

# ***The Benefits of Membership***

*Customized Analysis of Member Benefits For:*

**Kentucky**

***December 2008***

*Prepared by:*

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Economics and Statistics Department***



## **About The Membership Benefits Report**

The Membership Benefits report communicates the financial value of credit union membership to credit union staff, members, potential members, community leaders and policy makers. The report compares credit union dividend rates, loan rates, and fees to those of banking institutions in the state<sup>1</sup>. It combines those comparisons with the state call report data to develop an overall estimate of the annual financial benefits provided to members.

It is important to remember that the report gives a *conservative* estimate of benefits. For example, it does not consider non-financial benefits such as access to a large ATM network, financial counseling, or auto buying services.

When interpreting the report, remember that any benefit above \$0 means credit unions are delivering financial benefits compared to the average banking institution.

Not all credit unions will deliver lofty financial benefits. Greater financial benefits tend to be found among credit unions that offer a greater variety of services and those with lower operating expense ratios (i.e., higher economies of scale). On the other hand, higher operating expense ratios tend to be associated with other non-financial benefits, such as personalized “high-touch” services.

The report measures benefits at one distinct point in time. Operational and strategic decisions – building new branches, expanding fields of membership, introducing new products – will undoubtedly be reflected in credit union pricing decisions (and estimated benefit levels).

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<sup>1</sup> The source for banking institution interest rate and fee data is Datatrac. Datatrac is the nation’s leading rate survey firm and tracks interest rates at over 15,000 institutions nationally.

# Kentucky

## *The Benefits of Membership*

Credit unions generally provide financial benefits to members through lower loan rates, high saving rates, and fewer fees than banking institutions.

The Credit Union National Association (CUNA) estimates that Kentucky credit unions provided \$84,172,999 in direct financial benefits to the state's 739,869 members during the twelve months ending December 2008.

**These benefits are equivalent to \$114 per member or \$216 per member household <sup>(1)</sup>.**

The per-member and per-household benefits delivered by Kentucky credit unions are substantial. But, these benefits are *averages*. Mathematically, that means the total benefits provided are divided across all members (or all member households) - even those who conduct very little financial business with Kentucky credit unions.

Consider this:

**Financing a \$25,000 new automobile for 60 months at a Kentucky credit union will save members an average \$224 per year in interest expense compared to what they would pay at a banking institution in the state.**

Further, loyal members - those who use the credit union extensively - often receive total financial benefits that are much greater than the average.

Kentucky credit unions excel in providing member benefits on many loan and saving products. In particular, Kentucky credit unions offer lower average loan rates on the following accounts: new car loans, used car loans, personal unsecured loans, first mortgage-fixed rate, first mortgage-adjustable rate, home equity loans, credit cards loans.

Kentucky credit unions also pay members higher average dividends on the following accounts: regular savings, share draft checking, money market accounts, certificate accounts, IRAs.

