

Commercial Banks And Credit Unions

Facts, Fallacies, and Recent Trends

Third-Quarter 2011

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Bankers claim that credit unions are getting too big

As of third quarter 2011 banking institutions held over fourteen times more assets than credit unions (\$13.8 trillion vs. \$963 billion). Each of the nation's four largest banking entities are larger than the entire credit union movement.

The average banking institution is over fourteen times larger than the average credit union (\$1.9 billion vs. \$132 million in assets).

At third quarter 2011, half of all U.S. credit unions had less than \$19 million in assets. Overall, less than 2% of banking institutions are this small.

Two-thirds of banking institutions had \$100 million or more in total assets at third quarter 2011. Only 20% of credit unions are this large.

Banking Institution and Credit Union Size Comparisons

Third Quarter 2011

	Banking Institutions	Credit Unions
Total industry assets J.P. Morgan Chase (largest banking entity)	\$13.8 trillion \$1.8 trillion	\$963 billion
Average asset size	\$1.9 billion	\$132 million
% of institutions with \$19 million or less in assets	2%	50%
% of institutions with \$100 million+ in assets	66%	20%

Source: FDIC, NCUA, CUNA.

Bankers claim credit unions are “empire builders”

The first U.S. CU was established on November 24, 1908.

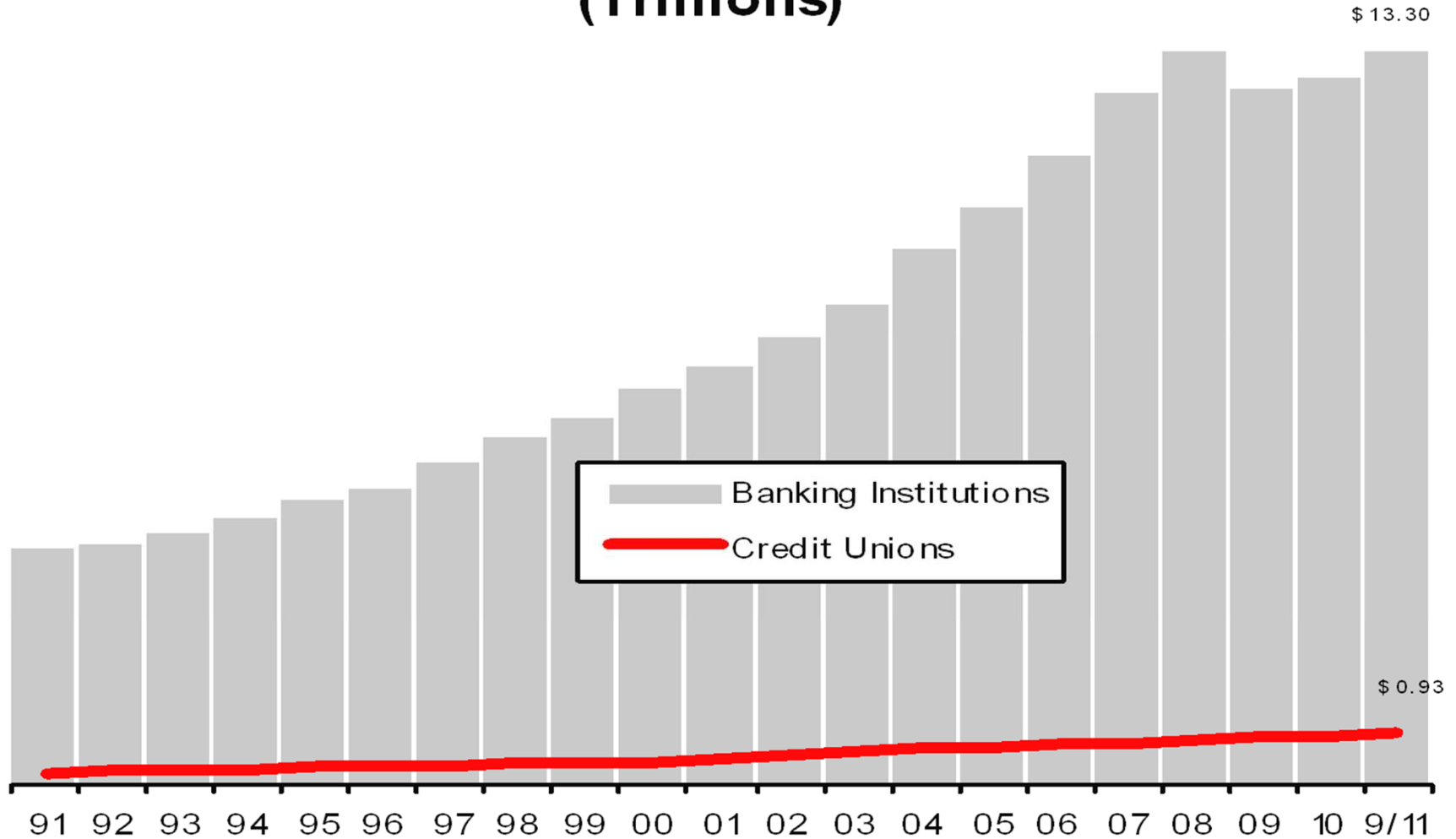
Assets in U.S. CUs grew to \$963 billion by third quarter 2011.

In other words it took over 100 years for credit unions to grow to a total of \$963 billion in assets. In contrast, U.S. banking institution assets grew by twice that amount (\$2 trillion) in the past 5 years.

Overall, four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo) are larger than the entire credit union industry. Each of these banking behemoths controls total assets exceeding \$1.1 trillion.

Total Assets

Credit Union and Banking Institutions (Trillions)



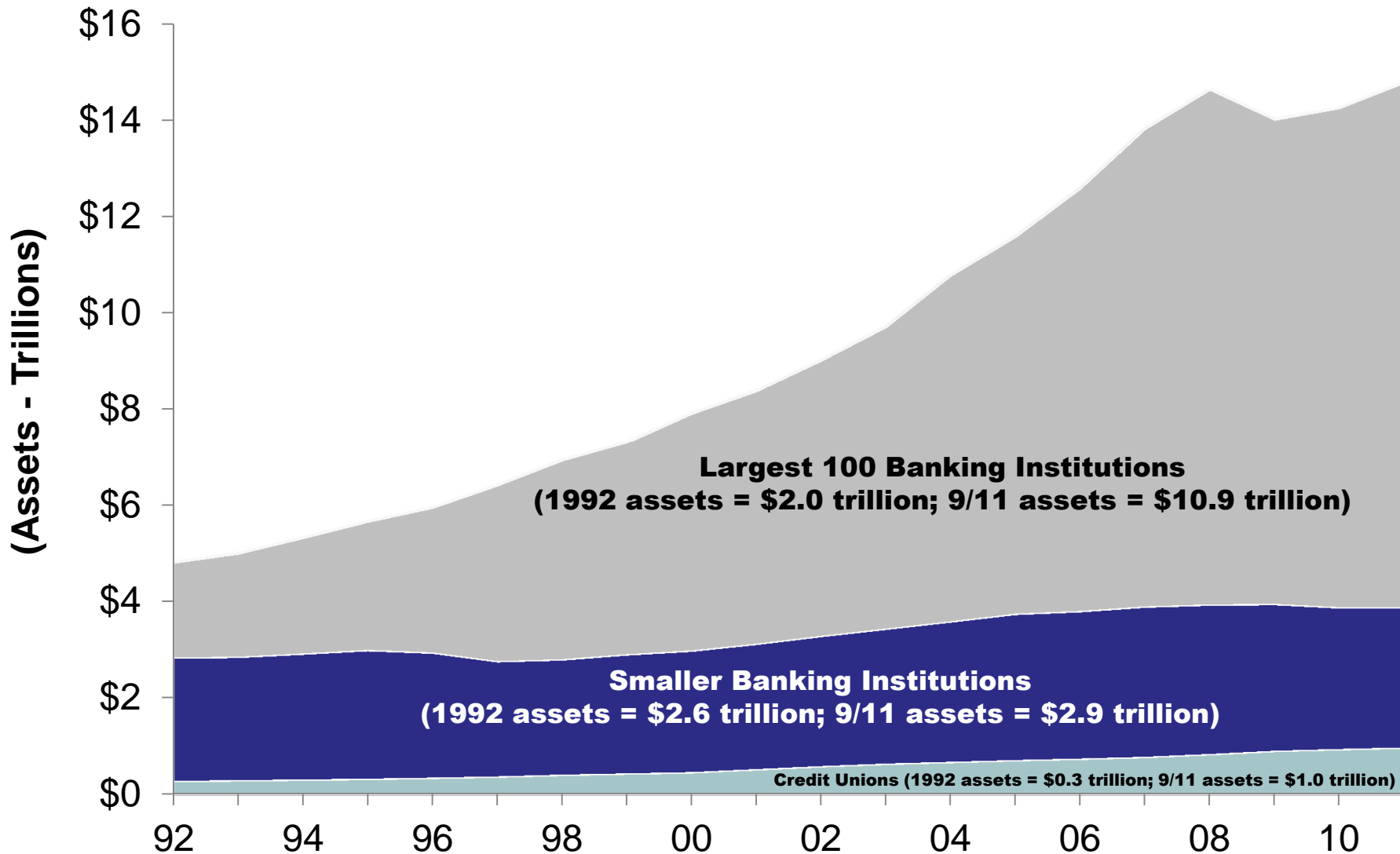
Source: NCUA, FDIC. September 2008.

