



# Targeting the unbanked to achieve growth

## Interview: Former NCUA Board Member Debbie Matz

**S**ince the passage of the Credit Union Membership Access Act in 1998, contrary to what some observers predicted, credit unions around the nation have continued to move away from reliance on employment-based groups and toward community-based membership. They are doing so both through conversions to community fields of membership and through the addition of underserved communities to their existing charters.

According to former NCUA Board Member Debbie Matz, credit unions are making this change for two reasons. First, they are hungry for new members. Membership growth has been stagnant, and sponsor downsizing and closures have adversely affected many credit unions. Second, credit unions are genuinely interested in reaching out to those in need. Even smaller credit unions have been able to extend their services to more people who need them by reaching out to the underserved in their communities.

To help credit unions in the effort to expand their reach, Matz created the Partnering and Leadership Successes (PALS) initiative. PALS provides a forum through which credit union officials can share innovative ideas for improving member service and reaching new members. Its goal is to help credit unions make a difference in their communities by turning potential members into actual members. Matz, through her involvement with PALS, has gained a unique perspective on the challenges facing credit unions as they attempt to expand.

“Reaching new members is very difficult. I always tell credit union officials that they probably will not find it productive to target people who already have bank accounts. It makes more sense to look for new members among people who are underserved and who do not have accounts at other insured financial institutions,” Matz suggested. With about 10 million American

families still unbanked, opportunities for serving this market abound.

The PALS initiative grew out of Matz's experience early in her tenure with NCUA. Matz talked with many credit union CEOs who were having difficulty attracting new members while other credit unions in nearby areas were succeeding, particularly among the underserved. PALS provides the opportunity for credit union executives to share ideas that have worked and discuss the hurdles they have overcome.

Despite the slow growth credit unions have experienced in recent years, Matz remains optimistic. She sees the field-of-membership changes and expansions that have been occurring as the first step in a process that will eventually lead to growth. Many credit unions must change their field of membership in order to grow because their sponsor firm has failed or they already have a high penetration rate within their current field of membership, she pointed out.

However, successfully serving a community field of membership often requires operational and marketing changes that may take time and additional money to implement. "It's a new way of doing business. It's hard, it's labor-intensive, and it requires outlays for staff and other resources. It needs to be part of the business and marketing plans, and the board needs to be supportive. But done correctly, it does pay off," Matz noted.

For a credit union that has been employer-based and accustomed to communicating through sponsor-provided channels that carry an implied endorsement, the changes necessary to win over potential members who view it as just another financial institution require quite an adjustment. Growth doesn't follow automatically from expanded membership eligibility.

"It's a different way of marketing," Matz observed. "The credit union really needs to get out into the community. They need to gain the trust of the people in the community by working with the community leaders, church leaders and community-based organizations. Credit union employees should speak the lan-

guages of the people in the community, and the credit union's materials should be provided in those languages as well. Most important, they need to offer services that are valuable to those people."

The services that are valuable to potential members in a community field of membership may differ from those that appeal to members acquired through a sponsor relationship. This is especially true if sponsor salaries are above average for the community. The unbanked members Matz sees as forming much of the potential within the community market may seek services more similar to those typically offered by check cashers and payday lenders. Providing these services isn't always immediately cost-effective,



*Former NCUA Board Member Debbie Matz has coordinated idea-sharing efforts for credit unions seeking expansion.*

but can be profitable in the long term if credit unions are committed to making the effort, she advised.

"If credit unions are committed to doing this, there's no doubt in my mind it can be accomplished, and it's a win-win situation. The member gets a loan that's much more affordable than one from the local payday lender, and gets started down a sound financial path; the credit union gets a new member likely to take more loans in the future," she observed, noting that some credit unions have already found ways to make such services work. "In some cases, depending on the

size of the credit union and the reserves they have, they might be comfortable not making a profit on this particular service in the short term, but realize that this is an opportunity to attract new members and make more loans in the future. They make it part of their business plan as a 5-year or a 10-year plan, knowing that it might not create cash flow immediately," she explained.

