



## So, lets talk about credit unions...

As you know from reading the information in this manual, credit unions are unique financial institutions that offer a lot of benefits – not just for members, but for all consumers. In fact, they're one of the “best kept secrets” in the financial services industry. It'd be great to change that.

Below are some key questions about credit unions along with the facts you should know when you answer them.

### **Question: What are the key elements that make credit unions safe and secure? How do credit unions compare to other financial service providers in these regards?**

**Answer:** When it comes to safety and soundness, banks and credit unions differ in two major areas: Size and Capital. But, what, actually does that mean?


- **Size ...** Credit unions are much smaller than banks overall. The average asset size credit union in the United States is \$65.2 million; the average size of a commercial bank is \$978.6 million. Overall, credit unions have approximately \$629 billion in assets compared to the banks' almost \$7,602 billion in assets.
- **Capital ...** Credit unions have a stronger capital base than do banks; and the credit union capital-to-asset ratio is increasing. As of year-end 2003, the average capital to assets of federally insured credit unions was 10.77 percent as compared to 9.10 percent for banks. Capital in your credit union is at less risk because credit unions only make loans to members. Credit unions don't make loans to foreign countries, or loans for highly-leveraged corporate buyouts.

### **Question: What does it mean that credit unions are “not-for-profit” and how does that affect their tax status?**

**Answer:** Credit unions are cooperative financial institutions that exist to serve their members and communities. Because they are member-owned, credit unions are not driven to turn a large profit for a select group of stockholders. This directly affects the way credit unions do business. They can afford to charge lower fees and offer less profitable services like loans for small amounts to all their members. And, credit union members benefit through low rates for borrowing, high rates for savings, and (in some cases) receive a dividend payment at the end of the year.

While their not-for-profit status means that credit unions pay no corporate taxes on their earnings, they do pay property and payroll taxes. And, credit union members also pay state and federal taxes on any dividend they earn.

The banking industry has always complained that credit unions' tax exemption provides an unfair competitive advantage. This complaint lacks depth for a number of reasons. First, credit unions control only 6% of the market share — in Montana it's %. Second, a large number of banks have changed their charter to Sub-S corporations, financial entities that, like credit unions, pay no cor-



porate income tax. Finally, if the advantage were truly so great, it seems other financial institutions would convert to this not-for-profit, cooperative structure. While credit unions do sometimes convert to mutual banks, no conversions to credit unions are on record.

**Question: What do credit unions do with the tax exemption?**

**Answer:** Consumers, both those who belong to credit unions and those who do not, benefit directly from the tax exemption. Credit unions' competitive rates along with their dedication to service keep other financial institutions in check. In fact, the Chairman of the American Bankers Association indicated in a 2005 letter that his record-breaking profits would have been even higher had it not been for competition from credit unions' competitive rates. We are proud that we are able to save both members and non-members money simply by existing in the marketplace.

Consumers would also lose access to favorably priced products and services. Credit unions have no legal access to capital markets. They cannot issue stock, sell bonds, or issue commercial paper. Instead, credit union capital can only be built from the surplus left over after expenses are deducted and dividends are paid. Lack of capital access severely limits the capability of credit unions to expand and invest in new services and products. This critical difference is often misunderstood, or simply unknown to critics of the tax-exempt status of credit unions. Taxation would limit the only avenue of capital formation allowed to credit unions and, as a result, limit credit unions' ability to serve their members.

**Question: Credit unions were originally formed by working people who decided to pool their financial resources so that they and their co-workers had access to small, short-term loans. Credit unions have greatly expanded both their membership and the services they offer ... do they still adhere to their founding mission or have they become "banks?"**

**Answer:** When credit unions were introduced, they effectively met the needs of their members at that time. In the years since, technology has made the world a smaller place, financial services have expanded, and members' financial needs have increased. Because credit unions have traditionally served occupational groups, most credit union members have always been working people with stable incomes. Credit union members tend to come from the middle class, and are often married couples with both spouses employed.

The definition of basic financial services has changed since the 1930s. Today's consumer needs more than passbook savings. When credit unions were established in this country, most people had low incomes; and most financial institutions — banks included — were smaller and offered limited services. Many financial services have only been invented in the last 20 to 30 years. Credit unions, like other financial institutions, have broadened their scope in order to remain competitive, but remain true to their mission of not-for-profit, cooperative service, as Congress has reaffirmed each time it has considered our tax exemption.



**Question: How are credit unions regulated?**

**Answer:** The regulatory structure for credit unions is identical or substantially similar to that of banks. Because of credit union limitations affecting our structure or services, some regulations that apply to banks do not apply to credit unions.

Federal credit unions, as well as federally insured, state chartered credit unions, report their financial data quarterly to the National Credit Union Association. NCUA evaluates the data as a tool to assess the safety and soundness of credit unions. This reporting structure is at least as robust as that required of banks by their regulator.

While bank regulators can approve new kinds of investments for their institutions, credit union investments are strictly governed by laws that credit union regulators must adhere to.

A top Credit Union National Association official once said, “Frankly, credit unions are getting tired of the regulations heaped on them because of banks’ unethical behavior.”

**Question: How do credit unions invest in their communities?**

**Answer:** While different credit unions have different memberships, credit unions, by their nature and structure, have always served all their members fairly and equally. Today, the majority of credit union in Montana have a community charter, meaning everyone in geographical community is eligible to join.

