

credit union philosophy

Montana Certification Manual





forward

Montana Credit Union Philosophy Certification

The *Montana Philosophy Certification Manual* was adopted at the suggestion of the Network's 2005–06 Public Relations Committee.* That group understood that the most powerful spokespeople for the credit union movement are staff, volunteers, and engaged members. They believed strongly that knowing how to price products and services in today's credit union is not enough. Everyone — including directors, managers, and staff — needs to understand why credit unions are in the business they are in. This means that educating the public about credit unions, while essential, is not enough. It's also critical to make sure that credit union staff and volunteers understand credit unions' unique history and philosophy. When our staff and volunteers understand and are comfortable speaking about the uniqueness of credit unions, we will thrive.

The *Montana Credit Union Philosophy Certification Program* was built on this idea. Originally adapted from a manual that the Credit Union Association of Oregon's Operation Grassroots Committee first developed in 1993, the first "edition" of the *Montana Credit Union Philosophy Manual* was published and distributed to credit unions in 2006. Since then, close to 800 credit union staff and volunteers read the manual, took the "checktest," and qualified for certification.

This second edition has been updated and much revised. We urge you to make reading this manual mandatory for all new employees and volunteers and to refer everyone to the online resources at www.mcun.coop. We'll regularly update and add additional information online to engage and keep existing staff and volunteers as up-to-date as possible about the changes happening within the Credit Union Movement.

***2005-06 Public Relations Committee**

from Montana Credit Unions

Steve King, Community FCU (now Montana FCU)
Charlie Abell, Whitefish CU (now retired)
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The first “edition” of this manual (which was finished and distributed in May 2006) was originally adapted from the Credit Union Association of Oregon’s *Philosophy Certification Manual*. That publication was compiled from the following sources: *Credit Union Orientation Program* developed by CUNA Mutual Insurance Group and CUNA and Affiliates; Staff Training and Recognition (STAR) program, CUNA and Affiliates; 1990–1991 Model Speech for Credit Union Annual Meetings, CUNA and Affiliates; and information from the CUNA Research and Development Division. This second edition has been updated and much revised, but still owes a lot to the same sources.







we've got great roots!

Credit Unions ... A Quick History Lesson

Credit unions are relative “newcomers” to the social and economic scene. As an idea, they have only been around since the mid-1880s, and the first U.S. credit union didn't open its doors until 1909. But what a brilliant idea it was ... and still is!

Cooperative credit filled a real need in a new way. Credit unions could provide access to affordable, short-term credit for members of the working class, small farmers, or tradesmen in a community. And, because the very people who directly benefited had an ownership stake in the financial organization, they were careful to shepherd their investment (and pay back their loans).

Once the idea was planted, it was clear that credit unions — and the benefits they offered — were here to stay.

Early Days

The first “classic” cooperative, the Rochdale Society of Equitable Pioneers, was founded in 1844 in England as a way to combat poverty and high interest rates. A group of workers organized a store and purchased shares to raise capital to buy goods at less than retail price. They then sold the goods to their members at a discounted price.

The first “credit” cooperatives first formed in Germany. In 1849, Germans Hermann Schultze-Delitzsch and Friedrich Wilhelm Raiffeisen took the cooperative idea that worked so well in Rochdale and formed “credit societies.” Instead of providing access to goods at discounted prices, these credit societies provided their members (small tradesmen and workers on the part

“This movement is going to be of more benefit to the masses of the people than even the savings banks and the cooperative societies, for every banking door in the [Massachusetts] Commonwealth is barred to the man who wants to borrow \$25 without security. That's the greatest thing about this movement, it reaches a class the banks cannot reach. It will help all. ”

—Massachusetts Governor David I. Walsh at the first statewide meeting of Massachusetts credit union representatives, Boston 1915





of Schultze-Delitzsch and small farmers on Raiffeisen's) with much-needed cash at affordable prices. These "credit societies" weren't true cooperatives, however, as they depended on the charity of wealthy men for support.

Later, Raiffeisen rethought the basic idea and, in 1864, organized an actual credit union. He believed that people — by working together and pooling their savings — could create a valuable credit resource not otherwise available to them. The fundamental principles on which his credit union was established still guide every credit union today. (*See sidebar below.*)

Raiffeisen's Principles

- Owners were the people who saved and borrowed at a credit union.
- Only member-owners could borrow money.
- Loans would be made for "prudent and productive" purposes.
- Desire to repay would be given greater consideration than ability to repay.
- Credit unions would be governed democratically, with each member having a say in how their credit union operates.
- Education of members and social responsibility would play a part in the functioning of the credit union.

Credit Unions come to North America

Alphonse Desjardins formed North America's first credit union in Levis, Quebec, in 1901. Its first savings deposit was just ten cents, and the first collection from all members totaled \$26.

The first credit union in the United States, St. Mary's Bank, was formed in 1909 in Manchester, New Hampshire. St. Mary's Bank still operates under the same name, and the St. Mary's Bank building was recently placed on the National Historic Registry.

Expansion and National Recognition

Around this time, two U.S. businessmen—Massachusetts Banking Commissioner Pierre Jay and prominent Boston merchant and philanthropist, Edward A. Filene— became interested in the "credit union concept."

Filene was a progressive thinker and was very concerned about members of the working class. He was an advocate of the 40-hour work week. He established profit-sharing plans for employees and a minimum wage for female workers. He was convinced that the idea of cooperative credit and credit unions made good sense for workers.

