



# Demographics

## Highlights

- The percentage of members in their peak borrowing years—age 25 to 44—has dropped by 17 percentage points, from 55% of adult members in 1985 to only 38% in 2006.
- There will be about 2.5 million fewer credit union members in their peak borrowing years by 2010.
- Both credit unions and banks will step up their efforts to serve the unique financial needs of the low-income market.
- Nearly 40% of non-members who say they're eligible to join a credit union are either "not very familiar" or "not at all familiar" with credit unions.
- Population growth among Hispanics, Asians, and African-Americans between 2000 and 2010 will be 68%, 68%, and 27%, respectively.
- Births to today's new immigrants will become the primary driver of Hispanic/Latino population growth by 2020.
- The growth rate of Internet use among Hispanic/Latinos and African-Americans exceeds the growth rate among Whites.
- Consumers age 18 to 34 are most likely to say they're eligible to join a credit union but least likely to actually belong to a credit union and least aware of what a credit union is.

**T**he year 2006 signifies the midpoint of a downward trend in the number of members in their peak borrowing years. This trend that has plagued credit unions for several years will continue through at least 2010 before showing any signs of letting up.

Between 2000 and 2010, we will have seen a drop of more than 6 million non-Hispanic 25- to 44-year-olds in the U.S. This represents a loss of about 2.5 million credit union members in their peak borrowing years. The projected rise in the Hispanic population will somewhat diminish the overall decline of peak borrowers. The challenge for credit unions is how to attract these Hispanic consumers.

The percentage of members in their peak borrowing years—age 25 to 44—has dropped by 17 percentage points, from 55% of adult members in 1985 to only 38% in 2006. As a result, the average age of adult credit union members during this same period increased from 40.4 to 47. The percentage of peak borrowers dropped from 48% to 38% during the past decade. This 10-percentage-point decrease equates to millions of peak-borrowing members and substantial amounts of potential loan dollars for credit unions. This trend, if it con-

tinues from 2006 through 2010, will cost U.S. credit unions between \$25 billion and \$35 billion in loans, according to conservative estimates from CUNA analysts.

At the heart of the issue is an aging population. Baby boomers are now between the ages of 42 and 60. They've all but moved out of their peak borrowing years of 25 to 44. And there's a comparatively small number of Generation Xers around to fill the sizeable void created by the older boomers.

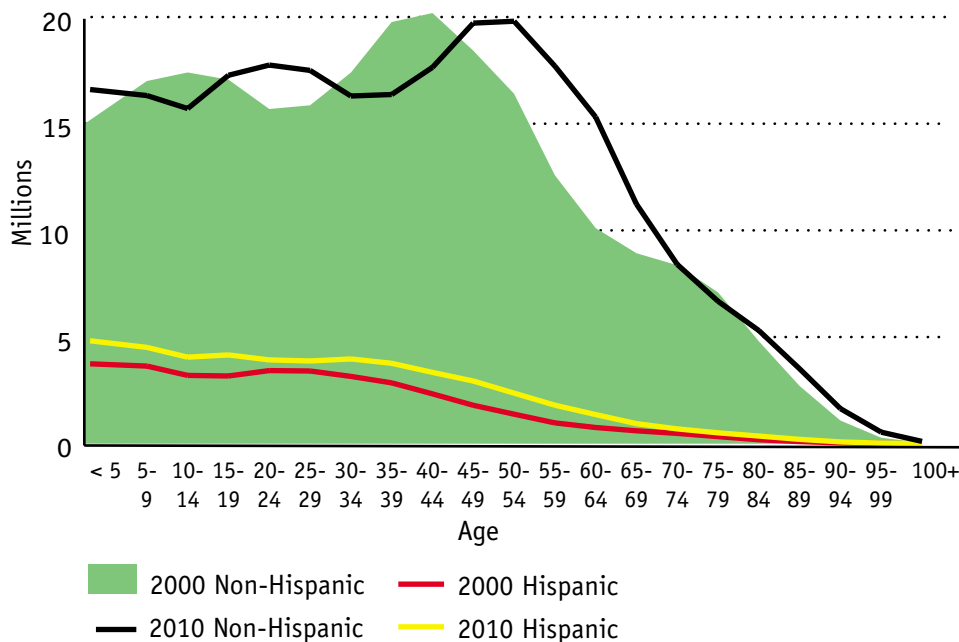
Credit unions can take a couple different approaches to address the shortage of members in their peak borrowing years—make more loans to existing members, and attract new members who are (or will be) in their peak borrowing years.

