

A SERVICE OF YOUR CREDIT UNION

Home & Family Finance[®]

PERSONAL FINANCE INFORMATION FROM YOUR CREDIT UNION

SAMPLE

**IF
BANKS
WIN,
YOU
LOSE**



Home & Family Finance

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Credit unions are different in the way they're organized and run, and that makes all the difference for consumers.

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True or false: Banks care more about consumers than credit unions do. (You're right—that's too easy.)



Coming Attractions

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What's coming in the next issue of Home & Family Finance

The second quarter 2005 Financial Perspective topic is "all about credit." We'll explore the upward shift in debt for senior citizens, historically the most fragile segment of society. Another article reports expanded credit reporting that now may take into account utility, rent, and other payments in addition to credit transactions. On the flip side, another article will look at personal savings and suggest realistic guidelines about saving for unexpected expenses.



A Special Message

All issues of *Home & Family Finance* are about credit unions, usually featuring the services and guidance you and other members can find at your credit union. This issue is different, but it's also all about credit unions. This time, we're telling you about a fight that credit unions and members are in, through no wish of their own.

Some banks and bank trade associations are challenging credit unions and the way they do business. The bankers make misleading claims and say credit unions are competing unfairly for consumers' business (see Fact Check, p. 14). The challenge may take the form of a word battle in the newspapers and other media, lawsuits, or legislative efforts at the state level. The goals are roughly all the same—to eliminate credit unions as an option for consumers, and as competition for banks.

What's the reason for this conflict? On one level, it's hard to say. As successful as credit unions are, they still are a quite small player in the financial services arena.

Credit unions offer many of the products and services you can get from a bank, but credit unions are owned by all the members, not by a small group of stockholders. The board at a credit union is made up of qualified, elected, typically unpaid volunteers—not paid directors. Credit unions are not for profit; the money they earn goes back to members in the form of lower rates on loans and higher dividends on savings. Credit union fees also tend to be lower than at banks, because credit unions aren't in the business of making money to pay stockholders.

Credit unions do have to generate income to build reserves, required by law as a protection for all members. Credit unions can't sell stock to raise capital, as can banks. So building capital contributes to the safety and soundness of the credit union.

You already know that your credit union offers very competitive rates on loans and savings. You're used to a high level of member service and an array of products to suit your financial needs. You also may find some of those services at a bank—it's common for some credit union members to use services elsewhere, too. That is your choice, and the people at your credit union respect it. Likewise, some bankers respect your choice to obtain financial services at a credit union.

Unfortunately, many bankers and their trade associations have made eliminating credit unions job No.1. We sincerely wish this were not the case—the people at credit unions would much rather devote their resources and time to serving members and improving their credit unions. We want you to know about this conflict so you can make up your own mind and come to the aid of your credit union, if it comes to that. The people at your credit union can answer your questions, and can let you know if it's time to take action.

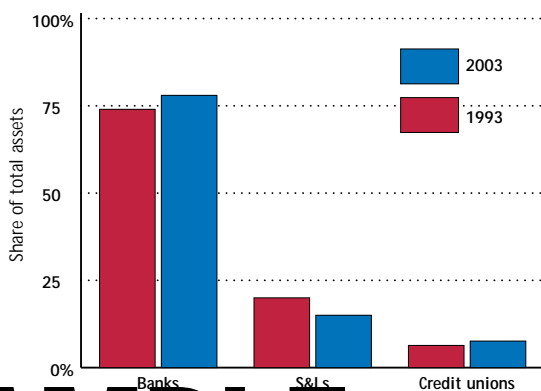
Daniel Mica
President/CEO
Credit Union National Association Inc.

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CU Share of Assets Virtually Unchanged

Some bankers and their trade associations are saying credit unions have unfairly expanded into banker territory. The numbers show that credit unions have no greater share of total assets than 10 years ago.



Source: Board of Finance

Imagine Life Without

BY SUSAN TIFFANY

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Imagine there are no credit unions.

It doesn't take too much imagination to envision a reality that could come to pass—if credit union members sit on the sidelines.

That's because, right now, credit union members and the rights and services they enjoy are under the heaviest pressure ever from some bankers and banking trade associations. The bankers would like to eliminate credit unions, period.