Bankers claim credit unions are making big market share gains

Credit union market share of financial institution assets has not changed in nearly twenty years: Credit union market share was 6% in 1992 and remains 6% at quarter ended September 2011.

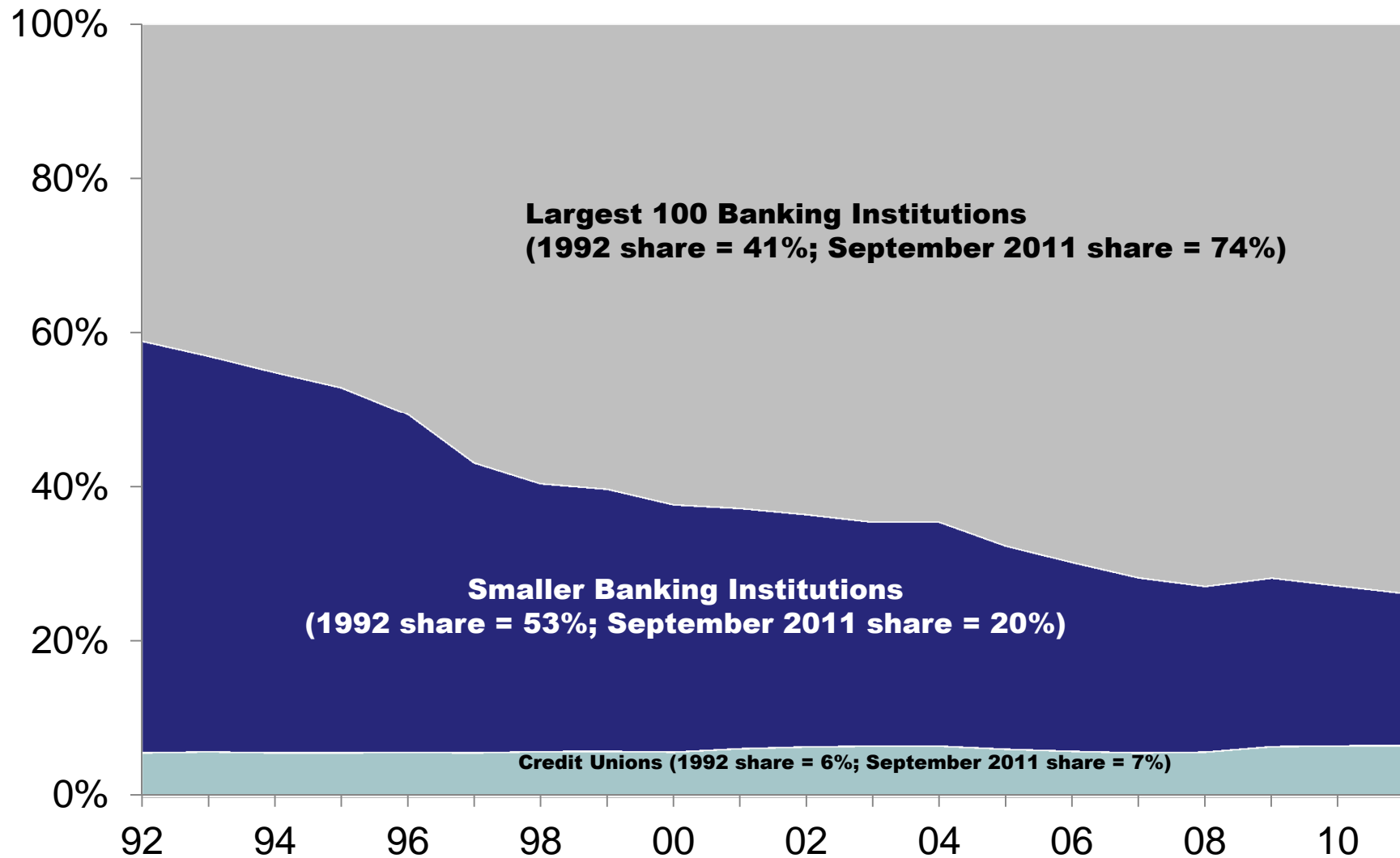
Multi-state, mega-banks are the true empire builders in the depository arena. As noted in the *Economist* (12/23/06): “America’s small, local banks are unlikely to die out, but their life has become a lot less cosy”. Are credit unions to blame? Absolutely not. According to the *Economist* article: **“The effect of this consolidation on America’s local banks may seem clear: they are squeezed by the big boys, just as retailers are when Wal-Mart or Toys “R” Us comes to town.”**

Small Banks Have More to Fear From Fast-Growing Mega-Banks Than From Credit Union Competition



Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.
"Smaller Banking Institutions" are defined as all banking institutions smaller than the Largest 100.

Increasing Dominance of Multi-State Mega-Banks



Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.
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Bankers claim credit union member business lending is “exploding”

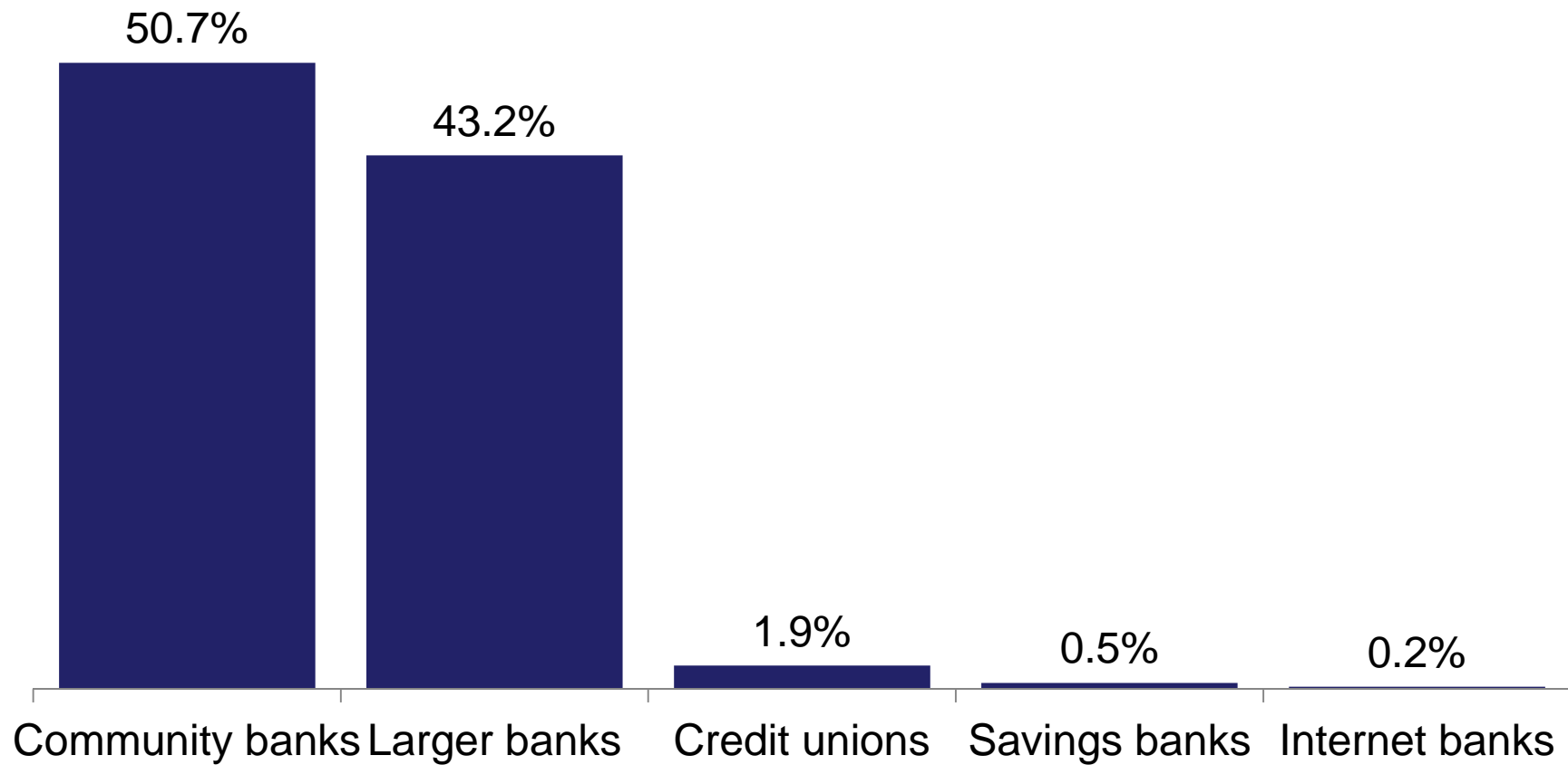
But the 11th annual ABA Competitiveness Survey revealed that only 1.9% of bankers view credit unions as chief competitors in business lending. This result is consistent with results of previous ABA Competitiveness Surveys that asked the same question.

In all, 30% of credit unions offer business loans and business loans account for only 7.0% of total credit union loans – even though credit unions have been making business loans since their inception in 1908.

According to the NCUA the average size of credit union member business loans at third quarter 2011 was roughly \$219,000. Additionally, the last Treasury Department study of credit union business lending found that 59% of credit union loans made for business purposes were loans of \$50,000 or less.