To stimulate the credit union movement, Filene worked with Massachusetts lawyer Roy Bergengren to form the Credit Union National Extension Bureau in 1921. This new organization was charged with spearheading credit union legislation in every state and on the federal level. As more credit unions formed, they soon realized they could expand faster and provide better services by banding together in statewide leagues. These leagues provided

financial and legal advice, organizational help, and advocacy. They quickly became an important instrument for credit unions seeking favorable state legislation, and a number of states passed laws giving credit unions official status.



In 1934, credit union leaders from 22 states met at Estes Park, CO, to form CUNA

Events of 1934

In 1934, support for credit unions made it to the national level, with Congress taking up deliberations on the Federal Credit Union Act. During the debate, President Roosevelt issued the following statement to his Treasury Secretary: “I really believe in the usefulness of these credit unions. Would you please take it up with the Congressional Committees concerned and see if we can get it passed without opposition in the closing days?”

Miraculously, the bill passed on the last day of the Congress at around 8:30 p.m., President Roosevelt signed the Federal Credit Union Act, and credit unions could now be formed anywhere in the country.

Later that year, around 50 credit union leaders from 22 states met in Estes Park, Colorado, to form the Credit Union National Association. Replacing the Credit Union National Extension Bureau, CUNA’s goal was to manage the continuing growth of the credit union movement on a national basis. *(They took the historic photo above.)*

Beyond 1934 to 1998

National recognition and organization allowed for a surge in the formation of new credit unions. Between 1936 and 1941 the number of credit unions nearly doubled, increasing to almost 10,000. World War II, however, brought a halt to growth, and government anti-inflationary regulations resulted in the liquidation of many small credit unions. On balance, the war hurt the movement more than the Great Depression had.

“I really believe in the usefulness of these credit unions. Would you please take it up ... and see if we can get it passed without opposition in the closing days?”

—President Franklin
Roosevelt, 1934

National Credit Union Growth Trends

Year	# CUs	Members
2002	10,041	83,345,147
2003	9,710	84,847,962
2004	9,346	86,050,841
2005	9,011	87,014,017
2006	8,662	88,221,913
2007	8,396	89,324,410
2008	7,905	90,520,000
2009	7,717	92,600,000

Montana Credit Union Growth Trends

Year	# CUs	Members
2002	73	348,980
2003	71	355,517
2004	69	364,350
2005	66	366,179
2006	65	370,074
2007	62	374,544
2008	60	381,693
2009	58	386,814

Post-war prosperity created a second surge of credit union growth. The number of credit unions rose to 23,000 with 19 million members by 1967.

In 1970, federal legislation created the National Credit Union Administration, the independent supervisory agency for all federal credit unions, and established the National Credit Union Share Insurance Fund, which provides federal deposit insurance for credit union depositors. This fund propelled tremendous share growth within the movement. Various federal laws passed in the 1970s allowed credit unions to offer more services, including share certificates, share draft accounts, 30-year home mortgages, credit cards, and other forms of electronic funds transfers.

As in every other industry, the 1980s was an era of deregulation and consolidation. Though deregulation allowed credit unions to offer more services to their members, it also placed a lot of pressure on smaller credit unions. Many couldn't afford to offer the variety of services now permitted, and many merged.

This trend has continued: the tables at left indicate the trends in credit union membership growth over the past seven years. It is important to note that while the number of credit unions is declining, more and more members are enjoying the benefits of ownership.

Consolidating Credit Union Gains

As the distinctions blurred between the services that credit unions and other financial institutions could offer, credit unions worked on the national level to consolidate the gains made in the 1980s. In response, bankers renewed (and became more vocal about) their long-held objections to the tax-exempt status of credit unions.

In 1990, four North Carolina banks sued AT&T Family Federal Credit Union over field of membership and Select Employee Groups. Banks claimed the Federal Credit Union Act was being violated. This began a nationwide attack on credit unions by banks and banking industry associations. In 1991, Operation Grassroots (the battle over regulatory consolidation) took place. Nearly 15,000 credit union people gathered on Capitol Hill in Washington DC for the largest rally in credit union history. Over 70 Montanans participated, bringing the greatest number of Montana credit union people to Washington, DC, at one time. In 1996, credit unions mounted the **Credit Union Campaign for Consumer Choice** to fight banker attacks on credit unions nationwide.



1998 Credit Union Access Act

In 1998, the U.S. Supreme Court decided the 1990 lawsuit in favor of the North Carolina bankers, agreeing that the NCUA had misinterpreted the Federal Credit Union Act by allowing some credit unions to expand beyond their original charter.

If the story ended there, the repercussions of this decision would have caused great hardship for credit unions who may have been forced to expel members and cut their field of membership back to original charters ... the only hope was to change the law. Credit union supporters came out of the woodwork to flood Capitol Hill with letters, calls, e-mails, faxes, and visits. With only one week's notice, more than 6,500 credit union members and small business leaders from all 50 states rallied on Capitol Hill. Ten senators and representatives promised passage of the law before August recess.

True to their word, HR 1151 was passed in both the House and Senate in a nearly unprecedented vote, (only two “nay votes” in the Senate and fewer than ten in the House), and President Bill Clinton signed the Credit Union Membership Access Act into law on August 5, 1998.

The past 75 years have brought major changes and many victories for the credit union movement. But, today, we still need to be vigilant in protecting the future of credit unions and the idea of cooperative credit. The American Bankers' Association continues to agitate in the courts against field of membership expansions and the recent woes of the financial system make it clear that credit unions need to make sure that any legislative reform does not destroy the underpinnings of our movement. It is up to all of us to ensure credit unions' future existence.

Presently, more than 7,700 credit unions with more than 92.6 million members exist in the United States. It's an exciting time to be a part of this movement! We need to remain true to the philosophies on which we were founded and actively tell our story.