Successful field-of-membership changes ultimately affect nearly every aspect of the credit union, including its leadership. "I always advise credit unions that when they change to a community charter, their board should represent the community. The boards they had when they were SEG-based don't necessarily represent the whole community. If you're going to have a community charter and you want to be successful in reaching out to the whole community, it's absolutely essential to have people from the various demographic groups in the community on your board," Matz reasoned.

To hasten the process of developing representation from the entire community on the board, expanding credit unions can consider adding board positions to be filled by community representatives. In addition, when board vacancies occur, it is important to recruit candidates from all segments of the community rather than solely from traditional sponsor groups, Matz observed. She also noted that the credit unions most successful at reaching out to new members accept this need for diversity and understand the needs of their communities.

## Protecting Credit Unions' Tax Exemption

When credit unions provide needed services to everyone in their communities, they help protect the tax exemption for the entire credit union community, Matz pointed out.

In speaking to credit union audiences, Matz has sometimes made a connection between the threat of taxation and the disappearance of small credit unions. "I believe many lawmakers think of small credit unions as the icon of the credit union community, and they feel very

strongly that small credit unions should be preserved because they provide important services to constituents who are underserved. I think that's important to the entire credit union community," she explained.

Another reason for her focus on small credit unions is the unique service they often provide. "Small credit unions tend to be located in neighborhoods where there are no other insured financial institutions. They're really the first line of defense in fighting predatory lenders in many instances," she observed. When one of these small credit unions disappears, the pawnshops, payday lenders and check cashers may be the only options left to people in the neighborhood.

However, the issue isn't asset size so much as location and services provided, Matz maintained. She noted that large credit unions with a strong presence in underserved areas provide a valuable service by making affordable credit available to more people in these communities.

### Fulfilling their Statutory Responsibility

Matz suggested that the most important factor credit unions need to remember when expanding their reach is their statutory responsibility to provide affordable credit for people of modest means. Today, carrying out that mission means reducing the number of unbanked families by drawing them into credit union membership.

Matz emphasized the importance of attracting more young people and recent immigrants who have not established relationships with insured financial institutions. "Credit unions really should be reaching out to young people because very few young adults belong to credit unions right now. Only 5% of adult credit union members are 18 to 24 years old. Those are the future credit union members," she reminded.

The topic of serving recent immigrants, especially those who may be in the country illegally, has been controversial in some quarters, and critics have expressed reservations about the use of the Matricula Consular card as identifica-

tion for opening a credit union account. Matz is not among them.

"I've been in meetings with people who were very upset that I have suggested that they accept the Matricula Consular. While she defends credit unions' right to make choices about the field of membership they will serve and how they will do so, she predicted that credit unions seeking growth that includes recent immigrants will not accomplish it effectively if they do not accept the Matricula Consular as identification.

Matz emphasized the legality of accepting the Matricula Consular as identification to open accounts, noting that the NCUA would never ask credit unions to take action that is not legal. "Credit unions are not the IRS or the immigration service. Of course, credit unions are

her career after leaving the NCUA Board when *Strategic Insights* spoke with her shortly before the official end of her term on August 2, 2005, Matz, a veteran of 25 years in public service, has said she will seek opportunities outside the government. "I would love to build on what I've done here at NCUA, but I don't have any specific plans right now. It is great working with credit union people. They are such a passionate group, and they have done and continue to do such good things for the members they serve. I've been very proud to be on the NCUA Board and I feel privileged to have had this opportunity. It has been a wonderful experience for me —the best experience of my career."



expected to comply with all the Bank Secrecy Act regulations. But the Matricula Consular is legally acceptable. It's wrong not to accept it and to exclude recent immigrants who are in dire need of credit union services," she concluded.

While availability of lower-cost loans is an important benefit of credit unions' presence in underserved areas, Matz doesn't see indirect lending as a great way of reaching out for new members. While such programs can increase revenue, they aren't generally successful in creating a relationship that results in future loans or use of other credit union services.

Though she had no concrete plans for

*NCUA Board Member Debbie Matz introducing U.S. Sen. Hillary Rodham Clinton (D-NY), keynote speaker at a PALS workshop.*