



Demographics

Credit unions are still adding members, but they're adding them at a much slower pace. Since 2000, average annual membership growth has been 1.9%. And CUNA economists expect a similar growth rate for the next few years. That means membership growth is barely staying ahead of U.S. population growth.

Many credit unions have responded to this alarming trend by rolling out ambitious plans to attract new members from their existing fields of membership or to expand their fields of membership to include new select employee groups.

Another strategy many credit unions have embraced is a move to a community charter. The number of credit unions with community charters has risen from 1,049 (10% of all credit unions) as of mid-year 2000 to 1,957 credit unions (23% of

all credit unions) as of year-end 2006. This represents millions of new and potential members.

More than half (54%) of the nation's adult nonmembers—about 78 million consumers—say they're eligible to join a credit union but haven't done so, according to a 2006 survey conducted by International Communications Research on behalf of CUNA.

The best way for your credit union to develop a strategy for reaching the eligible nonmembers in your area is to study their:

- Familiarity with credit unions
- Age
- Use of delivery channels
- Loyalty
- Use of loan services

Familiarity

Nonmembers who are eligible to join credit unions give a variety of

reasons for not joining. Nonmembers in your area will have their own reasons, but most reasons fall into one of four categories:

1. Lack of awareness of a particular credit union's eligibility requirements.

2. Don't know about the rates, services, and benefits credit unions provide.

3. Not dissatisfied enough with their current providers. Nonmembers need to reach a fairly high "pain threshold" before they go through all the hassle of switching financial institutions. Most nonmembers haven't reached that pain threshold yet.

4. Convenience. Many eligible nonmembers say they have access to more branches or more convenient branches with their current institutions.

Many credit unions trying to add more members face these daunting hurdles. First, credit unions need to make prospective members aware of their eligibility to join. Second, they must help prospective members understand credit unions' cooperative, not-for-profit business model. Third, they need to let potential members know about the competitive products and services they offer.

When CUNA conducts surveys for credit unions that are changing from an occupational charter to a community charter, it invariably finds low to moderate levels of awareness among the communities these credit unions hope to serve. It's not uncommon to find only 25% to 35% of a community's residents

Highlights

- More than half (54%) of the nation's adult nonmembers—about 78 million consumers—say they're eligible to join a credit union but haven't done so.
- The percentage of members in their peak borrowing years has dropped 10 percentage points over the past decade—from 48% of adult members in 1996 to 38% in 2006.
- The key to attracting potential members in their peak borrowing years is attracting Gen Y—consumers age 18 to 30. Gen Y is one of the largest demographic groups in the U.S. with 45 million people, or 15% of the population.
- If your credit union is successful in attracting eligible nonmembers (many of whom are young), you can expect strong growth in online banking, Internet/e-mail bill payment, and debit-card transactions.
- Credit unions have ample opportunity to add members from within existing fields of membership—credit unions had attracted only 8% of potential members as of year-end 2006.
- The Hispanic/Latino population is now the nation's largest ethnic group, accounting for more than 45 million U.S. residents.

have heard of the credit union and know they can join.

On a national level, about 40% of eligible nonmembers say they're either "not very familiar" or "not at all familiar" with credit unions and what they offer. Another 36% are only "somewhat familiar," according to CUNA's 2006-2007 Survey of Potential Members.

Age

In 2007, credit unions find themselves in the midst of a major decline in the number of peak borrowers—consumers age 25 to 44. This major U.S. demographic shift has been working against credit union lending efforts for about seven years, and it'll continue to do so through at least 2010.

In fact, the percentage of members in their peak borrowing years has dropped 10 percentage points over the past decade—from 48% of adult members in 1996 to 38% in 2006. While this decline might sound minimal, it equates to millions of peak-borrowing members and billions of lost loan dollars.

When we look at the age distribution of members and eligible nonmembers, we find that only 23%

of members are between the ages of 18 and 34, but the corresponding figure for eligible nonmembers is 41%.

