

How to Prioritize the People of the Global Majority to Improve Profitability

Shanna F. Cahalane

Vice President, Director of Marketing at Reading Cooperative Bank

American Bankers Association Stonier Graduate School of Banking

Submission to Stonier Advisor Luis Lobo on March 1, 2022

Table of Contents

Executive Summary.....3

Introduction & Background.....6

Strategy & Implementation.....15

Financial Impact.....20

Non-Financial Impact.....28

Conclusion.....40

Appendix..... Attached

Executive Summary

Reading Cooperative Bank (RCB) has traditionally transacted in primarily white, middle to upper middle-class geographies just north of Boston. A late 2021 acquisition and a mid-2022 new branch build in two gateway communities will provide opportunities for RCB to create *new* bank customers among a population of un/derbanked demographics rather than *steal* customers in overbanked communities by competing on price. These cities are significantly larger than our conventional market area and are far more diverse by race, ethnicity, socioeconomic status, gender, cultural background, religion, political perspectives, primary language, age, financial knowledge, education, business density, among others. RCB's long-established roster of products and services will not suffice.

Knowing that we cannot be all things to all people, I examined the bank's brand and value proposition to ensure that my project aligned with who we are today and who we wanted to be in the future. Knowing that the bank embraced the "Shared Values"¹ proposition of doing well in business by doing good in the community, I extensively researched and analyzed the various demographics of Lawrence and Lynn, Massachusetts using census and other data to determine how broad the market opportunities will be in these new geographies. The United State Census Bureau offered a plethora of data points that prove these communities offer more growth opportunity for the bank by population size alone. There are 72 percent more people with a potential 452 un/derbanked households in the city of Lynn and 67 percent more people with a potential 413 un/derbanked households in the city of Lawrence than there are in our hometown of Reading. And the citizens of Reading are 62 percent more likely to own a home than the

¹ Kramer, Michael E. PorterMark R. "Creating Shared Value." *Harvard Business Review*, 25 Aug. 2015, hbr.org/2011/01/the-big-idea-creating-shared-value.

residents of Lynn and 92 percent more likely to own than the residents of Lawrence. On average these budding populations are 10 years younger than the aging population of Reading, and they are seeing population growth, “particularly, foreign-born immigrants”², despite other areas seeing the slowest growth since the 1930s. And “according to a 2019 report by the Federal Reserve, 22 percent of American adults (63 million) are either unbanked or underbanked.”³ Engaging with these communities, paired with our long history of helping customers buy a home and climb the financial ladder, would offer undeniable growth opportunities.

After digging into behaviors of the un/derbanked in our communities it was clear to see price gouging and predatory services perpetuates the cycle of poverty. It becomes obvious that, *it is expensive to be poor*. To meet the obvious needs, I determined which of our existing products and services should be adjusted or created and which of these opportunities should be prioritized to increase profitability. Since our current products are designed for traditional customers, we should consider adding the following products and services to our lineup: Check cashing, CheckFree Pay for paying bills, international wire transfer capabilities, prepaid cards, small dollar emergency loans, a do-no-harm Bank On account, a credit builder loan with a credit monitoring widget, and a secured credit card.

We know that this demographic is a mobile first community and we know they have that tool at their disposal to open accounts and do countless transactions from the palm of their hands—regardless of their income bracket. So, I will primarily reach our new target demographics

² SCHOENBERG, S. S. (2021, August 12). *Massachusetts Population Shifts Toward Cities*. [Www.Commonwealthmagazine.Org. https://commonwealthmagazine.org/government/massachusetts-population-shifts-toward-cities/](https://www.commonwealthmagazine.org/government/massachusetts-population-shifts-toward-cities/)

³ Birken, E. G. (2020, July 28). *The Costs of Being Unbanked or Underbanked*. Forbes Advisor. <https://www.forbes.com/advisor/banking/costs-of-being-unbanked-or-underbanked/>

through digital marketing in both Spanish and English. Other techniques I will use to reach our target demographic will be grassroots marketing and referral or word of mouth marketing. These are both low cost and are effective ways to garner trust from existing customers.

But change is hard, and not all staff members, customers and community members agree with this perceived pivot. Analysis determined that the RCB team needed to address the following concerns to ensure the bank's success in this venture:

1. Building trust
2. Resistance to change
3. Resource constraints

We will combat these hurdles by getting involved at the local level to build trust and a strong brand reputation within these new communities. We will be forthcoming and transparent about our plans and intentions, and we will be clearly communicating the benefits of change, and in various languages, to potential customers and staff members alike.

After completing my research, I recommend that Reading Cooperative Bank make a concerted effort to prioritize the people of the global majority and unleash an untapped growth market by attracting and retaining a diversified customer base. In the short term (per my 3-year proforma) we can increase revenue by nearly 4 million dollars and in the long term we can solve the stagnation challenge we have in our existing communities. Not only does it make financial sense for the short and long term, but it aligns directly with the bank's value proposition of "doing well by doing good" and historical foundation of "helping the common man buy a home".

Introduction & Background

Reading Cooperative Bank (RCB) was established in Reading, Massachusetts, a suburb of Boston, in 1886, shortly after cooperative banking in Massachusetts began. The Bank's mission was to make it possible for the average "workingman" to purchase a home and for the bank to be owned by its depositors. Today, with average total assets as of January 31, 2022, at nearly \$725 million, RCB continues to be a community-centric North Shore financial services provider with branches in Reading, Wilmington, North Reading, Andover, and Burlington. Additionally, it operates teaching branches at Northeast Metro Tech in Wakefield and at Reading Memorial High School as well as an online branch at www.readingcoop.com. That said, RCB has several irons in the fire that necessitated the writing of this capstone and will bring about great change for the 135-year-old institution. The first, is that in November, RCB acquired two branches of Coastal Heritage Bank located in Nahant and the "gateway city" of Lynn (a term I will use throughout and is defined as an "urban center that anchor regional economies around the state").⁴ This is the first acquisition in the history of the bank. The second is that we are building a new branch in a second gateway city of Lawrence. These markets look very different to the markets we have been transacting in since the 1800s and it is necessary to learn as much about the global majority (people who are Black, Asian, Brown, dual-heritage, indigenous to the global south, and or have been racialized as 'ethnic minorities'⁵) that makes up these markets as we have our original constituents.

⁴ "What Is a Gateway City?" *Gateways*, gatewaysmag.org/what-is-a-gateway-city/.

⁵ Campbell-Stephens MBE, R. (2020). Global Majority; Decolonising the language and Reframing the Conversation about Race. *Global Majority; Decolonizing the Language and Reframing the Conversation about Race*, 1.

First, I will provide a background on our original customer base. In recent years, RCB has conducted extensive research to determine our competitive strategy. In 2014, I led a yearlong brand study to determine what made RCB stand out in the highly competitive New England banking landscape. As a small bank, under 500 million in assets at the time, we were infrequently able to compete on price. That meant that we needed to turn our focus to differentiating ourselves by aligning with our customer's values and relationship building rather than cost or product. This necessitated a deep dive discovery process that would help us determine, what we like to call, our "One Simple Thing". To do this we adopted a criterion to measure our ideas against. The four measures are as follows:

1. Is it true?
2. Is it relevant?
3. Is it motivating?
4. Is it distinct?

After months of conducting focus groups and surveys of customers, non-customers in our target area, and employees of the bank, we learned that our **cooperative status** was "somewhat or extremely important" to 85.60 percent of the participants. Feedback from customers like, "this means that RCB has a longer-term focus rather than a quarter-to-quarter profit motive" and our favorite, "instead of being run by stuffy men in suits making millions, RCB is being run by people like me" supported the decision to make "cooperative" our One Simple Thing. Next steps included updating our logo, website, developing common brand language and retraining our staff to "live" our brand. An example of our new language is below:

"We aren't like other banks. We're a co-operative. And proud of it. This means we don't answer to stockholders. We answer to you. The people who trust us with their money. Here, your voice matters. Everyone gets a vote and decisions are based on what's best for all of us. Together, we're fiercely independent and we're going places. Wherever we want."