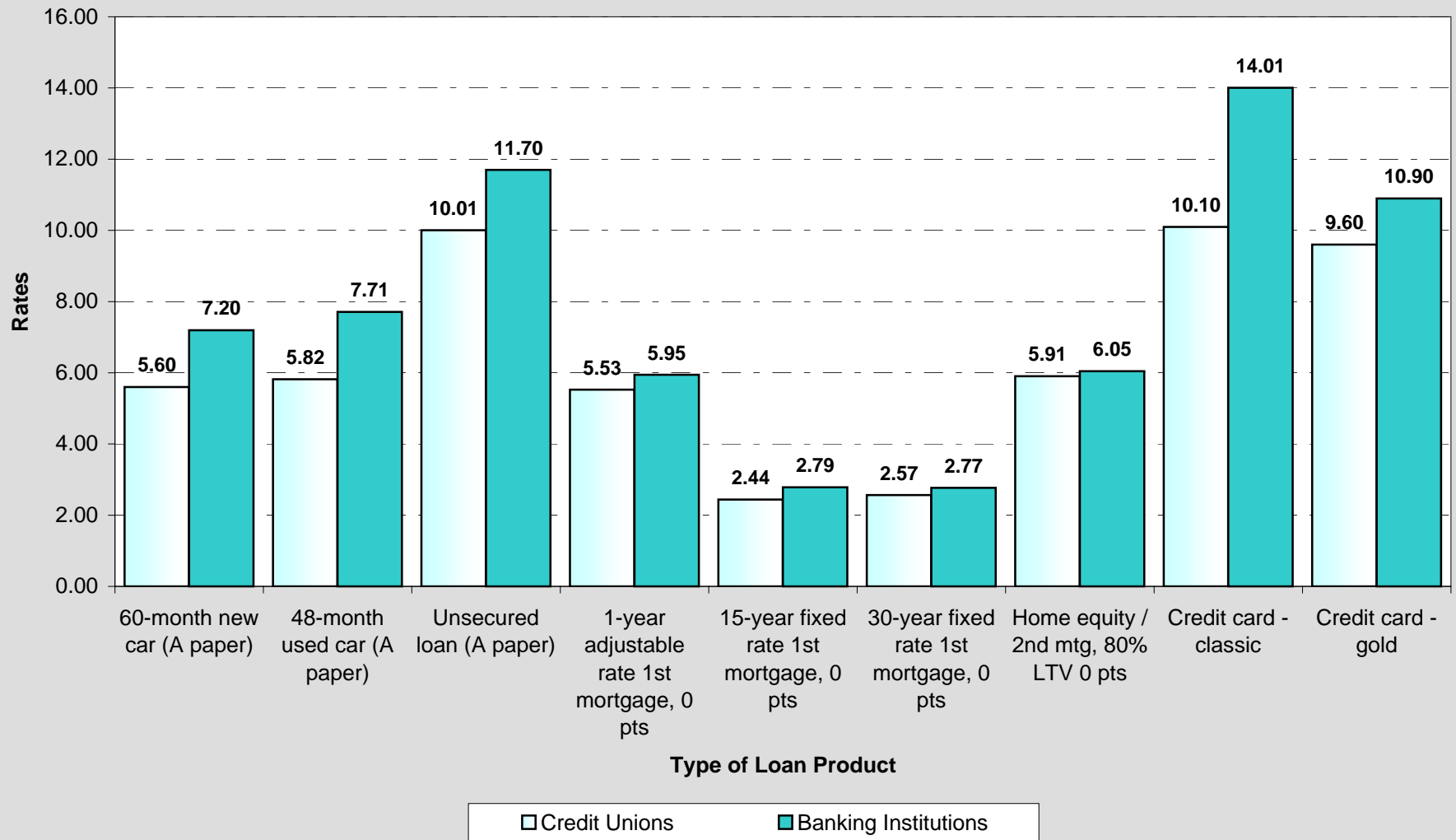


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