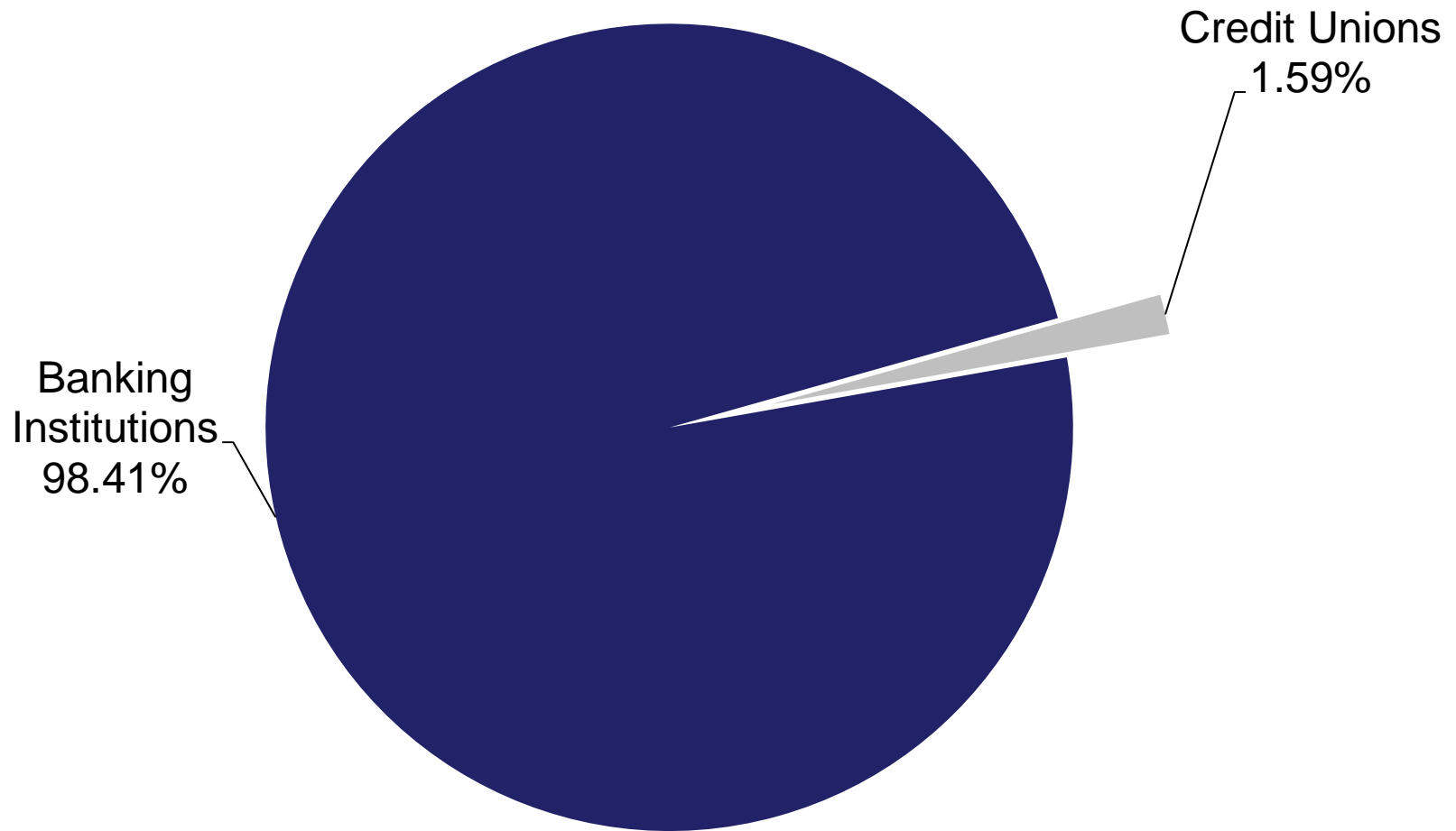
Credit unions control a 1.6% market share of depository institution business loans at the end of September 2011.

Banker "Leading Business Lending Competition"



Source: ABA Banking Journal 11th Annual Competitiveness Survey.

Business Loan Market Share At U.S. Depositories September 2011



Source: NCUA, FDIC.

Bankers claim credit unions don't benefit members

But credit unions are lending as banking institutions pull back. Consumers and business claim that they are unable to obtain loans from their banks but credit unions are filling this void. Overall, credit union loans grew by nearly 7% during the more than three-and-a-half years since the recession began. In contrast, over the same period, bank loan portfolios declined by over 7%.

Credit unions have been able to “stay in the game” and continue to keep “stepping to the plate” to serve member needs because their asset quality and capital has remained high in the face of challenges arising from the financial system crisis. Banking institution asset quality has declined much more markedly because banking institutions and their subsidiaries were largely responsible for the financial crisis. In the absence of massive federal capital infusions into banks, the sector would have been decimated. Unlike banks, credit unions are portfolio lenders and the mortgage loans they originated were generally traditional, conforming loans: because credit unions are owned by their borrowers, these institutions originated very few sub-prime loans, liar loans, or other so-called toxic mortgages.

The Gap Widens Between Banks and Credit Unions

According to the American Customer Satisfaction Index (ACSI):

“In 2011, customer satisfaction with credit unions breaks all records, reaching the highest score ever achieved by any industry covered in the ACSI. Some of the big banks have increased customer satisfaction this year, but they are so far behind both smaller banks and, especially credit unions that the exodus of customers is likely to continue, supported by grassroots movements such as November’s Bank Transfer Day. While it is too early to quantify just how much business the big banks have lost to smaller competitors, the new ACSI data suggest credit unions and small banks now have become an even more attractive alternative for consumers.”

Source: ACSI Commentary December 2011.

“Banks are trying to make up billions in lost revenue due to the bad economy, new regulations, and in some cases perhaps even their own inefficiencies.”

- Consumer Reports, February 2012

Banks vs. credit unions			
The largest credit unions tend to have lower fees on average than the biggest banks.			
Noninterest checking/mo.	Minimum balance to waive fees	Online bill payment/mo.	Use another bank's ATM
BANK FEE \$10.27	BANK FEE \$1,115.97	BANK FEE \$6.95	BANK FEE \$2.21
CREDIT-UNION FEE \$6	CREDIT-UNION FEE \$500	CREDIT-UNION FEE \$0	CREDIT-UNION FEE \$1.07
ATM surcharge	Insufficient funds	Stop payment	Overdraft
BANK FEE \$2.96	BANK FEE \$34.48	BANK FEE \$31.09	BANK FEE \$34.48
CREDIT-UNION FEE \$2.79	CREDIT-UNION FEE \$27.82	CREDIT-UNION FEE \$19.43	CREDIT-UNION FEE \$27.82

Source: Informa Research Services banking data.

Bank Transfers?

MEDIA HAS RESPONDED...

[Credit Union Guarantees Free Checking and No Debit Card Fees—Forever](#) (*TIME*)

[As Customers Flee, Big Banks Don't Seem to Care](#) (AOL's DailyFinance)

[Bank of America-style debit-card fees could be boon to small banks](#) (*Philadelphia Business Journal*)

[Fee-weary customers breaking from big banks](#) (*Associated Press*)

[Take your money and run](#) (*Christian Science Monitor*)

[Small lenders may see profit from big-bank debit fees](#) (*Knoxville News Sentinel*)

[Barone: Want to switch banks? Look at deposits, charges](#) (*Reno Gazette Journal*)

[The Credit Line: The Credit Union Option](#) (*Credit.com*)

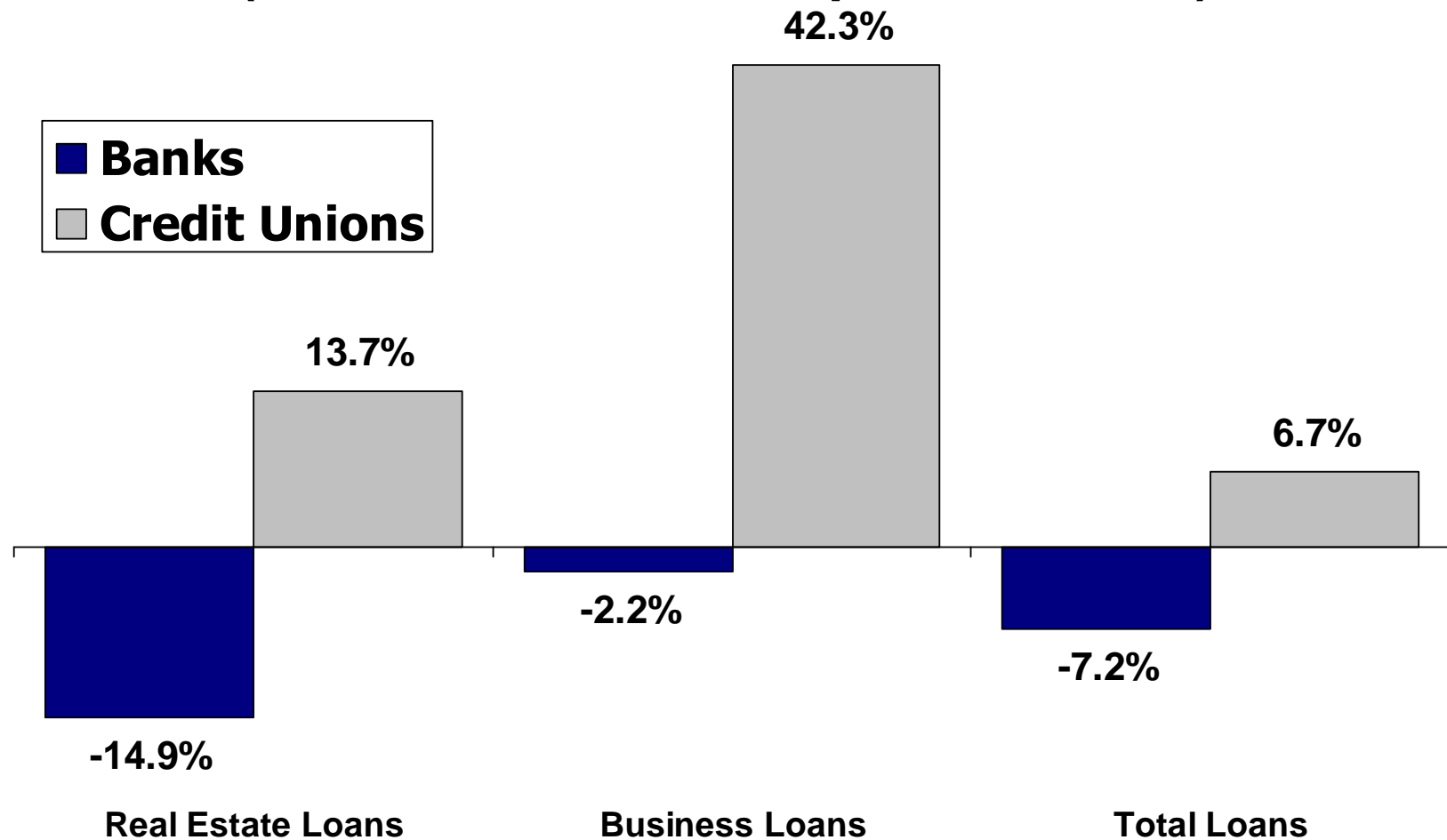
[Local patrons feeling less of a pinch from new bank fees](#) (*Pittsburgh Post Gazette*)