The key to attracting potential members in their prime borrowing years is attracting Gen Y—consumers age 18 to 30. Gen Y is one of the largest demographic groups in the U.S. with 45 million people, or 15% of the population. By comparison, there are 35 million baby boomers, or 12% of the population. Though members of Gen Y don't use a lot of financial services, their needs are sure to increase.

A recent survey by Harris Interactive dispels the conventional wisdom that technology adoption correlates with age. All generations—from Gen Y to retired people—are comfortable with online banking and understand its benefits, the survey found.

The Harris survey concluded that members of Gen Y are less loyal to financial institutions—at least twice as likely as older consumers to change financial institutions. Part of the reason for Gen Y's less-sticky characteristic is the fact that its members use fewer financial products and services.

Eventually, Gen Y will have the same financial needs as their parents, but they'll interact with their financial institutions in different ways—they'll rely more on remote banking and ATMs.

Gen Y's parents appreciate personal service and have high levels of loyalty to their primary financial institutions. Older consumers prefer smaller institutions because of the greater likelihood they'll encounter familiar faces.

By contrast, Gen Y is not at all intimidated by large financial institutions—they think large size means greater convenience and more products and services. The Harris survey also found that Gen Y is least likely to think their financial institutions are competent, even though they use fewer financial products than older generations, except for debit cards.

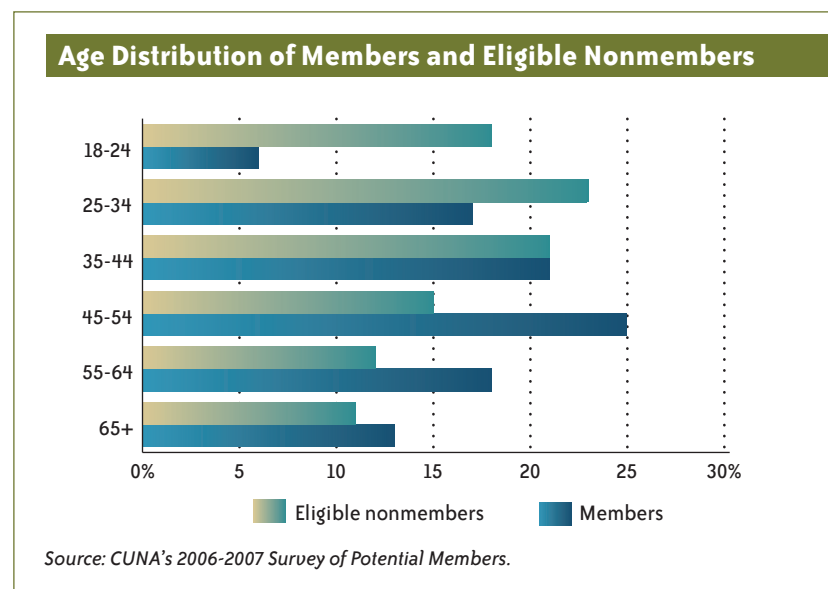
While having the right financial products for Gen Y is important, it's equally important to reach them at the right time with an offer that resonates with them. *Amazon.com*, for example, customizes its online shopping experience according to age, interests, and buying habits.

Delivery channels

Competition for consumers is driving technology spending at financial institutions. It will continue to be the primary driver through the end of this decade.

Financial institutions spent the late 1990s developing their online capabilities and the early part of this decade improving automation in their branches. Now they're coordinating their channels to ensure a consistently good experience, no matter how consumers choose to interact with them.

The branch and the Internet are the key delivery channels for financial products and services. The branch remains the most-used



channel, with almost 75% of consumers visiting a branch at least once a month, according to Financial Insights. Consumers who use the online channel tend to have more interactions per month with their financial institutions—25% log on more than 10 times per month. But about 80% of consumers still prefer the branch for opening new accounts.

Consumers have high expectations as a result of their experiences with retailers' state-of-the-art online ordering systems. But because of the way financial institutions have set up their delivery channels with different products maintained in different silos and no real interface to unite them, many institutions haven't been able to deliver high-quality service across all delivery channels.