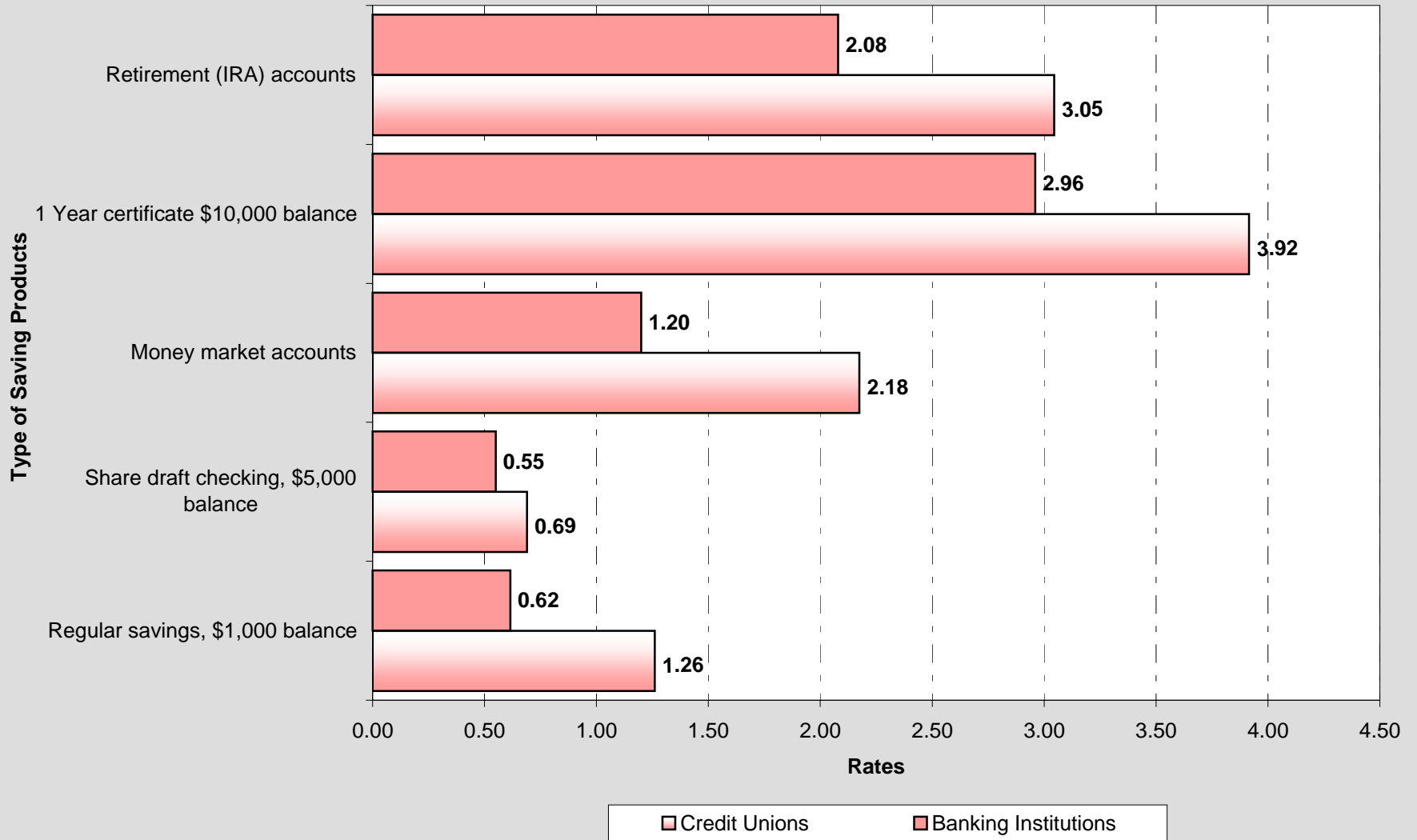
Source: Datatrac, NCUA, and CUNA.

(1) Assumes 1.9 credit union members per household.