“This legislation is imperative to resolving those issues brought up in the [court case] and ensuring that consumers continue to have the choice of a credit unions for financial services.”

—*President Bill Clinton*
1998





we're a little different!

Credit Unions ... Unique Financial Service Providers

As someone who is involved with a credit union, it should come as no surprise that credit unions are not like any other financial institution. This uniqueness serves as the basis for our existence and is what has earned us our tax-exempt status.

Some people would have the public believe that if your credit union looks like a bank, sounds like a bank, and offers the same services as a bank, then it must be a bank and should be taxed and regulated in the same way as a bank. This is a popular argument in banking circles. To counter it effectively, you must understand the differences between your credit union and other financial service providers.

You may have heard it before, but it bears repeating: The Credit Union Difference Is In The Structure. So, how *exactly* are credit unions different from other financial institutions? There are six primary ways ...

WE'RE NOT-FOR-PROFIT...


Now does that mean that we don't make any money? Well, of course not, most of you are paid professionals... and it's nice to get a pencil when you've requisitioned it, it's especially nice when the lights and heat come on. So, we're not NON-PROFIT, we're NOT-FOR-PROFIT.

Unlike other financial institutions, credit unions do not exist for the purpose of making a profit. Our focus is not on making money, but on serving our membership. Banks have stockholders who expect to receive a share of the profits. Credit unions return any surplus earnings to members in order to improve services, add new services, pay dividends on shares, or to keep loan rates down. All so-called "profits" or "savings" are returned to members who in turn pay personal income tax.

Because we are not-for-profit, we have a corporate tax exemption that creates issues with our for-profit banking friends. They believe that because credit unions provide similar services we should be

A Quick Overview of Credit Union's Unique Structure

- 1. WE'RE NOT-FOR-PROFIT**
- 2. WE'VE GOT A UNIQUE OWNERSHIP STRUCTURE**
- 3. OUR GOVERNANCE MODEL IS UNUSUAL.**
- 4. WE HAVE MEMBERSHIP ELIGIBILITY OR REQUIREMENTS**
- 5. WE PROMOTE FINANCIAL EDUCATION**
- 6. WE SERVE A SOCIAL PURPOSE**



taxed. Well, they fail to look at our most basic difference — we exist to serve people, and they exist to make a profit. Credit unions are cooperatives, organized as not-for-profits, so we shouldn't pay corporate taxes.

Also, it's important to note that credit unions pay other kinds of taxes ... we pay payroll taxes and property taxes.

WE'VE GOT A UNIQUE OWNERSHIP STRUCTURE

When it comes to electing leadership, credit unions follow the democratic idea of one member, one vote. Unlike for-profit financial institutions, our owners are our customers. Most for-profit financial institutions have both customers and stockholders that they have to keep happy. We're fortunate, our customers are our shareholders. So, remember the next time that member walks up to your window — treat them the same way that you'd treat your boss, because that's who they are!

OUR GOVERNANCE MODEL IS UNUSUAL

Our board members are volunteers (well, except for that sandwich or pizza that you “pay them” every month). These folks govern your credit union because they believe in the credit union ideal and want to leave the world a better place. Credit union board members have responsibility for articulating the credit union's mission, setting policies and strategic direction, and ensuring that the credit union is operating legally. Finally, the board approves the operating budget and hires the credit union Manager/CEO. Additionally, we have supervisory committees, another group of volunteers who serve as the “watchdog” of the credit union. They make sure that financial records are accurate and that safeguards are in place to protect the credit union from loss.

For-profit financial institutions have paid board members, in some areas they receive up to six figures for their service! Volunteers are our most visible credit union difference!

WE HAVE MEMBERSHIP ELIGIBILITY OR REQUIREMENTS

This is unique to cooperative businesses. Fortunately, our regulators have been responsive to our changing needs and have widened most fields of membership, but we still have some restrictions on who can join the credit union. It was the vision of most credit union pioneers that EVERYONE have access to a credit union. Some folks speculate that membership restrictions were placed early on to ensure our success ... groups of “like individuals pooling their resources” helped credit unions grow in the early years.

WE PROMOTE FINANCIAL EDUCATION

Promoting financial education is one of our basic tenets: it's not just a nice thing to do, it's one of the reasons that credit unions were formed, and it's part of our unique culture. We're not just talking about youth financial education ... it extends to your entire membership. Providing financial education is one of our responsibilities.

WE SERVE A SOCIAL PURPOSE

For-profit banks are required by law to provide community service under the Community Reinvestment Act. Several times Congress has reviewed the Community Reinvestment Act to see if credit unions should be forced to comply. Each time they've reached the same conclusion — there's no reason to regulate an industry to force them to do something that they're already doing.

Credit unions can illustrate our social purpose as long as we stick to our cooperative principles.

CREDIT UNION COOPERATIVE PRINCIPLES

WE HAVE OPEN & VOLUNTARY MEMBERSHIP.

Membership in a credit union is voluntary and open to all within the common bond who can use its services and are willing to accept the corresponding responsibilities. As owners, we do have responsibilities ... to use the products and services that are appropriate to strengthen our cooperative. As employees, we have responsibilities to educate our members and to promote the appropriate products and services.

WE ARE DEMOCRATICALLY CONTROLLED. Every member has one vote, regardless of the amount they have on deposit. In for-profit financial institutions, you vote based on your wealth.

WE ARE NON-DISCRIMINATORY. We don't discriminate on the basis of race, national origin, gender, marital status, political affiliation, etc. We accept all people for who they are and welcome them into the cooperative.

WE WORK TO IMPROVE THE SOCIAL AND ECONOMIC WELL-BEING OF OUR MEMBERS. We serve a social mission outside of our fiduciary responsibilities as a financial institution.