Armed with a refreshed brand and staff ready to communicate the value of a Cooperative structure, we knew we needed to study the market opportunity. A study found that RCB was very successful with families and mature customers, but we could see that since millennials would make up 50 percent of the retail banking population in the early 2020s, we needed to turn our focuses on growing our younger customer base.

In studying this younger demographic, we found that their values perfectly aligned with our cooperative message. The New York Times defined millennials as “co-operative by nature” and went on to say that they “are significantly more likely than Gen X’ers and boomers to say they are more productive working in teams than on their own...the gains that come from teamwork have been learned from the collaborative nature of their childhood activities, which included social networks, crowd sourcing and even video games like World of Warcraft that emphasize cooperative rather than individual competition.”⁶ Additionally, the report, *Sharing Is The New Buying, Winning In The Collaborative Economy*, stated that the “collaborative economy” is gaining steam, as people increasingly choose to share and crowdsource goods, services, funding, transportation, and more. And if brands don’t adapt soon, they’ll be left behind.”⁷

In concert with the rebranding experience, RCB embraced the ‘Shared Values’ philosophy advanced by Michael Porter and Mark Kramer in their 2011 Harvard Business Review white paper entitled Embracing Shared Values.⁸ The paper suggests that businesses have been trapped

⁶ Rampell, Catherine. “A Generation of Slackers? Not So Much.” *The New York Times*, The New York Times, 28 May 2011, www.nytimes.com/2011/05/29/weekinreview/29graduates.html.

⁷ jeremiah_owyang. “Report: Sharing Is the New Buying, Winning in the Collaborative Economy.” *Jeremiah Owyang*, 9 May 2014, web-strategist.com/blog/2014/03/03/report-sharing-is-the-new-buying-winning-in-the-collaborative-economy/.

⁸ Kramer, Michael E. Porter Mark R. “Creating Shared Value.” *Harvard Business Review*, 25 Aug. 2015, hbr.org/2011/01/the-big-idea-creating-shared-value.

in an outdated approach to value creation while focusing their positive efforts on corporate responsibility initiatives. Corporations are focused on short term financial performance while missing cues to important customer needs that have the potential for long-term success. The short-term performance model has eroded community trust in our institutions. “Companies are widely perceived to be prospering at the expense of the community.”⁹ Armed with this value proposition, which had long fueled RCB’s decision-making without even knowing the terminology, and paired with a new demographic segmentation opportunity, the management team began looking at how we could meld the two. The ultimate goal was to do well by the Bank while also doing good for people. That is when we turned our sights to the students within our current market and, later, the gateway cities of Lawrence and Lynn, Massachusetts.

It is a well-known fact that converting customers is a time-consuming and expensive endeavor, that is why RCB took a nontraditional approach that is consistent with our history of not competing on price. Instead, we decided not to buy customers from other banks with rates but rather decided to create customers by launching two branches within local high schools. More than a decade ago, RCB built a branch and corresponding educational program within our hometown’s public high school. The program offers extensive financial knowledge through a full-time school bank branch manager and hands-on teller training that prepares many students for a career in banking. The program was so successful as an employee feeder program and so well received by students, teachers, and parents alike that we built an additional branch within the regional vocational high school and has seen similar results. Additionally, we go into each school and provide a “reality fair” for the entire junior class which provides each student with a

⁹Kramer, Michael E. PorterMark R. “Creating Shared Value.” *Harvard Business Review*, 25 Aug. 2015, hbr.org/2011/01/the-big-idea-creating-shared-value.

mock profession, salary, a credit score and then asks them to choose housing, transportation, buy food, etc., all while staying within their given budget. These efforts have gained the bank 5418 millennial customers (well people under 34) and Gen Z customers to date (September 15, 2021). Many of these new customers have stayed with us long after graduating from college.

Although we took many steps to earn these young consumers’ trust, we realized that this group demanded technology, so soon after our rebrand, we turned our focus toward improving our mobile app and drastically enhanced our website user experience to accommodate the “mobile first” world we live in today. The bump has been dramatic. In a year over year comparison, our newly mobile optimized website saw a drastic increase in traffic on mobile devices:

Total Mobile Sessions			
June 2018 (prior to mobile optimization)	June 2019 (post mobile optimization)	Jun-20	Jun-21
5,852	11,698	59,399	72,067

I can credit this to more effective and targeted digital marketing campaigns driving to a far superior website experience.

Since then, our refreshed brand and subsequent attention to technology has helped RCB grow more than 66 percent in asset size from \$436m to \$725m. When we look at all zip codes, in which we have branches, we rank among the national banks with significantly more resources and larger budgets.

Selected Market					June 30, 2021				
State:	County:	City:			Zip Code:				
MASSACHUSETTS	ALL	ANDOVER, BURLINGTON, NORTH READING, READING, WILMINGTON			ALL	Outside of Market		Inside of Market	
Institution Name	CERT	State (Hqtrd)	Bank Class	State/Federal Charter	No. of Offices	Deposits (\$000)	No. of Offices	Deposits (\$000)	Market Share
Bank of America, National Association	3510	NC	N	Federal	4,208	1,868,331,317	7	2,881,458	34.03%
Citizens Bank, National Association	57957	RI	N	Federal	968	152,387,194	5	1,023,227	12.09%
TD Bank, National Association	18409	DE	N	Federal	1,143	361,382,619	3	814,689	9.62%
Reading Co-Operative Bank	26620	MA	SM	State	1	1,098	7	573,062	6.77%
Eastern Bank	32773	MA	NM	State	84	13,499,426	4	534,609	6.31%
Santander Bank, N.A.	29950	DE	N	Federal	534	77,489,678	5	511,909	6.05%
Cambridge Savings Bank	17870	MA	SB	State	17	4,156,638	2	291,050	3.44%
Enterprise Bank and Trust Company	27408	MA	NM	State	25	3,709,873	1	255,160	3.01%
Salem Five Cents Savings Bank	23296	MA	SB	State	32	4,164,523	4	207,725	2.45%
Northern Bank & Trust Company	18266	MA	NM	State	12	1,982,846	2	184,937	2.18%
People's United Bank, National Association	27334	CT	N	Federal	415	52,766,663	2	183,363	2.17%
Jpmorgan Chase Bank, National Association	628	OH	N	Federal	4,924	2,011,207,110	1	136,890	1.62%
The Lowell Five Cent Savings Bank	90227	MA	SB	State	15	1,208,881	1	135,068	1.60%
Century Bank and Trust Company	19943	MA	NM	State	26	6,247,940	2	128,097	1.51%
Rockland Trust Company	9712	MA	NM	State	97	11,940,950	1	110,903	1.31%
Leader Bank, National Association	57134	MA	N	Federal	6	2,108,273	1	110,480	1.30%

10

The student approach worked so well that we have decided to enter two new markets with a similar strategy that has many questioning our logic. Chronologically, we will enter Lynn, Massachusetts via an acquisition (mentioned prior) in November of 2021. Then we will build a new branch in the city of Lawrence, Massachusetts to be opened in the fall of 2022.

Lynn is a gateway city located 10 miles northeast of Boston that was known as an early industrial center, housing the two original General Electric plants but later earned the colloquial nickname as the “City of Sin” for its history of crime. In more recent years Lynn has seen a wave of immigration with a 2019 population estimate of over 94,000 people and was named by *The Boston Globe* as one of the “Top Spots to Live in Greater Boston”. White residents make up much of the population at 57.6 percent with Hispanic or Latinos making up 32.1 percent of the

¹⁰ “Offices and Deposits of All FDIC-Insured Institutions Deposit Market Share Report.” *FDIC.Gov*, 30 June 2021, www7.fdic.gov/sod/sodMarketRpt.asp?barItem=2.

population (10.5 percent Dominican, 6.3 percent Guatemalan, 5.4 percent Puerto Rican, 2.8 percent Salvadoran, 1.7 percent Mexican, 0.6 percent Honduran, 0.4 percent Colombian, 0.4 percent Spanish, 0.2 percent Peruvian, 0.2 percent Cuban)¹¹. African Americans and Asians largely make up the remainder. Race aside, there are many other measures that differentiate Lynn from the towns RCB is used to conducting business in. The following table demonstrates some simple statistics comparing our hometown of Reading, MA to the city of, Lynn, MA.