[Credit Unions Tap Into Consumers' Big-Bank Fee Fatigue](#) (*eCreditDaily.com*)

[Bank Transfer Day: Technologists Say Thousands Already Switching](#) (*Credit Union Times*)

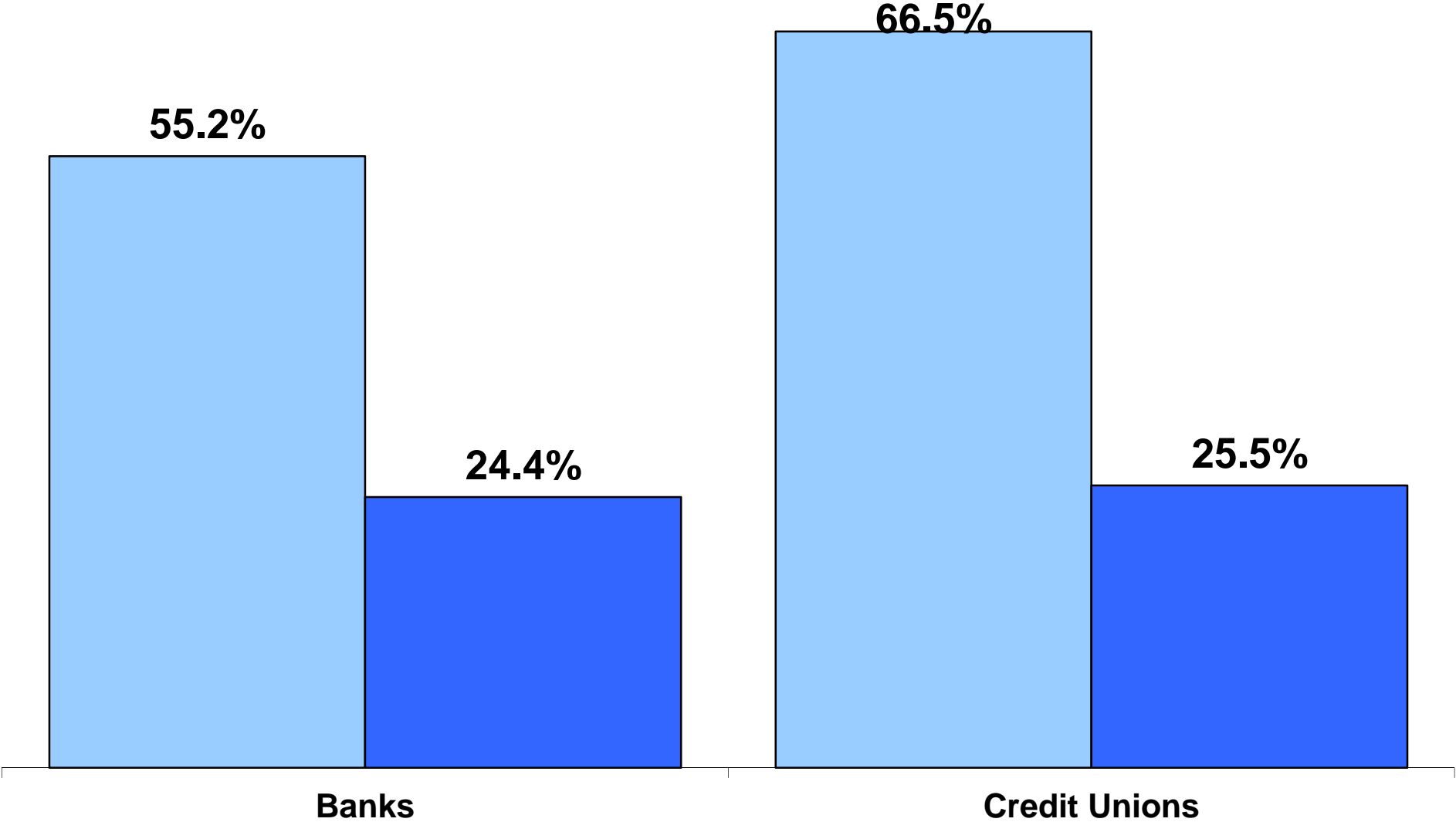
Credit Unions Remain “In the Game” As Other Lenders Pull Back

Growth Since Beginning of Recession
(December 2007 to September 2011)



Low/Moderate Income Approvals/Originations

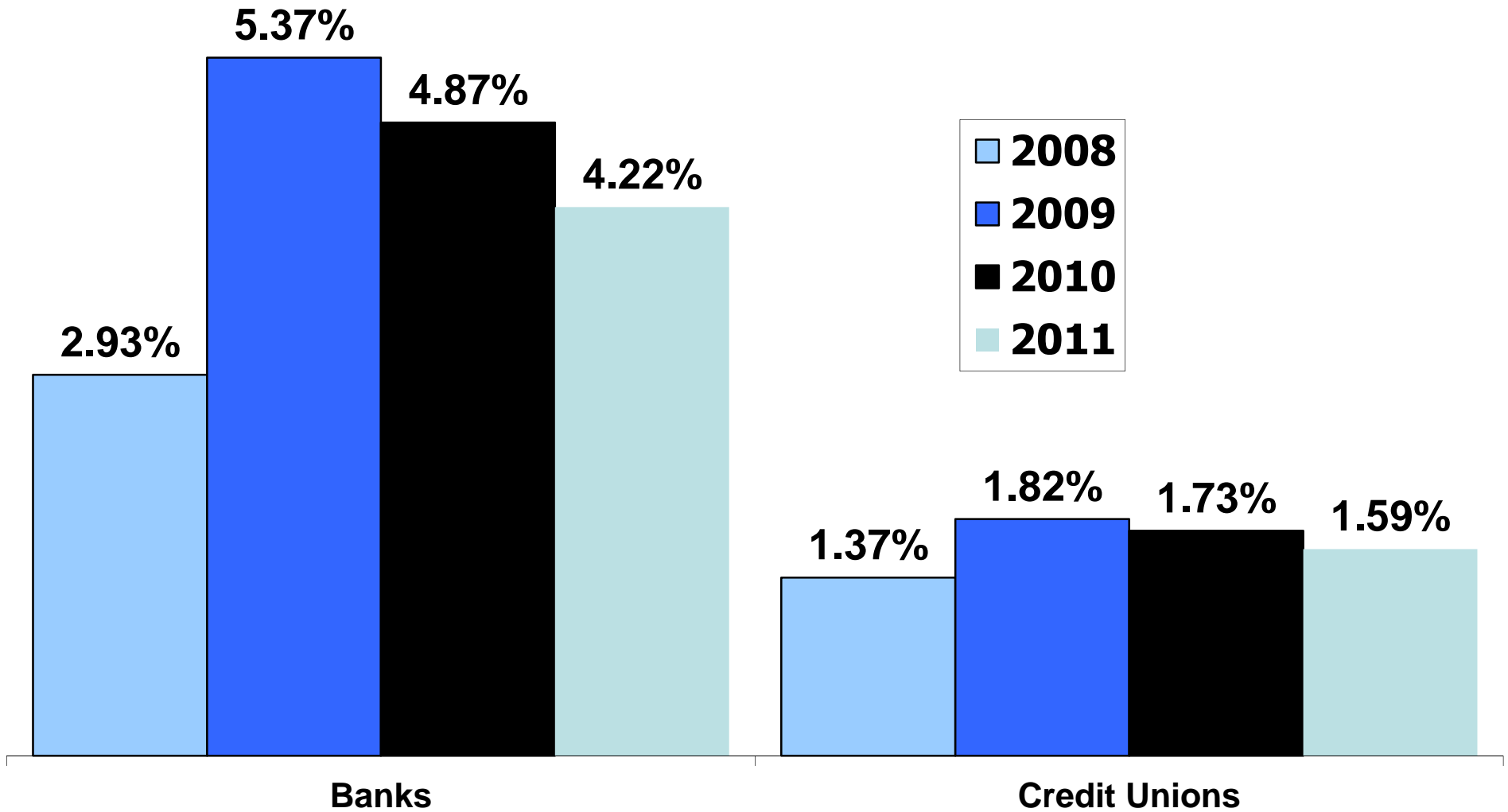
2005-2010 HMDA Averages



Source: FFEIC and NCUA.