WE ENCOURAGE THRIFT. We actually have the responsibility to encourage our members to save and borrow wisely. We promote thrift through savings and, thus, pay a fair rate of interest on savings and other deposits. The surplus arising out of the opera-

tions of the credit union (after ensuring appropriate reserve levels and other necessary payments) belongs to and benefits *all* members. This surplus may be distributed among members in proportion to their transactions, or used to improve or add services required by the members.

WE BUILD FINANCIAL STABILITY THROUGH ADEQUATE RESERVES. We must set aside earnings so that when we have economic downturns, loan charge-offs, new buildings, we can weather the storm without closing our doors — this is how we ensure continued service to our membership. This financial cushion has helped many credit unions weather the economic downturn since 2008.

WE COOPERATE WITH OTHER COOPERATIVES. We work with other credit unions to ensure that our cooperative principles are working. We work together with our state, national, and international trade associations to serve our communities.

WE SEEK TO BRING ABOUT HUMAN AND SOCIAL DEVELOPMENT. We are charged with a greater mission than just serving folks' financial needs ... that's why it's so important for us to be involved in our communities and give back to our neighborhoods... Our vision of social justice extends both to the individual member and to the broader community within which the credit union and our members reside.



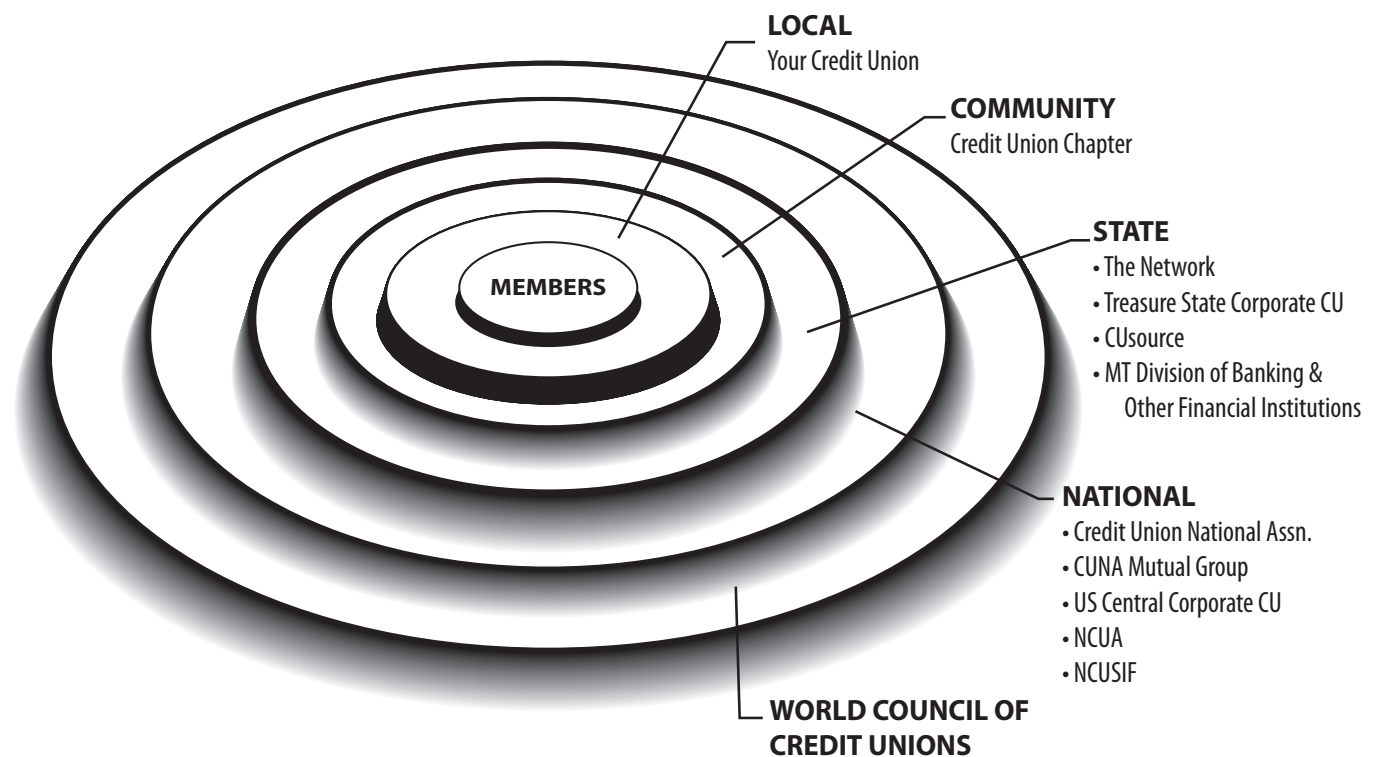


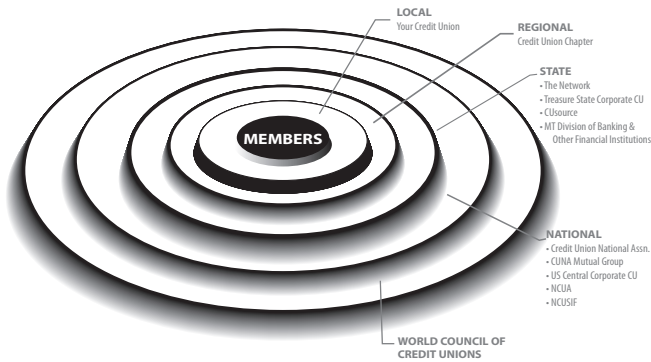
we're all in this together!