Imagine that there are no credit unions, and see what might happen to these consumers:



Isaiah has been struggling to pay off his school loans and, in the meantime, to make ends meet, he uses his credit card more than he'd like to, charging about \$150 a month. Because funds are tight, he's missed making a family tree or cake—which made his celebration a bit less than ideal—but he hopes it will all be OK as soon as he can catch up.

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Mary has a car loan on her used sedan. She needs the car to get to work, run errands, and pick up her son from karate class and other activities. The car isn't as reliable as a new one would be but she can't afford a new car loan. The used-car loan already is too steep for her budget.



Credit Unions



Hector and Alicia just bought a bigger house for their growing family. They were able to make a nice down payment from the equity in the old house. There was about 20% left in the account, but several fees added up to as much as they had saved for a modest remodel of the fixer-upper. Now, those remodeling touches will have to wait for a few years, but at least they got the house.

Take a look at the table below to see how much better life would be for these consumers if credit unions still existed.

Remember, if credit unions aren't here to put competitive price pressure on banks to lower their charges, banks can charge what they wish. A cynical person might imagine that's exactly what bank lobbyists in Washington are working for.

Today, credit unions save members about \$6.3 billion a year—\$76 per member or \$149 per member household—according to data from the Credit Union National Association, the Bank Administration Institute, and the Federal Reserve.

So when the people at your credit union ask for your help, count your own credit union benefits and pitch in. ■

How Credit Unions Benefit Consumers

	APR* CU/bank	Term (months)	Fees CU/bank	Monthly expense CU/bank	Total expense CU/bank	CU savings
Isaiah credit card \$3,000 balance	12%/25%	open	\$0/ \$35	\$400/ \$400	\$4,004/ \$5,353	\$1,349
Mary used-car loan \$10,000	6%/10%	48	0/0	\$235/ \$254	\$11,273/ \$12,174	\$901
Hector & Alicia mortgage \$110,000	6.5%/6.5%	360	\$600/ \$2,500	\$733/ \$733	\$250,298/ \$252,198	\$1,900

*Annual percentage rate

Legislators Back Credit Unions Because...

BY EUGENE H. JOHNSON

Credit unions have had legislative champions from the get-go, and they've needed them. You see, bankers and their trade associations are always trying to place restrictions on who can join a credit union. And bankers try to burden credit unions with income taxes and regulations meant just for banks.

Bankers have tried to limit credit unions through the courts and in Congress. But so far, they haven't succeeded. That's because credit unions have had defenders in Congress since

1934 when the Federal Credit Union Act passed.

Sen. Morris Sheppard, D-Texas, introduced the act during the Great Depression "to solve a great national problem in the only way it can be solved—by making credit for provident purposes through a national system of cooperative credit."

Founders of the Credit Union National Association (CUNA) backed the bill, but it took bipar-

One congressman who made that bill was Rep. Wright Patman, D-Texas. He remained a credit union champion throughout his congressional career, which spanned from 1929 until 1976 when he died in office.

In 1969-70, Patman's legislation created the National Credit Union Administration (NCUA), which elevated credit union regulators to independent agency status on a par with bank regulators. Patman believed "outside the church the credit unions provide the greatest good to humanity."

They're not for profit and democratic—Legislators support credit unions because of their not-

for-profit, democratic structure. "Credit unions are tax-exempt because they are focused on service and not on profit. They are owned by their members and run democratically," says House Democratic Whip Steny Hoyer, D-Md.

Profits go to members in the form of lower prices for loans and transaction accounts and through better returns on savings. Also, some credit unions provide bonus dividends and interest rebates when they have a good year.

"I understand you are for service and not for profit, which is the fundamental reason why this talk of taxation of your industry and what you do is something we oppose," Treasury Secretary John M. Snow told credit union leaders just last year. He added, "You always get less of anything you tax."

"I believe revoking the tax-exempt status of credit unions could impose additional tax burdens on millions of Americans who belong to credit unions," says Rep. Dave Camp, R-Mich. The "purpose of credit unions [is] to serve the financial needs of their members rather than to maximize profits," he notes.

They promote thrift and saving—Legislators support credit unions because they promote thrift and savings. Credit unions offer individual retirement accounts (IRAs) and some credit unions

offer individual development accounts (IDAs). As part of the America Saves program, IDAs provide matched savings accounts.