	Lynn, MA¹²	Reading, MA¹³
Population Estimates as of 7/1/19	94,299	26, 050
Foreign Born Persons, Percent, 2015-2019	36.7%	8.2%
Median Household Income	\$56,181	\$132,731
Poverty Rate	16.6%	2.8%
Median Value of Owner-Occupied Housing Units	\$323,100	\$562,800

Lawrence, the second of the two new markets, is a gateway city located 25 miles north of Boston, but many would tell you it feels a world away. A walk through the streets offers music, people, and food, that gives one the feeling of being in the Dominican Republic or Puerto Rico. Hispanics and Latinos dominate the market, accounting for 79 percent of the population. Like Lynn, it looks nothing like the upper middle class, well educated, home-owning, majority Caucasian towns that RCB has been serving for decades. The city abuts our northernmost branch

¹¹ "Profile of General Population and Housing Characteristics Lynn, MA: 2010". American FactFinder – United States Census Bureau. Archived from the original on February 12, 2020.

¹² "U.S. Census Bureau QuickFacts: Lynn City, Massachusetts." *Census Bureau QuickFacts*, 21AD, www.census.gov/quickfacts/lynncitymassachusetts.

¹³ "U.S. Census Bureau QuickFacts: Reading CDP, Massachusetts." *Census Bureau QuickFacts*, 2021, www.census.gov/quickfacts/fact/table/readingcdpmassachusetts/PST045219.

but could not be more different in look, feel and demographics. The following table demonstrates some simple statistics comparing our hometown of Reading, MA to the city of interest, Lawrence, MA.

	Lawrence, MA¹⁴	Reading, MA¹⁵
Population Estimates as of 7/1/19	80,028	26, 050
Foreign Born Persons, Percent, 2015-2019	40.6%	8.2%
Median Household Income	\$44,613	\$132,731
Poverty Rate	21.4%	2.8%
Median Value of Owner-Occupied Housing Units	\$271,100	\$562,800

At first glance one might wonder why RCB would stray from a recipe of success it has had in lookalike towns to Reading. But, after years of research that included objective third party studies and hands on focus groups, we believe the recipe for success is the same as it was when we started wooing students. Instead of fighting other banks for the same customers, always undercutting each other on price and ultimately losing the customer to the next best rate, we have decided to *create* customers, much like we did with the students. Only this time it is with the un/derbanked population of an immigrant community. Not only will it let us do what we have already proven that we are good at; which is providing financial education to the next generation and showing people how to climb the ladder to financial success, but also do what we were originally created to do back in 1886; help the “common man buy a home”. These are skills that

¹⁴ “U.S. Census Bureau QuickFacts: Lawrence City, Massachusetts.” *Census Bureau QuickFacts*, 2021, www.census.gov/quickfacts/fact/table/lawrencecitymassachusetts/PST045219.

¹⁵ “U.S. Census Bureau QuickFacts: Reading CDP, Massachusetts.” *Census Bureau QuickFacts*, 2021, www.census.gov/quickfacts/fact/table/readingcdpmassachusetts/PST045219.

many of the financially savvy customers of our other markets no longer need assistance with. Lynn and Lawrence are primarily occupied by renters with home ownership at 44.9 percent and 31 percent respectively, compared to owner occupancy rates of 84 percent in Reading.¹⁶ To state the obvious, Lynn and Lawrence are ***not*** towns like Reading, but they offer three times the potential customers and they are 10 years younger on average than the prospective customers in Reading. That said, we understand we cannot waltz into a city with significantly lower incomes, and with the poverty level in the double digits, with the same products we offer to the financially mature audience in our current demographic.

¹⁶ “U.S. Census Bureau QuickFacts: Lynn City, Massachusetts; Reading Town, Middlesex County, Massachusetts; Lawrence City, Massachusetts.” *Census Bureau QuickFacts*, 2021, www.census.gov/quickfacts/fact/table/lynncitymassachusetts,readingtownmiddlesexcountymassachusetts,lawrencecitymassachusetts/PST045219.

Strategy & Implementation

As the Vice President and Director of Marketing for Reading Cooperative Bank, I am charged with researching and analyzing market data to identify opportunities to increase market share and drive profitability. That includes developing and executing creative strategies to help the bank achieve a competitive advantage. Although I have been with the bank for nearly 14 years and we have grown the bank by 159 percent during that time, I realize that those same tactics will not suffice. With a great desire to achieve the title of Chief Marketing Officer, I know that I not only need to excel at leading my department but think more broadly about The Bank's balance sheet and my contribution to the overall bottom line. With this capstone, I intend to demonstrate how the Stonier Graduate School of Banking has armed me with the skills necessary to utilize available data and create actionable initiatives to increase growth for the institution, and more importantly, how this program has broadened my thinking and equipped me to contribute to the leadership team at RCB.

Self-promotion aside, this project gives RCB the opportunity to fulfill its vision to live its values and tie back to its roots of providing the opportunity for anyone to achieve the American dream of owning a home. With housing costs at an all-time high, especially in the Northeast, there is little opportunity for people to do this without the assistance of a banking relationship.

“According to a 2019 report by the Federal Reserve, 22 percent of American adults (63 million) are either unbanked or underbanked. The 6 percent of Americans who are unbanked have no bank account whatsoever and must rely on alternative financial products and services—such as payday loans, check cashing services, money orders and pawn shop loans—to take care of their

finances. The 16 percent of Americans who are underbanked have some sort of bank account, but they also rely on alternative financial services.”¹⁷

Aside from costing people actual dollars and cents, there are additional factors that prevent people from building wealth such as a lack of credit from using prepaid credit cards. I saw this firsthand during focus groups I conducted in Lawrence. People told me, in many cases using a translator, that they wanted credit so badly they were frozen by fear of hurting their credit, so they did nothing to build it and ultimately ended up with no credit score at all. Because credit checks are such an integral part of our society, this has kept many hard-working people from conveniences many of us take for granted, such as employment, housing, utilities, insurance, and access to loans. Or if they were given a chance, the provider charged a much higher fee.

“According to the Financial Health Network, unbanked and underbanked Americans spent \$189 billion in fees and interest on financial products in 2018, the latest year for which there is complete data. Using the FDIC’s estimate that some 63 million Americans are unbanked or underbanked, that would be an average of \$3,000 in annual costs per person.”¹⁸

While of course, you can count people of every income level in this category, the majority tend to be in the lower income bracket, have less education and be of a racial or ethnic minority group. The inability to create an emergency fund is a huge problem for this demographic. A somewhat dated, yet none less shocking, article in *The Atlantic* from 2016 referenced a Fed study that found that 47 percent of middle-class Americans would have to borrow money or sell

¹⁷ Birken, E. G. (2020, July 28). *The Costs Of Being Unbanked Or Underbanked*. Forbes Advisor. <https://www.forbes.com/advisor/banking/costs-of-being-unbanked-or-underbanked/>

¹⁸ Birken, E. G. (2020, July 28). *The Costs Of Being Unbanked Or Underbanked*. Forbes Advisor. <https://www.forbes.com/advisor/banking/costs-of-being-unbanked-or-underbanked/>

something to come up with \$400 to cover an emergency expense.¹⁹ Although this article refers to the *middle class* and my object is primarily a lower income bracket, I found it relevant because a 2020 study found that the median amount of money borrowed through a payday loan is \$375.²⁰ An oddly similar amount, before the high fees and interest rates. In February of this year, CNBC published an article stating that in states without strong rate caps, such as Texas for example, the typical APR for a payday loan was 664 percent which is more than 40 times the average credit card interest rate of 16.12 percent. While that number alone is astounding, the “Consumer Financial Protection Bureau found that nearly 1 in 4 payday loans are reborrowed nine times or more. Plus, it takes borrowers roughly five months to pay off the loans and costs them an average of \$520 in finance charges.”²¹ This is on top of cost of the *original* loan. Luckily, Massachusetts is among the states with a strong cap rate but even 36 percent compared to the average credit card interest rate is inequitable. This was an eye-opening realization for me; **it is expensive to be poor.**