## Existing members

CUNA's 2006 Consumer Lending Survey outlines several approaches credit unions have been taking or plan to take to increase their loan volume through their existing fields of membership:

- Automated online loan application and approval systems. About 10% of all credit unions, and half of credit unions with more than \$200 million in assets, offer their members 24/7 online loan application and approval systems.

## Age Distribution of U.S. Population: 2000 and 2010



Source: U.S. Census Bureau

- Risk-based lending. Half of all credit unions, including more than 80% of credit unions with more than \$100 million in assets, have risk-based pricing programs. Credit unions involved in risk-based lending estimate 20% of their loans outstanding are sub-prime loans. And half of these credit unions say their loan-to-share ratios have increased as a result of risk-based lending. The vast majority of these credit unions report no meaningful dollar increases in their delinquency ratios.

- Indirect auto lending. One in five credit unions, including 65% of those with more than \$100 million in assets, participate in indirect auto financing arrangements with car dealers. Another 15% of credit unions plan to implement such a program by year-end 2006. Credit unions involved in indirect lending say a third of their outstanding vehicle

loans (in numbers, not dollars) came through this channel. Credit unions with indirect lending programs are discovering there's a subgroup of borrowers who become members solely as a result of getting credit union loans through car dealers. These credit unions are trying to build stronger financial relationships with this subgroup, but they're finding it difficult to turn these single-service members into multiple-service members.

Credit unions can also consider reviewing their credit-granting standards and relaxing them somewhat so they can approve more loan applications. Credit union delinquency ratios (in dollars) were hovering around the 0.6% mark as of March 2006. In terms of the number of loans, the delinquency ratio was just under 1%, suggesting there might be leeway in some credit unions for approving additional loans.

## New or future members

The second strategy for building loan volume is to attract more consumers who are in their prime borrowing years (as a short-term approach) and younger consumers whose prime borrowing years are still ahead of them (as a long-term approach).

Opportunities abound both from inside and outside of credit unions' current fields of membership. Consider:

- The vast majority of credit unions have financial relationships with no more than about 15% of their eligible members regardless of whether their fields of membership are select employee groups, associational, or community-based, according to CUNA's Operating Ratios and Spreads. There are tremendous opportunities for achieving membership growth and higher loan volumes by building more financial relationships within existing fields of membership.

- A growing number of credit unions have joined, or are thinking of joining, the ranks of those who have converted to community charters. The number of community-charter credit unions, which totaled 1,049 (or 10% of all credit unions) in 2000, has skyrocketed to 1,838 (or 20% of all credit unions) in 2005, a 75% increase over five years, according to CUNA's Operating Ratios and Spreads.

While the scarcity of members in their peak borrowing years won't be going away anytime soon, credit unions have a number of strategies they can pursue to minimize its impact and achieve lending success.

## Ethnic diversity

Recent national and regional immigration trends have had

profound effects on the types of members credit unions are serving. These trends also affect the types of products and services credit unions offer; who they target for wealth management, small business, and other products; and who they hire for frontline and management positions.