Members use IDA savings to buy their first home, pay for school, or start a small business. Credit unions account for about one-quarter of IDAs offered by all types of financial institutions. The National Credit Union Foundation has given \$500,000 in grants to help fund the matched-savings programs.

“Here and around the world, it’s the result of your efforts,” says Rep. Ed Royce, R-Calif. “Credit unions are helping the future of more than 80 million members around the U.S. and countless others around the globe. You’re helping families save their hard-earned money to buy houses, cars, and to invest in education.”

They provide financial education—

Legislators support credit unions because they promote financial education. Sen. Paul Sarbanes, D-Md., salutes “credit unions’ long-standing commitment to financial literacy.” Credit unions conduct seminars on personal finance topics and provide this magazine to members, for example.

CUNA and the National Endowment for Financial Education provide the High School Financial Planning Program at no cost to public and private high schools. Credit union volunteers use the materials to make hundreds of classroom presentations a year.

“Congress is receptive to the idea of helping those who provide locally owned financial services,” says Rep. Barney Frank, D-Mass.

They serve working people—Legislators continue to back credit unions because they serve people from all walks of life. Today that’s 85 million members—working men and women—mostly hourly wage earners.

“I’m not for taxing credit unions. You start taxing credit unions, you know who’s going to pay the taxes—the members,” says Sen. Richard Shelby, R-Ala., who chairs the Senate Banking Committee.

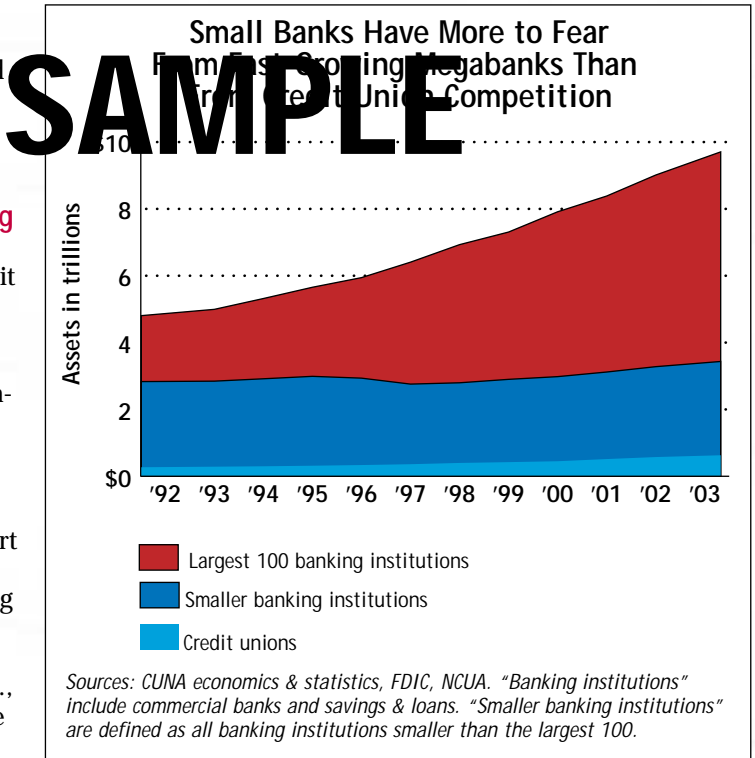
“By increasing lending opportunities to small businesses, families, and workers, credit unions are contributing to our economic recovery and increasing opportunities in our communities,” says President George W. Bush. “I support strongly the tax-exempt status of credit unions and will continue to highlight the important contributions that credit unions make to our financial system.”

In the past three years, credit unions have extended membership opportunities to another 64 million Americans who live in low-income neighborhoods.

“Today, credit unions help working families that do not have easy access to credit pool their savings to make loans available at competitive interest rates,” says Sen. John F. Kerry, D-Mass. This helps “members avoid predatory loan practices,” he adds.

They’re true to their mission—

“In a nation facing forces that threaten to rip our economic well-being apart—downsizing, outsourcing, shipping jobs abroad—credit unions remind us that we can work together for the common good,” says Rep. Bernard Sanders, I-Vt. “They show us, day after day, that it is not necessary to incorporate the profit motive into every aspect of American life. In fact, credit unions show us how, if profits are not involved, people can come together to help themselves, sustain themselves, and create healthy communities.” ■



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What Makes Our Credit

BY DICK RADTKE

Credit unions distinguish themselves by reaching out to those who need help most.

