For more impactful lending at your credit union, try digging a little deeper

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The competition for loans has never been greater. It's a market long crowded with traditional and non-traditional players, including credit unions large and small looking for the best options to make the most of their efforts.

In spite of drastically changing consumer social and economic demographics, most of us are still using the same old growth strategies when it comes to lending: solely seeking out prime borrowers for indirect, recapture (steal-a-loan), mortgage, and business lending. One percent new auto loan rates are common, an example of myriad "get lost in a sea of low-rate" offerings, each targeted to a prime borrower who can take their business anywhere. And while we are all slugging it out for the prime borrowers, the pool is shrinking.

According to the Corporation for Enterprise Development (CFED), 55.6 percent of consumers have sub-prime credit. Consider this for a moment: when we limit our sights to prime borrowers, we effectively cut the potential loan market in half!

What's going on out there?

Our consumer market is changing, with three key emerging markets growing in number that collectively have thinner or sub-prime credit files:

- Millennials (18-33 year olds)
- Lower- to moderate-income consumers (earn less than 80 percent of the area median income)
- Hispanics/Immigrants

These emerging markets are underserved, and for the most part overlooked. Ask most credit union leaders and they will tell you they want to grow millennials, but become skittish when they confront a thin file. Credit union leaders will also say they want more loyal members – it's difficult to find more loyal members than lower-income consumers or those from minority communities who receive affordable access to credit. I believe (and scores of credit union best practices bear this out) that credit unions who dig a little deeper, reaching and lending to these emerging markets with sub-prime, thin credit files, are more relevant to their membership and to their communities.

How to reach and serve these underserved credit markets

There are hundreds of credit unions that have very long and successful track records serving consumers with little or no traditional credit histories. Talk to these expert lenders and you will sense their strong determination to approve more loans for their members. They don't give up when they pull a thin file report. They know how to dig a little deeper…. They are no stranger to including payment histories for rent and utilities into the loan decision making process.

Just ask Teri Robinson, President/CEO of Pacific Northwest Ironworkers Federal Credit Union. Teri has been digging deeper to serve members for years. Her passionate commitment to her members is demonstrated by finding more ways to get to an approval. This has led to dramatic member development stories, strong loan growth and higher profitability. Teri believes "We exist to serve and educate our members, we find and consider every piece of information we can about each member to help us in the decision making process, this includes non-traditional payment histories."

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Today, credit union leaders like Teri are looking at new ways to assess the credit worthiness of the 64MM consumers with little to no traditional credit history. Using comprehensive data and analytics, Experian partners with credit unions to continually improve ways to score and reach this underserved market. One specific and successful example is Experian's Extended View Score, an FCRA-compliant credit model that pulls both traditional credit and alternative consumer information such as rental data and full file public records into one predictive score. This additional information helps credit unions to reach more members and get more approvals.

Why it matters

To be successful, each and every credit union must find spaces where they can compete and consistently win. Serving sub-prime and underserved consumers is a good market for thousands of credit unions that are trying to remain relevant and profitable in a rapidly changing environment. Here's why I believe these markets are a good fit for so many credit unions:

Values – Lending to underserved consumers is a core credit union value that will resonate – but you have to "walk the talk."

Aging membership – Credit unions' traditional membership is reaching saturation point and is in need of younger borrowers. An average membership age of 49 is hurting many of us. None of us can afford to skip over the younger generations of borrowers.

Future growth – Emerging millennial and Hispanic markets are growing rapidly. Millennials recently overtook the number of Boomers. The Hispanic/Latino market has reached 53 million, and is expected to reach 86 million by 2030, and 133 million by 2050. Successful credit unions will not ignore these demographic and economic realities.

Middle market – Most mainstream financial lenders are focused on the middle market. That is where competition is the most intense. Underserved communities are predominantly ignored by mainstream lenders, giving credit unions a niche to win. Mid-sized and smaller credit unions can become “bigger fish in a smaller pond,” and more clearly stand out.

Profitability – When properly managed, sub-prime and thin-file consumer loan portfolios are very profitable, with high average net loan yields. How many of us would snub our nose at average portfolio yields of seven to 10 percent?

Loyalty – The most loyal consumers are those who you have truly helped in a meaningful way, and this goes way beyond a loan rate and extending “personal, friendly service.” Loyalty comes from people you have helped when others would not. It comes when they remember that first or second chance that helped them really move forward in life. People who improved credit and made better decisions will not easily forget you. Just ask your credit union peers who actively serve these markets; they will tell you the referral business alone drives tremendous loan and profitability growth.

Community focus – Consumers who receive affordable access to credit build personal assets that lead to stronger communities. Today’s younger and diverse consumers place a very high priority on community development. Wise credit union leaders will leverage a commitment to serving the underserved and overlooked consumer by seeking out like-minded, non-financial community leaders to increase impact.

If your credit union is not reaching the level of loan growth, profitability, diversification, member loyalty, or community development results you desire, I encourage you to take a closer look at your underserved and overlooked communities and consider leveraging the tools that are now available to better reach out to, analyze, and serve more consumers.