There's a strong difference in channel preference by age. Younger consumers overwhelmingly prefer the online channel and are more likely to adopt online banking. CUNA's research shows that eligible nonmembers are primarily young—41% are between age 18 and 34. In fact, most eligible nonmembers say their use of online channels will increase. So if your credit union hopes to attract nonmembers, it'll have to offer a superior online banking experience.

If your credit union is successful in attracting eligible nonmembers, you can expect strong growth in online banking, Internet/e-mail bill payment, and check-card transactions. You can expect moderate increases in ATM and audio-response transactions, while telephone transactions with a "live" person and in-lobby transactions will probably decrease. Your credit union will have to allocate its resources accordingly.

Loyalty

Loyalty is difficult to achieve in an online world where consumers can transfer funds with the click of a mouse and Internet-only banks lure your members away with high savings rates.

But once members become loyal members, they're likely to stay with you for a lifetime. In CUNA's member-loyalty research, members are considered "truly loyal" if they satisfy all four of the following criteria:

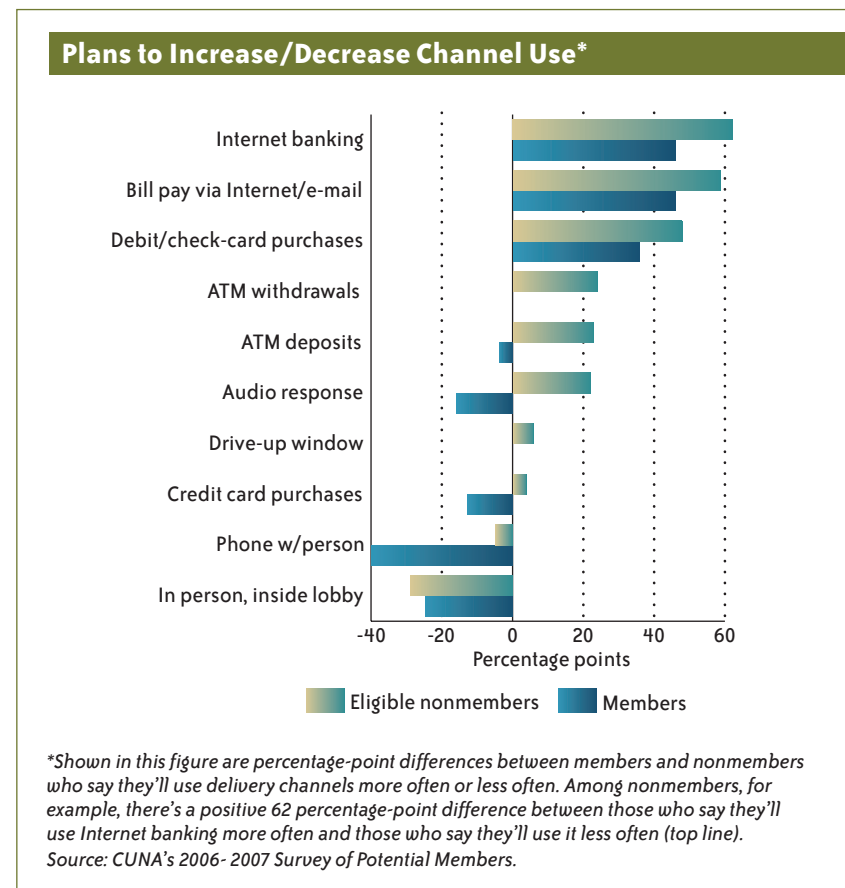
1. They're "very satisfied" with their credit union.
2. They "definitely would" recommend their credit union to a friend, family member, or co-worker.
3. They "definitely will" turn first to their credit union the next time they open a savings account, obtain a loan, or other financial service.

4. They say their credit union is their primary financial institution—where they conduct most of their financial business.