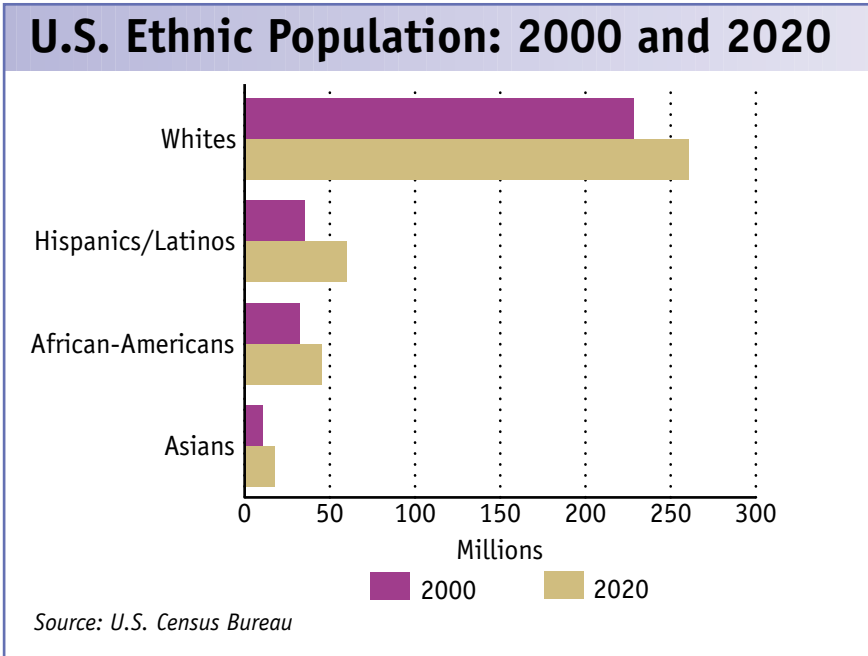
While the population growth for Whites between the years 2000 and 2020 will be 14%, the corresponding growth for Hispanics, Asians, and African-Americans will stand at 68%, 68%, and 27%, respectively, according to U.S. Census estimates.

## Hispanics/Latinos

This is the nation's largest ethnic group, having overtaken African-Americans earlier in the decade. There are currently more than 40 million Hispanics/Latinos living in the U.S. (about 10 million of whom are classified as "undocumented"). The 40-million figure is expected to reach 47.7 million by 2010 and 60 million by 2020, according to the Pew Hispanic Center and U.S. Census Bureau projections.

New Hispanic/Latino immigrants currently account for the largest share of this group's population. Their numbers will continue to grow, but the growth rate will slow down. Births to these immigrants (as opposed to immigration) will become the primary driver of the population growth. Births will account for 36% of the population growth by 2020 while immigration will account for only 34% of the growth, according to the Pew Hispanic Center.

Role reversal is a fairly common phenomenon among first- and second-generation immigrants, according to a Filene Research Institute study. This results in situations where the younger



person's faster adaptation of U.S. culture leads to the second generation being heavily relied on to make key family decisions. In light of this phenomenon, credit unions might want to reach out to second-generation immigrants with educational programs and needed financial services.

It's true that California, Texas, New York, and Florida are often referred to as "magnet states" because they attract large numbers of Hispanics/Latinos. But there are also pockets of highly concentrated Hispanic/Latino populations in large cities within low-attraction states. This points to the need for credit unions to keep abreast of local immigration trends.

There were nearly 16 million Hispanic/Latino Internet users as of 2005, according to eMarketer, representing a 14% increase over 2003 figures. That's more than twice the growth rate for the general population. Fifty-four percent of online Hispanics/Latinos look for financial information online (similar to the 56% for the general population), and 70% of them say the Internet is the best source of price-comparison

information, according to *Research Alert*.

The number of Hispanic/Latino-owned small businesses in the U.S. is expected to increase about 45% between 2005 and 2010—from 2.2 million to nearly 3.2 million. These businesses will account for more than \$465 billion in total revenues, according to HispanTelligence ([www.hispanicbusiness.com](http://www.hispanicbusiness.com)).

