

FINAL REPORT

OF THE

CUNA HISPANIC OUTREACH TASK FORCE

TO THE

CUNA BOARD OF DIRECTORS

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CUNA HISPANIC OUTREACH TASK FORCE

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I. INTRODUCTION AND SUMMARY

CUNA Chairman Richard Ensweiler appointed the Hispanic Outreach Task Force to serve during the 2003 – 2004 CUNA governance year with the following purpose:

To focus attention on the development and implementation of a national program to help credit unions attract and serve members of the Hispanic/Latino community.

As part of its charge, the taskforce will work to identify, initiate, and consolidate separate initiatives and resources within the system in an effort to maximize benefits while reducing redundancy and building a unified program.

The Task Force will focus efforts on two key tracks

1. Credit Union Focus...Enable and encourage credit unions to serve the Hispanic/Latino market (stimulate the supply of credit union services to the Hispanic/Latino market.)
2. Public Focus...Increase awareness of credit unions within the Hispanic/Latino community (stimulate the demand for credit union services from the Hispanic/Latino market.)

The Task Force met three times. The first meeting was at CUNA's Governmental Affairs Conference in February in Washington, DC. At that meeting, the Task Force reviewed CUNA's previous work on serving the Hispanic/Latino¹ market, including CUNA's resource guide "Credit Unions Serving Hispanics: A National Perspective" and the extensive coverage of the topic in the 2003-2004 CUNA Environmental Scan. The Task Force also conducted an initial brainstorming session on the needs

¹ Rather than using the terms "Hispanic" and "Latino" interchangeably, throughout this report we use the term "Hispanic/Latino."

Latinos/Hispanics have for credit union services, and the needs of credit unions in serving the market.

The Task Force's second meeting was in May in Durham, North Carolina at the offices of Latino Community Credit Union. Also hosting the meeting were officials from Self Help and State Employees credit unions. The focus of this meeting was on methods and models for credit unions to serve Latinos/Hispanics. In addition to learning about the experiences of the very successful Latino Community Credit Union in Durham, the Task Force met with two panels of credit unions: one of credit unions that specialize in serving exclusively or primarily Hispanics/Latinos, the other of mainstream credit unions with a significant Hispanic/Latino outreach effort. The panelists discussed the rewards and challenges of serving primarily or exclusively Latinos/Hispanics, and left the Task Force with a number of ideas on how to serve the market. A detailed report on the Task Force's Durham meeting, including the panel discussions, is found in Appendix I.

The Task Force next met in Chicago in September. At this meeting, the Task Force reviewed its previous work, learned from a panel of league representatives about the activities of leagues in supporting credit union service to Hispanics/Latinos, reviewed the results of a survey of credit unions that had been conducted since the Durham meetings, and developed its basic principles and recommendations. A report on the information provided by the leagues is found in Appendix II.

Throughout its deliberations, the Task Force kept a running list of suggestions for various components of the credit union system: credit unions, leagues, CUNA, and regulators. Although not part of the Task Force's formal recommendations to the CUNA Board, the Task Force believes the various components of the movement will find them useful. They are found in Appendix III. In addition, the Task Force has collected information on a number of resources that would be useful to credit unions wishing to enter this market. The resource list is found in Appendix IV.

The Task Force has studied reasons for expanding credit union service to Hispanics/Latinos, has described the techniques a number of credit unions use to successfully serve this market, has reviewed and catalogued some of the large volume of resource information available to credit unions, and has collected information on how leagues support efforts to serve

Latinos/Hispanics. Based on its work, the Task Force has two recommendations to the CUNA Board.

Recommendation 1. That the CUNA Board adopt the ten-part Basic Principles of the Hispanic Task Force.

Recommendation 2. That the CUNA Board authorize management to devote sufficient resources to establish an ongoing Hispanic/Latino Outreach Resource Center.

Adopting the Basic Principles will place CUNA firmly behind increasing service to the nation's Latinos/Hispanics by those credit unions for which such service is appropriate, and of encouraging credit unions to do so. Establishing the Resource Center will create an on-going communication and information resource for credit unions seeking to increase service to Hispanics/Latinos.

Following a presentation of the Basic Principles and information about the Hispanic/Latino Outreach Resource Center, this report presents the Task Force's views on why it is important to serve the Latino/Hispanic market, and summarizes the Task Force's survey of credit unions on serving Hispanics/Latinos.

II. Hispanic Task Force Basic Principles

The Task Force recommends that the CUNA Board adopt these basic principles, and commends them to all credit unions for their consideration.

