

Credit Unions and Banks

Structure

- ✓ Credit unions are member-owned, non-profit financial cooperatives that offer services to their members.
- ✓ Banks are for-profit, board and stockholder controlled, financial corporations that offer a wide variety of financial, investment, insurance and real estate services to their customers.

- ✓ Credit unions operate under a one member, one vote system.
- ✓ Bank stockholders hold influence based on the total value of their stocks. Bank customers do not own a financial interest in the bank.

- ✓ Volunteer, unpaid boards operate most credit unions.
- ✓ Bank boards are generally compensated for their service.

- ✓ The earnings of a credit union, minus operating expenses, are returned to the members in the form of higher interest rates and lower loan rates.
- ✓ The profits of a bank, minus operating expenses, are divided among the stockholders of the bank.

Taxes

- ✓ Credit unions do not pay federal income tax on the earnings of the credit union but do pay all other relevant taxes such as payroll, property and sales taxes.
- ✓ Banks do pay federal income taxes on corporate profits, although there are many banks that also qualify for tax exempt status under Subchapter S of the IRS Code.
- ✓ Congress granted credit unions a federal tax exemption based on their unique structure as non-profit cooperatives and to provide financial services to those of modest means.
- ✓ Banks do not have a tax exemption because they are a for-profit business intended to provide profits to their stockholders. Their customers own no financial interest in the bank. (Banks have paid more in dividends to stockholders than they paid in income taxes each of the last eight years. If banks didn't have stockholders who demand a market rate of return, they would be more competitive.)

Market Share

- ✓ At year-end 2003, credit union share of total financial institution assets was 6.5% - ten years earlier (year-end 1994) the CU share was 5.6%
- ✓ Banking institutions share at year-end 2003 was 93.5%. It was 94.4% at year-end 1994.
- ✓ At year-end 2003 credit union share was approximately one dollar out of fifteen.
- ✓ Banking institutions control over nine of ten dollars.
- ✓ Average size at year-end 2003 for credit unions is \$65 million.
- ✓ Average size of banks at year-end 2003 was \$982 million

Membership

- ✓ Under federal and state laws, most credit unions (90%) may only offer membership to individuals who are members of a select group that share some type of common bond. (Employees at a given company are a good example. A credit union can include, subject to regulatory review, any number of these groups.)
- ✓ Banks face no restrictions on who they serve.

Affordability

- ✓ Credit union services may be available to members for a deposit of as little as \$5.
- ✓ Banks usually require a minimum deposit of \$50 to \$100 to open an account.

Growth

- ✓ Between 1999 and 2003 CUs grew by \$206 billion
- ✓ Banking institution assets grew by \$2.193 trillion during the same period.
- ✓ In 2003 alone banking institutions grew by more than credit unions have grown since they began operating in the US nearly 100 years ago