The CRA was passed by Congress in 1977 to force banks to provide loans, deposits, and other financial products to areas perceived to be not profitable. Banks could generally make loans without geographic constraints. This led many institutions to make loans only in profitable areas, or outside of the local community where banks received deposits. Credit unions have not been part of the CRA since they have always served their entire membership fairly and equally. Credit unions have never needed a regulation to force them to make a loan to their members ... it’s all part of the regular way they do business.

**Question: Why don’t credit unions do more commercial lending? It seems that their members who are small business owners might appreciate having the opportunity to keep all their funds in their credit union**

**Answer:** Credit unions have made “commercial” loans since their inception. These loans have traditionally been low-dollar amounts to member business owners and farmers. Due to regulatory requirements, credit unions are limited in the number of member business loans they can provide. Credit unions have long been working with Congress to pass a law that would allow them to improve their ability to serve their own members who have previously turned to the credit union for their financial service needs.



**Question: How come the American Bankers Association is so negative about credit unions?**

**Answer:** Bankers know that even with only 6% of the market share, credit unions provide consumers with an alternative that helps keep the banking industry in check. Without credit unions, banks could make greater profits at the expense of consumers, so naturally banks would prefer to see the competition disappear.

**Question: Why are credit unions are expanding their fields of membership?**

**Answer:** The original intent of credit union law in the U.S. did not limit fields of membership. Community charters were rather common. Due to the growing number of credit unions, identifying a specific membership group made it easier to distinguish membership areas, thereby eliminating confusion of a credit union's intended area.

Credit unions began expanding their fields of membership to serve groups who didn't have the means or numbers to establish their own credit unions. Diversification of the membership also provides additional safety during economic downturns. If one group is experiencing hard times, the other groups can help sustain the credit union.

**Question: Funds deposited in both federally insured banks and credit unions are backed up to \$250,000 by the "full faith and credit of the U.S. Government." Are banks and credit unions covered by the same insurance fund?**


**Answer:** Credit unions are insured by the National Credit Union Share Insurance Fund or NCUSIF. Unlike the banks' insurance fund the FDIC, which is a premium-based insurance fund, the NCUSIF is regulated by the NCUA and operates more like a cooperative. Each federally insured credit union (which includes all Montana credit unions) must keep 1% of its insured deposits in the fund. As a credit union grows, so does its contribution to the fund.

Credit unions are ultimately the sole source of dollars for the fund, so if (as in the past year) the NCUA determines that the fund is running too low because of claims or potential losses, the agency can require credit unions to pay additional money into the fund to return the fund to solvency.

**Question: Why do credit unions deserve a credit-union specific regulator?**

**Answer:** The uniqueness of the credit union business requires a regulator and examiners who understand our fundamental differences from others in the financial community.

Credit unions' performance during the past economic downturn — they continued to lend when other financial institutions refused to extend credit, and far fewer credit unions have had to close their doors — shows the resiliency and importance of the credit union model. If the NCUA folded



and credit unions became regulated by the same agency responsible for banks, they might well face pressure to become more like banks in order to survive. In an effort to create efficiencies, regulators would simply start applying one set of rules to two very different businesses.

**Question: The number of credit union members continues to increase, so how come there are fewer credit unions today?**

**Answer:** The decreasing number of credit unions in the United States is due to the credit union mergers, which have become fairly common. Mergers allow small credit unions to offer more services to members, compensate when a credit union loses its sponsor group or has an otherwise unstable field of membership, and alleviates supervisory and operation concerns by improving the soundness of a credit union. And, as noted, the number of credit union members continues to grow. Currently, 87 million Americans, including 381,693 Montanans, are credit union members. That's more than 1 in 3, and as consumers receive the benefits of belonging to a not-for-profit financial cooperative, that number will continue to rise.

**Question: How have credit unions tried to protect themselves and their members against unforeseen costs due to loan defaults or bankruptcy?**

**Answer:** in a financial cooperative, losses caused by one member affect all members because credit unions are forced to make up costs by raising loan rates and reducing dividend rates. Credit unions have a major advantage over many other financial service providers in that the people who receive loans from their credit union are member owners and, thus, have a greater sense of loyalty to the credit union. Credit unions also work hard to help members plan for their future financial health — not just their immediate desires. As a result, credit union “write off” or default rates are, on average, lower than that of banks.

If credit unions feel it is necessary, they will also pursue reform of current laws and regulations. This was the case in 2004–2005 when credit unions lobbied for bankruptcy reform. Currently many credit unions are working hard to help their members restructure troubled debt.

**Question: What kinds of political issues do credit unions have? And why should credit unions get actively involved**

**Answer:** Credit unions are directly affected by a variety of legislative issues. These include regulatory changes, changes in employment practices, and, of course, taxation issues. Credit unions also get involved in legislation that provides better financial education or tools for economic empowerment that can improve the communities where credit unions are located and the lives of people living in those communities. Credit unions support these legislative issues by testifying during hearings, writing lawmakers, and making contributions to candidates' campaigns.



Because credit unions are affected by laws, rules, and regulations, it is important to support candidates who are willing to listen to credit union issues and work for credit union principles while they are in office. Credit unions need to get involved with the legislative process to make sure our story is told and heard.

Contact the League for more information about political advocacy or to let us know of credit union friendly lawmakers in your area.