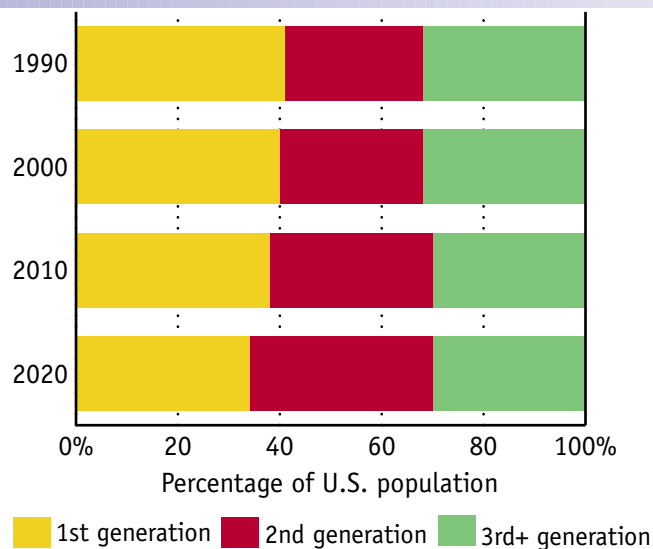
## Asians

The rapidly growing Asian population in the U.S. is currently at about 12 million, with the figure expected to increase 50% to about 18 million by 2020, according to U.S. Census Bureau projections.

About 55% of Asians own homes, and nearly 45% have household incomes of \$75,000 or more—a percentage far greater than any of the other three ethnic groups. Internet use tends to rise with household income, and the 75% of Asians who are online is the highest percentage among the major ethnic groups, based on eMarketer and U.S. Census Bureau data.

Business-ownership rates

## Hispanic Population: 1990 to 2020



Sources: U.S. Census Bureau & Pew Hispanic Center

among Asians stand well above that of the general population, making this group a particularly attractive one for any financial institution offering business services.

With a culture that places a strong emphasis on both savings and education, along with their overall higher household incomes, Asians serve as an attractive market for savings and wealth-management products, as well as personal finance and other financial education.

### African-Americans

African-Americans account for over 35 million of the U.S. population. This figure is expected to increase to over 40 million by 2010 and to about 45 million by 2020, according to U.S. Census Bureau projections.

As with the Hispanic/Latino population, Internet use among African-Americans is increasing at a pace faster than that of Whites and the general population. (While 70% of Whites are online, this

group's annual growth rate ranks last among the four major ethnic groups.) More than 55% of African-Americans were online in 2005—up from 45% in 2002 and just under 35% in 2000, according to data from the Pew Internet & American Life Project. Jupiter Research projects that Internet use among African-Americans will rise to nearly 70% by 2007, and

another research organization, Nielsen/Net Ratings, expects online use among African-Americans to equal that of Whites by 2015.

Half of African-Americans own homes, which is less than the 69% national figure, as cited by the Joint Center on Housing Studies at Harvard University, but the percentage is on the rise. And as a sign that buying power among African-Americans is also on the rise, nearly 20% of them have household incomes of \$75,000 or more, according to the U.S. Census Bureau.

The increase in high-income and Internet-savvy African Americans has not gone unnoticed. BankBlackwell, headquartered in Boston and proclaiming to be the nation's first Internet bank for African-Americans, opened its virtual doors in 2005. The Internet bank, which is owned by African-Americans, is differentiating itself from other Internet and brick-and-mortar financial providers by targeting its services to the nation's growing group of mid- and upper-

income African Americans.

Cultural, language, and other differences of the three largest ethnic groups in the U.S. provide both challenges and opportunities for credit unions and their competitors. The U.S. is on the fast track for major changes in ethnic diversity during the next couple of decades and beyond. Credit unions need to make sure their products and delivery channels are designed to meet the diverse needs of these ethnic groups.

### Young adults

Consumers age 18 to 29 represent a group of more than 49 million people, according to U.S. Census Bureau estimates. For the most part, these are baby boomers' children. Countless studies have chronicled the behavioral and economic impact this group now has and will continue to have in the U.S. Their behavior and buying habits play a large role in how information is accessed, products and providers are evaluated, and how financial services are designed and delivered.

Few in the financial services industry can deny the importance of young adults to their future success. After all, these young consumers are moving into their prime borrowing years. But many credit unions struggle to bring these consumers into the fold.

According to CUNA's 2006-2007 National Member Survey and its 2006-2007 Survey of Potential Members, consumers age 18 to 29 (along with those age 30 to 34) are:

- Least likely to belong to a credit union.
- Most likely to say they're eligible to join a credit union.
- Least familiar with what credit unions are and what financial services they offer.