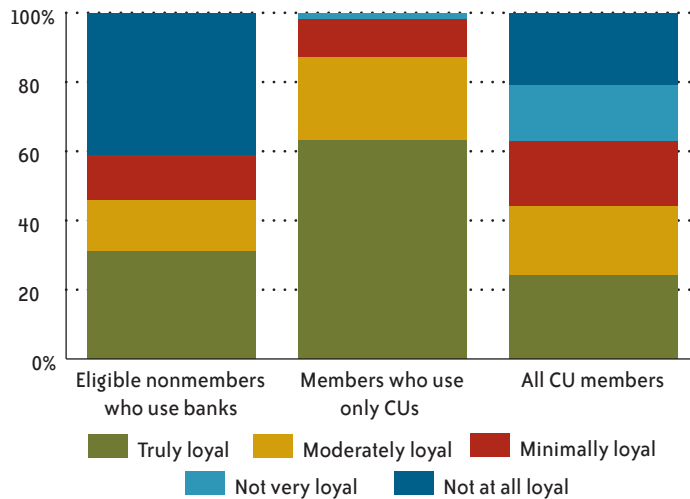
Members who satisfy any three of the four criteria are classified as "moderately loyal." If they satisfy two of four, they're "minimally loyal." One of four classifies them as "not very loyal," and none of four puts them in the "not at all loyal" category.

When we look at bank customers who are eligible to become credit union members, we find 41% of them "not at all loyal" to their banks. This represents a sizeable prime market for credit unions.

"Not at all loyal" bank customers are more likely to be found among potential members age 18 to 44 than among those 45 or older. This bodes well for credit unions that are



Loyalty Levels



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

trying to add more members and increase loan volume by attracting current and future peak-borrowing consumers.

Nearly one-quarter of credit union members are truly loyal to their credit unions, while 21% are not at all loyal. As a whole, credit union members are fairly evenly distributed across all five loyalty levels.

But among members who use only credit unions, fully 87% are either truly or moderately loyal.

Loan services

After experiencing double-digit loan growth in five of the last seven years, credit union loan growth was 8.7% for 2006, and is expected to drop to 6% for 2007 and 2008, according to CUNA economists. Rising loan rates, an increase in member savings, and weak pent-up loan demand will contribute to the lending decline.

More than half (57%) of eligible nonmembers currently use at least one of the four types of loans covered in CUNA's 2006-2007 Survey of Potential Members—new-vehicle

loans, used-vehicle loans, home equity loans/lines of credit, and first mortgage loans.

Eligible nonmembers are most likely to have first-mortgage loans and home-equity loans/lines of credit at some type of financial institution. About 35% to 40% use each of these services. Beyond this, about 25% of eligible nonmembers say their households have new vehicle loans, while somewhat fewer (19%) have used-vehicle loans.

Members are more-frequent users of these loan products than are eligible nonmembers. More than half (56%) of members have first-mortgage loans, 48% have new-vehicle loans, 44% have home-equity loans/lines of credit, and 43% have used-vehicle loans.

Eligible nonmembers are less-frequent users of these four loan products than are members for two reasons:

1. There's a much higher percentage of 18-to-24 year-olds among eligible nonmembers than among members, and this age group tends to be infrequent users

of first-mortgage loans and home-equity loans/lines of credit.

2. Eligible nonmembers are less likely to be employed full-time and they've attained lower educational levels than members. These factors result in lower household incomes for nonmembers, and borrowing activity generally increases as household income increases.

Eligible nonmember households have an average \$14,120 in outstanding loans (excluding first mortgages). Members, on the other hand, have about \$19,500 in loans outstanding (excluding first mortgages). But most of members' outstanding loans (\$12,621) are at institutions other than their credit unions. Members have only \$6,872 in loans outstanding from their credit unions.

Credit unions have ample opportunity to add members from existing fields of membership. In fact, credit unions had attracted only 7.8% of potential members as of year-end 2006. There's also plenty of opportunity for credit unions to grow by adding new SEGs and serving low-income areas. These new markets offer large numbers of potential new members and the ability to make a positive impact on your credit union's bottom line.

Perhaps the greatest potential for growth can be found in three target markets: young adults age 18 to 34, Hispanics/Latinos, and small-business owners.

