantaged members of society, rather than simply following ‘business as usual.’” It could also be seen as what was called “strategic philanthropy,” in which good works led to increased business from customers (new and repeat) who appreciated the good works.

All the pieces would need to fall into place. Not only would the board need to provide financial support, the San Diego State University Foundation would need to cooperate. The right person would need to be found to run the branch. The educational community, and in particular the leadership at Hoover High, would need to be on board. But John Parsons’s first decision would be how strongly to push for this idea, if at all. A board retreat was upcoming that would focus on strategic planning. Parsons needed to decide whether the student-run branch would be on the retreat’s agenda, and if so how much of a pitch he would make for the idea to the board.

**NOTE**