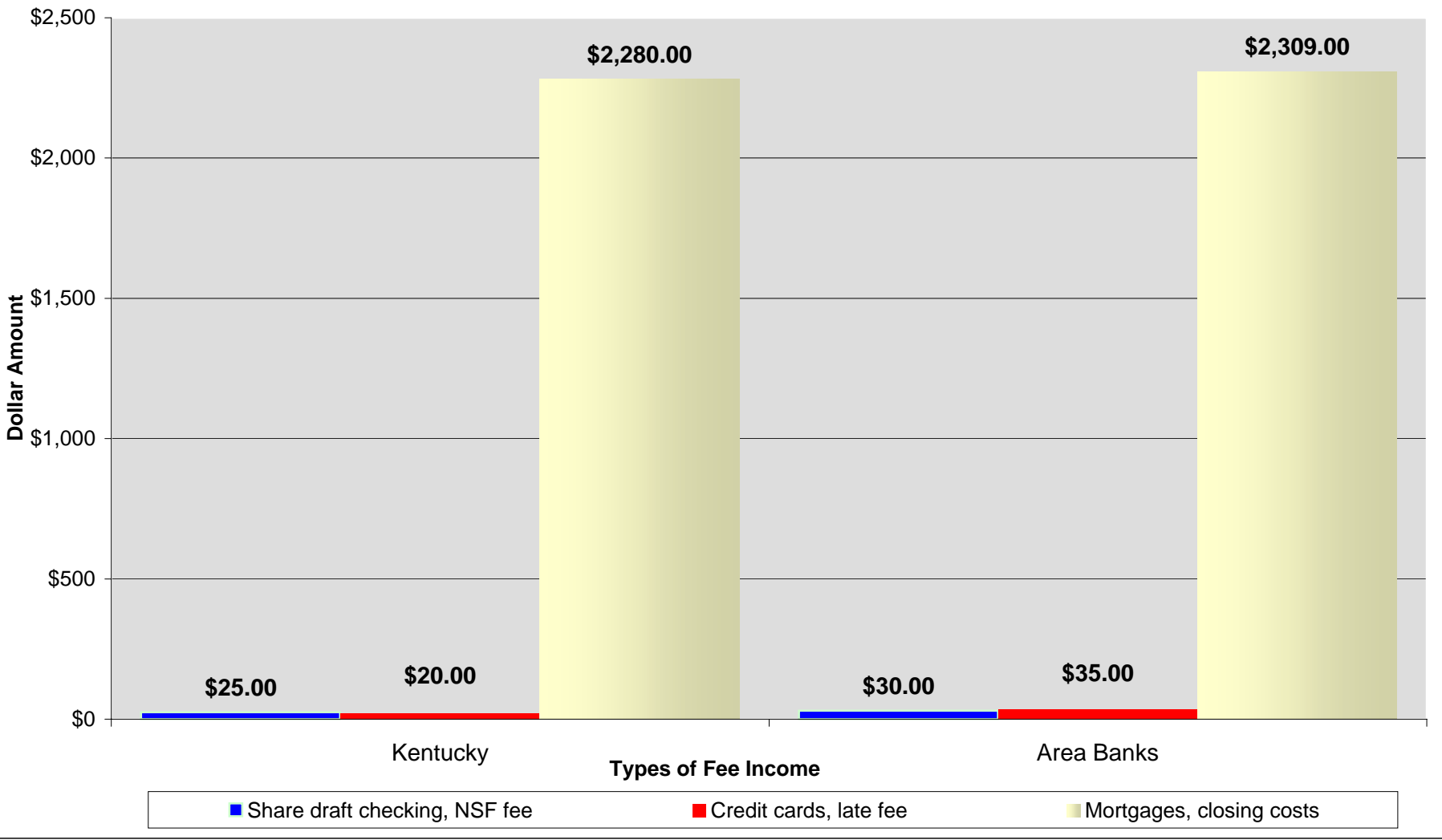
## Recent Comparative Interest Rates for Loan Products Credit Unions vs. Banking Institutions