Unfortunately, we are moving the dial in the wrong direction. While only 2 percent of small business workers surveyed during the pandemic said they had used these services prior to Covid-19, 6 percent reported that they had used them since.²² These habits tend to snowball resulting in

¹⁹ Gabler. (2016, May). *THE SECRET SHAME OF MIDDLE-CLASS AMERICANS*. Wwww.Theatlantic.Com. <https://www.theatlantic.com/magazine/archive/2016/05/my-secret-shame/476415/>

²⁰ Birken, E. G. (2020, July 28). *The Costs Of Being Unbanked Or Underbanked*. Forbes Advisor. <https://www.forbes.com/advisor/banking/costs-of-being-unbanked-or-underbanked/f>

²¹ Leonhardt, M. L. (2021, February 16). *map-shows-typical-payday-loan-rate-in-each-state*. Wwww.Cnbc.Com. <https://www.cnbc.com>

²² Leonhardt, M. L. (2021, February 16). *map-shows-typical-payday-loan-rate-in-each-state*. Wwww.Cnbc.Com. <https://www.cnbc.com>

repeat borrowing, over drafting if a bank account exists, fees associated with late bill payments and even bankruptcy.

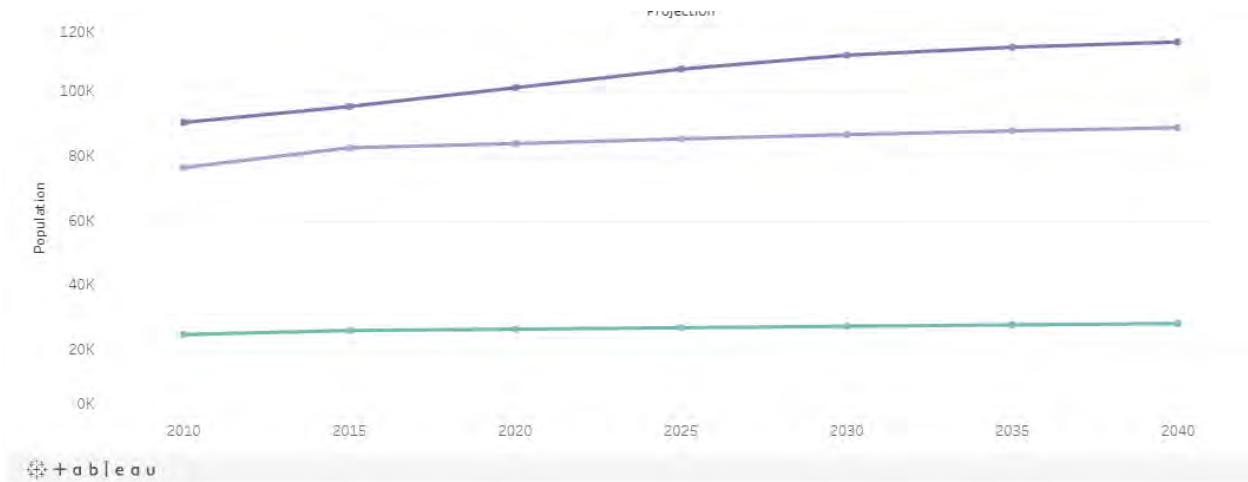
Another “cost” of being un/derbanked is not a monetary one but as they say, “time is money”.

Those that do not have access to financial institutions do not benefit from the tools that many of us take for granted such as free online or mobile banking and bill pay, direct deposit, automatic transfers, and mobile check deposits. Prepaid cards and check cashers charge a fee for each one but, as I learned in focus groups in Lawrence, the customer knows the costs upfront and there are no hidden fees or fees charged later that they did not expect such as non-sufficient funds fee.

Finally, and perhaps the most important, the stress of these predicaments can lead to health implications to make an already awful situation worse.

With all that has been going on with Covid-19 in the past few years, it has been difficult to plan strategically for the future. However, the August 2021 article, *Massachusetts Population Shifts Toward Cities*, gave me hope that this new focus on the global majority population of Lawrence and Lynn could help foster growth for the bank in the years to come. Even though “the country over the last decade grew at its slowest rate since the 1930s, with more than half of all counties losing population between 2010 and 2020,” Massachusetts saw a population growth of 7.4 percent and is the fastest growing state in New England according to Marc Perry, senior demographer at the US Census Bureau. Secretary of the Commonwealth, William Galvin attributed “much of the new population to immigration, particularly foreign-born immigrants. He said some residents have also moved from other states, attracted by jobs and a strong economy.”²³

²³ SCHOENBERG, S. S. (2021, August 12). *Massachusetts Population Shifts Toward Cities*. www.Commonwealthmagazine.Org.



24

In 2020, Lynn (top) reached a population of over 100,000 for the first time (101,065 to be exact according to the UMass Donahue Institute²⁵²⁶) with Lawrence (middle) growing to a population of 83,789. By the year 2040 Lynn is expected increase its population by nearly 14 percent to 115,181, and Lawrence is expected to increase its population by nearly 6 percent that same year to 88,691. Compared to the population size of 26,409 in Reading (bottom) in 2020 growing to 28,139 people by 2040. These communities show promise and extensive opportunity for RCB.

In the next sections, financial and non-financial impact, I will research and analyze specific tactics RCB should consider to capitalize on these growing opportunities.

<https://commonwealthmagazine.org/government/massachusetts-population-shifts-toward-cities/>

²⁴ UMass Donahue Institute | *Massachusetts Population Projections*. (2021). [Http://Pep.Donahue-Institute.Org/](http://Pep.Donahue-Institute.Org/). <http://pep.donahue-institute.org/>

²⁵ UMass Donahue Institute | *Massachusetts Population Projections*. (2021). [Http://Pep.Donahue-Institute.Org/](http://Pep.Donahue-Institute.Org/). <http://pep.donahue-institute.org/>

²⁶ SCHOENBERG, S. S. (2021, August 12). *Massachusetts Population Shifts Toward Cities*. [Www.Commonwealthmagazine.Org](http://www.commonwealthmagazine.org). <https://commonwealthmagazine.org/government/massachusetts-population-shifts-toward-cities/>

Financial Impact

The Federal Reserve's 2019 report states that 22 percent of Americans are un/derbanked. If RCB's intention is to migrate vulnerable people from predatory lenders and away from unnecessary expenses to help them gain financial control, then it is important to know:

1. what opportunity there is in our market?
2. what expenses and revenue streams result from the opportunity?
3. how do I intend to reach this segment?
4. next steps - what products need development that are outside RCB's usual scope?

ONE

Opportunity in Lynn:²⁷

According to the United States Census Bureau data from 2019 there are 32,599 estimated households in Lynn Massachusetts with 46.2 percent of those, or 15,060 households, making \$49,999 or less a year. The Federal Reserve says that 3 percent of households in that income bracket are unbanked, leaving RCB with the opportunity of reaching 452 households with first time banking services. The report believes that the average yearly cost of being un/derbanked is \$3,000 per person. My research, conducted mostly in focus groups, shows that this number is a bit inflated. Instead, I will use the following assumptions:

- \$49,999 a year in household income divided by 52 weeks a year equals \$961.52 in household weekly income. My research shows that individuals are spending 3 percent to cash a paycheck every week which equals \$28.85 weekly times four weeks a month totals \$115.40 a month in check cashing or \$1,384.80 a year for a

²⁷ INCOME IN THE PAST 12 MONTHS - Lynn, Massachusetts. (2019). United States Census Bureau. Retrieved November 23, 2021, from <https://data.census.gov/cedsci/table?tid=ACSST5Y2019.S1901&g=1600000US25374900>

single paycheck casher. There is little added expense to the bank to perform this service. We already have the human capital behind the teller line we would simply train the staff to cash checks for non-customers.