Young adults

There's a significant lack of familiarity with credit unions among nonmembers who say they're eligible to join—40% say they're "not very familiar" or "not at all familiar" with credit unions. This low familiarity is even more pronounced among eligible nonmembers age 18 to 34 where almost 50% give those same responses.

This 18-to-34 age group represents more than 30 million potential members and holds great potential for credit unions. In addition to their low familiarity with credit unions, they have high membership-eligibility levels. This group could play an important role in helping credit unions reach stronger lending levels, especially down the road as they enter their peak borrowing years of 25 to 44.

To attract younger members, make sure your credit union:

- Offers no- or low-fee checking, ATM/check cards, and electronic bill pay.
- Provides 24/7 account access through online banking and a wide selection of ATM locations.
- Offers trustworthy advice on financial services, including home-buying and other seminars.

Hispanics/Latinos

The Hispanic/Latino population is now the nation's largest ethnic group, accounting for more than 45 million U.S. residents, including about 12 million unauthorized immigrants, according to the Pew Hispanic Center. Whereas population growth for Whites between 2000 and 2020 will be 14%, the growth rate for Hispanics will be 68%, according to U.S. Census Bureau.

About 59% of this population is from Mexico, 18% from Puerto Rico, and about 23% from Cuba, the Dominican Republic, Central America, South America, or other regions. Each group has its own unique dialect, cultural values, beliefs, and behaviors.

These Hispanic/Latino groups also have regional concentrations within the U.S. About 50% of Mexicans living in the U.S. live in western states, while about one-third live in the south. More than 60% of Puerto Ricans living in the U.S. live

in the northeastern U.S., according to the U.S. Census Bureau.

Many credit unions, especially larger ones, currently have programs in place to serve the Hispanic/Latino community, or they plan to by the end of 2007, according to CUNA's 2006 Hispanic/Latino Market Survey. Features of these programs include:

- Accepting taxpayer ID numbers for identification.
- Providing a Spanish-language Web site, ads, brochures, or other materials.
- Dedicating staff or financial resources to supporting Hispanic/Latino community events and community-support organizations.

Most credit unions are staying on top of local Hispanic/Latino population trends. And they're offering—or preparing to offer—programs for this market once it reaches a certain size. Very few credit unions have or will have special programs for Hispanic/Latino members when less than 5% of

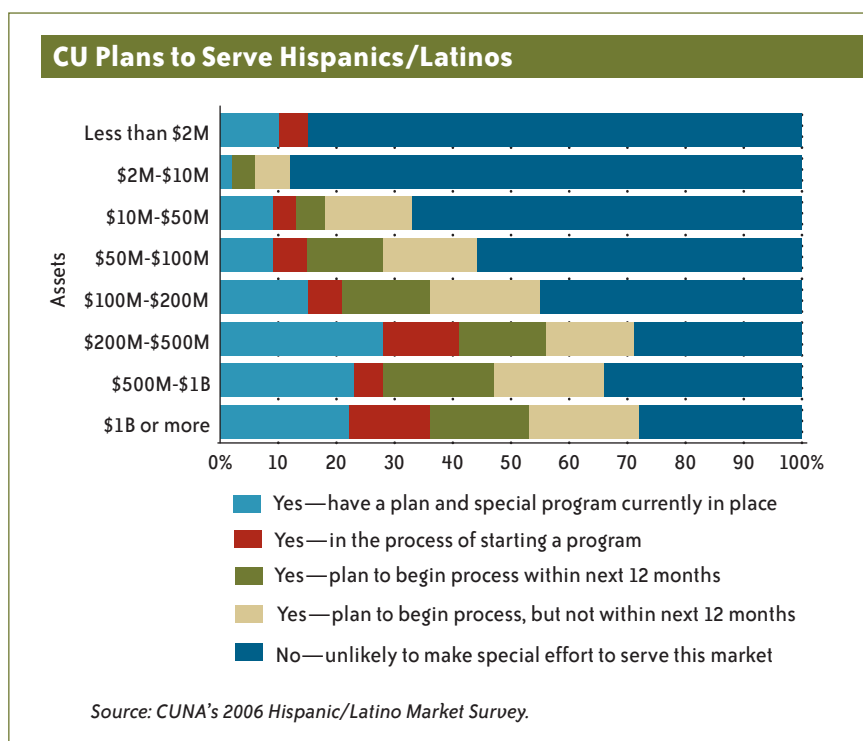
potential members are Hispanic/Latino. But about 50% of credit unions either have these programs or will have them when 5% to 10% of potential members are Hispanic/Latino. And 93% of credit unions either have or will have these programs when 11% to 20% of potential members are Hispanic/Latino.

