Targeting Latino Immigrants

Word of mouth is the chief marketing tool attracting Hispanic members of modest means to Latin Community Credit Union (LCCU), Durham, N.C. The credit union offers a suite of products targeting this vulnerable population. Along with its award-winning Credit-Builder loans, secured credit cards, and financial-education seminars, among the services LCCU's members appreciate are:

- **Remittances.** Through a partnership with the Federal Reserve, LCCU opens accounts in the U.S. and Mexico, providing low-cost wire transfers and banking the unbanked on both sides of the border. Members can send up to $1,500 to El Salvador, Honduras and Guatemala for only $10 or to Mexico for only $3. The credit union can wire funds to more than 30 countries and to locations within the U.S.
- **Mortgages.** LCCU's low-cost mortgage loans have provided $19.3 million in financing to create 398 homeowners since mid-2004. The credit union does not require private mortgage insurance, and provides 90 percent, 95 percent, and 100 percent financing.
- **BALANCE financial-counseling program.** Members have access to immediate information and assistance from professional financial counselors six days a week. Typical areas of assistance include budgeting, understanding credit reports, home buying, debt consolidation, and avoiding bankruptcy.

Qualify for Auto, Home Loans

To use Credit-Builder members must open LCCU savings accounts and deposit the same amounts they'd like to borrow. "We freeze the funds for the length of time they have the loan, say six months," says Garcia. "As soon as they start paying it back we release the funds."

Nearly all members understand Credit-Builder and handle it well, she notes. "For those who don't understand, when they open an account or ask us how to create a credit history, we have a financial counselor they can see."

Some members are motivated to use Credit-Builder so they can later buy a car, or even a home. "Several members have purchased homes thanks to the credit history they've built with us," Garcia says. "They do Credit-Builder for a year, and then apply for a mortgage with us."

Other Credit-Builder "graduates" qualify for auto loans or credit cards. "We do caution them about credit cards," Garcia says. "Once they build a credit history they start to receive credit card marketing pieces and pre-approved offers."

LCCU offers an alternative that won't get members in over their heads: a secured card that helps them learn about how credit cards work. "They operate just like Credit-Builder does. The member deposits funds in the same amount as the credit limit, and we freeze the funds," says Garcia. "It's another good way to teach members about credit and help them build credit histories." After successfully using the secured card for a year, members can apply for an unsecured one.

"One of the most important things about this type of program—one that helps members learn to use credit—is that it has to come with education," Garcia cautions. "We have to help members understand the financial system here and the importance of a credit history." ■

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The Clear Advantage of Business Services

At Telesis Community CU, business lending and related services benefit members and boost the bottom line

"If you're a community credit union and not offering business lending and related services, you're not a full retail financial provider," says Grace Mayo, president of $620-million asset Telesis Community Credit Union, Northridge, Calif.

Telesis began commercial lending with a pilot program in 1992, and Mayo admits it has been a pattern of long, slow growth. But along with challenges come rewards, as "members in the pilot program—a dentist, service station owner, and retail catalog merchant—are today some of our most profitable members," says Mayo.

Many large financial institutions continue to centralize decision making, focus on larger loans, and move away from the needs of small entrepreneurs. In so doing, notes Mayo, they lose the "local feel"—but open a niche for credit unions.

"When you talk about business loans, you're talking about members' lives," says Mayo, emphasizing that credit union commitment and expertise are essential. Anything less jeopardizes the members' welfare and heaps risk on the credit union. But small business lending, done well, "helps members realize their dreams," she says, and positions the credit union for further growth.

Where to Start?

"Begin with your eyes wide open," advises Mayo, starting with buy-in from the board and approval of a management plan. Know your current operational

strengths, and build on them. Regulatory approval, staff training, and strategic planning are all part of the process.

Strategy can involve any of four different approaches: Learn from loan participations, add services as members request them, join a CUSO, or move quickly to a full product line. The choice depends on each credit union's market situation, comfort level, and resources.

Look internally for opportunities among your members, advises Mayo. "You may be surprised at how many business accounts you're serving today." For example, watch for members depositing more than 50 checks a month, or those already registered for "doing business as." One relatively easy switch may be in moving an entrepreneurial member from a consumer credit card to a business account.

Mayo suggests that putting in place simple systems has a certain advantage, in helping new entrepreneurs understand the terms and services provided. Adding sophistication as the program grows is then an option. In contrast, launching a full product line requires experienced staff, a powerful data-processing system with open architecture or bolt-on middleware, and outsourcing as needed.

Gearing up for commercial lending may mean accepting more expense than revenue in the first few years, based on startup costs. Mayo points out that in many markets an experienced commercial lending officer commands an annual salary between $150,000 and $250,000. Nonetheless, qualified personnel are "the most important thing" in business lending, as opposed to over-reliance on third-party expertise.

Benefits of Business Accounts

- New deposits
- Capital for the community/members
- Expand awareness of credit unions
- New sources of net interest income
- New sources of fee income
- Building stronger relationships
- Portfolio diversity
- Duration and amortization

Serving the small-business community is largely about relationships, but it's also about protecting assets owned by all credit union members. Unfortunately, failure often goes hand-in-hand with business start-ups, and Mayo recommends taking plenty of equity as collateral for the times when loans "vaporize" on you.

Fraud is another risk that can surprise credit unions entering the business services realm. Mayo recommends beginning business lending close to home—geographically, within a 25-mile radius—in order to monitor the local market, and she advises management to establish and heed "definite guidelines" for avoiding fraud.

Despite some heady challenges, business lending and the attendant services are, in Mayo's experience, "very profitable if managed and underwritten well."

Creating an internal culture that thrives on providing business services to members is essential. "Difficult accounts make us better," says Mayo, "and they can make us profitable."

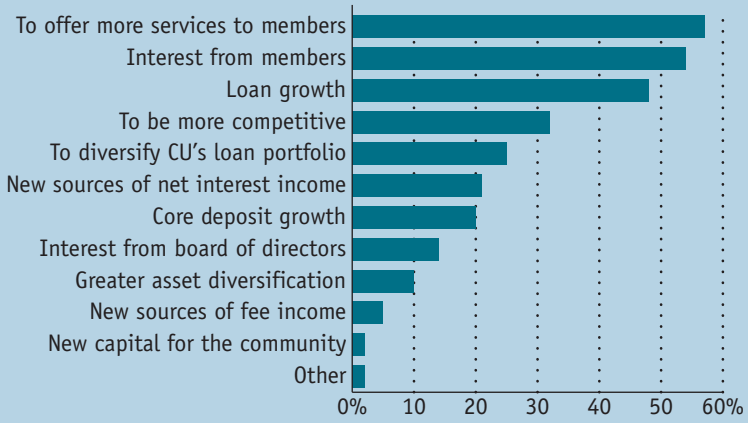
Mayo points out that business pricing and servicing are much different than they are with consumer accounts. However, she believes that "if you do well on the commercial side, you'll also do well on the consumer side."

Finally, speaking for both Telesis and credit unions generally, Mayo says "I can't emphasize enough how important this is to the future of gathering new deposits." ■

GRACE MAYO *is chairperson of Business Partners LLC, a business lending CUSO, and she serves on CUNA's board of directors. She spoke at CUNA's CFO Council Conference and Roundtable in May.*

Figure I

Top Reasons for Starting a Member Business Lending Progam



Based on credit unions that have a member business lending program.

Source: CUNA's 2007 Business Services Survey