- Credit unions have a long tradition of providing high-quality, low-cost financial services to members according to cooperative principles. The growing population of Latinos/Hispanics in the US should have the opportunity to benefit from credit union services.
- Latinos/Hispanics expect the same high level of service that other consumers do. Credit unions are uniquely qualified to provide these services.
- Although many credit unions do not have a significant group of Latinos/Hispanics in their fields of membership, each credit union has an obligation to determine whether it has Hispanics/Latinos in its field of membership, and if so, to serve them. Credit unions with only a small proportion of Latinos/Hispanics in their fields of membership should consider assisting other credit unions that serve Hispanics/Latinos.
- Credit unions that serve the Hispanic/Latino market should develop a vision, a mission, cultural intelligence, and a commitment to excellence in reaching out to and serving Latinos/Hispanics.
- It is consistent with good credit union philosophy to serve Latinos/Hispanics.
- It is good business for credit unions to serve Latinos/Hispanics, both for growth potential and as economically viable members.
- Credit unions should give every member the same rights - the right to save and the right to borrow.
- Credit unions should seek to become pacesetters in reaching out to the Latino/Hispanic market.

- Credit unions that have a significant number of members from any other immigrant or underserved group should seek to apply the underlying principles developed for serving Hispanics/Latinos to reaching out to the other underserved groups. The critical need to increase service to Latinos/Hispanics should not distract credit unions from the need to increase service to other minority and/or lower income groups.

III. HISPANIC/LATINO OUTREACH RESOURCE CENTER

The Task Force's primary operational recommendation to the CUNA Board is that it authorize management to implement an Hispanic/Latino Credit Union Outreach Resource Center. The Resource Center would house background information on the Latino/Hispanic market, how-to information on serving the market, translated documents, and much more. It would be a facility for credit unions engaged in serving the Latino/Hispanic market to share information and advice, and for credit unions wishing to implement an Hispanic/Latino outreach program to go to and find all they need to get started. It would be a web-based facility to which credit unions with expertise in serving Latinos/Hispanics could load information and from which any interested credit union could download information. For the first year of its operation, it should be directed by an Hispanic/Latino Outreach Advisory Group, with back office support provided and managed by CUNA staff. After the first year, the CUNA Board could continue with an Advisory Group, or determine some other form of direction.

The Task Force believes that the first-year costs of establishing the Resource Center will be approximately the same as a typical committee budget for one year. Thus, the resources necessary to implement the Resource Center would be equivalent to the continuation of the Task Force's operation for one year.

Initially, the Hispanic/Latino Resource Center would serve as an ongoing network to share information, best practices, ideas and intelligence. It would serve as a repository of resources for credit unions interested in serving the Hispanic/Latino market. It would also be an electronic community to facilitate continual communication and sharing of information among credit unions active in the market. The following items could serve as the primary mechanisms for the exchange of information:

- ◆ **Web site** – A resource where members could go for information and networking. The web site would include links to the vast array of existing resources available on serving the Latino/Hispanic market from CUNA, leagues and other organizations. The contents of the website would be regularly updated and revised.
- ◆ **List serve** – This would provide a continuous ability for credit unions to communicate on questions and topics related to serving the

Hispanic/Latino market. It would allow instant communications as well as archived comments, searchable by topics.

- ◆ **File Library** – Housed on the web site. The library would provide interested parties with the ability to post and share files and would be sorted by topic. It could include examples, templates, translated documents, and information on best practices. In addition to information loaded onto the website by CUNA staff, participating credit unions would be able to contribute content.
- ◆ **FAQs** – A reference, posted on the web site that would provide quick answers to many commonly asked questions.

The Resource Center would require maintenance and support from CUNA staff. However, it would also allow for continual input and updating from member credit unions. Access to the Resource Center would be available to any league/CUNA member credit union. The Task Force believes that an Advisory Group should be established to provide direction to and champion the Resource Center, to solicit best-practice information from credit unions, as well as to build support for the Resource Center. The initial Advisory Group would be appointed by the CUNA Chair. In the future, the Advisory Group could be recruited from officials at participating credit unions.