Credit unions that currently have special programs in place to serve the Hispanic/Latino market spent an average \$31,469 in 2005 on these programs. The figure increases to an average \$104,741 among the nation's largest credit unions that have such programs.

Credit unions offering these programs say about 20% of their full-time employees speak fluent Spanish.

Small-business owners

The number of credit unions offering business services to their members continues to increase, having reached over 1,950—more than 20% of U.S. credit unions—in



Putting It Into Practice at Global CU

"Our research indicated that small businesses felt ignored in our market," says Sue Welberry, business development manager for Global Credit Union, Spokane, Wash. "It's not that small businesses couldn't get loans at banks, but they felt they weren't being offered much in the way of counseling," says John MacPhee, Global's senior credit manager for member business services, in CUNA's Best Practices: Lessons Learned From Business-Services Providers.

"We decided this was a niche we wanted to go after," says Welberry. "We wanted to be a centrally located resource offering a full complement of services to small businesses." The commitment to business services came from the top, which is an important "best practice" that contributed to the program's success. "Our board and senior management team made a 100% commitment to developing and delivering these services," says Ed Neunherz, Global's senior vice president of government relations and corporate communications. "Without their willingness to commit time and resources, we would not have been successful."

"The phrase 'small business' typically refers to businesses with fewer than 100 employees," says Welberry. "We focused on businesses with fewer than 50 employees and, in many cases, sole proprietors as a way to differentiate ourselves."

Once Global defined its target market, it evaluated its needs along with gaps in available local services. "We had a vendor conduct a market analysis so we could see what other institutions in our area were offering," says MacPhee.

After its market analysis, Global started to put the right resources in place to deliver its chosen product mix. "The right staff was critical," says MacPhee. "Business services present a higher level of risk and require more in-depth and ongoing analysis, plus a lot more hand holding." Although Global had some experienced employees from its years in commercial real estate, it brought on additional staff. It hired credit analysts, credit processors, a full-time business development manager, and more business lending officers.

"Our goal was to find loan officers who could deliver all our business services," says MacPhee. "Banks tend to be very specialized, so a small-business owner might have to work with multiple people at a bank. We wanted to create a comprehensive business-services center where a business owner would deal with only one knowledgeable person."

"Our senior management team's business plan was our road map that helped us see where we had gaps in our current staff," adds Neunherz. "We went out and found the best people to fill those gaps." The credit union's efforts didn't stop with the business services staff. "Your frontline staff is critical to selling and supporting your business services," says Neunherz. "Be sure you train them well. Help them see how members will benefit from these services. Help them promote business services effectively."

Thorough, clear management policies are helping to ensure a low delinquency rate. Global had no business loans more than 30 days past due from January through August 2006. "We do annual reviews of every business relationship, which includes property and collateral reviews and site visits," says MacPhee.

Global's business services include commercial real estate (since 1986), construction and development loans, business lines of credit (secured and unsecured), term loans for equipment, SBA 7a and 504 financing, business auto and business credit cards, loan participations, ACH originations, and automatic overdraft protection. The credit union uses Laser Pro software for documentation and Symitar software for portfolio management. Its member business loan portfolio is now over \$100 million.

2006. Many credit unions that offer or are thinking about offering business services are well-positioned to earn the loyalties of the business owners within their fields of membership. That's because small-business owners aren't very happy with the treatment they're getting from their financial institutions. In fact, 52% of small-business owners are less than "very satisfied" with their current business-banking relationship.