Nearly 50% of this age group

are either “not very familiar” or “not at all familiar” with credit unions. This compares to 39% of all eligible non-members. Only 12% of these young adults are “very familiar” with credit unions, which is half the rate found among all eligible non-members. Clearly, this age group has the most potential to help your credit union but it has the least amount of knowledge about credit unions.

Past CUNA studies have shown that young adult members are among the groups most likely to rely on their credit unions as their primary financial institutions (PFIs). As such, they’re more likely than other groups to bring their loan business (driven primarily by used-car loans) to their credit unions.

To attract young adults to your credit union, consider offering:

- No-fee (or low-fee) checking.
- ATM/check cards.
- Electronic bill pay.
- 24/7 online account access.
- A wide selection of convenient ATM locations.
- Trustworthy financial advice, such as home-buying seminars.

A Filene Research Institute special report titled “Cool Solutions: Say Hi to ‘Y’” lists some creative approaches credit unions are taking to help them reach this market:

- Gen Y’s primary financial objective is saving for a home, according to a study by the Life Insurance Market Research Association. Filene encourages credit unions to consider offering an intergenerational mortgage product that allows first-time homebuyers to acquire mortgages without the need for large down payments.

Under this type of program, parents would use their own funds for their child’s down payment. The down payment

could be generated by a home equity loan secured by the parents’ property, a portion of their own share certificates, or through a share-secured loan on the parents’ certificates. Parents also agree to temporarily pay a portion of their child’s monthly mortgage payment.

Another approach is one currently employed by Mountain America Federal Credit Union in Salt Lake City, Utah, in which first-time homebuyers are eligible for 100% financing.

- GECU in El Paso, Texas, has created a Family Credit Card program that allows a portion of a parent’s credit line to be assigned to their young adult’s credit line. As a feature of this program, parents receive a courtesy statement that outlines their young-adult cardholder’s payment and transaction history.

- Filene also suggests targeting newlyweds or recently engaged couples in your area with 12-month, interest-free loans for engagement rings or honeymoon expenses. The report also describes a newlywed deposit account that allows family and friends of the

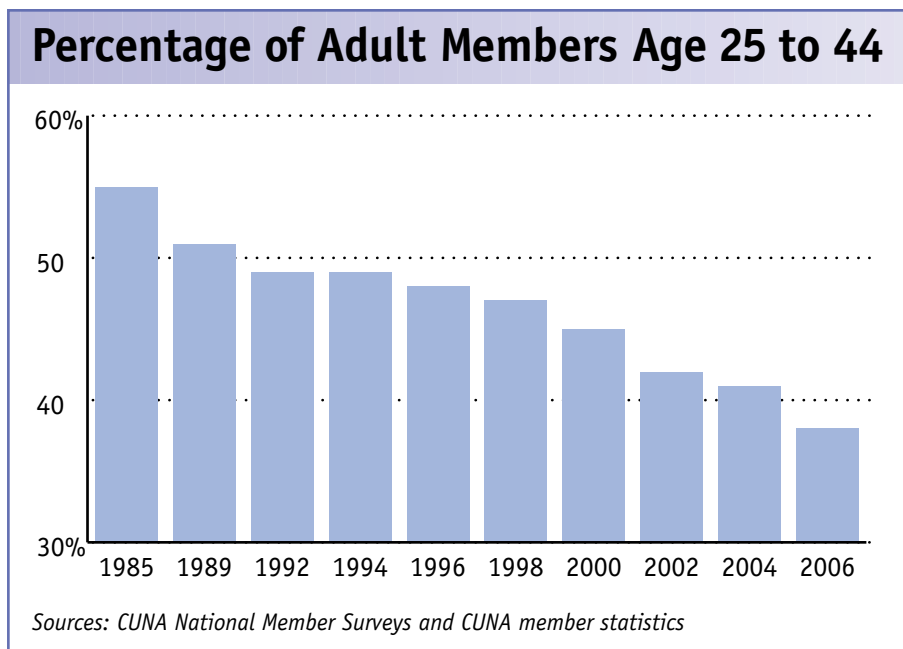
newlyweds to deposit funds into the account for the couple’s future purchases. Another suggestion is to mail the couple a \$150 gift certificate they can redeem for cash at the credit union if they open a checking account and obtain or transfer a \$5,000 loan to the credit union.