It is possible that in the future the Resource Center could evolve into a self-sustaining organization or association of credit unions interested in supporting the provision of services to the Latino/Hispanic market. Such an association could have the following features in addition to those contained in the Resource Center:

- ◆ **Membership and Dues.** – Credit unions could choose to join an association of other credit unions with an interest in serving the Latino/Hispanic market.
- ◆ **Governance Structure.** – Member credit unions could select offices to guide the strategic direction of the association.
- ◆ **Hispanic/Latino Outreach Conference** – A full-blown, stand-alone event might be considered. Initially, this might be piggybacked on an

existing CUNA event. Piggybacking (at least initially) could reduce logistical concerns (contracts, housing, meeting space, etc.) plus it might mean that key experts from the Hispanic/Latino Outreach Group could address a built-in audience.

The Task Force recommends that participating credit unions not be required to fund the initial set-up and first year operational costs of the Resource Center. After the first year, the Advisory Group could recommend a source of ongoing funding. That funding could be based on user fees paid by credit unions, CUNA, grant funding, or some combination. In any event, the cost to participating credit unions should be zero in the first year, unless they purchase additional materials, and minimal after that, depending on the activities that the Resource Center takes on in the future. Future funding from credit unions could come from dues, publications and conference revenues. The Task Force believes that every effort should be made to keep costs to low-income credit unions serving this market as low as possible.

IV. Why Serve the Hispanic/Latino Market

The Task Force is committed to the proposition that the credit union movement should take steps to provide financial services to Latinos/Hispanics. There is a powerful match between the ability of credit unions to meet the needs of Hispanics/Latinos, and the fact that Latinos/Hispanics have many unmet financial services needs. The Task Force believes that there are three principal reasons for credit unions to reach out to serve the Hispanic/Latino market. Doing so is good business, it is a good source of membership growth, and it is good credit union philosophy.

More than 37 million Hispanics/Latinos live in the US, and they account for over 13% of the population. Latinos/Hispanics are the fastest growing minority segment of the US population. By 2025, Hispanics/Latinos and Seniors (age 65 and up) will be the two largest market segments of the US population, with more than 60 million in each group. Hispanics/Latinos are too large and growing a segment to ignore.

Serving Hispanics/Latinos is good business. Serving Latinos/Hispanics can be good business in terms of contributing to the net income of credit unions that serve this market. Credit unions are cooperative businesses. They maintain their viability by following the motto: “Not for profit, not for charity, but for service.” They do this by offering their members a variety of services at fair prices, that is, at loan rates, dividend rates and fees that cover costs and contribute to the provision of net worth without maximizing profits the way for-profit institutions do. Increasing service to Hispanics/Latinos is a perfect example of how a cooperative can attract more business not only for the benefit of the newly attracted members, but also for the benefit of the credit union as a whole.

Hispanics/Latinos are a diverse group. Many have been in the US for many years, or even several generations, and can be viably served in the same way credit unions serve their other middle class members. These potential members seek respect and the full range of financial services. A credit union that informs its members and potential members that it is willing and prepared to make a special effort to welcome and serve Hispanics/Latinos can attract Latinos/Hispanics to the entire product portfolio offered by today’s credit unions. Targeted marketing to the Hispanic/Latino segment

can pay dividends to the credit union in the same way such marketing works for any identifiable segment.

Other Hispanics/Latinos are more recent immigrants. This group is more likely to be of modest means, and to seek services in Spanish. Recent immigrants seek such services as international remittances, basic transaction services (simple checking accounts, check cashing, money orders) and small consumer loans. These services often have lower average balances than accounts held by members of less modest means. However, these services are very likely to be conducive to the charging of fees by credit unions. Members and potential members who receive these services elsewhere, from for-profit banks and thrifts or from fringe banks, likely pay rates and fees far above those that credit unions can viably charge for the same services. By extending low-cost, fee-based services to low and moderate income Hispanics/Latinos, credit unions can at the same time improve their own bottom lines while saving the new members considerable amounts compared to what they now pay elsewhere for similar services. Plus, this will offer these new members a chance to build wealth and through time to be mainstreamed into a broader range of financial services.

Serving Hispanics/Latinos is a good source of growth. Credit union membership has been on a long downward trend over the past several decades. After growing at annual rates of 6% to 7% in the 1960s and 1970s, membership growth gradually tapered off to rates of 3½% in the 1980s and only 2½% in the 1990s. In this decade, credit union membership growth has barely maintained a 2% annual rate. Along with the slower growth, the typical credit union's membership is aging. The median age of credit union members is 46 years, compared to a median age of 42 years for nonmembers. Slowing membership growth signals less credit union vitality in the future. An aging membership, with relatively stronger savings supply than loan demand, creates imbalances in credit union balance sheets, with too much savings chasing too few loans.