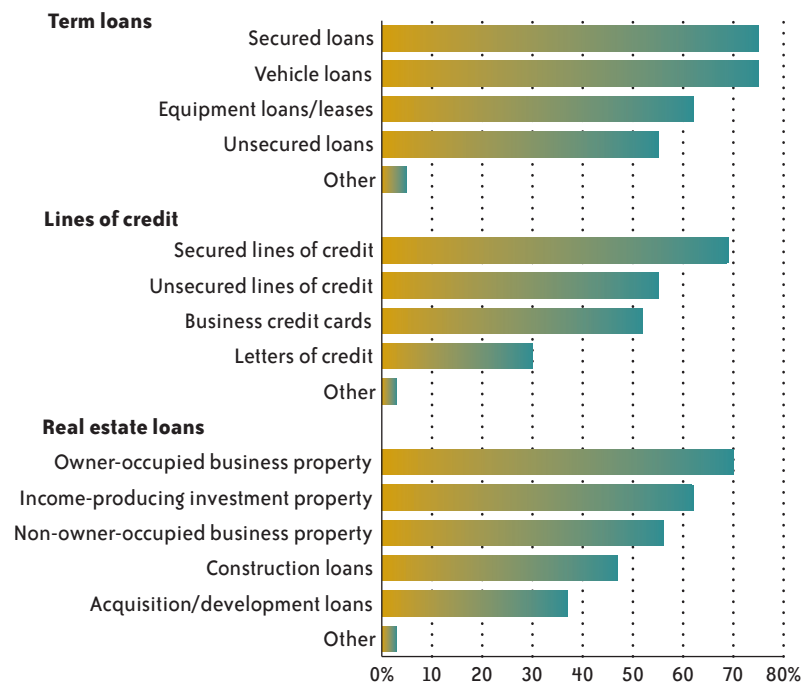
When CUNA conducts surveys for individual credit unions, it invariably finds that member business owners want credit unions to add business services to their menu of products and services.

These surveys also reveal that many member business owners are using personal checking accounts at their credit unions for business purposes. These member business owners are benefiting from low-fee or free checking accounts and higher levels of service than they'd be likely to get at their business bank. It's a fairly small step for these credit unions to turn a strong personal-account relationship into a strong business-account relationship.

The combination of these two trends creates a situation where member business owners' satisfaction with their business banks significantly lags that of members who are relying on their credit unions for some of their business needs. Credit unions that can identify which banks their member business owners are currently using are in a better position to create competitive strategies for attracting those business accounts.

When credit unions with business lending programs were asked about their top three reasons for going into business lending, 57% of them said it was to offer more serv-

CUs Offering Member Business Loans



Source: CUNA's 2007 Business Services Survey.

ices to members, 54% said members were asking for it, and 48% saw it as a way to increase loan portfolios, according to CUNA's 2007 Business Services Survey.

About 60% of credit unions surveyed their members before initiating their programs, 25% researched area businesses, and 22% surveyed member business owners.

The low-fee or free checking account is your credit union's strongest "drawing card" for maximizing its business-services opportunities. Other features that will attract member business owners include low rates on business loans, convenient locations, knowledgeable staff, and a wide range of online business services.

Many small-business owners are looking for more online options, such as remote deposit capture,

electronic invoicing, and financial-management software, according to research by the Aite Group.

By the end of 2008, about 60% of small businesses will be banking online, up from about 45% currently, predicts Aite Group. Forty-one percent of small-business owners surveyed said online was their preferred channel, 36% said the branch, and 4% said they preferred the phone.

More than half of the respondents said viewing accounts online was an important factor when choosing a financial institution.


More than two-thirds (67%) of survey respondents expressed an interest in electronic invoicing, which facilitates more streamlined billing and payment. Electronic invoicing enables a small business to send invoices to customers via e-

mail with a PDF attachment or a link to a payment hub, where the customer could then make a payment.

