5 Reasons to Choose a Credit Union Over a Bank

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Since the economic recession began in 2008, Americans have increasingly lost faith in corporate financial institutions. With comparable if not superior offerings, credit unions have become a popular and sensible alternative to large banks. Credit unions and banks offer many of the same financial products, such as checking and savings accounts, CDs, credit cards, loans, and mortgages. However, according to a Bankrate study, as of 2012, less than a third of Americans were members of a credit union. Regardless, credit unions are increasing in popularity as Americans continue to lose trust in for-profit banking enterprises. A 2013 Gallup poll found that 74% of Americans had “some or very little confidence” in banks, and only 10% said they had a “great deal” of confidence.

Credit unions are known for their superior customer service and support for local communities. Some claim that credit union members have to sacrifice accessibility and technology, but more and more credit unions are proving they can keep up. Today’s credit unions sometimes reimburse ATM fees incurred at other locations. Many credit unions have also joined forces through the CO-OP ATM network or other shared branch alliances to offer members convenient out-of-state access.

To choose the best financial institution, the key is to gather all of the relevant information. While banks have large advertising budgets and flashy websites and apps, most credit unions have the advantage of actually being better for the average person’s financial health. According to the Credit Union National Association (CUNA), these not-for-profit institutions gained 1.3 million new members last year, as well as a new record high for total members. Here are five reasons why more Americans are turning away from banks and toward credit unions.

1. Credit unions are not-for-profit

One of the key differences between banks and credit unions is that credit unions are not-for-profit institutions. At a credit union, what you think of as a checking account is called a “share draft.” In this way, credit union members are essentially partial owners of a co-op. Banks, in contrast, answer to a number of powerful investors. This means they are more likely to take risks with your money and charge high fees and interest rates to ensure a profit. While the interests of a credit union principally end with its members, the banking industry strategically shuffles loans and mortgages to various lenders, spends billions on advertising, and uses its funds to lobby against credit unions — all to ensure the highest possible return.

2. Community enrichment

At a credit union, members are essentially buying shares of a company. Rather than being considered a customer, members are shareholders of a local cooperative. Perhaps the reason credit unions are known for superior customer service is because in essence, it isn't a relationship between business and customer, but between partners with a shared stake. Credit unions require that you are a member of a particular group with shared interests, whether it is the industry you work in or simply the region where you live.

3. Fee-free accounts

Many account holders at banks have been forced to adjust to higher minimum balance requirements and fees. The promise of a fee-free checking account has drawn many to credit unions in recent years. According to Bankrate's 2012 credit union checking survey, 72% of the credit unions surveyed had no minimum balance requirements to avoid fees. In cases where fees apply, they are frequently lower at credit unions than banks.

4. Better interest rates

Interest rates on mortgages, loans, and even credit cards tend to be lower at community credit unions. Many credit unions have less strict loan eligibility requirements and are understanding of special circumstances such as self-employment that may be unattractive to banks. Not only are fees and interest rates typically lower, but savings accounts, CDs, and bonds usually yield higher returns at credit unions.

5. Your money is protected

Bank proponents sometimes point to the fact that deposits in credit unions aren't covered by the FDIC. However, federal credit unions are required to be members of the National Credit Union Share Insurance Fund (NCUSIF). Deposits at credit unions are insured up to $250,000 – the same goes for banks. Others argue that your money is in fact safer in the hands of a small-scale, local credit union because a bank is more likely to shuffle funds and loans around to questionable lenders, rather than keeping money in the community. Ultimately, making the best financial choice depends on your needs and how well you inform yourself about your options. But always keep in mind that at a profit-driven institution, your questions will be answered by, in essence, a sales representative.