Much Smaller Delinquency Increases at CUs

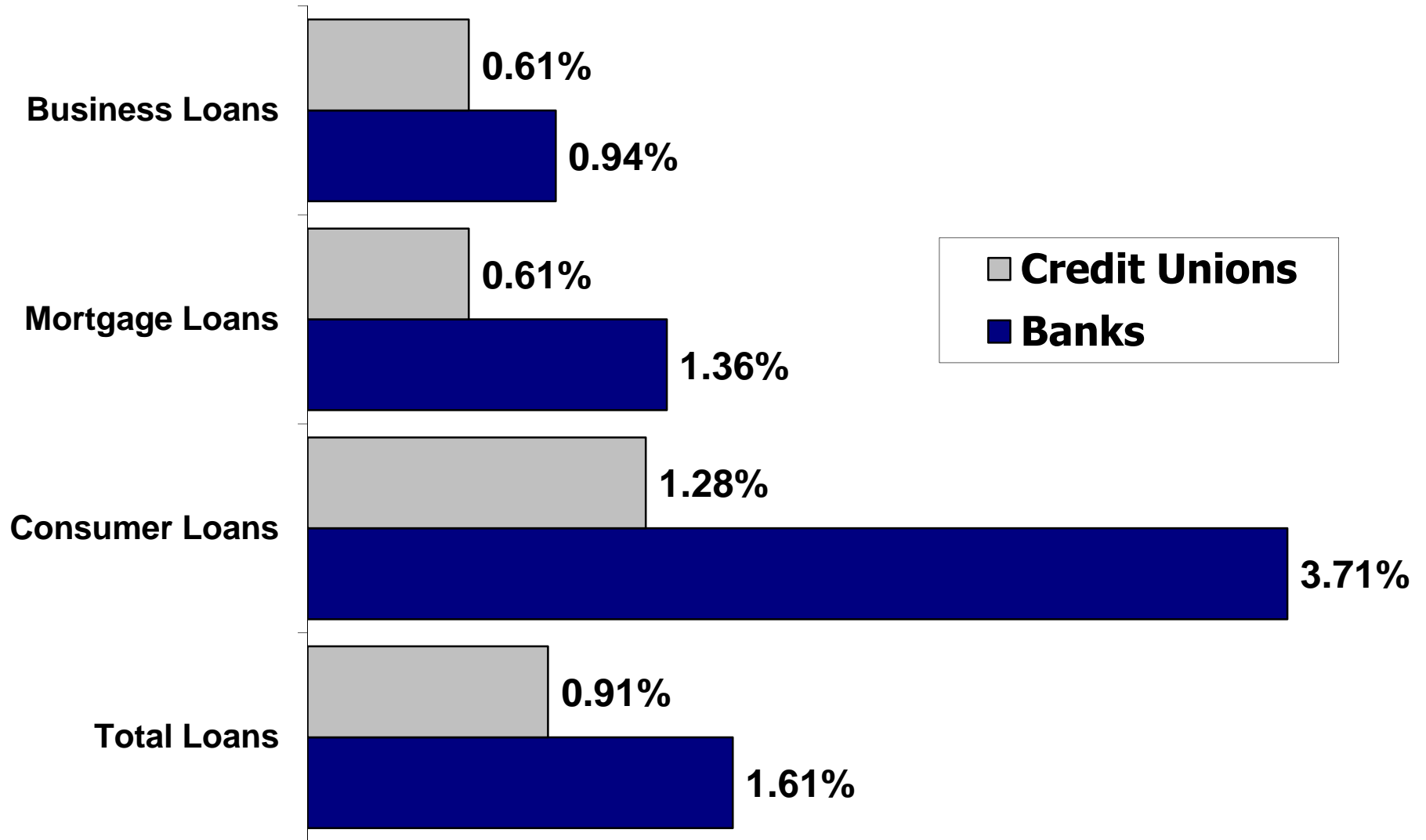
Total Loan Delinquencies as a Percent of Loans Outstanding



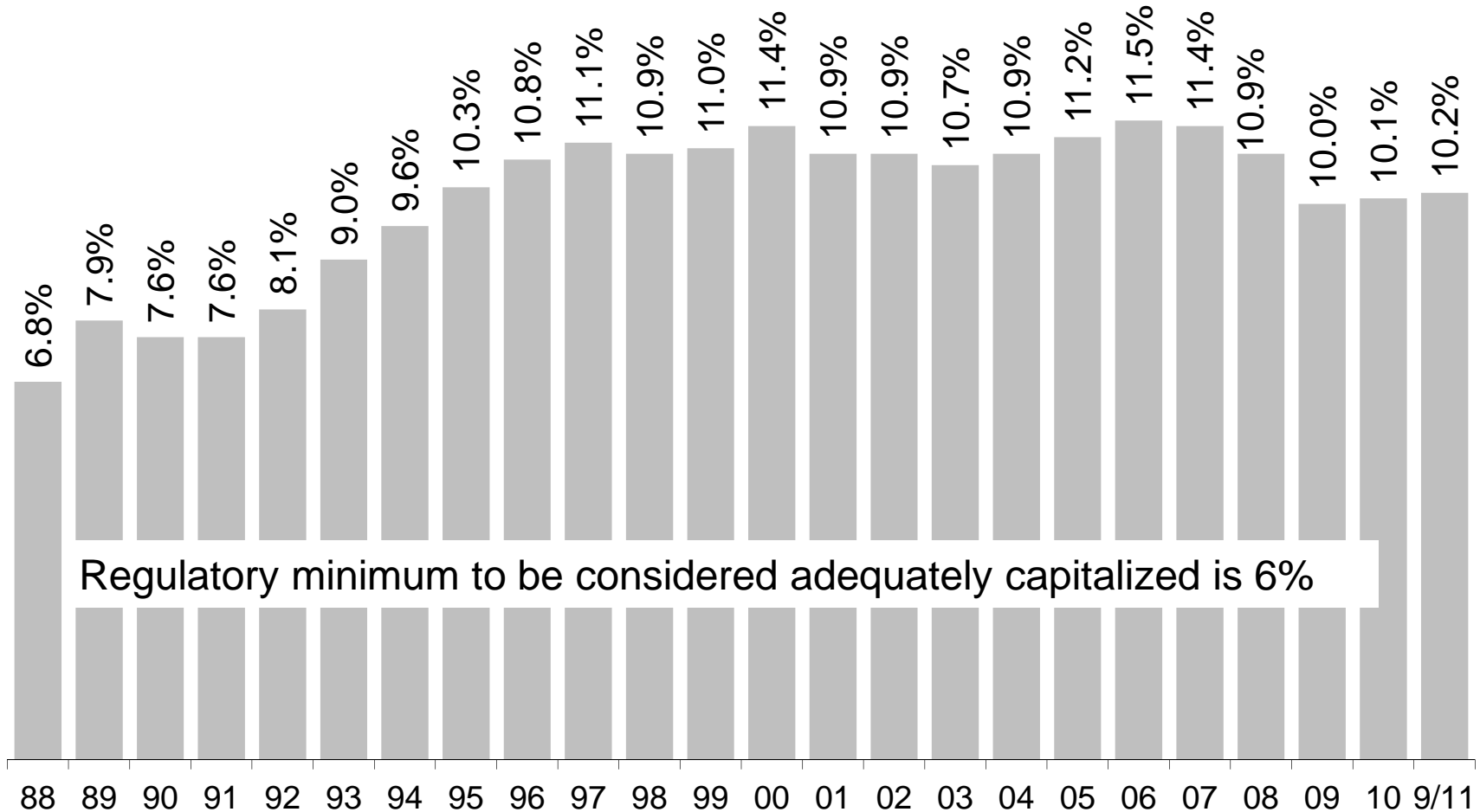
Source: FDIC and NCUA. Banks delinquency is 90+ day, CU delinquency is 60+day.

Safety & Soundness Concerns?

Annualized Loan Charge-Offs as of 9/11



Credit Union Capital Ratios Remain Near Record Levels



Bankers claim credit unions make it difficult for them to compete

But in “**The Economic Performance of Small Banks, 1985-2000**” (November 2001 Federal Reserve Bulletin) William F. Bassett and Thomas F. Brady conclude that “...small banks have thrived over the past decade and a half despite what might be seen as a variety of adverse circumstances, including extensive bank consolidation, a solid improvement in the balance sheet health of large banks, rapid growth in mutual funds and other elements of a ‘parallel’ banking system, and a steady decline in the real value of deposit insurance. Despite these circumstances and abstracting from the effects of mergers and acquisitions, small banks have grown considerably more rapidly than large banks and have tended to meet or exceed them in some measures of profitability....The robust growth and high profitability we find at small banks apparently have not gone unnoticed by the investors that have formed significant numbers of new banks in recent years.”