Note: it is highly likely that there could be more than one earner in a household or a single earner pulling multiple paychecks in which the expense to them inflates twofold. But for the purposes of this exercise, I am being conservative and saying there is only a single person cashing checks in a household.

- My focus groups found that un/derbanked individuals were paying an average of six bills a month at \$3 each for a monthly expense of \$18 or \$240 a year. To pay bills, the bank would partner with a third-party, web-based vendor called CheckFree Pay. Working off an average of a \$3 charge per bill, the proposed commission schedule demonstrates that RCB would keep on average about 50 percent of this fee and remit the other 50 percent to CheckFree Pay as the service expense. For proforma's sake I will say the bank earns on average \$108 a year per household on bill payment after expenses.
- Our research showed that participants were transferring up to one time a pay period at an average of \$10 a transfer or \$40 a month for a total of \$480 a year. Since it is necessary to stay competitive for individuals to choose our services over others, I researched and found that on average Western Union charges about \$10 a wire (\$7 if transferred from a bank account to \$12.50 if transferred from a credit card) per \$100.²⁸ However, my research indicated that not every person

²⁸ *Price Estimator*. (2021). Western Union. Retrieved November 29, 2021, from <https://www.westernunion.com/us/en/send-money/app/price-estimator>

used this service, so for proforma purposes, I will be conservative and will estimate that households transfer money twice monthly for a total of \$20 a month or \$240 a year. We will most likely use our existing wire service, Atlantic Community Bankers Bank to make these transfers and they charge \$4 per domestic wire (\$6 profit for RCB) and \$10 per international wire (\$10 profit for RCB).

- When you add monthly check cashing fees of \$115.40 and bill payment expenses of \$18 and transfers of \$20 for a total of \$153.4 in monthly costs x 12 months equals \$1840.80 in yearly expenses for one person/income in a household.

If our cautious assumptions add up to \$1840.80 in yearly expenses and there are 452 possibly unbanked households in Lynn than that gives us a possibility of earning \$832,041.60 in revenue (before expenses) just from this un/derbanked segment. If I dare assume there could be two earners per household that number jumps to nearly \$1,664,083.20 in revenue (before expenses) in Lynn by simply turning our attention to this group that RCB has never attempted to attract before.

Opportunity in Lawrence:²⁹

According to the United States Census Bureau data from 2019 there are 27,844 estimated households in Lawrence, Massachusetts with 49.4 percent of those, or 13,755 households, making \$49,999 or less a year.³⁰ The Federal Reserve says that 3 percent of those are unbanked

²⁹ *INCOME IN THE PAST 12 MONTHS*. (2019). United States Census Bureau. Retrieved November 23, 2021, from <https://data.census.gov/cedsci/table?q=lawrence,%20ma%20%2B%20income&g=1600000US2537490&tid=ACSST1Y2019.S1901>

³⁰ *INCOME IN THE PAST 12 MONTHS - Lynn, Massachusetts*. (2019). United States Census Bureau. Retrieved November 23, 2021, from <https://data.census.gov/cedsci/table?tid=ACSST5Y2019.S1901&g=1600000US2537490>

that leaves us with the opportunity of reaching 413 households with first time banking services. If I apply the same assumptions as I applied to Lynn (above) and assume that un/derbanked households are at a minimum spending \$1840.80 a year for one earner per each 413 un/derbanked household in Lawrence than that gives us a possibility of earning \$760,250.40 in revenue (before expenses) just from a single earner household and \$1,520,500.80 (before expenses) if they are double earner households.

Opportunity in other branch towns; Burlington, Andover, North Reading, Reading, Wakefield, Wilmington & Nahant:³¹

While the demographics of Lynn & Lawrence are obviously attractive when pursuing the un/derbanked population, that does not mean that the towns RCB has existing branches in does not contain opportunity as well. After reviewing the same United States Census Bureau data for these zip codes, I found that when combined these towns there were 322 households that are thought to be possibly un/derbanked with a potential revenue stream (using the same logic as above) of \$592,737 (before expenses).

Two

The attached proforma examines each of the aforementioned markets', household incomes and nontraditional banking products that RCB could adapt to transition un/derbanked individuals into financial institutions. Since the Federal Reserve suggested that 3 percent of these households may be un/derbanked, I calculated what our income and expenses might be over a three-year period (2022-2024) if I aim to gain *just* 1 percent of these households each year. The linked

³¹ *INCOME IN THE PAST 12 MONTHS*. (2019b). United States Census Bureau. Retrieved November 29, 2021, from <https://data.census.gov/cedsci/table?q=&g=8600000US01803,01810,01864,01867,01880,01887,01908&tid=ACST5Y2019.S1901>

proforma shows that while incurring little additional expense to the bank, Reading Cooperative Bank can expand its product offering to include three products and offer an extensive growth opportunity.

[All Market Proforma SFC Dec 1 2021.xlsx](#)

Three

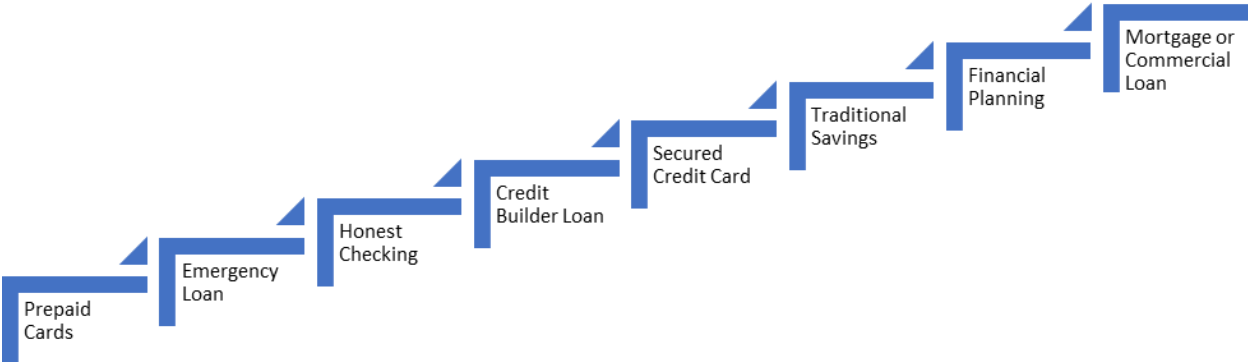
Now that I have identified a target segment and determined that it would prove fruitful for the bank, I want to elaborate on how I envision approaching this group. On a technical front, I would start with the most efficient and effective way to market today – digital marketing on a mobile device. In an article written in August of 2021, author Khalid Umar wrote, “globally 1.7 billion individuals have no access to banking services” but of those adults 1.1 billion own a device and 79 percent of adults in developing economies own a mobile phone.³² Not only does this mean that I can reach consumers of all means through search word marketing, geofencing, targeted display and social media ads but I can target each sliver of the segment with different messages to fit their appetite. The best part of reaching consumers through this vehicle is that I also know they can bank through this very same device. On a less technical note, RCB will continue to build trust through grassroots marketing like attending local events and participating in local organizations. Many of our focus groups have been conducted in a church setting and I see value in their leadership and influence within the community. RCB will encourage word of mouth marketing through a refer a friend program for both consumer and commercial relationships.

³² Umar, K. (2021, August 9). *1.7 billion People Don't Have a Bank Account — But Mobile Banking Could Change Their Lives*. [Www.Brinknews.Com](http://www.brinknews.com). Retrieved November 29, 2021, from <https://www.brinknews.com/bridging-the-digital-divide-to-widen-financial-services-in-central-asia/>

Most importantly, much of our messaging will be delivered in English and Spanish to mirror the experience consumers would have while visiting one of the branches in our gateway cities.