The Credit Union Movement ... It's a Cooperative System

As you now well know, credit unions are financial cooperatives. Given the our history, it makes sense that the cooperative spirit doesn't stop at the individual credit union's door. And, while individual credit union members remain at the center, the credit union system has cooperative partners at the local, regional, state, national, and even international levels. In fact, a large part of the strength and ongoing success of credit unions comes from the structure and purpose of the credit union system components. Knowing how it all fits together and who does what is key to understanding your role and importance in the credit union movement.

Take a look at the graph below, in the next couple of pages we'll explain each of the pieces.



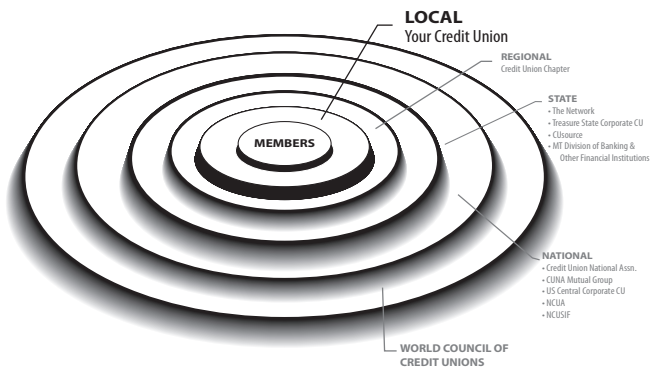


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Members

The entire credit union system is founded on and by individual **CREDIT UNION MEMBERS**. Our member-owners are central to everything ... they're the reason credit unions exist!

fun facts: Montana credit unions have 381,693 members. That's more than one-third of our state's population. Nationally, there are 92.6 million credit union members. And around the world, credit unions in 97 countries have 184 million members.

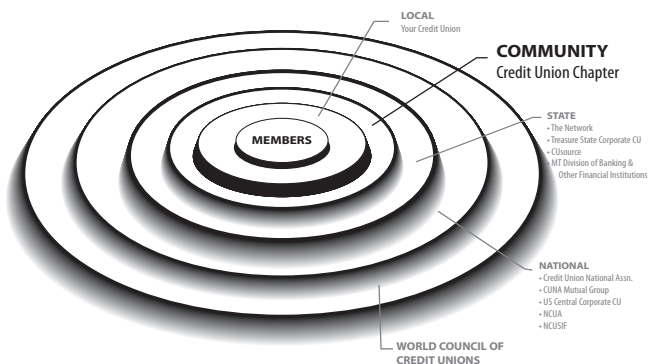


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At the Local Level

At the local level are **CREDIT UNIONS**, the backbone of the system. All credit unions are created by members pooling their resources, thus offering individuals the opportunity to work toward financial self sufficiency.

fun facts: In Montana we have 57 "regular" credit unions with more than 100 branches located in various towns around the state. We also have one corporate credit union based in Helena. A corporate credit union is, essentially, a credit union for credit unions.



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At the Community Level

Formed by local credit unions, **CREDIT UNION CHAPTERS** provide staff and volunteers with a way to get together for networking, education, community service, and problem-solving. Chapters are an integral part of the credit union system.

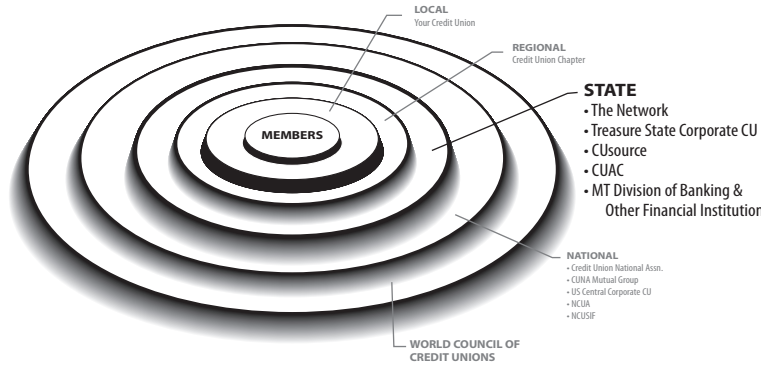
fun fact: Montana has ten chapters.



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At the State Level — Service

At the state level, credit unions cooperate to create economies of scale, and in Montana several entities are part of the system. The **MONTANA CREDIT UNION NETWORK** is an umbrella for three organizations:

- The *Montana Credit Union League* is the not-for-profit trade association. Montana credit unions pay dues to the League, which provides legislative and public relations advocacy, compliance and regulatory assistance, educational opportunities, and creates avenues for cooperation.
- The *League Service Group* or *LSG* provides a wide range of fee-supported services. It works with a number of vendors to provide Montana’s credit unions with services they can count on. LSG administers the Health Insurance Trust and has spearheaded the Healthy You! Campaign and offers strategic planning and board training services.
- *Montana Credit Unions for Community Development* is the Network’s charitable arm. MCUCD works with Montana credit unions to provide financial education, free tax preparation services, and asset development programs that help Montanans become financially independent. MCUCD helps credit unions in fulfilling the social responsibility of serving their communities.



TREASURE STATE CORPORATE is your credit union’s credit union...it provides lending services, wire transfer services, investments, check collection, corporate share drafts, ACH, securities safekeeping, savings bonds settlement, and Internet access to your credit union’s account.

CUsource is a credit-union owned credit union service organization or CUSO with offices in Great Falls, Helena, and Billings. A cooperative venture, CUsource offers credit unions a variety of essential services (from data processing, real estate programs, statement mailing, computer services, or bulk ordering), and works to keep prices lower by cooperatively sharing resources.

fun facts:

MCUCD works with Montana’s credit unions to serve people with low- or moderate-income who live in Montana.