In a more recent publication, “**What Drives the Persistent Competitiveness of Small Banks**” (A Federal Reserve Economic Discussion Series paper published in May, 2002) Bassett and Brady further reveal that increased deposit account interest costs at small banks primarily reflect the higher rate of return that small banks earn on their assets. So it’s not the credit unions that are driving them up.

Bankers claim credit unions make it difficult for them to compete

Banking industry publications consistently contradict the idea that credit unions are hurting small banks. Publications like the *American Banker*, *ABA Banking Journal* and *Independent Banker* are replete with stories about how community bankers (individually and collectively) are making bumper profits and growing quickly. For example, *U.S. Banker* magazine recently boasted that community banks make up one-third of the fastest growing small companies in America. The majority of the successful banks these publications highlight face credit union competition on a daily basis.

While it is possible to find small banks that have poor financial or operational performance, credit union competition is at or near the bottom of the list of causes. The contributors to poor bank performance seem to be (in no particular order) fraud, mismanagement, nepotism, overly aggressive expansion, too many big branches, bad pricing decisions (on either side of the balance sheet), too much credit risk (i.e., overly-aggressive lending decisions), weak ALM, misguided investment decisions, bad service, and lack of synergy in mergers. This, as most bank consultants will tell you, is not an exhaustive list.

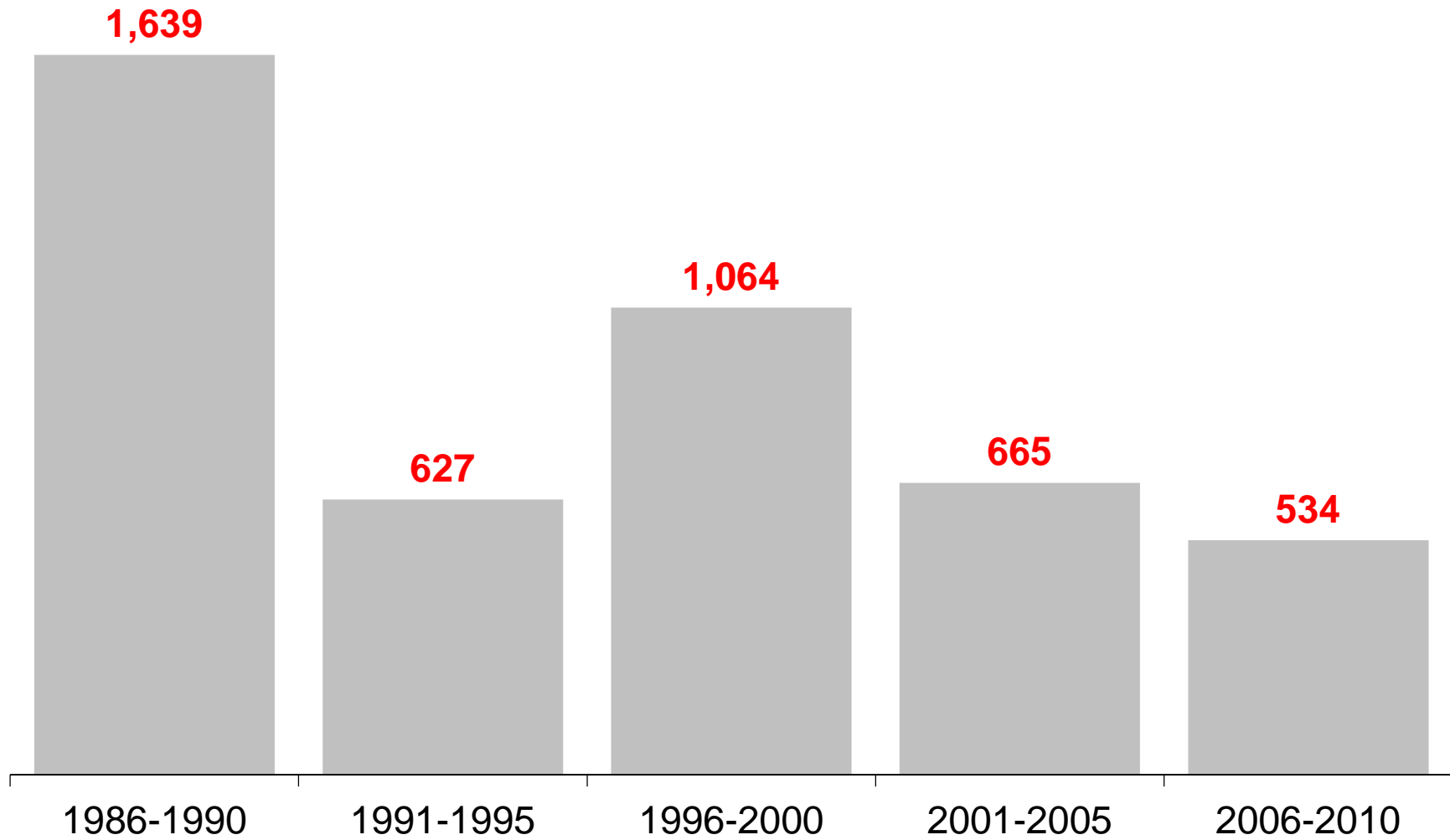
Bankers claim credit unions make it difficult for them to compete

Since 1986, 4,529 new banking institutions have been chartered and 534 new institutions were chartered since the beginning of 2006. Bankers simply wouldn't be chartering new institutions if credit union competition was as stifling as bank trade groups claim.

If bankers really believed that credit unions had unfair competitive advantages they would convert their institutions to credit union charters. None do this however because doing so would expose them to democratic ownership and control, would likely cause banker salaries to decline dramatically, and would force these institutions to adhere to a more restrictive regulatory regime, including higher capital standards.

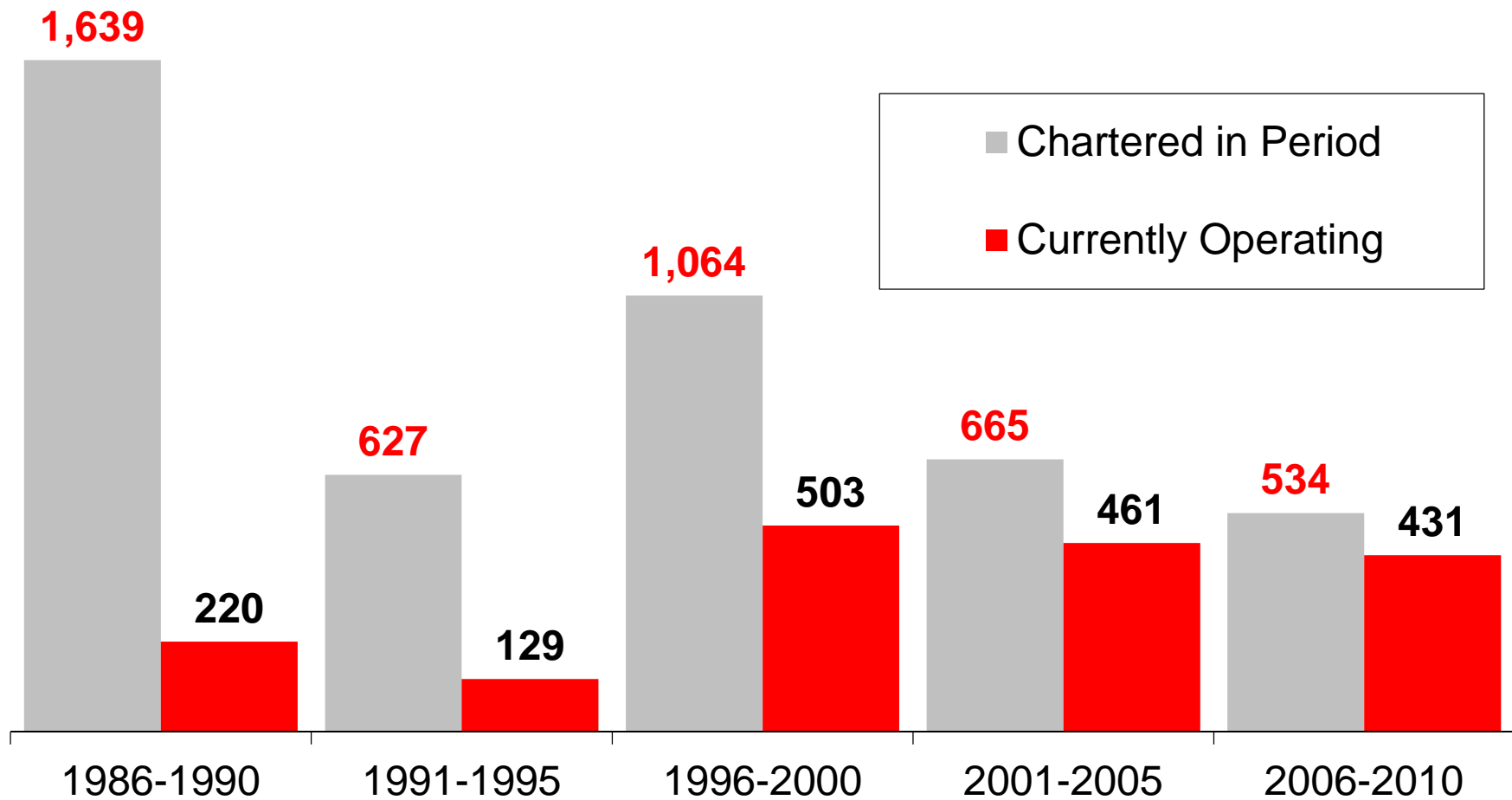
New Banks/Thrift Charters

5-Yr Periods



Newly Chartered Banks are Frequently Sold to Highest Bidders

Only 40% of those chartered in the last 25 years remain independent operators



Bankers claim credit unions don't benefit members

But credit unions generally offer higher yields on savings accounts and lower interest rates on loans compared to banking institutions. Credit unions also are less likely to charge fees for services and when they do so, credit union fees tend to be lower than banking institution fees. The Government Accountability Office report GAO-07-29 confirms that credit union pricing is (with few exceptions) more favorable than bank pricing. The GAO report reveals this is true across institution size & over many years.