Four

For the purposes of this exercise I have researched, priced, and estimated how many un/derbanked households RCB might be able to acquire in our market while transitioning them to our bank through nontraditional banking channels they already use. Future iterations of this exercise should consider expanding and evaluating the following product offerings as the bank evolves these customers to help them ascend the financial ladder. Further development of product offerings will be necessary but ideally customers would transition away from paying for check cashing, bill payment and money transfer services and start having their money work for them by navigating the banking system in a roadmap such as this:



- Prepaid cards – although somewhat complicated in Massachusetts, would offer a safer way to “store” money than keeping cash.
- A small dollar loan or emergency loan would replace the need of payday lenders and have non predatory interest rates.
- Honest checking account – RCB’s version of the Bank On, do-no-harm checking account.
- A credit builder loan product that would start reporting to credit agencies. The eventual goal would be to develop a lending product that did not necessitate a social security number but instead used the Individual Taxpayer Identification Number used by many industrious recent immigrants trying to work towards the American dream. We would offer a credit monitoring widget within online and mobile banking to ensure transparency of improvements.
- A secured credit card that rolls into an emergency fund and reports to credit bureaus.
- Traditional savings vehicles like saving accounts, CDs and money market that are fee free, offer less temptation to use the money and are not vulnerable to theft.
- Financial planning services and financial knowledge resources.
- Conventional mortgage and commercial loan and line products

While there are still many strings to pull in studying the un/derbanked in our communities what has become clear is that this market is the future of growth for the banking industry. When the U.S. Census Bureau released its 2020 population estimates it showed that “for the first time, more than half of the nation’s population under age 16 identified as a racial or ethnic minority. Among this group, Latino or Hispanic and Black residents together comprise nearly 40 percent

of the population.”³³ Of course, there will be costs associated with offering a service not typically provided by a bank, but I believe these products are complementary, may provide a gateway for a new population of customers and serves as a differentiator for the bank. In my opinion the opportunities outweigh the expense and limited risk.

³³ Frey, W. H. (2021, July 1). *The nation is diversifying even faster than predicted, according to new census data*. Www.Brookings. Edu. Retrieved November 30, 2021, from <https://www.brookings.edu/research/new-census-data-shows-the-nation-is-diversifying-even-faster-than-predicted/>

Non-Financial Impact

An important part of measuring the non-financial impact of a project such as this is to step back and look at the hurdles RCB will face in implementing the initiative. In this section, I will:

1. review the logistical and organizational challenges I foresee,
2. lay out my plan of action for combating these barriers,
3. define the methods I will use to evaluate the non-financial impact of this project,
4. explain how I expect this project will affect RCB over the next few years,
5. and finally, demonstrate how these enhancements will provide profitability to the organization.

Challenges and action plan for combating these barriers:

I foresee many challenges in this project – although, as defined in the section prior, if overcome, this initiative should prove lucrative. I will focus on three major challenges:

1. Building trust
2. Resistance to change
3. Resource constraints

Although there are many avenues to take that could prove profitable for RCB, I do believe that this matches the mission and values of RCB and so is therefore worth pursuing for both financial and non-financial reasons.

Non-Financial Impact Challenge #1: Building Trust

Community:

Hands down, the number one hurdle I have run into during my research on this topic is the ideology of building trust. In business, the impulse is to move quickly. However, trust is not something that is gained overnight. Although RCB would have loved to have opened a branch in

Lawrence years ago, we would have been premature in doing so. As it turns out the delays in groundbreaking, due to contaminated soil at the build site and Covid-19 related delays, afforded us the time we needed to get involved in local organizations and take trust building measures like accepting Paycheck Protection Payment (PPP) applications for non-customer, micro businesses in this community.

Other proof points that demonstrate how we have built trust are:

- Prior to covid we held weekly financial knowledge programs in the Lawrence Public High School. Tackling topics like budgeting, financing college, understanding credit cards, why credit matters, buying a car, understanding car loans and car insurance.
- Prior to covid, our bankers routinely taught age-appropriate lessons at elementary schools, YMCAs, and Boys & Girls Clubs.
- Our staff members have taken on leadership roles in various charitable and civic organizations such as the Greater Lawrence Community Action Council, Kiwanis, Lawrence Boys & Girls Club, and the Mill City Leadership Institute, among others.
- Our President & CEO and a Senior Commercial Lender have joined Lawrence Partnership's Lawrence Leads program which is an executive leadership development program for leaders of the City of Lawrence hosted by Harvard Business School. Together, they tackled problems plaguing the city such as the opioid epidemic and small businesses inability to scale.
- We have developed an entry level bank training program for individuals seeking a banking career and worked with Lawrence Community Works to implement the

program. We have already hired a few employees from the program, and they have had great success at our bank.

- To have our Board of Directors better reflect our community we have added two very influential professionals with diverse backgrounds. The first was Abel Vargas, former Director of Businesses and Economic Development for the City of Lawrence. And most recently, RCB added Yvonne Garcia, Chief of Staff to State Street's CEO, and Chairwoman for the largest Latino Professional Organization in the country, ALPFA. These two will help guide us through our transition into the market. In fact, in an article written on February 10, 2022, RCB was named one of only nine of Massachusetts' 150 banks that have a diverse board.³⁴
- Over the course of the last few years, we have made a concerted effort to diversify our team to build a culturally fluent workforce that reflects the global village our community has become. Of the 107 employees at RCB, we now have 30 employees that speak a second language, Spanish, Portuguese, and Khmer (of Cambodia) among them.
- Through focus groups, we learned that our Cooperative structure (depositors owning the bank), invokes trust within the island cultures present in the cities we are targeting. We will continue to communicate our message of ownership, belonging, and our long history of working together to help people achieve the American dream.

³⁴ Davis, R. (2022, February 10). Bank, corporate boards across Western Massachusetts, nation need more Blacks, Latinos. Masslive.Com. Retrieved February 24, 2022, from <https://www.masslive.com/opinion/2022/02/bank-corporate-boards-across-western-massachusetts-nation-need-more-blacks-latinos-viewpoint.html>

- Last year we partnered with a Community Development Financial Institution in Lawrence to ensure that minority owned businesses were able to access PPP funds. With more than 25 percent of the Bank’s overall PPP loans being written there.
- Finally, knowing that we were unable to get a foundation poured and branch open in time to properly service these new PPP customers we opened a temporary business office in an adjacent building that allows us to establish some sort of a presence.

All the points above have allowed us to establish a great brand reputation in this community. Our most recent study in our market, conducted in December of 2021, proved that the most impactful value driver for the Hispanic population (Lawrence) is community involvement and the most impactful value driver for the Asian community (Lynn) is brand reputation - both highly desirable markets for RCB.

Staff:

Although I am mostly referring to building trust within the community there is trust to be built with our staff too. Unfortunately, in facing continued setbacks we have staff members that we have hired for this multicultural banking center in Lawrence that have had to work in our existing branches – in some cases for more than a year - while we wait for things to progress. I could see how some might view that as a “bait and switch” and therefore lack confidence in the organization’s ability to do what it sets out to do. A case of over promising and underdelivering. In this instance, I think the leadership at RCB needs to meet with these individuals, and later everyone, to explain thoroughly what has happened and be honest about the new timeline. If future setbacks occur – managements need to update these individuals so there are clear, open

lines of communication. While the setbacks maybe looked upon as a negative, the message can be saved by showing the upside to the wait – all the groundwork that has allowed us to build trust within the community and the acquisition of customers as a result. Then unveil the great news that our branch is already profitable even before the foundation is in the ground. Thus, proving that our hypothesis is true; that we can be profitable by doing good. This profitability will demonstrate to our nay-saying staff members that the momentum gained during the hiatus has been a worthwhile endeavor, contributing to both our bottom line and bettering the community. Finally, I would try to have these staff members attend as many events as possible in the community. Not only will this provide a chance for them to network in the community, but we have found that these interactions have provided a shot of energy and improved enthusiasm each time which would be great for employee engagement and morale.

Methods of measuring non-financial impact

I will have different measures to evaluate non-financial impact of this initiative for the community than I would for staff.

Community:

For the community, I would look at benchmark reports from:

1. before our involvement,
2. at the opening of our temporary business office,
3. at the opening of our official branch,
4. then again, a year after the opening.