We know credit unions are unique in the world of financial institutions. They are not-for-profit, member-owned financial cooperatives formed and operated for the benefit of their members, not stockholders.

Nowhere is the credit union difference more vivid than in the work they do to reach out to millions of low- and moderate-income Americans who seek basic financial services. Credit unions were born out of a need to improve the lives of their members, and they continue to fulfill that promise today. In these pages we profile just a few of the stories that demonstrate the credit union commitment to those who need them most. You know your credit union has similar stories.

Outreach to people of modest means—

- *Building a savings tradition:* In Ithaca, N.Y., Alternatives Federal Credit Union helps low-income members create a savings habit by offering Individual Development Accounts (IDAs), savings accounts with incentive matches. Withdrawals are permitted only for purchasing or renovating homes, for education, and for small

business investments.

Alternatives' program has succeeded in partnering with community organizations, which refer families to the program, provide homebuyer education, and offer IDA savers additional discounts on home purchases.

- *Fresh Start loans:* Northeast Community Federal Credit Union, San Francisco, gives its credit-challenged members a second chance. Fresh Start loans are non-secured loans that help borrowers repair their credit and establish regular savings. The amount borrowed is deposited in the member's account for the term of the loan. Members make regular monthly payments to the credit union to pay off the loan. "When the loan is paid off," says credit union CEO Lily Lo, "members have the amount of the loan plus interest earned on shares credited to their account. And when the loan is paid off, the credit union reports the success to



Union Different?

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the credit bureau.

- *Financial literacy training:* In the County Federal Credit Union in Joliet, Mich., offers classes to members trying to re-enter the work force. Credit union employees discuss budgeting, balancing a checkbook, and how to buy a first car or obtain a mortgage. Instruction includes information on the importance of credit scores. A credit union employee also provides weekly financial literacy training to incarcerated young men ages 14 to 19. “Some have jobs at the school and earn a paycheck,” says Janet Wolfinger, credit union CEO. “We open savings accounts so they have a place to put their earnings.”

- *Serving new Americans:* Gwinnett Federal Credit Union in Lawrenceville, Ga., serves many displaced Bosnian refugees. “These immigrants were borrowing large amounts on signature loans,” says Marshall Boutwell, Gwinnett’s president. “They used the money as a down payment to purchase cars from local dealers. The dealer financed the balance at rates between 20% and 25%.”

When Boutwell discovered what was happening, he was determined to offer a better deal. Boutwell explained to prospective borrowers that if they provided information about the car, the credit union would grant them an automobile loan at a far lower interest rate. Now Bosnian immigrants receive car loans at fairer rates and better terms. “We’ve done what’s necessary to make loans to immigrant members,” says Boutwell. “It’s wonderful to be working for an organiza-



tion where we don’t leave our personal things at home when we go to work. This is what credit unions are all about.”

- *Building bridges to the Hispanic community:* Many members of Fiscal Credit Union, Glendale, Calif., are first generation Mexican immigrants. The credit union’s board respects the cultural differences of all members, and responds to their needs in times of crisis. For example: “When one of our employer groups was forced to lay off 200 employees during an economic downturn,” says Nelly Rodriguez, a Fiscal vice president, “the employer asked for our

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assistance to prepare them. We partnered with Consumer Credit Counseling Service (CCCS) of Los Angeles and designed workshops to help members cope with the crisis. The workshops were held at the employer’s job sites, and presented in Spanish.”

Fostering entrepreneurship—

- *Loans to small business:* The U.S. Census Bureau reports that more than six million business establishments have fewer than 20 employees. Many small-business owners are also credit union members, and, like other credit unions, Lafayette Federal Credit Union, Kensington, Md., offers business loans to members through the Small Business Administration (SBA). Partnering with the SBA allows the credit union to work with start-up businesses and

members planning to expand their businesses. SBA-backed loans provide the means for these individuals to realize their dream.



