

9 Reasons Credit Unions Are Better Than Big Banks

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While out and about, you may have passed by the local credit union without looking twice because you don't have a need for their services. Well, at least that's what you thought.

Which brings me to the following question: Are you aware of how credit unions operate and what they entail? If so, you may be inclined to open up an account at one closest to you or even make the switch from your bank.

What exactly is a credit union and why is it better?

MyCreditUnion.gov defines credit unions as "not-for-profit organizations that exist to serve their members rather than to maximize corporate profits." They operate similarly to banks, as they make loans to members and accept deposits.

So, why should I choose the local credit union over big boy banks?

1. Motives

The sole purpose for a credit union's existence means that it should have your best interests at heart, and not the bottom line of the institution. Big banks, on the other hand, are there to turn a profit and will seemingly do whatever it takes to meet their numbers.

2. Structure

Because they follow a cooperative structure, credit unions are owned and operated by their members. Upon making the initial deposit, you will be granted voting rights along with surplus income returned in the form of dividends because cooperatives are owned and operated by members.

As a member, you may be also able to conduct transactions at other affiliate locations outside of your institution. And some credit unions reimburse their members for ATM fees incurred outside of their machines. This was a major lifesaver when I arrived at college and discovered that one of the local credit unions near campus was partnered with my credit union in my hometown.

3. Fees

Credit unions have lower expenses, so they are able to pass on the savings to their members. For instance, many credit unions offer free checking accounts with no minimum balance constraints, but you will often have to pay a fee at the big boy banks if your funds fall below a certain number or you fail to meet other criteria. You likely will also be assessed a fee for each transaction that is processed using overdraft protection.

4. Loan rates

Every loan I've ever gotten has been from the credit union, even after shopping around at the big boy banks. They usually have better rates because they are nonprofit and aren't looking to make their wallets fatter. According to the National Credit Union Association, as of Sept. 30, the average interest rate on a 48-month new-car loan was only 2.91 percent at the credit union, but 4.21 percent with major banks.

5. Credit card offers

The NCUA also indicated that the average interest rate for credit cards was 10.99 percent for credit unions and 11.82 for banks. So there isn't much of a variance in terms of APR, but the plastic from credit unions are usually less costly in terms of fees.

6. Borrowing

Been turned down by all the major banks? Try your local credit union, as its borrowing standards are more flexible and they may be willing to work with you, especially if you are a member in good standing. And if you're self-employed, you already understand how tough it can be to get approved for anything with major banks.

7. Earnings on savings accounts

Although the interest rate is still on the low side, it beats the major financial institutions. According to the NCUA, as of Sept. 30, credit union savings accounts yielded earnings of 0.15 percent on average while banks earned only 0.06.

8. Customer service

The credit union may not have a 24/7 customer service line for you to call at 2 a.m. when you have a burning question about your account, but rest assured that the focus will always be on you. Every credit union I've ever been a member of was staffed by friendly representatives who knew me by name. I can't say I've had that experience with banks.

Also, there's no need to worry if your card is lost or stolen because there is typically an after-hours hotline you can call at any time to report these unfortunate occurrences.

9. Insurance

You can rest assured that your funds are safe in the credit union's hands. Similar to most major banks, all accounts are federally insured up to \$250,000 and backed by the U.S. government.

What if I want in?

Credit unions usually serve individuals affiliated with a particular organization or geographic region. But this doesn't necessarily mean you won't be able to slip through the cracks. To search for a credit union in your area, take a look at:

- aSmarterChoice.org
- MyCreditUnion.gov
- CUlookup.com
- National Credit Union Association website

Of course, the terms, conditions and fees vary by financial institution, so you'll need to inquire about specifics.