Additional measures would look at adoption, attrition, retention, and the ability to deepen relationships over time.

Staff:

As for staff, I would look at the employee turnover reports and our annual ‘Best Places to Work’ survey to measure non-financial success.

RCB Affect & Profitability

For details on how these improvements will relate to long-term profitability you can see the financial impact portion of the paper above, however in short, the act of building trust with the community *and* our staff will positively affect Reading Cooperative Bank by replacing a declining population. The 2020 Census found that the white population in the United States of America is growing at a rate of 4.3 percent since 2010 while the Hispanic or Latino population grew 23 percent during that time.³⁵ This one fact alone demonstrates that if we do not start earning the trust of a diversified market, we would grow stagnant.

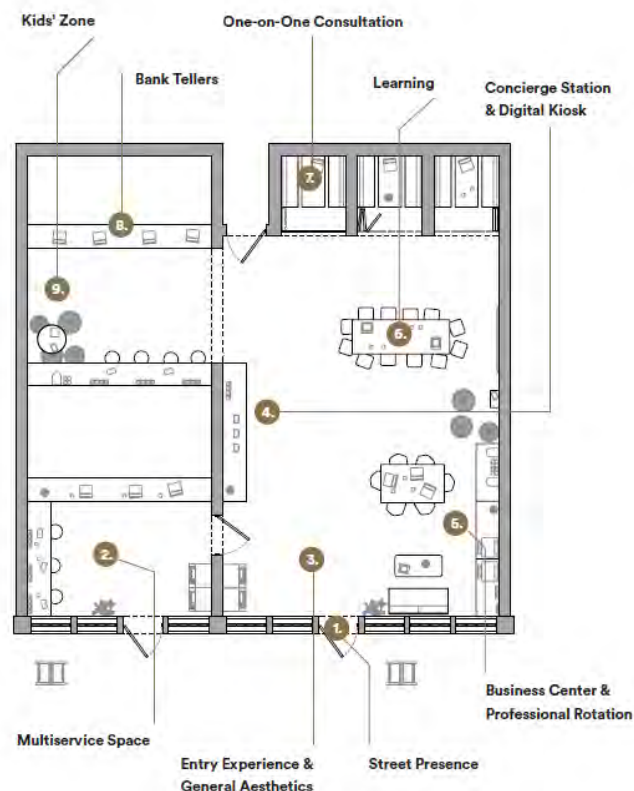
Non-Financial Impact Challenge #2: Resistance to change

Community:

The second greatest challenge I foresee with venturing into the arena of multicultural banking is that RCB could spend resources on this initiative but then be met with customers resistance to change. Both Lawrence and Lynn have consumers using bodegas, barber shops and liquor stores to cash checks and pay bills. They continue to utilize these regardless of the hefty fees and time it takes to conduct these actions in person – not to mention the added risk of in person transactions provided by Covid-19. These expenses associated with accessing one’s own money sounds ludicrous to those used to traditional, American banking norms. In conducting focus groups in the area, it became apparent that paying these fees is a learned behavior passed down

³⁵ *2020 Census Illuminates Racial and Ethnic Composition of the Country*. (2020). The Census. Retrieved August 1, 2022, from <https://www.census.gov/library/stories/2021/08/improved-race-ethnicity-measures-reveal-united-states-population-much-more-multiracial.html>

through generations, bred by distrust of the banking industry. My goal would be to properly communicate, in the language most familiar to our audience, all the free and non-time-consuming benefits of banking such as: free online or mobile banking, bill pay, direct deposit, automatic transfers, mobile check deposits, wire transfers and person to person payments. We know that the minority community is largely a mobile first segment, magnified by the necessity to go digital by Covid-19, and we know that they have money in their midst, we just need to convince them that adopting digital services is more efficient than cash. RCB aims to break the cycle with a radical new branch design. In an engagement with internationally recognized human-centered design consultants, IDEO, we created a branch just for the un/derbanked.



It would include a checking cashing office in the front. Our intention is to undercut the costs at competitors for non-customers and cashing checks and paying bills for free for all employees of

businesses banking with RCB. Eventually, we aim to earn trust so consumers will cross the threshold of our check cashing kiosk and enter the traditional bank and begin a safe and steady journey up the financial ladder. The space would have English, Spanish and even pictograph style wayfinding signage (shown below), a business center, a children’s area, a more private banking space in the rear, parking, a drive up, and most importantly, longer hours than traditional bank branches. It was important to our focus group participants that we more closely mirror the hours of the bodega or liquor store that cashes checks after work hours.



RCB would use videos on various digital platforms to “walk” people through the branch until they truly get a feel for the design of the unique layout. Additionally, we would leverage our relationships with local media outlets like and Rumbo (the local bilingual newspaper) to feature the bank and welcome anyone in for a tour, to attend one of the grand opening events, or to sign up for any of the educational seminars being offered there. We believe this out-of-the- box approach to banking could garner press beyond the Merrimack Valley. I think we should start with the physical branch because the audience is already conditioned to walk into a storefront. Online and mobile services will be introduced once we have changed the behavior and lured customers over from costly check cashers. Additionally, we plan to further combat customer

resistance by offering products that check cashers cannot, such as small dollar emergency loans (without charging the exorbitant interest and fees) and credit builder products to better their financial futures (our focus group research proved that people want credit so bad they are paralyzed by fear of harming it, so they never take steps to gain a credit score at all). Finally, we would offer financial knowledge courses for both individuals and business owners. Ninety five percent of the attendees at our focus groups indicated that they would “actually attend” these courses if they were offered by a trusted institution.

Staff:

It is entirely possible that our staff could be resistant to change as well. Many of our staff members have been at the bank for decades and are quite comfortable with business as usual, wondering why WE should have to change to accommodate a new audience when the bank has been very successful for 135 years with its current model. I would retort this way of thinking by reminding them that banking has pivoted for the better many times over the years, with the adoption of digital banking being the most recent change. Next, I would remind them of our long history of “doing well by doing good” and remind them that we were created on the pillar of building our community member’s financial freedom when the towns people of Reading came together to lend to one another to liberate people from binding workforce housing. Thirdly, I would remind employees that entering traditional wealthy markets where banks jockey over rates makes little common sense when we could instead focus on gateway cities that have potential customers *new* to traditional banks. Here we can gain trust and assist people onto the financial ladder and guide them away from loan sharks and payday lenders. Finally, I would suggest that our staff members think back to the many times MANY of *them* have used our very own employee emergency loan to help them out of a difficult financial situation. Reminding them that

not everyone has such a safety net might help them to put themselves in the shoes of our future customer.

I do have a slight concern that some of our existing staff members may have resentment towards our new bilingual staff members because they are being afforded opportunities within the organization that are not available to them. To that I would encourage staff members to engulf themselves in the community, learn the culture and begin learning the language so they can be considered for these positions. In fact, I would encourage the bank to reimburse client facing bankers to take language studies and pay a premium for those hired with the language skill required in the market.

Methods of measuring non-financial impact

Community:

I will evaluate the success of the non-financial impact of customers by collecting anecdotal feedback from staff at a central collection point within Microsoft teams. It will be important to see if we pique people's interest to cross the threshold and explore what we have to offer – even if they do not use products and services quite yet. We will also be able to measure how well attended the financial knowledge classes are to see if people are as hungry for the information as we hypothesize, they are.

Staff:

Measuring the non-financial impact for staff would be like the first challenge of building trust. I would measure both retention of staff in the multicultural banking centers and the positivity rate of the “Best Places to Work” survey. Another way is to measure how often a staff member has a conversation with a customer or potential customer about life changing products and services like credit builder and emergency loans products. I truly feel if they have bought into the idea

that these can positively influence people's financial position, they will talk about it appropriately. Finally, I would see how many existing staff members try to submerge themselves in the culture and begin working towards diversifying their skillset in this area.

