



Expanding our reach

## Pitching for growth in new markets

**R**arely does a week go by without moans of complaint from banks concerned about credit unions' expanding fields of membership and the "unfair competition" posed by credit unions' tax exemption. However, views of the credit union movement's recent success in achieving growth vary. Estimates of progress depend largely on the measuring stick employed.

In the five-year period from year-end 1999 through year-end 2004, membership in federally insured credit unions increased by less than 11%. During the same time period, potential membership increased by more than 186%. As a result, credit unions' overall penetration of their membership potential dropped from roughly 24% in 1999 to just over 9% in 2004.

Growth in total credit union assets, fortunately, has been more robust. Based on NCUA reports, assets of federally insured credit unions increased from \$411.4 billion at year-end 1999 to \$647.0 billion at year-end 2004, for an increase of 57%. At the same time, the number of federally insured credit unions dropped from 10,628 to 9,014. As a result, the size of the "average" credit union rose from \$38.7 million at year-end 1999 to \$71.8 million at year-end 2004.

Some conclude that growth in assets obviously means credit unions are doing something right. Others see the declining numbers of credit unions and lackluster membership growth as indications of a need for change

To secure growth, credit unions will need to reach out to young people and minorities and add greater diversity to their memberships. Statistical evidence supports each of these contentions.

Based on data collected by both D. Hilton Associates and CUNA, well over half of all credit union members in the United States today are at least 45 years old. The median age of the U.S. population, according to the 2000 census, was 35.3 years, and only slightly more than one-third of the population was 45 years of age or older.

In a presentation to state regulators earlier this year, NCUA Board Member Debbie Matz cited lack of diversity in credit unions' membership. Hispanics appear to be especially under-represented among credit union members at just 9%, while composing 14% of the population.

Because they are attempting to reach out to underserved communities and to immigrant groups with members who are often employed in low-wage jobs, credit unions today face new challenges. For example, participants in the check cashing industry assert that many clients choose them not only because they offer convenience through outlets in areas of the community where traditional financial institutions won't place branches, but also because their fees can be less costly than those banks charge for maintaining accounts with low balances.

Achieving growth will not be a simple matter of making membership available. Credit unions that genuinely wish to grow must reach out and offer people something they don't already have. That means a better rate, a more appropriate product, better convenience or a more welcoming atmosphere.

### Underserved Groups

The Federal Reserve has estimated that nearly 10% of American households have no bank account at all, and that more than 13% have no checking account. Disproportionate numbers of minority households, households headed by young people, workers who have less than a high school education and families with incomes under \$25,000 have also been

found among the unbanked.

Recent statistics also show that many people who do maintain a banking relationship employ the services of fringe lenders as well. Financial Service Centers of America (FiSCA), a trade organization originally established as the National Check Cashers Association, reports that 58% of consumers that use financial service centers maintain at least one traditional bank account and that 80% are employed full time. They also characterize their customers as slightly younger than the general population and primarily lower to middle class in income.

Consumers' reasons for turning to alternative providers vary. Some simply don't like banks; others feel they can't afford them. The speed with which the fringe banks provide access to cash may be a factor. Storefront check cashing centers have also drawn together an array of other services that appeal to their market. Among these are money orders, ATM access, electronic tax preparation, pre-paid debit cards, wire transfers of funds, deposit acceptance services, motor vehicle license plate and title distribution, public transportation fare and token sales, and postage stamp sales. The list continues to grow. Check cashers have even begun partnering with banks and credit unions in order to provide a more complete range of financial services.

The latter development, which provides customers of these services with access to savings opportunities, has been viewed as positive. The availability of savings vehicles enables those who rely on alternative services to improve their financial prospects for the future. Research has shown that households with transaction accounts are more likely to own assets such as a home, a car and life insurance.

### The Hispanic Market

The underserved market comprises a disproportionate number of minority members. Hispanics now lead minority groups in the U.S., with Latinos, who trace their roots to various parts of Latin America, forming the largest segment of that population.

## Five suggestions for expanding your reach

1

### Build coalitions

Reach out to community groups and others that can put you in touch with markets you want to serve. Some credit unions have even forged successful relationships with check cashers.

2

### Re-evaluate your product line

Add new products or product variants that will appeal to the groups you want to reach.

3

### Add convenience

Participate in shared branch networks and fee-free ATM cooperatives to enhance accessibility.

4

### Think young

Today's teenagers are part of the largest generation since the baby boom. They're also savvy consumers who expect value. They use the Internet to comparison shop as well as to transact business.

5

### Look for market niches others fail to serve

Underserved markets often yield appreciative, loyal members who are ultimately also profitable. They remember who provided help when it wasn't available elsewhere, even after other options become available.

Many Latino immigrants distrust banks, which typically do not serve lower income residents in their native countries. In addition, some have seen depositors lose everything to bank failures in systems that lack the federal insurance programs U.S. residents trust.

