

The Little Banks That Can

Anger at big banks has prompted calls for consumers to move their money. But where will you get the best terms? It's time to check out your local credit unions **By LYNN BRENNER**

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● Here's how bad it's gotten for bankers: they're less popular than politicians, according to a recent Zogby Interactive survey. And no wonder. After receiving a huge bailout to escape a debacle of their own making, America's biggest banks raised their fees, posted record profits, and paid enormous bonuses to their executives. Meanwhile, most of us are still struggling to regain our footing. Unemployment hovers around 10 percent—and although the bailout was supposed to help get credit flowing, banks still are not lending to the small businesses whose recovery is vital to creating jobs. “We need a citizens’ intervention to reform our financial institutions,” says pundit Arianna Huffington. Late last year she launched Move Your Money, a campaign that urges Americans to shift their accounts to community banks and credit unions.

Some of us are responding: 9 percent of those polled by Zogby say they've taken some business away from banks, in protest. Moral outrage aside, there are always three compelling reasons to switch banks: lower fees, higher interest on deposits, and better service. As it turns out, you are likely to find all three at some of the smallest financial institutions in the nation: credit unions.

“The average consumer does much better at a credit union than at a bank,” says Ed Mierzwinski, consumer program director for the U.S. Public Interest Research Group. “Credit unions

have lower requirements for waiving fees, offer better deals on car loans, and are generally more flexible in responding to customers’ problems.”

Everybody's Eligible

The 7,700 credit unions in the United States are nonprofit cooperatives; they exist to serve their 92 million members. Yet after more than a century, credit unions are still the best-kept

secret in banking—partly because, unlike banks, they don't spend much money on advertising.

Contrary to popular belief, it's not hard to join a credit union. Membership is legally restricted to groups of people who share a common bond—such as employees of one company, or members of a religious group or professional association. But eligibility rules are now so liberal that virtually anyone



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who wants to join a credit union can find one, says Curtis Arnold, founder of CardRatings.com, a credit card-information website. You can sometimes even buy your way in: pay \$20 once to join the National Military Family Association and you can become a member of Pentagon Federal Credit Union.

An Edge on Rates

Good things happen to interest rates when you take the profit motive out of banking. On April 30, for instance, the average one-year CD at a credit union paid 1.22 percent, whereas at banks the average was 0.97 percent. Debt financing showed a wider spread: rates for 36-month unsecured loans averaged 10.60 percent at credit unions, compared with 12.37 percent at banks.

These differences add up. In 2009 consumers saved \$7.3 billion by using credit unions instead of banks, according to the Credit Union National Association. (And in case you're wondering—yes, almost all credit unions are federally insured.)

Even though CardRatings.com mainly focuses on commercial-bank credit cards, Arnold does his own banking at a small local credit union. "I'm a big fan," he says. "Unlike a lot of banks, most credit unions don't try to cross-sell you products you don't really want."

You should bear in mind, however,

small-business owners, except that federal law limits their ability to do so: any loan above \$50,000 is considered a business loan—and total business loans can't exceed 12.25 percent of their assets. Credit unions are urging Congress to pass pending legislation that would raise those caps, allowing the lending of 25 percent of assets to business owners and redefining a business loan as any amount above \$250,000.

A Can-Do Attitude

It's a telling indictment of banks that what members seem to like most about credit unions is their service. When my sister arrived in a new town to start a job, for example, she was able to borrow to buy a bed the moment she joined a credit union. And a friend says his credit union found a way to wire emergency money to his daughter's overseas bank account—after two banks told him it couldn't be done.

Disillusioned bank customers say the contrast is striking: "Our community bank went through three ownership changes in the past few years, each time with cuts in service," says freelance journalist Dave Lindorff of Maple Glen, Pennsylvania. "I walked in to get an advance on our home-equity line of credit one day and the teller said it had been frozen." After Lindorff pointed out he had substantial equity in

Before You Join a Credit Union



1 Cast a wide net. To find credit unions you're eligible to join, go to creditunion.coop or findacreditunion.com, or call the Credit Union National Association at 800-358-5710. In addition, ask relatives, since many credit unions are open to extended family.

2 Make sure your deposits will be insured. Ninety-eight percent of the nation's credit unions are covered by the National Credit Union Share Insurance Fund, which is backed by the full faith and credit of the U.S. government and provides the same limits of coverage as the Federal Deposit Insurance Corporation.

3 Ask about services you're seeking. Most credit unions provide a full range of banking products and services, but smaller ones may have limited offerings. Some small credit unions don't offer mortgages or business loans, for example, nor will they let you pay bills online.

4 Check for CO-OP Network membership. This network provides surcharge-free access to automated teller machines at more than 28,000 locations in the United States and Canada, including 9,000 deposit-taking ATMs and 5,500 7-Eleven stores. Plus, the CO-OP Network's members have access to 800,000 cash machines worldwide through links to NYCE, STAR, Cirrus, Pulse, and Plus. —L.B.

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that loan accounts you open at a credit union are usually tied together. With a car loan, the car becomes collateral for the balance on your credit card issued by the credit union. That's a problem if you default on the card.

Limits on Lending

Unlike many banks, credit unions emerged relatively unscathed from the subprime-mortgage meltdown and do not have huge losses to write off. They are eager to increase their lending to

his house, was using only 30 percent of his credit line, and had never missed a payment, the bank said it would let him apply for a new line...at a higher interest rate. Instead, he found a local credit union where he got a home-equity line at a rate *lower* than his original one at the bank. Says Lindorff: "The credit union couldn't have been nicer." ■

Contributing editor Lynn Brenner wrote about the new dangers in bond investing in the May-June issue.