Two key features of the Latino/Hispanic market match up with and address these credit union issues. As a group, Latinos/Hispanics are much less likely to currently use the services of a financial institution than is the rest of the population. Welcoming Hispanics/Latinos into credit union membership can kick start sluggish growth. Research suggests that word of mouth advertising is very effective in Latino/Hispanic circles. Getting a start now on serving Hispanics/Latinos can thus pay long-term growth dividends.

Hispanics/Latinos are the youngest ethnic group in the US, with a median age of only 27 years. Not only does this young segment need transactions services, they will also need credit. Attracting young, borrowing members into a credit union enables that credit union to continue to offer attractive dividend rates to more senior members.

Serving Hispanics/Latinos is good philosophy. Increasing service to the Latino/Hispanic market is entirely consistent with the Vision Statement on the Mission of Credit Unions that was adopted by the CUNA Board in 2001 as a result of the recommendations of the Renaissance Commission. That Vision Statement is:

The purpose of credit unions is to promote the economic well being of all people, including those of modest means, through a Credit Union System which is cooperative, member-owned, volunteer directed, not-for-profit, and therefore tax-exempt; to provide a secure financial alternative for all consumers, and to provide financial and related products and services to members.

Since their inception, credit unions have served as an alternative to the for-profit financial services sector. A large part of the mission of credit unions is offering financial services to people that other financial institutions may overlook. When credit unions were first taking root in the US in the first half of the last century, a greater portion of the US population was born outside the country than is the case today. The recent immigrants back then were among those who benefited from growing credit unions. The Task Force believes that today's recent immigrants should also be able to benefit from credit union services, thereby making them more able to contribute to the US society.

V. Survey Results on Current and Planned Credit Union Service to the Hispanic/Latino Market

In order to assess the current level of credit union activity in serving the Latino/Hispanic market, the Task Force Commissioned CUNA's Research Services to undertake a survey of credit unions. In addition to current activity, the survey sought information on credit union attitudes to serving this market, future plans for doing so, techniques and services used for the Hispanic/Latino market, and the sorts of assistance credit unions might want from CUNA and their leagues.

The survey was conducted on-line with a randomly distributed sample of credit unions from around the country. The sample was not chosen to represent credit unions with a particularly significant incidence of Latinos/Hispanics in the field of membership. Indeed, the Hispanic/Latino population in the US is not distributed evenly across the country. In four states, Latinos/Hispanics make up more than a quarter of the population: California, Arizona, New Mexico and Texas. Five states have between 13% and 20% of their populations Hispanic/Latino. In another 14 states, between 5% and 12% of the population is Hispanic/Latino. In the remaining 27 states, less than 5% of the population is Latino/Hispanic. The fact that the Hispanic/Latino population is thus concentrated in certain states doubtless had an effect on the survey results.

The Task Force conducted the survey for two reasons: 1. to inform its assessments of the current state of credit union service to Latinos/Hispanics and thereby to shape its recommendations, and 2. to establish a benchmark of credit union service to Hispanics/Latinos against which future performance can be measured.

Current activity or plans.

Survey respondents were asked whether they currently have in place, or plan to implement, special efforts to serve Hispanics/Latinos.

- Nationwide, one in five credit unions (19%) either currently has in place, is implementing, or plans to implement within the next year a

special effort to serve Hispanics/Latinos. (We will refer to these credit unions as active or implementing credit unions.)

- For many subsets of credit unions, the proportion is much higher.
- Over one in three credit union members (35.5%) belongs to an active or implementing credit union. This simply reflects the fact that larger credit unions are more likely to have such programs than do smaller credit unions. Over half (52%) of credit unions with more than \$200 million in assets are active or implementing.
- Community chartered credit unions are more likely to be active or implementing Hispanic/Latino programs than credit unions with other fields of membership.
- Credit unions with a substantial number of Latinos/Hispanics in their fields of memberships are more likely than others to have or to be planning special efforts to serve Hispanics/Latinos. 11% of the sample of credit unions reported that between 20% and 40% of potential members are Hispanic/Latino. Fully 49% of these credit unions report being active or implementing. Another 6% of credit unions reported having more than 40% of potential members of Hispanic/Latino origin. Virtually all (90%) of these credit unions either have special efforts in place (56%), are in the process of implementing (16%), or plan to do so within the next year (18%).