RCB Affect & Profitability

Community & Staff:

I expect the proposed inclusion of underserved markets to affect the community in a way that can undoubtedly improve their lives, help them achieve the American dream, and save them time and money. While I love the idea of improving people's lives, Reading Cooperative Bank is a business not a charity. We will of course charge a fair rate for our products and services, but we will not gouge in a way that many loan sharks and check cashers do. I have outlined our cost structure for these things in the financial impact portion of my paper (above) and it undeniably drives income to the bottom line. And since RCB has a stakeholder's program (bonus structure based on meeting or exceeding budget) our staff will soon see how cross selling these products and services to a whole new audience, that is eager to have them, can not only improve their lives - but also drive revenue to the bank's bottom line and ultimately increase their bonus pay out at the end of the year. A win win as I see it. The best part of this plan, unlike in our other aging markets, is that it can drive long term profitability because the minority population in these gateway cities skews younger unlike the older demographics in our existing towns (largely due to expensive housing market in these towns).

Non-Financial Impact Challenge #3: Resource constraints

From a deployment of initiatives perspective, I foresee a challenge when it comes to resources. Our marketing and compliance department only speaks English, and our goal is to provide materials in *various* languages to meet the needs of our community. We also know from a recent

study conducted in December of 2021, that only 33 percent of the audience in our market is aware of Reading Cooperative Bank. However, the good news is that that same study highlighted that of those 33 percent of our audience, 90 percent of those people would consider converting to RCB. Now that we know that our target demographic connects with our message of belonging and banking for all – no matter your net worth, I worry that we will not have the adequate budget to properly amplify our message in new communities and in various languages.

RCB Measures, Affect & Profitability

Since we conducted this study this December, I know we could pick a point of time in the future to execute the same study and compare the data to see if we have made any progress amplifying our message to gain momentum in the areas of awareness and consideration. Additionally, we would have added either bilingual members to the marketing and compliance teams or identify consultants that could assist in that area. Unfortunately, these positions would be a direct hit to profitability initially because of the nature of the added overhead of salary expense. Over the long term however, one would hope that the groundswell of acquisition would overflow into all areas of the bank.

Conclusion

After studying this topic and conducting focus groups and interviews, I feel confident that prioritizing the people of the global majority is the most efficient and effective way to ensure success for Reading Cooperative Bank in the decades to come. The benefits to the organization far outweigh any immediate hurdles and the opportunity for growth (some would argue) is the only way to increase demographics within our existing footprint. The 2020 Census found that the white population in the United States of America is growing at a rate of 4.3 percent since 2010 while the Hispanic or Latino population grew 23 percent during that time.³⁶ This single fact demonstrates that if Reading Cooperative Bank does not start earning the trust of a diversified market, the bank would grow stagnant, and stagnation does not create success. Additionally, on the employment front, Brian Stauffer of the Wall Street Journal reports that, “the 20 most diverse companies in the WSJ study had an average annual stock return of 10 percent over five years, versus 4.2 percent for the 20 least-diverse companies.” My very conservative proforma supports this notion by demonstrating the ability to increase revenue streams by nearly 4 million dollars over the course of 3 years.

General Colin Powell said it best, “the bottom line in all of this is that, in life, it’s all about people”. After 135 years, the opportunity within RCB’s market may have changed, but our values of coming together to help every person, no matter their net worth, achieve the American dream, has not. This has been our purpose since 1886 and it is what drives us today. Lucky for us – it is a value proposition that has relevancy and with a slight shift in audience focus towards the

³⁶ *2020 Census Illuminates Racial and Ethnic Composition of the Country*. (2020). The Census. Retrieved August 1, 2022, from <https://www.census.gov/library/stories/2021/08/improved-race-ethnicity-measures-reveal-united-states-population-much-more-multiracial.html>

6 percent of the population that is unbanked leaves us with potentially 350 million in market opportunity nationwide, this is a model that can be profitable for the next foreseeable future with room to expand beyond our current geography.

Massachusetts Town	Total Households	% making under \$49,999	Households making under \$49,999	1% of households making under \$49,999 are underbanked households	2% of households making under \$49,999 are underbanked households	3% of households making under \$49,999 are underbanked households	\$49,999/52 weeks = \$961.52 income weekly \$28.82*4 weeks=\$115.40 in montly check cashing expense*12 months = \$1,384.80 a year (No added expense - same human capital	6 bills * \$3 = \$18 monthly bill pay * 12 months = \$216 a year Less average 50% paid to CheckFreePay vendor for bill payment service	2 transfers * \$10 = \$20 monthly money transfers * 12 = \$240 a year (Less ACBB charges \$4 per domestic transfers)	2022 1% of the 3% of unbanked households	Check Cashing	Bill Paying	Money Transfers	Total	2023 2% of the 3% unbanked households	Check Cashing	Bill Paying	Money Transfers	Total	2024 3% of the 3% unbanked households	Check Cashing	Bill Paying	Money Transfers	Total
Burlington	10,001	21	2100	21	42	63	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 29,080.80	\$ 2,268.00	\$ 3,024.00	\$ 34,372.80		\$ 58,161.60	\$ 4,536.00	\$ 6,048.00	\$ 68,745.60		\$ 87,242.40	\$ 6,804.00	\$ 9,072.00	\$ 103,118.40
Andover	12,801	16	2074	20	41	62	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 27,696.00	\$ 2,160.00	\$ 2,880.00	\$ 32,736.00		\$ 56,776.80	\$ 4,428.00	\$ 5,904.00	\$ 67,108.80		\$ 85,857.60	\$ 6,696.00	\$ 8,928.00	\$ 101,481.60
NR	5,543	13	710	7	14	21	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 9,693.60	\$ 756.00	\$ 1,008.00	\$ 11,457.60		\$ 19,387.20	\$ 1,512.00	\$ 2,016.00	\$ 22,915.20		\$ 29,080.80	\$ 2,268.00	\$ 3,024.00	\$ 34,372.80
Reading	9,175	18	1624	16	32	49	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 22,156.80	\$ 1,728.00	\$ 2,304.00	\$ 26,188.80		\$ 44,313.60	\$ 3,456.00	\$ 4,608.00	\$ 52,377.60		\$ 67,855.20	\$ 5,292.00	\$ 7,056.00	\$ 80,203.20
Wakefield	10,529	23	2443	24	48	73	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 33,235.20	\$ 2,592.00	\$ 3,456.00	\$ 39,283.20		\$ 66,470.40	\$ 5,184.00	\$ 6,912.00	\$ 78,566.40		\$ 101,090.40	\$ 7,884.00	\$ 10,512.00	\$ 119,486.40
Wilmington	7,957	17	1321	13	26	40	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 18,002.40	\$ 1,404.00	\$ 1,872.00	\$ 21,278.40		\$ 36,004.80	\$ 2,808.00	\$ 3,744.00	\$ 42,556.80		\$ 55,392.00	\$ 4,320.00	\$ 5,760.00	\$ 65,472.00
Nahant	1,602	29	460	5	10	14	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 6,924.00	\$ 540.00	\$ 720.00	\$ 8,184.00		\$ 13,848.00	\$ 1,080.00	\$ 1,440.00	\$ 16,368.00		\$ 19,387.20	\$ 1,512.00	\$ 2,016.00	\$ 22,915.20
Lawrence	27,844	49	13,755	137	275	413	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 189,717.60	\$ 14,796.00	\$ 19,728.00	\$ 224,241.60		\$ 380,820.00	\$ 29,700.00	\$ 39,600.00	\$ 450,120.00		\$ 571,922.40	\$ 44,604.00	\$ 59,472.00	\$ 675,998.40
Lynn	32,599	46	15,060	150	301	452	\$ 1,384.80	\$ 108.00	\$ 144.00		\$ 207,720.00	\$ 16,200.00	\$ 21,600.00	\$ 245,520.00		\$ 416,824.80	\$ 32,508.00	\$ 43,344.00	\$ 492,676.80		\$ 625,929.60	\$ 48,816.00	\$ 65,088.00	\$ 739,833.60
Total growth														\$ 643,262.40										\$ 1,291,435.20
3 Year Total																								\$ 3,877,579.20