The combination of higher yields on savings, lower loan interest rates and lower fees translates into big financial benefits for credit union members. CUNA estimates that the benefits credit unions provide members totaled \$6.3 billion or \$131 per member household in the year September 2011. In addition, credit union presence in the marketplace makes bank pricing more consumer-friendly than it otherwise would be. The benefit this moderating influence has on bank customer pricing is estimated by CUNA to total \$5 billion in the year ending September 2009.

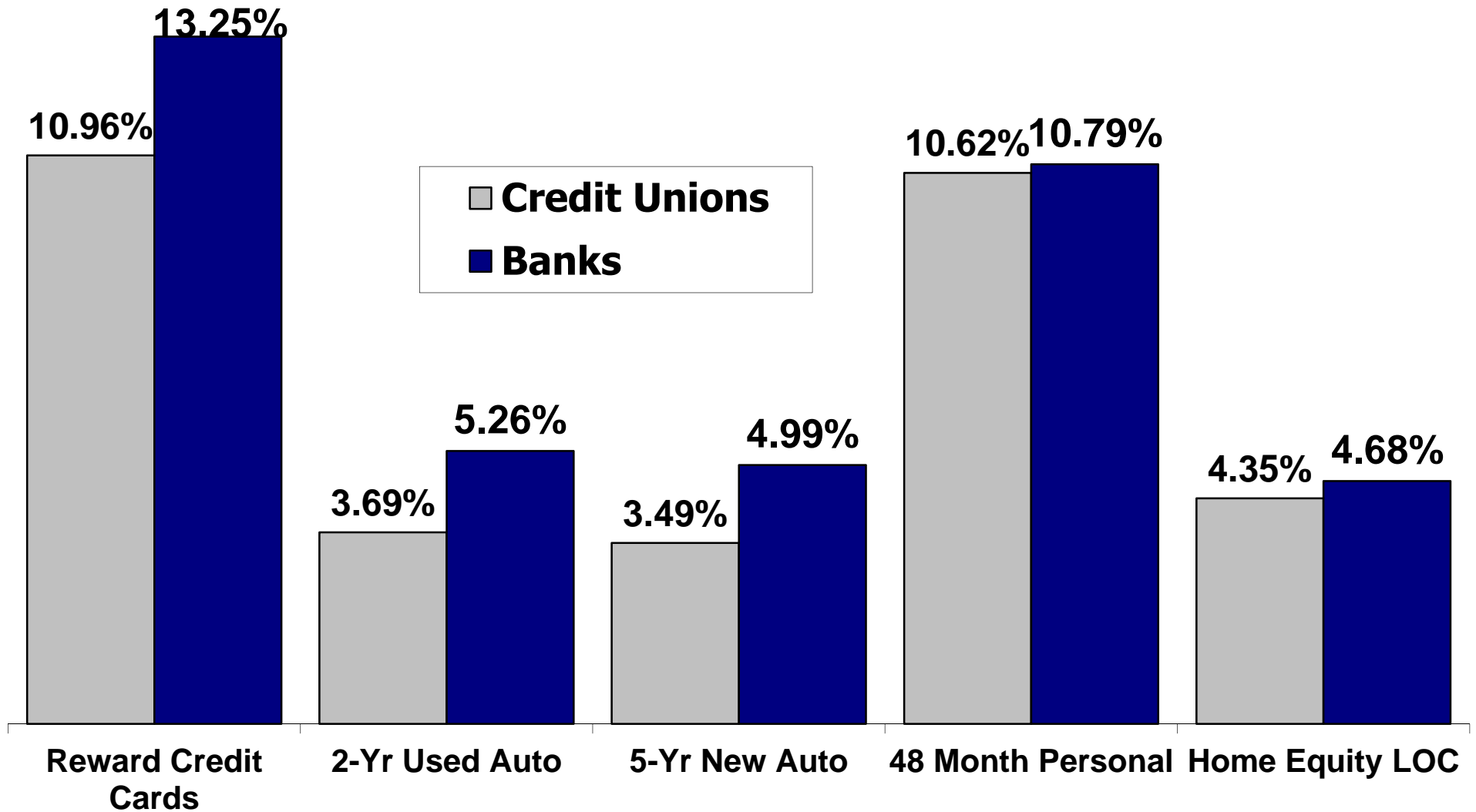
Details of these estimates are available on the CUNA web site here:

http://cuna.org/initiatives/bank_attack/district_benefits.html

http://cuna.org/initiatives/bank_attack/state_benefits.html

Credit Unions: Consumer Friendly Pricing

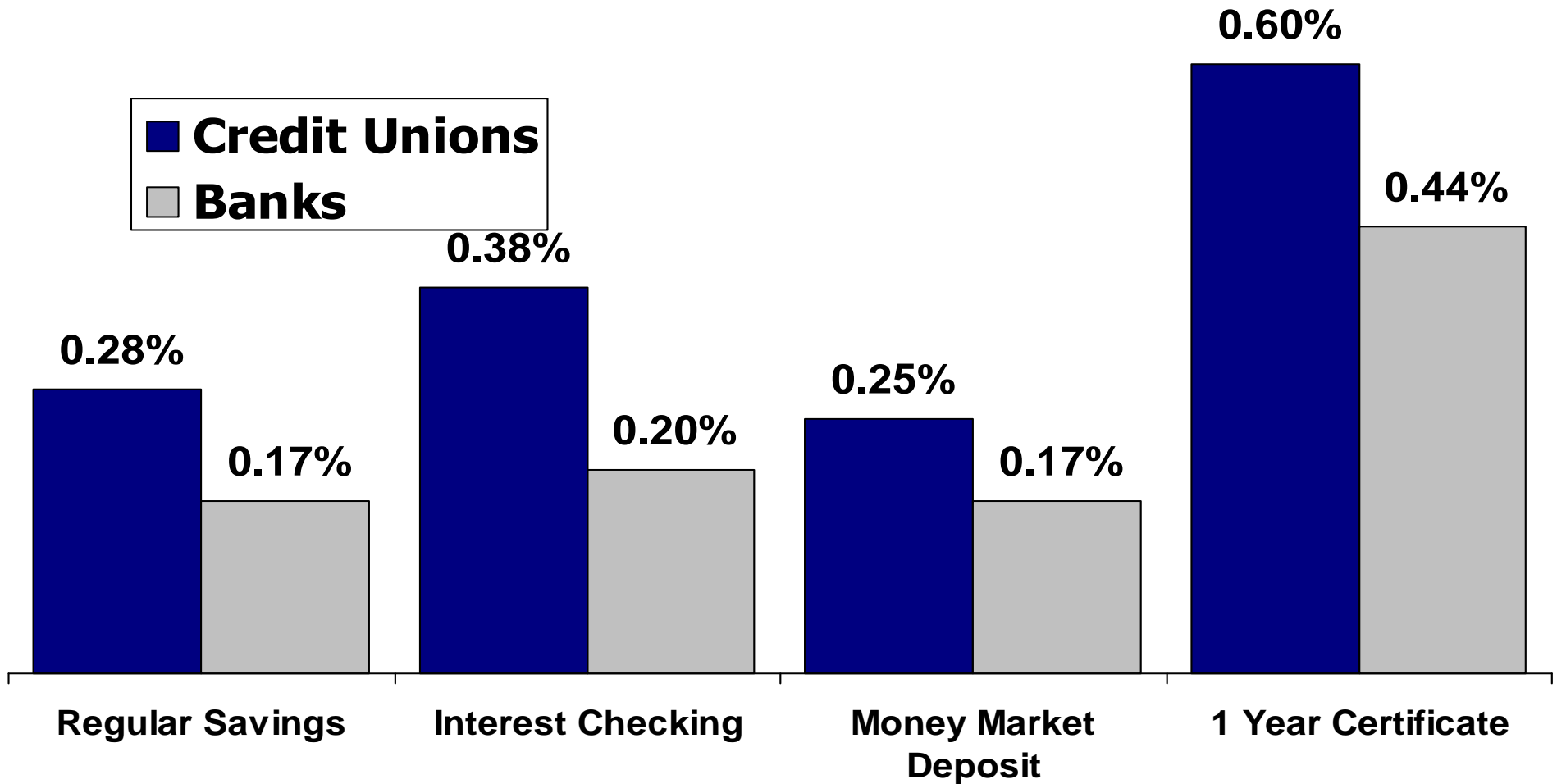
Loan Interest Rate Averages



Source: Informa Research Services. Data as of December 8, 2011.

Credit Unions: Consumer Friendly Pricing

2011 Savings Account Interest Rate Averages



Bankers claim credit unions don't serve the "right" members

Bank trade groups also like to point out that credit unions don't serve all members, often accusing them of "cherry picking" the best customers and ignoring lower-income individuals. However, the record exposes banker rhetoric for what it is. For example, historical HMDA statistics provide good clues about credit union commitment to lower-income consumers. This data consistently shows that lower income borrowers in the market for a mortgage are substantially more likely to be approved for a loan at a credit union.