Over-generalization could endanger growth in the Hispanic market. At more than 40 million people, this group is large and growing at a rate that far outstrips the non-Hispanic population (up 14% from the 2000 census, as opposed to 2% for non-Hispanics according to a recent report from the Pew Hispanic Center, a project of the Pew Research Center). Incredible diversity exists within the market. For example, roughly 55% of Hispanics currently in the U.S. were born in this country while 45% are foreign born.

Based on the Pew report, the Hispanic immigrant population is dominated by working-age adults and by men. Research by the Pew Hispanic Center and the Inter-American Development Bank indicates that over 40% of foreign-born, adult Hispanics send money back to their country of origin on a regular basis. Two-thirds of them were found to send remittances at least once a month. In 2003, the estimated value of these remittances was more than \$30 billion.

Immigrant Latinos who speak only Spanish hold views on a variety of social issues that differ from those of native-born Americans. In addition, about two-thirds express strong identification with their country of origin. As immigrants learn English, their social views tend to become more similar to those of the U.S. population in general. The views of the larger society become dominant among their children, the second generation, educated in the U.S.

The Pew research indicates that more than one-fourth of the foreign-born Hispanic population speaks at least some English. Among members of the second generation, nearly half speak only English and roughly the same proportion are bilingual. Less than one in every 10 second-generation Latino adults is Spanish dominant. Among third and higher generations, more than three-fourths of

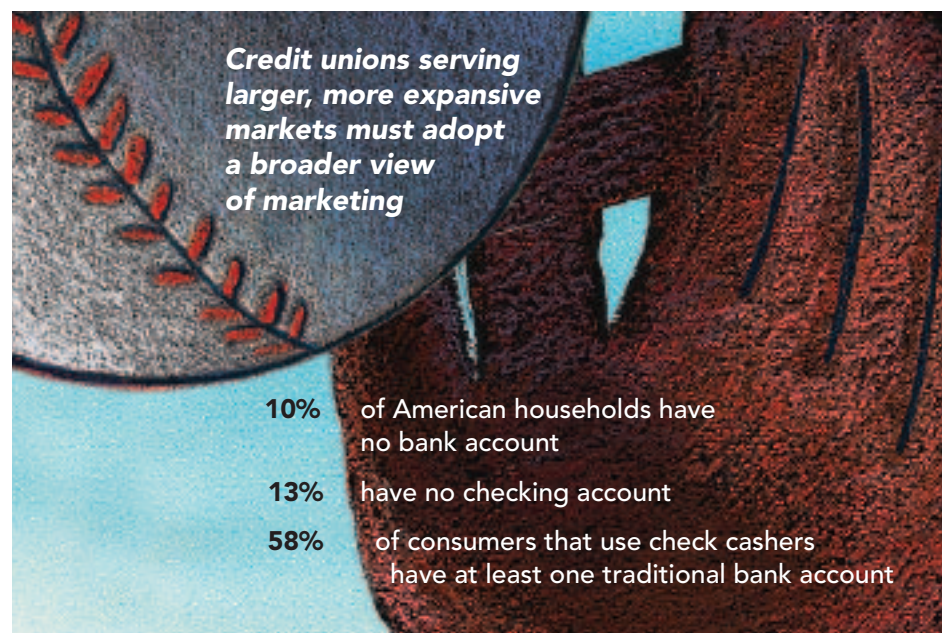
Latino adults are English dominant and the rest are bilingual.

Providing information and assistance in Spanish and international remittance services may become less critical as the balance within the nation's Hispanic population shifts toward the bilingual or English dominant children and grandchildren of immigrants. Today, however, these tasks challenge credit unions eager to reach a large new market.

Among credit union professionals, another reason for interest in the Hispanic market is that many in the population qualify as low income. Because

the U.S., and any number of factors may result in a population with specific cultural or linguistic characteristics settling in a particular community. Tailoring services to meet the financial needs of these groups opens the door to new members and paves the way for growth.

Credit unions serving larger, more expansive markets must adopt a broader view of marketing. Credit unions with employment-based fields of membership can often prosper using sponsor-backed marketing channels that offer high convenience and an implied endorsement. With a community-based membership



many immigrant workers have relatively low levels of education in addition to lacking fluency in English, they tend to be concentrated in low-income occupations. In 2003, the most recent year for which information is available, Census Bureau data places the percentage of Hispanics living below poverty level at 22.5% while the overall national rate was 12.5%.

### Look for Opportunities

Other ethnic minorities also offer opportunities for enterprising credit union marketers. Census data offer a wealth of information on minority populations. Social service agencies or local nonprofit organizations may also provide insights. Economic and political strife often drives large-scale immigration to

the credit union must do more to distinguish itself from the competition and establish its superiority in the minds of potential members.

(For additional information see “Marketing to a new community field of membership” on page 18.)