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A hand up—

- *Financial counseling services:* At Founders Federal Credit Union, Lancaster, S.C., Wendy Culler and her staff have helped more than 6,500 members improve their financial lives since 1990. Culler heads up the credit union's financial counseling program, which also has conducted programs for area schools, colleges, and universities; area Head Start parents; a local leadership program; and many civic organizations, all free of charge. "Many people have money problems for emotional reasons," Culler says. "Creditors pursue them. Trapped, they give up."

The Founders program is an alternative to giving up. Culler and her staff work with clients to mend their financial lives. "We're proud that this program also offers an education component to our members," Culler says. "Our typical clients have relatively high incomes. They may balance spreadsheets at work, but can't balance a checkbook."

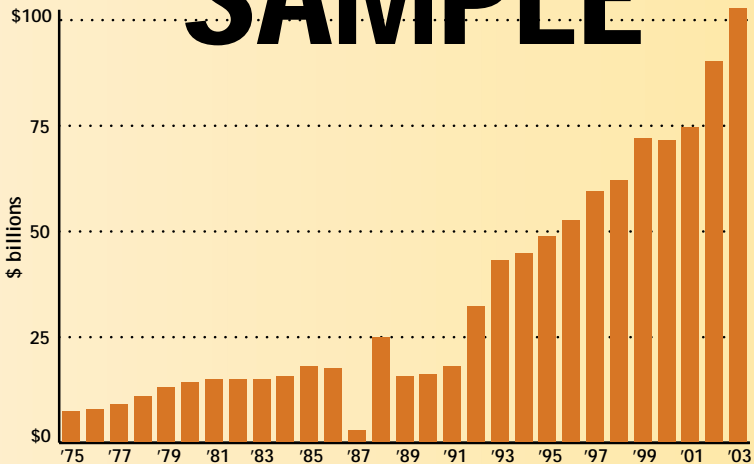
- *Alternatives to payday loans:* Chicago's North Side Community Federal Credit Union serves people who are not using mainstream financial institutions. The credit union provides its 3,300 members with an alternative to lenders who often take advantage of low-income people.

Two years ago, the credit union initiated its Payday Alternative Loan (PAL)

Bank Profits Soar

Banks have posted record profits 13 of the past 14 years. According to *The Economist* magazine, U.S. bank 2003 profits were equal to about one-third of all U.S. corporate profits at that time.

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Source: FDIC

program, a \$500, six-month loan. PAL builds on the success of an earlier small loan program that disbursed more than \$1 million in 2,000 loans over the past nine years. PAL loans are approved for any community member with an income of at least \$10,000 a month, regardless of credit history.

- *Helping Schools auto loans:* North Alabama Educators Credit Union, Huntsville, assists local schools by donating \$50 to the PTA or college fund of the member's choice for every new- or used-automobile loan purchase of \$10,000 or more. Members also receive a \$50 cash rebate and a lower

Credit unions were born out of a need to improve the lives of their members, and they continue to fulfill that promise today.

After granting more than 1,000 loans, the credit union added an optional financial literacy component to the program. Borrowers who complete the program receive a financial incentive when they pay off their loan on time, and additional incentives if they make deposits to build a savings account of \$500 after loan payoff.

Serving youth and seniors—

- *Student credit unions:* For 12 years, CP Federal Credit Union, Jackson, Mich., has operated student credit unions in schools. “In many schools the credit union is simply a folding table in the hall,” says Beth Bruesch, CP Federal’s vice president. “Other schools give us a whole classroom in which to operate. We work with the resources and needs of the school.” CP Federal sponsors a contest in the schools in which one student becomes a millionaire for a day. The contest encourages pupils to save. Pupils are entered each time they make a deposit. Grand prize winners get to keep the million dollars in their account for 24 hours, and the interest it earns for that day. Pupils see the miracle of interest at work, and how their money can work for them.

rate on their loans. “The school that receives the most donation requests during the month-long program receives an additional donation of \$500 from the credit union,” says Greg Olmsted, credit union president. “The credit union posts a leader board at each office to generate excitement in the program. The program helps the member and the community, and it helps our credit union live up to its mission.”

- *Combating senior abuse:* Star One Credit Union, Sunnyvale, Calif., partners with county social service agencies to fight elder financial abuse. The program raises awareness in the community and educates credit union employees to identify perpetrators. The program includes an informational brochure, an e-mail list, training programs, and presentations at credit union events. It communicates warning sign recognition and response, and procedures outlining how to report incidents of possible financial abuse.