Task Force Comment: The Task Force recognizes that many credit unions do not have a sufficiently large number of Latinos/Hispanics in their field of membership to warrant a substantial special program to serve Hispanics/Latinos. However, the Task Force believes that a number of credit unions that do not yet have special efforts to serve Latinos/Hispanics do have a sufficient number of Hispanics/Latinos in their membership fields to justify some type of program, or a joint effort with one or more similarly situated credit unions.

Importance of serving the Hispanic/Latino market.

Credit unions were asked whether they thought it is important for them to serve Hispanics/Latinos.

- Fifty one percent of responding credit unions say that it is important for their credit union to serve the Hispanic/Latino market. Of these, 15 % say it is “very important”, and 36% say it is “important”.

- Credit unions more likely to say it is important or very important to serve the Hispanic/Latino market are:
 - Larger credit unions
 - Community charters
 - Credit unions with lower ROAs
 - Credit unions with higher proportions of Hispanics/Latinos in their fields of membership. Among credit unions whose field of membership is between 20% and 40% Latino/Hispanic, 28% say it is important and 41% say it is very important to serve Hispanics/Latinos (total: 69%). Among credit unions with more than 40% Hispanics/Latinos in the field of membership, the corresponding results are 15% and 74%, (total: 89%).
- Among those saying it is important or very important to serve the Hispanic/Latino market, reasons given were:
 - Local area has a significant number of Hispanics/Latinos (65%)
 - It's good business for the credit union (60%)
 - It's part of our credit union's mission (40%)
 - It's an untapped market ((35%)
- Among those credit unions saying it is unimportant (39%) or very unimportant (10%) to serve the Hispanic/Latino market, the following reasons were given:
 - Too small a pool of Hispanics/Latinos in field of membership (81%)
 - It would be unfair to other members to single out Hispanics/Latinos for special treatment (15%)
 - It would be too expensive (7%)
 - Credit union has closed field of membership (6%)
 - Concerned about lack of documentation, Patriot Act, etc (4%)

Task Force Comment: The Task Force is gratified that almost all credit unions with the highest proportion of Hispanics/Latinos in their fields of membership recognize that serving Latinos/Hispanics is important. The Task Force recommends that any credit union with close to 10% or more of its potential members Hispanic/Latino may want to consider a special effort to serve Latinos/Hispanics. And, credit unions with a very low incidence of Hispanics/Latinos in their own field of membership might wish to consider expanding their membership, or offering assistance to a credit union that specializes in serving Latinos/Hispanics.

Specific Steps to Serve Latinos/Hispanics.

Among credit unions that report that it is important to serve Hispanics/Latinos, the following activities are undertaken or services are offered:

- Risk-based lending (68%)
- Accept taxpayer IDs for identification (59%)
- Accept Martrículas for identification (41%)
- Offer some member materials in Spanish (38%)
- Offer low-cost international remittances (31%)
- Partner with a Latino community organization (22%)
- Place ads or articles in Spanish-language media (18%)
- Assist other credit unions that serve Hispanics (11%)
- Offer nonmember check-cashing services (7%)

Types of Assistance Desired from Leagues or CUNA.

Credit unions that believe serving the Hispanic/Latino market is important were asked about a number of possible types of assistance from their league or CUNA. They ranked the types of assistance in the following order. (Two points were assigned if a credit union described the assistance “very valuable” and one point if “valuable.” For example, 31% said best practices information would be very valuable, 46% said it would be valuable, thus 62 plus 46 is 108).

- A report on credit union best practices in serving Hispanics/Latinos (108 points)
- Spanish-language brochures & forms (102)
- Information on compliance with the Patriot Act (101)
- Spanish-language educational materials (97)
- Training on how to serve the Hispanic/Latino market (92)
- Information about the Hispanic/Latino market (88)
- A model business plan (84)

V. Conclusion

The members of the Task Force thank Chairman Ensweiler and the CUNA Board for the opportunity to serve. The Task Force shares Chairman Ensweiler's dedication to increasing the provision of credit union services to Hispanics/Latinos in America.

The Task Force commends its two recommendations for the Board's adoption. Going on record in support of the Hispanic Task Force Basic Principles will place CUNA squarely behind greater efforts throughout the movement to serve Latinos/Hispanics. Establishing an Hispanic/Latino Outreach Resource Center will create an organic, growing center of communication and a source of information for credit unions throughout the country wishing to increase their service to the Latino/Hispanic market. The Task Force believes that the Resource Center is likely to evolve into a full-fledged community of those in the credit union movement active in this market. The Task Force looks forward to great strides in credit union service to Hispanics/Latinos as a result of the continued support CUNA and the leagues will provide based on adoption of its recommendations.