One of MCUCD’s areas of focus is in Volunteer Income Tax Assistance (VITA). The program is in its fifth year, and it’s racking up some impressive numbers.

During the 2010 tax season ...

- 20 credit unions sponsored
- 17 VITA sites
- filing tax forms for 2,620 taxpayers who received
- over \$2.5 million in refunds and
- saved more than \$407,000 in tax preparation fees.

That’s a lot of money that flows back into the local economies in these credit unions’ communities.



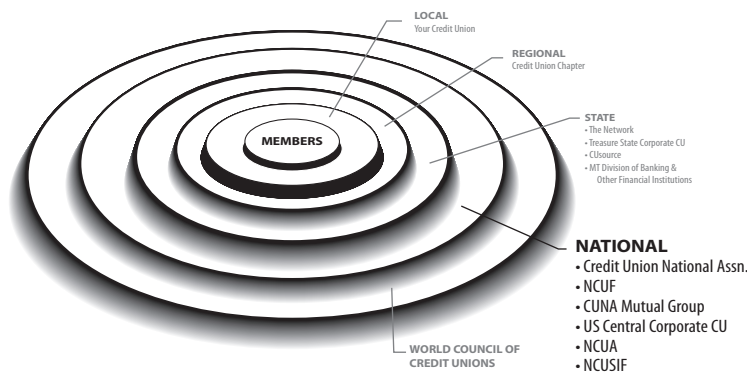
At the State Level, continued ...

The Montana Credit Union Advocacy Council or **CUAC** is a political action committee that most of Montana’s credit unions contribute to. CUAC raises funds to support credit-union-friendly candidates who are running for state and federal offices. Montana credit unions have a choice of PACs, but can only sign up with one.

Montana CUAC’s sole fundraiser is an annual raffle, and participating credit unions sell raffle tickets to their members.

At the State Level — Regulation

Montana currently has eight credit unions that have a state charter (instead of a federal charter). These are regulated by the Division of Banking and other Financial Institutions. Housed in the Montana Department of Administration, this division is headed by the State Commissioner of Banking. All of Montana’s credit unions are federally insured through the National Credit Union Share Insurance Fund.



fun facts: ALL of Montana’s credit unions are members of the League and Corporate credit union. This illustrates the importance that Montana’s credit unions are well aware of the importance of pooling their resources. Only five other states — Alaska, Delaware, Maine, New Hampshire, and South Carolina — have 100% affiliation.

Montana credit unions raised more than \$32,000 to support credit union advocacy by selling tickets for the CUAC Raffle in 2010.

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At the National Level — Service

National service providers support the statewide service providers and offer other products and services that, due to economies of scale, can’t be offered at the state level. Many of the state-level organizations have a national counterpart.

The **CREDIT UNION NATIONAL ASSOCIATION** is the trade association for member leagues and credit unions. If a credit union is a member of their state credit union league, they also belong to CUNA. Staff at CUNA research credit union and economic trends, provide national publicity and public relations, coordinate national advocacy and lobbying efforts, and much more.

Another organization is the **NATIONAL CREDIT UNION FOUNDATION** is the charitable arm of the US credit union movement. NCUF raises funds to offer

grants that support credit union efforts to provide financial education and reach out to those of modest means. NCUF also sponsors and administers the Credit Union Development Education and the REAL Solutions programs.

CULAC or the **CREDIT UNION LEGISLATIVE ACTION COMMITTEE** is CUNA's national political action committee. Montana contributes to CULAC to support federal candidates who are friendly to credit union issues.

CUNA MUTUAL GROUP provides a wide variety of insurance products to credit unions. And, echoing the cooperative nature of credit unions, a number of networks — like CO-OP Financial Services, which is endorsed by the Network — offer shared branching and ATMs.

U.S. CENTRAL CORPORATE CREDIT UNION is the primary credit union for all the state and regional corporate credit unions, like Treasure State Corporate in Montana. U.S. Central offers many services that are integral to day-to-day operations at your credit union.

At the National Level — Regulation

The regulatory agency for all federally chartered credit unions in the U.S. is the **NATIONAL CREDIT UNION ASSOCIATION**. A federal government agency, **NCUA** is governed by a three-person board and is responsible for making sure credit unions (and the credit union system) remain operationally sound. NCUA is also the main regulatory authority for all corporate credit unions.

The NCUA administers the **NATIONAL CREDIT UNION SHARE INSURANCE FUND (NCUSIF)**, which insures all share deposits in credit unions. Federally insured credit unions are required to deposit 1% of their assets in the NCUSIF to provide the money for the fund. The agency also can require credit unions to pay additional assessments if they are necessary to keep the fund solvent.

CUDE Program

Credit Union Development Educators work with CUNA and the World Council of Credit Unions to promote the credit union ideal. If you are interested in a real submersion of credit union philosophy, consider attending this intensive six-day training!

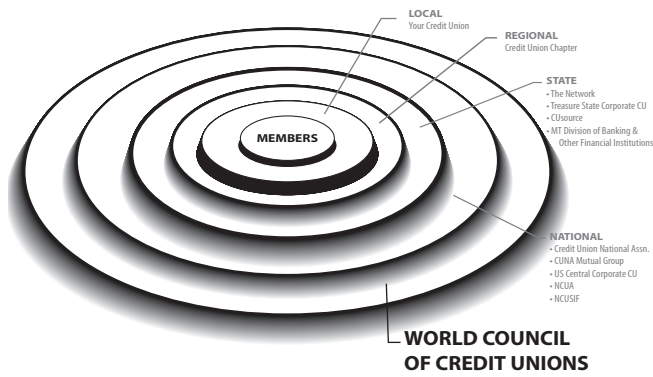
Go to the people,
Live among them,
Love them.
Start with what they know,
Build on what they have.

