

Americans Keep Fleeing Banks, Flock to Credit Unions Instead

By Rich Smith, The Motley Fool

Posted by Daily Finance on Jan. 9, 2013

According to urban folklore, when famed 20th-century bank robber Willie Sutton was asked why he robbed banks, he replied: "Because that's where the money is."

In fact, before his death, Sutton denied ever having uttered the quip, attributing it instead to "some enterprising reporter who apparently felt the need to fill out his copy." Explained Sutton: "Why did I rob banks? Because I enjoyed it. I loved it. I was more alive when I was [robbing a bank] than at any other time in my life."

Given current public sentiment against the nation's big financial institutions, it's a sentiment a lot of Americans might be able to get behind. Not robbing banks, exactly, but taking their money out of them ... and putting it in credit unions instead.

Time to Break the Bank

According to the Credit Union National Association, credit union membership hit a record high in 2011. It did it again in 2012, with the National Credit Union Administration saying membership in credit unions surpassed 93 million in the second quarter, the largest quarterly increase in membership since autumn of 2008.

A report earlier this month out of SNL Financial shows that credit unions are gaining ground on their for-profit commercial rivals in other ways as well.

In the third quarter of 2012, credit card loans to consumers from credit unions topped \$38 billion, rising by almost \$2 billion over third-quarter 2011 levels – about a 5 percent increase. In contrast, while credit card loans from U.S. commercial banks continued to dominate the market at \$669 billion, down by about the amount from their \$671 billion in credit card loans in third-quarter 2011.

The surge of interest in credit unions stems in part from recent highly publicized efforts by commercial banks to load up their customers with new fees – on debit cards, on checking accounts, on ATM withdrawals. As well, there's the banks' role in the 2008 financial crisis, which came close to destroying the American economy. And toss in the banks' tooth-and-nail fight to preserve high interest rates, high service fees, and "universal default" policies on credit cards for a third.

At the same time, though, give the credit unions some credit for doing a lot of things right.

How You Profit From a Nonprofit Model

A creation of the 1934 Federal Credit Union Act, credit unions are designed to offer basic banking services on a nonprofit basis. Checking and savings accounts, and even online banking – yes. Commercial loans to businesses, broad geographic branch networks, and investment banking – no.

Owned by their members (rather than by profit-hungry shareholders), credit unions have both an incentive to keep costs low and a complementary lack of incentive to raise costs high. As a result, it's only natural that they often offer a better deal than you can find at many of the nation's big banks.

For example, have you noticed that it's getting harder to find a bank that offers free checking? The *Christian Science Monitor* recently observed that while "all of the largest banks offered free checking until 2009 ... now, almost none do." In contrast, a survey conducted by Bankrate.com in 2011 showed that out of the 50 largest credit unions in the nation, 38 of them still offer free checking to their members.

And take credit cards, for example. According to SNL Financial, the average rate of interest charged by U.S. commercial banks on "platinum" tier cards is currently 9.9 percent. Credit unions, in contrast, can be found offering rates as low as 6 percent, 5 percent, or even 3.25 percent on such cards.

Rewards credit cards, which "pay back" users with airplane miles, credits on bills, and even cash, charge 11 percent on average among commercial banks. But here again, credit unions are working to undercut their rivals, with several offering rates as low as 7.5 percent, 6.25 percent, or 3.25 percent.

None of this is good news for investors in banking stocks, granted. But for consumers, fed up with the high cost of traditional "banking"? It's good news for tough times.

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