

A CREDIT UNION IS . . .

Daughter: Where are we going, now, Dad?

Father: I need to make a quick stop at my credit union. It'll just take a minute.

Daughter: Why do you say 'my' credit union?

Father: Because it's different from a bank. A credit union is owned by all of its customers. They're called members.

Daughter: Oh, you mean like that membership Grandma gave me last year to the National Geographic Society?

Father: Not quite. A credit union is a business. Only it has no stockholders making money off it. It's owned by all of the members. We pool our money together and when someone needs a loan, it's like we're borrowing it from ourselves. We don't try to make money off of one another; we just try to meet our financial needs by working together. It's 'my' credit union because I'm one of the owners.

Daughter: Wow! That's really neat! So you're a bank owner, huh? Maybe we can talk about a raise in my allowance.

Father: Hmmm. Well, that's a possibility, if you're ready to start saving some of your money each week. Let's get some information on setting up an account for you at the credit union and then we can talk about it.

. . . A FINANCIAL INSTITUTION

It's a simple idea, really. A group of people pool their money, and members can borrow from the pool when they need to. At the core, that's all there is to credit unions.

Yet, credit unions *are* financial institutions. From outward appearances, they may not seem so different from other financial institutions. In fact, to the typical consumer, most financial institutions seem pretty much alike. But when you look below the surface, credit unions stand out. They have a completely different purpose.

Credit unions are not in business to make money by providing financial services. In part, they're in business to provide financial services because people want and need them. But the real goal of a credit union is to help people *improve their lives* through more effective use of their financial resources.

How do credit unions do this? One of the obvious ways is offering financial services to members—loans, savings plans, and transaction services that sometimes are not available from any other source. Sometimes credit unions offer a financial advantage for those services—either lower costs or higher returns. Credit unions also try to educate members about thrift, credit, and related pocketbook issues. Improving lives is a long-term proposition, so a credit union's financial stability is a requirement for success.

As a member of the supervisory committee, your primary task is to ensure the financial soundness and stability of your credit union. Though your role is not to direct credit union actions—that is the role of the board of directors—you must remember that the core purpose is to help make its members' lives better. Members' lives and their needs change. To fulfill its purpose, your credit union must change as members' needs change.

. . . DIFFERENT FROM OTHER FINANCIAL INSTITUTIONS

Credit unions are unique in the financial sector—not so much in *what* they do, but in *how* and *why* they do it. Understanding this—the how and why of credit union philosophy—is the most important thing a credit union volunteer can do.

Three major characteristics distinguish your credit union from other organizations that offer similar services:

- Your credit union is owned by its members who democratically control it—a financial cooperative.
- Your credit union operates on a not-for-profit basis.
- Your credit union relies heavily on volunteers for direction and control.

Understanding the how and why of credit union philosophy is the most important thing a credit union volunteer can do.

Ownership and Control

When people say, “This is *my* credit union,” they mean it. Unlike other financial institutions, a credit union is *owned* by the people it serves. How can you tell a credit union is owned by its members? One clue is found in the unique terminology used by all credit unions. Share accounts, for example, are funds deposited by members representing their ownership “share” of the credit union. In other words, the money deposited by members in a credit union is similar to the shares of stock invested by shareholders in a bank. This is the investment by owners that forms the financial foundation of the institution. In a credit union, that money is provided by the people using the financial services.

Another term used by credit unions is “dividends.” Dividends are the returns paid to owners, based on amount on deposit, when the credit union is successful. They are usually paid on a stable basis, but if times are particularly good or bad, members may get bonus dividends or no dividends at all. That’s one of the risks of ownership.

How do members control their credit union? They do it by electing members to serve as the board of directors. The board guides the credit union on members’ behalf. If members don’t like the board’s choices, they change the direction of the credit union by voting for different directors. Members also control their credit union by remaining informed about it; an annual meeting is held every year to report to members about the condition and accomplishments of the credit union.

A few critical decisions must be made directly by a credit union’s member / owners. Issues that must be decided by member ballot are specified in your bylaws. Occasionally, boards choose to put other questions to a vote of the full membership, then abide by the outcome.

Perhaps most distinctly, all credit union decision making is done democratically. Whatever the issue on the ballot, each member is entitled to vote. Furthermore, each member has just one vote—no matter how much or how little that member has deposited or borrowed at the credit union. Democratic control is one of the most important ways that credit unions differ from other financial institutions.

Not-for-Profit Orientation

A traditional credit union motto is “not for profit, not for charity, but for service.” This motto identifies credit unions’ purpose in relation to other types of organizations.