These approaches can build trust with young adults that can turn into long-term and financially fruitful relationships for both young members and your credit union.

### Low-income consumers

Low-income and unbanked consumers, previously ignored by the nation’s banks, are attracting more of banks’ attention with each passing year.

These consumers need small loans, money orders, and wire transfers, and they have the ability and willingness to pay reasonable fees. As such, banks are looking at low-income consumers as an important source of revenue and profit potential. But these banks must first be willing to design the financial programs and services that meet this unique group’s



financial needs. They also need to alter their banking culture enough to build trust and respect with these consumers, and they need to show enough patience to allow these new relationships to grow and generate meaningful levels of income.

Some examples of bank initiatives designed to meet low-income consumers' financial needs include:

- Key Bank is focusing on consumers age 18 to 44 living in densely populated neighborhoods and earning median incomes that are 50% to 80% below the median income for the area. The bank offers no-cost group and one-on-one financial education, a Get Checking program that's designed to repair consumers' past credit problems, branches in low-income areas with décor that reflects the local ethnic culture, and it's currently testing lines of credit as low as \$100.

- Wells Fargo offers a Direct Deposit Advance program that gives low-income consumers—for

a small fee—access to half of their direct-deposited paychecks up to one week in advance.

- Austin Bank of Chicago entered the small-loan business when it discovered people who were getting turned down for small loans at the bank were turning to payday lenders. Austin Bank now offers small loans in the form of three-year credit lines of \$1,000 to \$10,000 that customers can access by writing checks. Once a consumer writes a check, monthly payments of 3% of the principal and accrued interest are required until it's paid off.

- Retail behemoth Wal-Mart has opened money centers in many of its stores. It targets primarily low-income/unbanked customers and provides check-cashing, bill-payment, and funds-wiring services. As of March 2005, Wal-Mart had partnered with Sun Trust Bank in Florida to provide such money centers in seven Wal-Mart outlets. It has plans to open another 23 money centers soon.

Credit unions led the way in

offering non-predatory financial services to low-income markets. This has been true historically and even more recently as a growing number of credit unions continue to add underserved markets—many of them abandoned by banks—to their fields of membership.

Many credit unions were well ahead of the game, launching successful efforts to serve this market well before it ever popped up on most banks' radar screens. As cooperatives, credit unions are well-positioned philosophically to serve low-income/unbanked consumers. Credit unions also recognize the social benefits and financial opportunities this group offers.

In one unique situation, Security Service Federal Credit Union and Southside Credit Union have joined forces with the City of San Antonio, Frost Bank, and Wells Fargo to provide an Individual Development Account that adds public funds on a 4-to-1 ratio on qualifying individuals' deposits of up to \$1,000 (for a total of \$5,000). The matched funds can then be used to purchase a first home, start a small business, or for education.

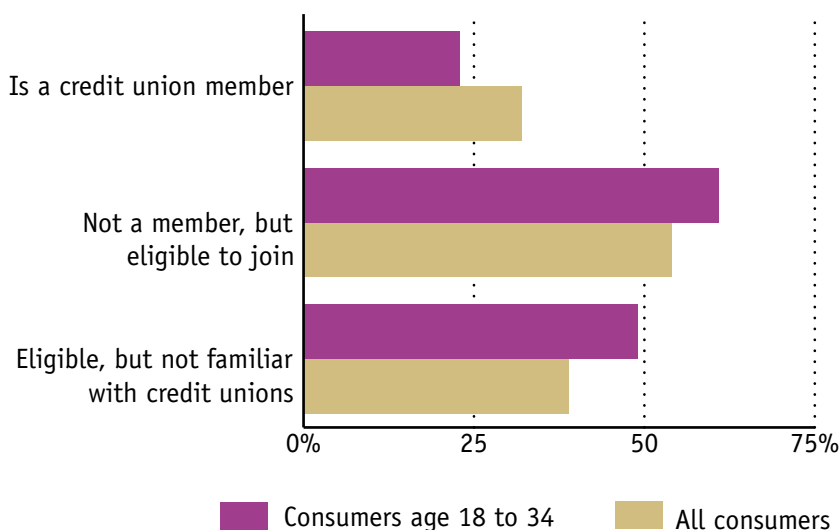
Of course, many credit unions have made the long-term commitment to serving and building long-lasting financial relationships with low- to moderate-income members. Some of their stories are told in a CUNA report titled *Best Practices: Serving Members of Modest Means*.

