

# Why Grow?....Why now?...Why Orrville?

*Chris Blough, CEO 3/03/2010*

Expansion of the credit union and the addition of multiple locations to better serve our members is not a new topic for the board of directors. A survey taken roughly a decade ago as well as one conducted just last year made it very clear that our members want us to be more accessible. Add to that the fact that we are physically outgrowing our current building and the need to take a look at expansion of some kind becomes apparent.

Growth figures the past few years has proven that we have a good product to offer and means with which to market it. We recently have seen a change in people's trust of banks and larger financial institutions; this is also a key to the timing issue of this discussion. There is little doubt that now is an opportune time to act if we want to be a part of the shift in people's habits and take advantage of this competitive edge.

**Another reason to grow:** We need new members to lend to, plain and simple. In the current investment market, and into the foreseeable future, rates are not favorable to invest our capital, either short or long term. The single way that credit unions can build capital is through our net income. The only way we are going to maintain that income is through increasing our return on assets (ROA). With the increase in assets we have seen and will likely continue to see, we must keep a steady increase in reserve (net income) growth to maintain a healthy capital ratio. The only way in this economy to increase income that will in turn increase ROA is through interest income from loans. We have worked hard to keep loans coming in to the credit union but are seeing this trend slow recently, partly due to the local economy, but in large part due to the demographics of our membership. A hard fact is that the current membership of the credit union is predominantly past the stage in life that necessitates borrowing. They use the credit union as a place to invest and save, but not as a place to borrow, simply because at the stage in life they find themselves in there is little need to. It would not matter what rates we offer or how much we promote it, this segment of our membership is not interested in borrowing money. They are interested in the rates we can offer them on their savings / CDs. To be able to offer competitive rates on these products and fairly serve this segment of our membership, it brings us back to a healthy ROA, which brings us right back to increasing our lending and new membership growth.

The median age of our membership, including our Piggy Bank Club members(0-16), is 51 years of age. The prime borrowing age group among consumers is 25-44 (CUNA, see attached). Almost 69% of our membership is over the age of 40 and over 30% are 60 or older. To put it bluntly, we need to attract younger members or we will be faced with only 2 real options;

1. Lower savings and investment rates dramatically to be able to survive on the spread available in the current investment market.
2. We will need to accept a much higher level of risk in our lending portfolio to grow by lending to the members who currently do not qualify for loans. This is a short term solution as this is a small segment of the potential membership and a potentially costly business proposition.

## Why Orrville first?

The two largest areas of membership and population in Wayne County are Wooster and Orrville. If continued growth and expansion is the goal we need to tap into these areas. Of these two areas there are several factors that make Orrville a more attractive first move for us.

1. Orrville is underserved when it comes to local financial institutions for its population.
  - a. Currently Orrville is served by:
    1. PNC (National City)
    2. First National Bank
    3. CSB
    4. First Merit Bank
2. Orrville has several large stable employers; Dunlap Community Hospital, Smith's Dairy, Wayne College, JLG, Orrville City Schools and The JM Smucker Company, to name a few.
3. Orrville has a relatively large number of "big ticket" retailers for the size of the community; Maibach Ford, Serpentine Chevrolet, Runion's Furniture, Brown's Furniture where we could work to be the lender of choice and grow referral business as a local lender.
4. Orrville has seen a surge in downtown activity, interest and events over the past 5 years with an increased interest in maintaining the viability of their downtown.
5. Orrville residents still utilize their downtown as the center for commerce, Orrville residents also have a unified interest in "shopping local", preferring to use retailers and companies that they feel are part of their community. We fit very well into that "homegrown" category.

## Why not Wooster first?

*The easiest answer is competition and cost. To compete with the number of institutions and branch locations already established in Wooster would be extremely expensive.*

1. Wooster is "over served" for its population size when it comes to financial institutions.
  1. PNC (National City)
  2. First National Bank
  3. First Merit Bank
  4. Ohio Legacy Bank
  5. Huntington Bank
  6. Apple Creek Banking Co
  7. Chase Bank
  8. CSB
  9. Western Reserve Bank
  10. Woodforest Bank (Walmart)
  11. Directions Credit Union
  12. US Bank
  13. Farm Credit Services
  14. Monitor Bank
2. Wooster's residents are not as "community focused" in where they shop and are used to accepting retailers and businesses from outside the area, example – the retailers of the North End of Wooster.
3. Wooster's downtown is no longer the center of commerce, forcing us to look at the North End for viable branch locations. This area is extremely overcrowded when it comes to financial institutions and extremely expensive to occupy / lease.

## Research Review

Issue #30

### Number of Prime Borrowers among CU Members Continues to Drop

By Jon Haller

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Credit Union National Association

The percentage of credit union members that fall into the prime borrowing age groups of 25 to 44 has continued its gradual, but consistent decade-long decline. This according to CUNA Research's recently updated Member Statistics Benchmarking Database, based on a nationwide survey of credit union members and nonmembers. As a result, and as expected, an already challenging environment for lending is becoming that much tougher. That is, if increased competition hasn't been enough, there is an ever-shrinking pool of strong borrowers from which you and your competitors can attract loan business. People 25 to 44 now account for just 41% of the country's adult members - down from 42% in 2002 and 49% in 1994.

Other highlights from the member-nonmember comparisons include the continuation of several historical trends that indicate members, when compared to nonmembers, are more likely to be married, be employed full-time, have college educations and be home owners (see figure).

The above information can be used as benchmarks to which your own credit union's member demographics and/or member survey information can be compared. Meaningful differences in, say, your percentage of prime borrowers, member-home-ownership levels, etc. can point to unique challenges and/or opportunities for your credit union to attract more of your members' financial business.

	Members	Nonmembers
• Avg. age	47.4	43.3
• 25-44	41%	39%
• Married	61%	45%
• Emp. FT.	58%	49%
• College grads	29%	23%
• Own home	82%	64%