In short, credit unions serve people—some with large dreams, and some with small ones. But whatever their dreams, the credit union is there to help. ■

Fact Check:

The Real Story About

BY SUSAN TIFFANY

Bankers Say ...

When In Fact ...

Credit unions don't pay taxes.

Credit unions pay most taxes but income taxes; members pay taxes on the earnings, or dividends, from their credit union savings. The reason for this exemption is that credit unions are not-for-profit cooperatives, owned by members and guided by volunteer directors.

Credit unions serve too many people.

Some credit unions, with regulator blessings, have been adding members among all consumers, including those of modest means. In some cases, the new members have been denied bank service due to income or credit history. Credit unions serve the members their regulators will allow, and are trying to reach out to more groups throughout the country.

Credit unions don't serve enough people.

At the same time, bankers accuse credit unions of not serving people of modest means. Ironically, they also have tried to prevent credit unions from serving more consumers. Credit unions have limits, imposed by the state and federal regulatory agencies, on whom they may serve.

Credit unions offer too many services.

Credit unions offer the services their members want and need and that their regulators approve. One sore spot, credit union member business lending, makes up only 0.5% of all credit union loans. Banks have 91% of all business lending in the U.S. Only 16% of all credit unions offer member business loans; these loans are just 2.1% of all credit union loans outstanding.

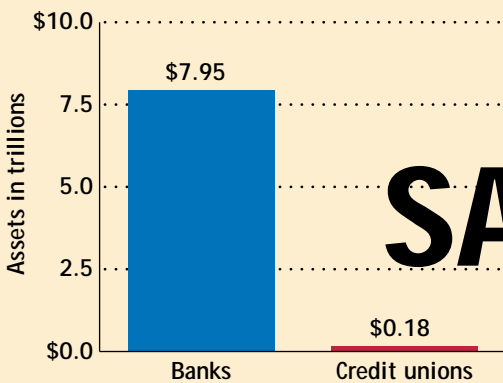
Credit unions have unfair advantages; banks can't compete with credit unions.

Banks have reported staggering earnings in the past few years, so any perceived competition isn't hurting them [see p. 12]. Bottom line: If banks think credit unions enjoy such benefits, why have no banks converted to credit unions?

Unions

Banks vs. Credit Unions

**Billion dollar banks dwarf
Billion dollar credit unions**



Source: FDIC & NCUA. Total 2003 assets.

Credit unions are successful and growing because they work hard to meet the needs of members. For all their success, credit unions still are small relative to banks. The average size of all credit unions at the end of 2003 was \$65 million in assets; the bank average was \$982 million. In 2003 alone, banks grew by more than credit unions have grown since they began operating in the U.S. nearly 100 years ago.

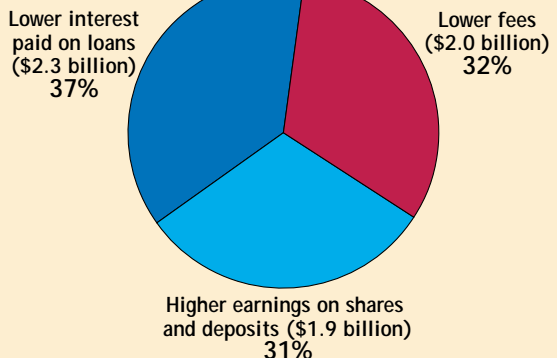
“You start taxing credit unions, you know who is going to pay the taxes—the members.”

— Sen. Richard Shelby (R-Ala.), chairman, Senate Banking Committee

Members benefit from higher levels of service and participation in the governance of their financial cooperatives. Because credit unions are not-for-profit co-ops, members benefit financially to the tune of about \$6.3 billion a year—that’s \$76 per member or \$149 a year per member household.

While bank lobbyists complain that credit unions don’t pay federal income taxes, they conveniently ignore the fact that credit union members pay income taxes on the additional dividends that they earn on their higher-earning credit union savings accounts. The additional federal income taxes credit union members paid in 2002 on their higher dividends and interest from credit unions amounted to about \$480 million. ■

\$6.3 Billion a Year:
Estimated credit union member financial benefits*



*2002 Sources: Credit Union National Association, Federal Reserve, Bank Administration Institute

Back Cover