And the best leaders,
When their work is achieved,
Their task is done,
Will hear the people say,
“We have done it ourselves.”

— *CUDE Motto*

fun facts: In June 2010, there were 7,701 credit unions in the U.S. and 92.6 million members. This is an increase of about 2.1 million members from March 2009.

Because of our belief in political activism, Montana's credit unions have consistently donated more than required to CULAC.



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At the International Level

The credit union system continues on the international level as well. The **WORLD COUNCIL OF CREDIT UNIONS** was formed in the 1960s to take the credit union ideal to the rest of the world. **WOC-CU** works with the federal government to use grant dollars to assist developing countries in creating credit unions. and has projects in Africa, Asia, the Caribbean, Europe, Latin America, and the South Pacific.

fun facts: According to their website, **WOCCU** counts 49,000 credit unions in 97 countries as their members. Those credit union, in turn, have 184,000,000 individual members.

Wow! Now that's a movement!



we've got a lot to talk about!

Credit Unions ... In "Real World" Context

You often have the chance to talk to members and the public about credit unions, whether it's answering a question, offering a polite opinion, or outlining the benefits credit unions provide, as a credit union employee or volunteer.

Of course, it's always MUCH easier to speak up if you feel prepared. So, what follows is some basic information about credit unions that will hopefully help you put credit unions in a "real world" context that makes sense to the people you talk to.

First ... a few tips to keep in mind

- **Remain positive.** Remember, this is an opening for you to explain the benefits of credit unions and emphasize the credit union difference. Smile as you respond and try hard to phrase your comments or answers as positively as possible, even if it means restating a negative question.
- **Stick with the facts you know.** You always want to provide people with information that's correct. If you "fudge" the facts, not only do you confuse the issue — you also risk losing credibility, for you *and* your credit union.
- **If you don't know, say so.** Don't feel bad or embarrassed. There's a lot to learn about credit unions (and the economy and the financial services industry). Just make sure to offer to find the answer or refer that person to someone who will know. And, follow up. That way you can make sure that person got an answer ... and you can learn the information for future reference.
- **Know your credit union.** Take the time to learn when it was founded and what its initial charter was. If the charter has changed, try to find out why and the benefits members have received because of these changes.
- **Refer calls from the media to the right person.** Most credit unions have a point person who handles press inquiries. Find out who that person is so you know who reporters should talk to when they call.



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. In September 2009, the average asset size credit union in the United States was \$115 million; the average size of a commercial bank was \$1.6 billion. Overall, credit unions had approximately \$885 billion in assets compared to the banks' almost \$13.4 trillion in assets at that time. Each of the nation's four largest banking entities are larger than the entire credit union movement.
- **Capital ...** Credit unions have a stronger capital base than do banks; and the credit union capital-to-asset ratio is increasing. As of June 2010, the net capital to assets of federally insured credit unions was 9.87 percent as compared to 8.64 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, in September 2009 credit unions controlled only 6% of the market share — in Montana it is a comparable amount.



Second, a large number of banks have changed their charter to Sub-S corporations, financial entities that, like credit unions, pay no corporate income tax. Finally, if the advantage were truly so great, other financial institutions should be converting 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 credit unions have and, as a result, taxation would 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 10 to 30 years. Credit unions, like other financial institutions, have broadened their scope to remain competitive, but they 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 limitations affecting credit union structure or services, some regulations that apply to banks do not apply to credit unions.

Federal credit unions and federally insured, state chartered credit unions (in other words, all Montana 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 CUNA official once said, “Frankly, credit unions are getting tired of the regulations heaped on them because of banks’ unethical behavior.” While the rules are still being promulgated, the recent passage of the financial regulatory reform bill will increase the credit unions’ compliance burden.


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 unions in Montana have a community charter, meaning everyone in geographical community is eligible to join.

Banks could generally make loans without geographic constraints, a situation that led many banks to make loans only in profitable areas, or outside of the local community where banks received deposits. Congress passed the *Community Reinvestment Act* in 1977 to force banks to provide loans, deposits, and other financial products to areas perceived to be not profitable. 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. This past year has seen a resurgence of credit union effort to increase their ability to make member business loans.

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 that 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 maintain the fund's 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 “bank like” to survive. In an effort to create efficiencies, regulators could well 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 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 a credit union's soundness. And, as noted, the number of credit union members continues to grow. Currently, 92.6 million Americans, including 386,814 Montanans, are credit union members. That's more than 1 in 3, and as consumers receive (and become aware of) 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 by providing 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.

Check out the *Advocacy and Government Relations* on the Network's website www.mcun.coop or Contact the Network for more information about political advocacy or to let us know of credit union friendly lawmakers in your area.





we've got to spread the word!

Credit Unions ... Get Involved

Credit unions — and credit union staff and volunteers — are doing wonderful things for individual members and for our communities. We need to share our stories to help others understand what credit unions are, what they do, and why they're important to the ongoing financial health of our members, our communities, and our nation. Below are a couple of “easy” things you can do that can make a HUGE difference.

Remember the words of Louise Herring, a well-known credit union pioneer: We must remember what we started out to do and then find ways to do it with the modern techniques available.

“Good News” Stories

Every day, your credit union goes out of its way to serve its members. It may be something as simple as the tellers knowing and using your members' names and making sure that members know they are welcome and valued. Your credit union may have organized a bake sale to benefit a charity. Your credit union may have made a loan to someone who could not have gotten a loan elsewhere. The list goes on and on. The fact is, every credit union has a “good news” story to tell.