HMDA data also shows that compared to other lenders, a greater percentage of total credit union home loans are granted to low/moderate income consumers.

Oddly bank trade groups don't discuss the bank record. For example, a recently-released study of bank branching concludes: "NCRC finds that most of the largest metropolitan areas of the United States have markedly lower numbers of bank branches in working class and minority communities than in the upper class and white neighborhoods."

- "Are Banks on The Map? An Analysis of Bank Branch Location in Working Class Neighborhoods" National Community Reinvestment Coalition. March 2007.

Bank trade groups have filed numerous lawsuits to prevent credit union service expansion into underserved areas.

Bankers claim the credit union tax exemption hurts government budgets

If bankers really cared about government budgets they wouldn't be chartering so many SubS institutions. In fact, these institutions have been chartered since 1997 and there are now 2,333 in existence. And bankers continue to try to expand SubS eligibility and/or eliminate all taxation of dividends.

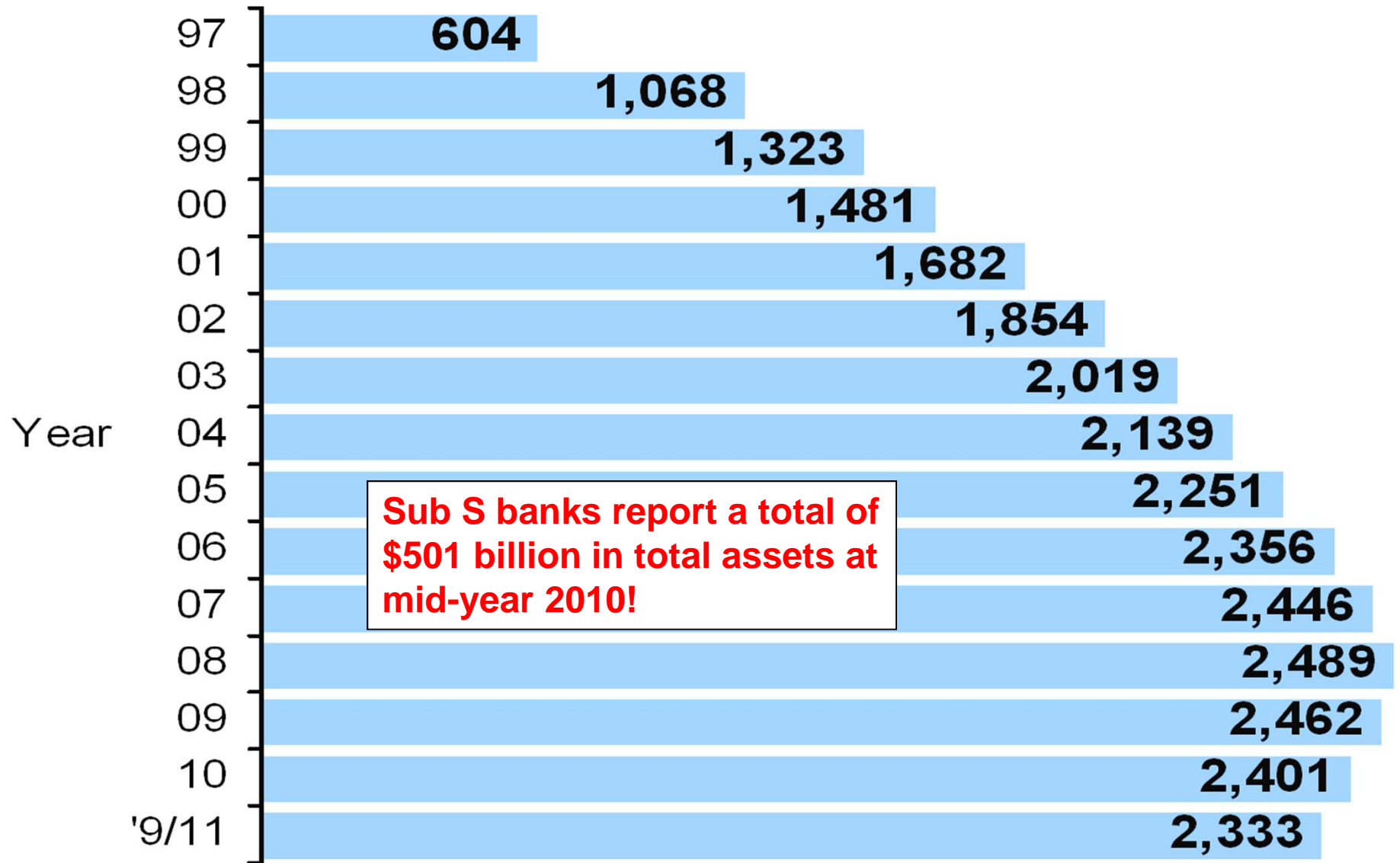
SubS status, intended to benefit small businesses, is now being used by 61 banks which individually have \$1 billion or more in assets. At September 2011, the largest SubS bank reported \$13.2 billion in total assets.

While SubS status is not the same as a tax exemption, it results in significant loss of government revenue. For example, the direct cost to the federal government from banking institution SubS elections is estimated to be \$8.2 billion in lost revenue since 1997.

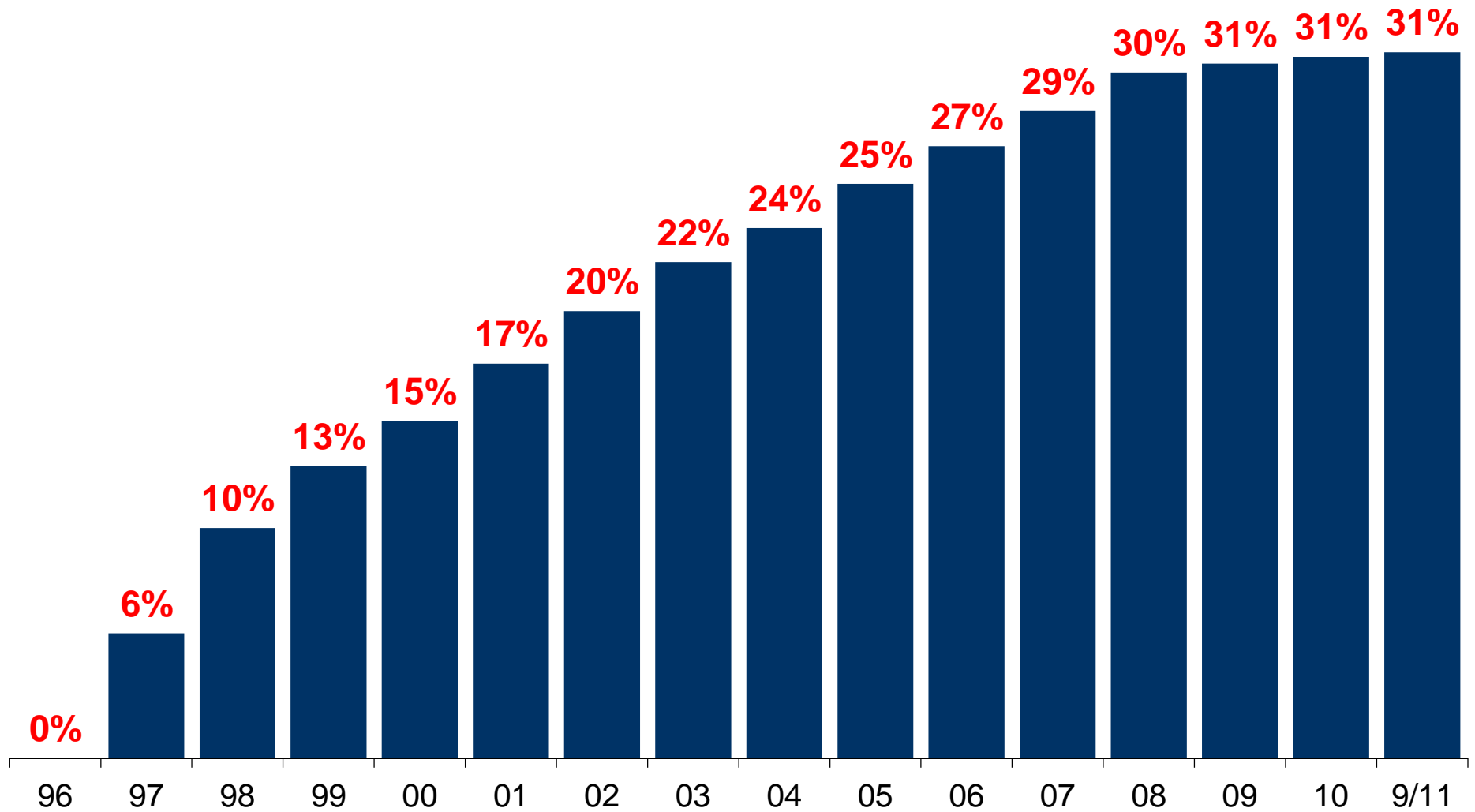
Bankers neglect to discuss the revenue implications of their repeated (and successful) efforts to expand SubS status. Those efforts continue to this day.

Bankers want state policymakers to believe that taxing state chartered credit unions raises state revenue. In fact recent experience shows it simply encourages state chartered credit unions to convert to federal charters. It also results in revenue losses because these converted institutions no longer pay state supervision fees.

Number of Subchapter S Banking Institutions



Percent of U.S. Banking Institutions with SubS Status



Source: FDIC.