These stories include:

- Arizona Federal Credit Union in Phoenix has five branches in low-income areas offering an Individual Development Account with a \$500 credit line. The credit union will open the line of credit without using credit scores.

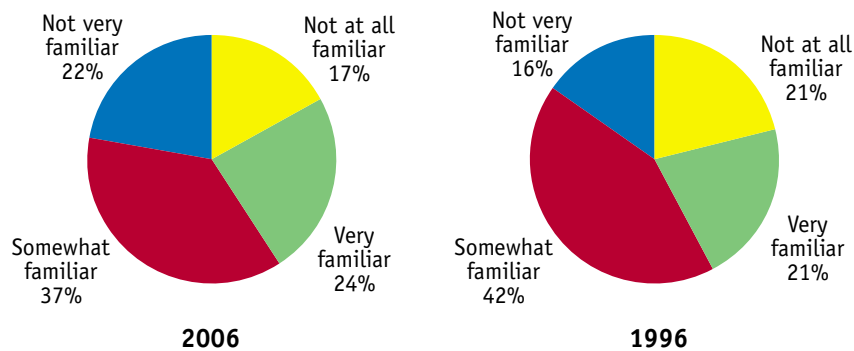
- Arrowhead Credit Union in San Bernardino, Calif., has a Credit Builder loan to provide members

## Membership Status and Awareness of Credit Unions



Sources: CUNA's 2006-2007 National Member Survey and 2006-2007 Survey of Potential Members

## Awareness of Credit Unions Among Eligible Non-Members



Source: CUNA's 2006-2007 Survey of Potential Members

with no credit histories \$500 unsecured signature loans and first-time car buyer loans.

- Charlotte (N.C.) Metro Credit Union has a Safe account that offers members without Social Security numbers access to non-interest bearing accounts (eliminating the need for a Social Security number). This gives members a safe place to keep their money and gets them out of the habit of keeping their money in their homes, which makes them easy targets for thieves. Members can access the funds by ATM cards so they don't have to carry cash. The credit union also works with Charlotte's Urban League to provide financial education to at-risk, low-income youth.

- Santa Cruz (Calif.) Community Credit Union has a Family Loan program. It consists of short-term loans of \$1,000 to \$3,000 to help recipients get or keep jobs or continue their education. The credit union's Starter Community Visa credit card is a no-fee, low-interest card with a \$250 limit to help members gradually and responsibly build strong credit histories.

Expect there to be growing activity by both credit unions and banks in serving the financial needs of this unique market.

### Awareness

Credit unions are more likely to increase assets by attracting new members than by persuading existing members to use more services, according to a Filene Research Institute study.

Consistent with this trend, many credit unions have become more aggressive in their efforts to attract more members. Some have added select employee groups (SEGs) while others are building membership from within the SEGs they already have. More than 80% of consumers eligible to join credit unions have yet to do so.

But arguably the clearest example of credit unions' desire to achieve significant membership growth can be seen in the dramatic increase in the number of credit unions with community charters. As of mid-year 2005, there were 1,838 credit unions with community charters, up from 1,113 at year-end 2000 – a 65% increase that represents millions of potential members.

Credit unions, regardless of their strategies for achieving membership growth, face some difficult challenges. Credit unions need to let prospective members know that:

1. Credit unions exist, and the types of services they offer.

2. Credit unions are not-for-profit cooperatives.

3. Consumers are eligible to join if they meet eligibility requirements.

4. Once they join, they become member/owners, not just customers.

Today, about 75% of non-members who are eligible to join a credit union are less than "very familiar" with what credit unions are and the types of services they offer, according to CUNA's 2006-2007 Survey of Potential Members. This figure includes nearly 40% of eligible non-members who are either "not very familiar" or "not at all familiar" with credit unions.

