

New Banks Forming To Target Niche Markets

With the radical changes in demographics in this country, a new batch of de novo banks has cropped up to reach out to both recent immigrants and multi-generational ethnic markets. Though the strategy of niche marketing is by no means new, the execution is increasingly innovative as these ethnic and relationship-focused banks respond to the needs of their customers. Whether they are offering product-bending innovation, or redesigning their bricks-and-mortar locations, the approach is giving new entrants an edge over larger competitors in reaching what are largely untapped markets.

According to the FDIC, ethnic-focused banks account for more than \$150 billion in assets. The proliferation of these boutique banks may only have been a matter of time given the arithmetic. Census data underscores the rapid growth and geographic concentration of the ethnic market. Asian Americans make up 4.2% of the U.S. population and are expected to grow to 6.5% by 2025. The Latino figure is currently 13% of the total population and expected to grow to 18% by 2025. Almost a third of all immigrants are unbanked, but that is only part of the equation. Of those born in the United States, 46% of African Americans and 34% of Hispanics are unbanked. Even those immigrants and ethnic minorities that do have bank accounts are generally underserved when it comes to financial services, especially those products and services focused on longer-term asset building.

Doing business with banks that understand them

United Commercial Bank Holdings (UCBH), headquartered in San Francisco, is one example of how banks are tailoring products and services with couture precision to fit the communities they serve. Established in 1974 when the U.S. saw a first wave of ethnic banks, UCBH is opening four branches in New York and plans to be aggressive about opening more. It has grown to nearly \$8 billion in assets, gaining momentum in recent years with the increased flow of Chinese immigrants. To respond to their customers' desire to be home and business owners, UCBH developed loan criteria that did not require established credit. An unthinkable move for most banks, it's a tactic that has helped UCBH expand to 46 branch offices in California.

A familiar refrain among niche bankers is that they compete effectively because they offer more personalized service than their larger counterparts. AztecAmerica Bank, with \$19 million in assets, opened last summer to meet the financial needs of the 1.8 million Latinos living in the Chicago area. Its mortgage department is open evenings to serve working-class borrowers who can't take time off during business hours. A large-screen television showing Spanish-language programming and a play area for kids were added to make banking family-friendly. The strategy is clear: sending

a message to the community that the bank knows what its customers want.

African-American business leaders are also seeing potential in this market. Robert L. Johnson, founder and former chief executive of Black Entertainment Television, acquired a Florida savings and loan in March, renamed it Urban Trust, and plans to use it as the springboard to establish a financial services company aimed at African-American customers. A key part of Urban Trust's business plan is to provide financial education on a local basis and to market college loans nationally through university financial-aid departments. Long-term, though, Johnson is positioning Urban Trust to be a comprehensive national financial services company for the African-American community.

While there are big differences between ethnic groups, one thing they hold in common is a tendency to be underbanked, with the consequence that they are more likely to use alternative financial providers. CheckSpring, a start-up expected to open this summer in a predominantly Hispanic neighborhood in New York's South Bronx, is betting that there is enough similarity in behavior to cut across ethnicities. After buying local check cashing chains and converting them into bank branches, CheckSpring plans on retaining the chains' clientele (and attracting new customers) by offering check cashing services at the teller window. The idea is to provide all customers a broader range of services: those accustomed to check cashing will be introduced to traditional banking products, and the ideas will be expanded for those whose suspicions of what a bank can offer don't include check cashing. The key to their strategy is a graduated fee schedule that is low for depositors, and even lower as customers' balances grow. CheckSpring's organizers are betting that the strategy will not only convert unbanked consumers into bank customers, but also create incentives to save.

According to CheckSpring founder, Charlie Wilcox, "We are focused on a market whose needs have been not been well met by the existing financial services infrastructure. Our market is made of people who work hard to make their way and don't necessarily have many assets but are making opportunity for themselves and their families. They are a broad spectrum of people whose interests converge in a way that will allow us to develop unique products that will be very attractive for our customers and prove very profitable for us."