

# Bank on the Advantages of Credit Unions

By Jeffrey Steele @ fivecentnickle.com, 9/19/12

In recent years, I've sometimes been stuck in lines at my bank that made me feel like time had stood still.

Whenever this happens, I and other customers wait. And wait. And wait some more.

Eventually, we all begin giving out like-sounding sighs. Then we start rolling our eyes. And finally, someone says, "Can you believe this crap?"

Feeling a much-needed laugh is in order, I sometimes quip, "Y'know, if my standing in a line for 45 minutes allows an already obscenely rich bank official to acquire a fifth luxury SUV and a third upscale vacation home... Well, I don't *really* mind!"

Employees of my bank must have gotten wind of that crack. Eventually, they removed all clocks from the bank's lobby, likely to ensure no one could be easily reminded of just how long he or she had to wait. But so far the bank hasn't confiscated customers' watches, cellphones, and other timepieces upon their stepping into line.

Long waits in bank lines are just one of myriad complaints about today's impersonal, corporately-bland financial institutions. Also irksome are the fee-crazy philosophies of many banks, the loan decisions made in ivory towers in Jakarta or Johannesburg, and the sheer impersonality of the banking experience these days.

If you're of a certain age, though, you may recall when visiting your local financial institution was a pleasure. You knew the folks at that neighborhood bank or savings and loan, and they knew you. You could talk with the friendly loan officer, or seek out the affable older lady who helped with savings accounts.

What's more, you came out of that neighborhood bank without feeling you'd lost most of your life savings to fees and other miscellaneous expenses.

## **Step back in time**

If you're missing those old-fashioned banking values, you may be able to find them once more at your friendly local credit union. A credit union is a not-for-profit financial cooperative owned by its members. Credit unions usually offer the same products banks do, but they have a structural difference.

Instead of funneling profits to stockholders, as banks do, credit unions pass their profits along to their owner members. That means they tend to offer consumers higher savings yields, lower average loan interest rates and lower and fewer fees. In other words, they're a better deal than banks.

I recently chatted with Mike Schenk, a Madison, Wisc. economist with the Washington, D.C.-based Credit Union National Association (CUNA), who gave me a vivid example of why credit unions are better deals than banks.

At the time we talked, the average rate on a five-year new car loan at credit unions was 3.1 percent. At the same time, the average rate on a five-year new car loan at banks was 4.61 percent. Applying those rates to a \$30,000 car loan over five years, the average credit union member would save \$250 per year, or \$1,225 over the five-year space of that loan, Schenk explained.

Then there are fees. As most of us know too well, banks increasingly are invading our pants pockets via the highway robbery known as fees and expenses. But credit union fees tend to be much fewer and lower. That's why consumers with fee fatigue are increasingly looking to credit unions as viable alternatives.

## **Smaller and friendlier**

Once they begin using their local credit unions, folks are also likely to be charmed by credit unions' almost old world approach to financial services. "There's more of a personal feel," Greg McBride, the widely-quoted senior financial analyst with North Palm Beach, Fla.-based Bankrate.com, told me. "Most are very small, and there's often an affinity, meaning it's tied to a particular employer, community, or university. It's possible they're going to know you, and you will know them."

A variety of surveys show credit union service greatly exceeds that of banks, Schenk says. “We tend to be smaller institutions, very community focused and able to keep our fingers on the pulse of what our members think and want from a financial and a service perspective,” he reports.

That’s not to say that being smaller and more traditional doesn’t carry some downsides, ones that may alienate some younger customers.

Because they lack the scale of mega-banks, credit unions don’t tend to be the early adopters of new technology like mobile banking, McBride says. They also lack the personnel to stay niceties like 24-7 call centers.

“But if you’re looking for a community bank feel, credit unions tend to be attractive,” he adds.

### **Open to all**

“But wait,” I hear you exclaiming. “Isn’t it really hard to join a credit union?”

The answer is that that used to be the case. It’s not anymore. It’s now easy enough that during the first six months of March, 2012, credit union membership in the U.S. grew by 1.1 million, three times faster than normal.

Today, the 7,000 credit unions across the country serve 95 million Americans. “It used to be difficult to join a credit union,” Schenk says. “There was a bunch of barriers in place that resulted in credit unions having to have very narrow fields of membership. That meant they could not serve many people. That’s all changed [since] the 1980s. And because of the changes that took place, just about anyone can join credit unions. Most barriers have come down.”

Once you join a credit union, will you be favorably impressed by the rates and comparative lack of fees, and by the friendliness of the staff?

Bank on it.