While the number of consumers who have joined credit unions has risen noticeably in the past 10 years, the relative lack of awareness among eligible non-members is consistent today with what it was 10 years ago. The report goes on to state that nearly 30% of potential members specifically point to their lack of knowledge of credit unions as the primary reason for their not joining the credit union they're eligible for. Considering that eligible non-members make up about 78 million adult consumers in the U.S., the lack of awareness among this group is significantly inhibiting future membership growth.

As credit unions try to broaden their membership base in the future, it'll be essential that they educate consumers about the nature of credit unions – what they are, what they offer, and how they differ from for-profit institutions.

**JON HALLER** is CUNA's director of market research. He can be reached at 608-231-4346 or at [jhaller@cuna.coop](mailto:jhaller@cuna.coop).

## Strategic considerations

### Borrower shortage

- ◆ Recognize that the current shortage of members and potential members in their peak borrowing years will become more severe during the next few years before the trend starts to turn around.

- ◆ Increase the number and dollar amount of loans you have with existing members by reviewing loan underwriting guidelines or initiating risk-based lending, indirect lending, or relationship pricing.

- ◆ Conduct member surveys at regular intervals to monitor your share of your members' loan business. Find out why your members turn to your competitors for their borrowing needs.

- ◆ As a short-term strategy, take steps to attract more members in their peak borrowing years – age 25 to 44. As a long-term strategy, try to attract more members age 18 to 24.

### Awareness

- ◆ If your credit union has recently obtained, or is planning to obtain, a community charter, don't assume people know they're eligible for membership. Don't assume they know your credit union is a not-for-profit cooperative. Tell them they're eligible, explain the types of services you offer, and how your credit union is unique among all other financial institutions in your area. Explain the difference between being a customer and a member/owner.

- ◆ Occupational/SEG credit unions enjoy higher eligibility-awareness levels among potential members than do other credit unions. But regardless of the type of charter your credit union has, basic education about credit union uniqueness should be a part of any member-recruitment effort.

### Gen Y

- ◆ Some members of Gen Y are already entering their prime borrowing years, and the rest will join them in a few years. These members and potential members represent the cornerstone of your lending strategies. It's important that you educate them and persuade them to join.

- ◆ Make it a priority to attract young adults and build strong financial relationships with them. Bring them in now and reap the benefits well into the future. Reward parents and other members for bringing young adults into the fold.

- ◆ Make sure your Web site is user-friendly. Populate it with valuable personal finance and

other related information.

- ◆ Offer these consumers low- or no-cost ATM/debit cards, electronic bill pay, and checking services. Offer financial seminars on home buying and other topics of interest to this age group. Develop creative products that will help these members establish credit and savings accounts, and stronger ties to your credit union.

- ◆ Identify key points in these members' financial lives – college, first car, first full-time job, marriage, or their first home. Promote the appropriate services at the appropriate times.

### Low-income consumers

- ◆ Seek a charter to serve consumers in an underserved area.

- ◆ Offer services many low-income consumers need: IDAs, money orders, utility-bill payment services, remittance services such as IRNet, check cashing, risk-based lending, starter credit cards, low-dollar-amount loans, ATM-card access to savings accounts without the need for social security numbers, and financial literacy seminars on budgeting, balancing checkbooks, and how to save.

- ◆ For branches located in low-income areas, make your lobby inviting so low-income members feel welcome. Hire frontline staff who are comfortable communicating with low-income members. Make sure your staff reflects the ethnic composition of the community you're serving.

- ◆ Create an advisory board made up of leaders from community organizations, clergy, and other representatives from the low-income areas you serve. Learn how to meet their financial needs.

### Diversity

- ◆ Hire bilingual staff, and offer bilingual Web sites, ATMs, online banking, audio response, newsletters, brochures, loan applications, deposit slips, and lobby signs.

- ◆ Educate your staff so they can better understand and serve ethnic groups.

- ◆ In your Hispanic/Latino member-recruitment efforts, focus on second-generation immigrants. Persuade them to join your credit union and to bring their first-generation parents along with them.

- ◆ Support cultural events in your area through financial contributions and by having staff participate in the events.