## Recent Comparative Interest Rates for Credit Unions Saving Products Credit Unions vs. Banking Institutions



### Selected 2008 Credit Union Fees compared to Banking Institutions

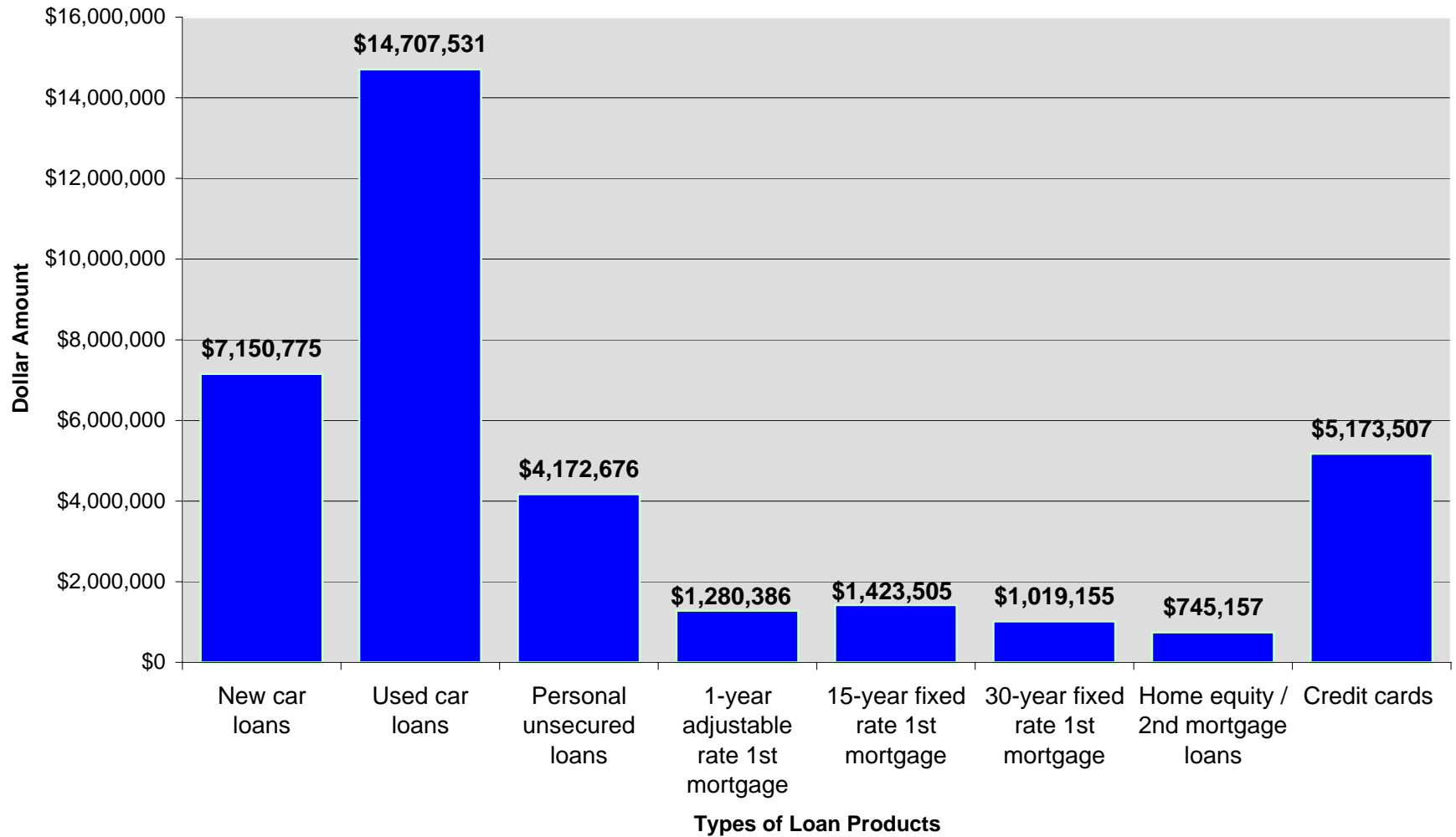


**Kentucky**  
**Credit Union and Banking Institution**  
**2008 Average Interest Rates and Fees**

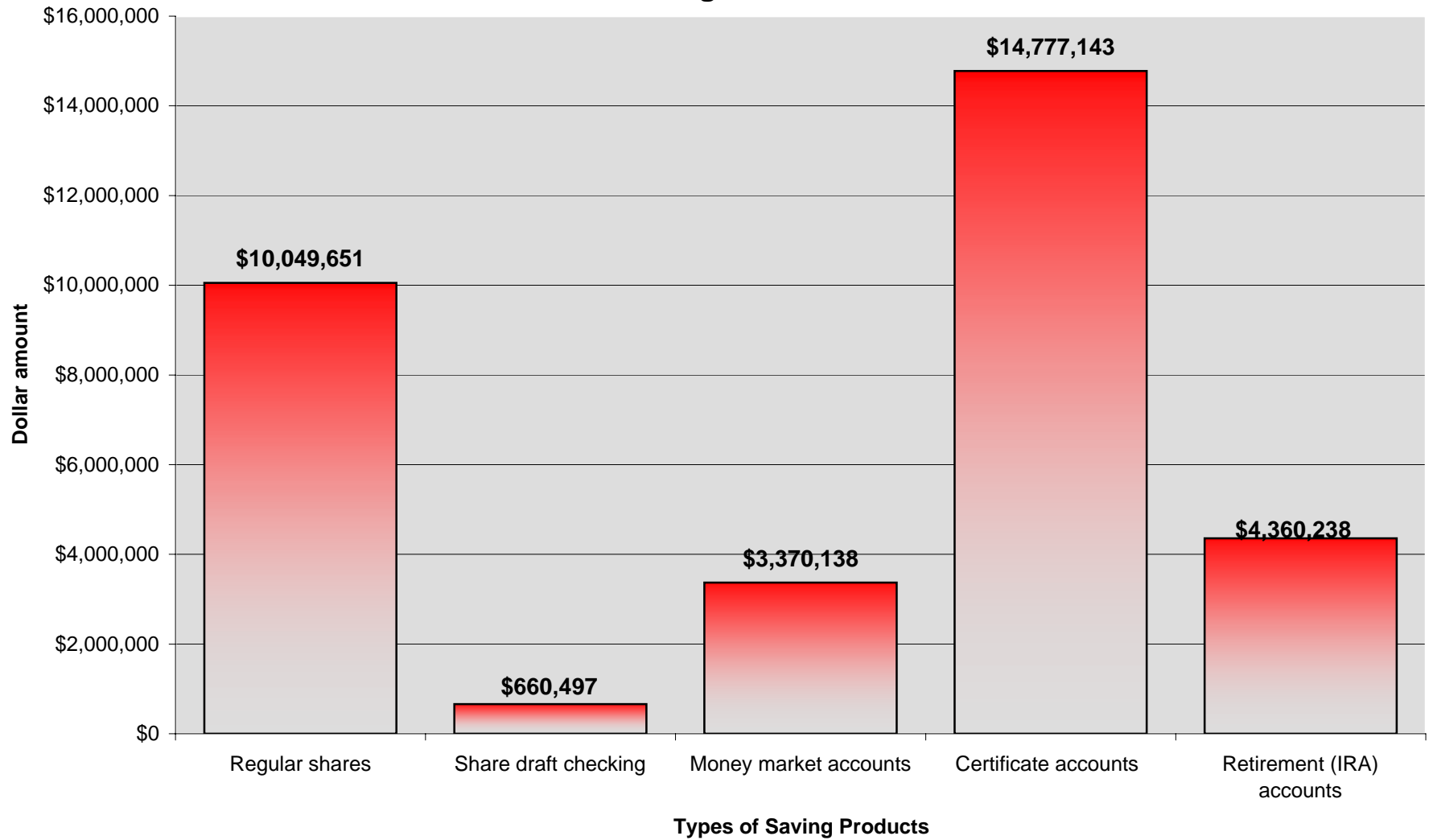
<b>Loan Products</b>	<b>Average Rate at Credit Unions (%)</b>	<b>Average Rate at Banks (%)</b>	<b>Rate Difference vs. Banks (%)</b>
60-month new car (A paper)	5.60	7.20	-1.60
48-month used car (A paper)	5.82	7.71	-1.89
Unsecured loan (A paper)	10.01	11.70	-1.70
1-year adjustable rate 1st mortgage, 0 pts	5.53	5.95	-0.42
15-year fixed rate 1st mortgage, 0 pts	2.44	2.79	-0.35
30-year fixed rate 1st mortgage, 0 pts	2.57	2.77	-0.21
Home equity / 2nd mtg, 80% LTV 0 pts	5.91	6.05	-0.14
Credit card - classic	10.10	14.01	-3.91
Credit card - gold	9.60	10.90	-1.30
<b>Savings Products</b>			
Regular savings, \$1,000 balance	1.26	0.62	0.65
Share draft checking, \$5,000 balance	0.69	0.55	0.14
Money market accounts	2.18	1.20	0.98
1 Year certificate \$10,000 balance	3.92	2.96	0.96
Retirement (IRA) accounts	3.05	2.08	0.97
<b>Fee Income</b>			
Share draft checking, NSF fee	\$25.00	\$30.00	-\$5.00
Credit cards, late fee	\$20.00	\$35.00	-\$15.00
Mortgages, closing costs	\$2,280.00	\$2,309.00	-\$29.00

