# Credit Union vs. Bank: 4 Major Differences

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June 7, 2015 |

If you've ever wondered about the difference between a credit union and a bank, then rest assured that you're in good company. Because these two types of financial services companies do largely the same things – that is, take deposits and make loans – their differences aren't immediately apparent. Let's go over four of the biggest distinguishing characteristics between the two.

**1. Ownership**
Since the deregulatory movement gained momentum in the mid-1980s, legislators and regulators have gone a long way toward harmonizing the types of products that depository institutions – namely, banks, thrifts (otherwise known as savings and loans), and credit unions – can offer to their customers. Prior to that, credit unions and thrifts focused on various types of consumer credit, while banks zeroed in on commercial lending. But nowadays, these differences are more muted, as credit unions and thrifts have gained the ability to offer a broader assortment of credit-related products.

One major difference that hasn't changed, however, is the ownership structure. Banks are corporations owned by shareholders, who, in turn, have voting rights commiserate with the number and type of shares that they own. By contrast, credit unions are owned by their customers – their "members." Each member, regardless of how much money he or she has on deposit, gets one vote in electing board members. Furthermore, while board members of banks are typically paid for their service, people on a credit union's board volunteer their time.

**2. Profits**
Banks and credit unions view their ultimate business objectives differently. Banks are in business to make money for their shareholders. They do so by taking a small sliver of capital, leveraging it up by a factor of roughly 10 to 1 or more, and then using the net proceeds from their assets to cover expenses, pay taxes, and, most importantly, distribute to shareholders via dividends and share buybacks.

Credit unions, by contrast, are nonprofit entities. Yes, they borrow money from depositors, and then invest the funds into loans and other types of income-generating assets. However, instead of distributing the net proceeds to [stockholders], they use the earnings to increase interest rates on their members' deposits, and to decrease the rates on loans made to members.

**3. Size and reach**
While credit cards and other types of consumer lending have become integral parts of banks' businesses, that hasn't always been the case. Prior to World War II, few banks made consumer loans at all, viewing

them as too risky for the expected return. It was this void that allowed credit unions to flourish. As the National Credit Union Administration explains:

During the 1920s, the U.S. credit union movement became increasingly popular. Families had more money to save and could afford products like automobiles and washing machines. They, however, needed a source of inexpensive credit to purchase these goods. The popularity of credit unions grew because commercial banks and savings institutions generally showed limited interest in offering such consumer loans.

These differences have largely been eliminated through the years as banks veered into consumer lending and credit unions acquired the power and appetite to underwrite business loans. But these vastly different origins nevertheless define the industry today, as even the largest credit unions are mere shadows of the size of large banks. This follows from the simple fact that it requires much more capital, and thus size, to service large multinational corporate clients than it does to principally service individual consumers who need financing to buy a home, new refrigerator, or car.

**4. Regulation**

Last but not least, one of the most tangible differences between credit unions and banks is in their regulatory status. Banks are regulated by an alphabet soup of federal and state agencies. There's the Federal Reserve, which is responsible for bank holding companies and banks that want access to its discount window. There's the Federal Deposit Insurance Corporation, which overseas banks with federally insured deposits – i.e., virtually every bank in America. There's also the Office of the Comptroller of the Currency, which is the primary regulator for nationally chartered banks. And in addition to a number of interagency regulatory bodies, there are state banking regulators that oversee state-chartered banks, as well.

Credit unions, by contrast, are regulated by the National Credit Union Administration on the federal level, and state agencies on the state level. Beyond simply regulating them, moreover, the NCUA is tasked with operating and managing the National Credit Union Share Insurance Fund, which, playing an analogous role to the FDIC vis-à-vis banks, insures the deposits of more than 98 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

**Credit union vs. bank: Which is better?**

Even though credit unions tend to have a better reputation than banks when it comes to customer service, it's far too simple to say that the former are "better" than the latter. The fact of the matter is that they're different. If you have a big business and you need a place to handle your deposits while, at the same time, extending credit, then a bank is your best solution. But if all you're looking for is a checking account and, say, a car loan, then a credit union may be a better alternative, given the generally higher interest rates on deposits and lower cost of credit.