Thirty-five percent of respondents said they will deploy remote deposit capture by the end of 2009—a product previously marketed mostly to large corporations.

The average number of financial products used by a small business is expected to double from three in 2006 to six by 2009. Small business spending on financial products in 2006 (\$353 billion) is expected to increase 35% by 2010.

The importance placed on each of these individual products and services will vary from credit union to credit union. So it's important to do your homework and find out which business services and delivery channels are most important and needed by the business owners in your credit union's field of membership.

Business owners also have different preferences when it comes to loan applications. While most member business owners prefer to apply for loans in person, some prefer the phone, a fax machine, online, or being visited by a loan officer at their place of business. But their preferences vary widely. When CUNA conducts surveys of business owners for credit unions, it finds anywhere from 13% to 56% of member business owners preferring to apply for loans online. And it finds anywhere from 10% to 53% preferring a visit from a loan officer at their place of business. 



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Membership growth

- Your credit union will need to attract and retain members to survive. Find the best balance of attraction and retention strategies in terms of financial, marketing, and human resources your credit union can afford.

- If your credit union has recently obtained, or is planning to obtain, a community charter, your biggest challenge will be to communicate your existence in the marketplace, potential members' eligibility to join, and features that differentiate your credit union from its competitors.

- To lure new members from the ranks of potential members, conduct research to identify your credit union's level of awareness among nonmembers, the degrees of loyalty they have with their current financial institutions, and how easy it'll be to lure them away. Make sure your credit union can meet nonmembers' expectations in terms of service quality, security, and convenience.

- Offer gift cards, rate or fee discounts, or other rewards for those who join your credit union and begin using a package of services—checking account, check card, online banking, and online bill-pay services.

- Conduct research to identify nonmembers' primary financial institutions (PFIs). Measure their satisfaction with those PFIs. Design your member-attraction strategies to compete against your most vulnerable competitors.

- For credit unions with growth strategies involving select employee groups (SEGs), be sure to include extensive education efforts to add new SEGs or strengthen relationships with existing SEGs. Focus your efforts on building stronger awareness of how your credit union benefits SEG employees. Be proactive by gaining access to SEG employees, educating SEG liaisons about the benefits of membership, and making formal written agreements with SEGs that clearly outline responsibilities and expectations.

- The large number of potential members among young adults is an opportunity to grow and increase loan volume. Make short-term plans to attract more consumers age 25 to 44 and long-term plans to attract consumers age 18 to 24.

- As your credit union adds more members, it must be prepared to handle increased check-card and online transactions. It must also be prepared to make additional investments in human resources and technology to accommodate that growth. Remember that eligible nonmembers aren't as active as members when it comes to borrowing. All things being equal, loan growth might come at a slower pace among new members.

Business services

- If your credit union doesn't offer business services, survey business owners within your field of membership or surrounding area and find out if the demand for business services exists, what services they currently use (and where) and what they'd use at your credit union, their satisfaction with their current provider, and what your credit union would have to do to win their business. Use this information to guide you as you put together your menu of business services and marketing strategies.

- Focus your initial efforts on developing relationships with members who own businesses. Current members have much greater interest than potential members in using your business services.

- Use a competitive business-checking program to attract business owners so you can cross-sell them business loans, deposit services, and other accounts. Make sure your program has attractive fees and interest rates.

- Identify business owners' loan-application preferences and make the appropriate investments to meet their needs. It might involve online loan-decisioning software, mobile loan officers, or implementing a personal-banker model.

New markets

- Create an advisory board of community leaders from low-income or ethnic communities within your field of membership. This will help you understand their unique financial-service needs. Form partnerships with community organizations. Give staff the training they need so they understand the ethnic groups your credit union serves.

- Focus your Hispanic/Latino member-recruitment efforts on second-generation consumers. Convince them to join your credit union and bring their first-generation parents with them.

- Hire bilingual staff. Add Spanish options to your Web site, ATMs, online banking, audio response, newsletters, brochures, loan applications, deposit slips, and lobby signs. Add other language options if appropriate for your membership.