You need to tell your own good news! Tell your members in your newsletter; tell the Network so they can tell other credit unions, our state legislators, and our congressional delegation. Keep a file of your good news stories and make a commitment to publish at least two of them each year in your newsletter. Give prizes to staff who bring good news stories to the attention of management. Send your good news stories to the Network's communication manager so they can be posted on *www.mcun.coop* or included in the President's Report or quarterly *Network News*.

CONVEYING OUR MESSAGE ACTION STEPS! !

Create a philosophy section in your newsletter or on your website. Your members read what you send them and they believe it. If we don't educate them, where will they get the information?

Share the credit union story with your friends, neighbors, and family — **we've got a great story to tell, but if we don't share it, who will?**

If you see a co-worker go “above and beyond” in true credit union style, give them a pat on the back. If we don't reaffirm our philosophy, who will? And, **if you have a specific “good news” story, email them to *beth@mcun.org* or send them in to the Network, attn: Beth Satre.**



Tell your lawmakers why you like your credit union.

It's important to let our lawmakers know that credit unions are very special. Survey after survey has revealed that credit union members are the most satisfied users of financial services.

Please help keep lawmakers informed about the value of credit unions. When something good happens, make a note of it, and once or twice a year let your representatives in Congress and the Montana Legislature know about it. You will have a tremendous impact. Use examples from your own experience, in your own words. You don't need to make the letter fancy or long.

Here's what lawmakers are hearing from credit union members across the country:

- ... "Several years ago, we were faced with a temporary financial setback ... we had been members at the credit union for only two years, but ... we not only received the funds needed, we were treated with dignity and understanding."
- ... "The credit union offers me friendly, helpful counseling whenever I have a question or a problem. With the credit union, I vote for my board members. Please resist efforts to make credit unions like other financial institutions."
- ... "During my credit union involvement, I have made loans as small as \$75 to help an elderly member purchase medical prescriptions. I have seen young couples given the opportunity to purchase their first car. They come to us because the banks will not loan them money on a car that is over seven years old."
- ... "Credit unions should not be an issue. They should be an example."

Project Zip Code

Project Zip Code is another important thing credit unions can implement. PZC is software developed by CUNA that counts the number of members a credit union has in each state and federal legislative district. When your credit union runs it with the your membership file, Project Zip Code counts the number of members a credit union has in each legislative district without sharing any confidential information. These numbers are then combined with numbers from other credit unions across the United States to provide a count of all credit union members in each legislative district nationwide. Project Zip Code becomes more accurate with each credit union that completes the program. Project Zip Code should be updated at least annually to capture the zip codes of new credit union members.

Project Differentiation

Project Differentiation provides credit unions an opportunity to create a statement of values to share with their members, staff, and lawmakers. Project Differentiation calls on credit unions to self report the good works they do and the philosophy upon which their credit union has been built. Almost all of Montana's credit unions completed Project Differentiation statements in 2002-2003; however, regular updates of these statements will ensure that Project Differentiation continues to be a valuable tool to assist credit unions in displaying their uniqueness.



Reach Out to the Credit Union Community

Credit unions and credit union organizations are involved in a lot of exciting projects, programs, and events ... the number grows every day. Information changes frequently, so go to www.mcun.coop to find out important stuff like when your credit union chapter is going to meet next and who your chapter leaders are, how to contact your state legislators, upcoming compliance deadlines, etc. We'll also have links to interesting and engaging things going in national (and international) credit union circles. If you find something that you think should be added to the Network website, let us know by sending us an email at mcun@mcun.org.

So, get involved, share resources, and make sure to share the good news that's going on at your credit union!

MONTANA CREDIT UNION PHILOSOPHY CERTIFICATION

IT'S NOT TOO DIFFICULT ... If you want to get or renew your certification (we have new certificates), just read through this manual or the Credit Union Philosophy section on the Network website (www.mcun.coop) and take a short "checktest." The checktest questions are based on the information presented in this manual, but might require you to use your personal experience or provide answers that are specific to your credit union.

Before taking the test, it might be wise quickly review the online Credit Union Philosophy section to see if there have been any updates.

The checktest, along with the most recent version of this manual, is available at www.mcun.coop. Follow the Credit Union Philosophy link and you'll see the links. If you'd rather take a paper test, contact Beth Satre at beth@mcun.org or 800-745-5546, ext. 134.

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the **7 principles** of credit unions

1. credit unions are **democratic**

We are controlled by our members. The members elect a volunteer board of directors that calls the shots. So, you won't find us flying corporate jets or handing out big bonus checks.

2. credit unions are **open**

You can belong to a credit union no matter your financial situation, race, or gender – without discrimination.

3. credit unions have **better rates**

Your success is our success. The more people who participate, the more the credit union can give back in the form of lower loan rates, higher savings yields, fewer fees and more products. Just like karma – what goes around comes right back around.

4. credit unions are **independent**

We are owned by our members, not outside shareholders. That makes each member the boss.

5. credit unions believe in **financial education**

We are actively involved in teaching in schools and helping members get ahead. If you've got a few minutes, we'll teach you the merits of budgeting, planning for retirement or even how to balance the ole checkbook.

6. credit unions work **together**

We network together to provide more ATMs than the world's largest bank. We also share 4,000 branches across the country that most any credit union member can access.

7. credit unions **give back**

Credit union folks everywhere participate in volunteering for all sorts of local charities. It's just part of our DNA.

written and created by Kelley Parks, Creative Catalyst and Founder of gira{ph}.
She's posted a video featuring these principles at www.giraphcu.wordpress.com.

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