Source: Datatrac

## Estimated Credit Union Loan Rate Benefits vs. Banking Institutions



### Estimated Credit Union Savings Dividend Benefits vs. Banking Institutions



## Estimated Kentucky Credit Unions Financial Benefits 2008

<u>Loans</u>	Avg. Balance at Credit Unions (1)	Rate Difference vs. Kentucky Banks (%) (2)	Total Financial Benefit to Your Members
New car loans	448,324,465	-1.60	\$7,150,775
Used car loans	778,176,229	-1.89	\$14,707,531
Personal unsecured loans	246,175,600	-1.70	\$4,172,676
1-year adjustable rate 1st mortgage	304,853,787	-0.42	\$1,280,386
15-year fixed rate 1st mortgage	412,610,115	-0.35	\$1,423,505
30-year fixed rate 1st mortgage	497,149,006	-0.21	\$1,019,155
Home equity / 2nd mortgage loans	532,255,157	-0.14	\$745,157
Credit cards	158,879,294	-3.91	\$5,173,507
Interest rebates in period			\$1,006,334
<b>Total CU member benefits arising from lower interest rates on loan products:</b>			<b>\$36,679,027</b>
<u>Savings</u>			
Regular shares	1,558,085,377	0.65	\$10,049,651
Share draft checking	471,783,602	0.14	\$660,497
Money market accounts	345,655,213	0.98	\$3,370,138
Certificate accounts	1,547,344,783	0.96	\$14,777,143
Retirement (IRA) accounts	451,838,184	0.97	\$4,360,238
Bonus dividends in period			\$0
<b>Total CU member benefit arising from higher interest rates on saving products:</b>			<b>\$33,217,667</b>
<u>Fee Income</u>			
<b>Total CU member benefit arising from fewer/lower fees:</b>			<b>\$14,276,305</b>
<b>Total CU member benefit arising from interest rates on loan and savings products and lower fees:</b>			<b>\$84,172,999</b>
<b>Total CU member benefit / member:</b>			<b>\$114</b>
<b>Total CU member benefit / member household:</b>			<b>\$216</b>

Source: Datatrac, NCUA, and CUNA

(1) Average balance as of year-end 2007 and year-end 2008, according to the NCUA call report.; (2) Source for rates and fees: Datatrac;

**Kentucky  
Performance Profile**

<b>Demographic Information</b>	<b>Dec-08</b>	<b>Dec-07</b>
Number of branches	206	204
Total assets (\$ mil)	5,531	4,972
Total loans (\$ mil)	3,632	3,379
Total surplus funds (\$ mil)	1,662	1,374
Total savings (\$ mil)	4,685	4,192
Total members (thousands)	740	744
<b>Growth Rates</b>		
Total assets	11.5 %	8.1 %
Total loans	7.6 %	7.2 %
Total surplus funds	21.4 %	11.0 %
Total savings	12.0 %	8.8 %
Total members	0.1 %	0.1 %
<b>Earnings - Basis Pts.</b>		
Yield on total assets	570	609
- Dividend/interest cost of assets	245	271
+ Fee & other income	163	174
- Operating expense	365	382
- Loss Provisions	42	31
= Net Income (ROA)	82	99
<b>Capital adequacy</b>		
Net worth / assets	13.5	14.1
<b>Asset quality</b>		
Delinquencies / loans	1.1	0.9
Net chargeoffs / average loans	0.6	0.4
Total borrower-bankruptcies	33	25
Bankruptcies per 1000 members	4.1	3.2
<b>Asset/Liability Management</b>		
Loans / savings	77.5	80.6
Loans / assets	65.7	68.0
Long-term assets / assets	28.9	28.1
Core deposits/shares & borrowings	44.7	46.3
<b>Productivity</b>		
Members/potential members	12.5	12.7
Borrowers/members	51.1	50.1
Members/FTE	368	374
Average shares/members (\$)	6,329	5,634
Average loan balances (\$)	9,607	9,067
Salary & Benefits/FTE	48,943	47,381