A **for-profit** business sells goods or services for the purpose of making money for its owners. The owners’ interests are not always consistent with the interests of customers, who are valued primarily for the income they generate.

Nonprofit organizations are charitable organizations; they rely on donations for the funds they need to operate.

Credit unions are **not-for-profit** businesses. That is, they are self-supporting concerns whose mission is service, not generating profit. Like any business, adequate profit is necessary, but decisions are driven primarily by the needs of the members.

A credit union has no stockholders who benefit from its success at the expense of others. After paying normal operating expenses and setting aside sufficient reserves, your credit union’s net earnings are given back to the people who use its services. Such savings are returned to members directly and indirectly. Dividends and interest rebates are direct returns. Lower interest rates, new or better services, and current or future operational improvements are indirect returns. The board sets guidelines for the use and distribution of net income.

Volunteer Involvement

Members who serve on credit union boards and committees assume tremendous responsibility without any monetary compensation.

Like other financial institutions, most credit unions hire employees to perform basic operating tasks and oversee operations. But members who volunteer on credit union boards and committees are unique in the financial world. They assume tremendous responsibilities and demanding workloads—without any monetary compensation. This tradition is based on the belief that lack of pay makes it more likely that members will become involved because they believe in the credit union philosophy. Unpaid service may also make it a little bit easier for volunteer leaders to focus on what’s best for *all* members.

The amount and type of work done by volunteers generally varies according to a credit union's size. Smaller organizations tend to use more volunteers and they tend to be involved in more hands-on aspects of the credit union's operations. At a larger credit union, volunteers, such as the board and supervisory committee members, tend to be more involved with policies, planning, and oversight.

In total, these differences illustrate why credit unions are an appealing alternative in the marketplace. Figure 1.1 summarizes major ways credit unions are like—and unlike—other businesses that provide credit to consumers.

Figure 1.1 How Credit Unions Compare to Other Financial Institutions

A credit union is . . . a unique type of financial institution

	Credit Unions	Banks	Savings & Loan Associations	Private Loan Companies	Retail Store Charge Accounts
Purpose	Service	Profit	Profit	Profit	Profit
Owners	Members, who are the users of the services	Shareholders, who may not be customers	Shareholders, who may not be customers	Shareholders, who may not be customers	Shareholders, who may not be customers
Type of Organization	State or federally chartered cooperative	State or federally chartered corporation	State or federally chartered corporation	Corporation	Local or national corporation
Source of Income	Loans to members, investments, fees	Loans to customers, investments, fees	Loans to customers, investments, fees	Loans to customers, fees	Loans to customers, fees
Distribution of Income	Dividends to members	Dividends to stockholders	Dividends to stockholders	Dividends to investors	Dividends to store owners
Services Offered	Consumer savings, loans, transaction services, etc.	Business and consumer savings, loans, transaction services, etc.	Business and consumer savings, loans, transaction services, etc.	Consumer loans	Consumer loans to purchase store items

... GUIDED BY PRINCIPLES

Underlying the very idea of credit unions is a fundamental set of values shared with other types of cooperatives. All believe in the basic equality of people, that each individual is worthwhile, and that people have the right—and the ability—to own and control their organizations. Credit unions and cooperatives also believe that while people must take responsibility for their lives, working together in mutual self-help allows people to achieve larger goals.

Credit unions are guided by principles of democracy, member ownership, equality, political neutrality, and mutual self-help.

From these core values comes a set of principles that have shaped credit unions for decades and continue to do so today. Many of these principles are also shared by other cooperatives. They are unique in the business world and shape the way a credit union is structured and the way it operates. Three principles affirm the

commitment by credit unions to democratic structure, three enforce the purpose of credit unions (to provide service to members), and three are about social goals.

The *International Credit Union Operating Principles* list and briefly summarize these nine principles in figure 1.2.

... NOT A NEW IDEA

Credit unions began to appear in the middle of the 1800s in Europe. People faced miserable economic conditions, widespread hunger, and suffering. Instead of turning to charitable groups, some of these people decided to take control of their lives. They realized that if average people took action themselves, their lives could be improved in the immediate and long term.

People formed groups to do things individuals couldn't accomplish on their own—such as providing food and household goods. They pooled their money, sometimes saving pennies each week for years and years, to open their own businesses. Forming cooperatives—businesses committed to democratic operations and treating people equally—was a radical concept at the time. Cooperatives of all kinds were formed.

Credit unions were born out of the need for average people to take action if their lives were to improve.

Lack of credit was a big constraint, especially for individuals. Banks served large commercial interests. The average person had to rely on money lenders who often took devastating advantage of borrowers. In keeping with the times, the idea of people organizing their own source of credit took hold.

Figure 1.2 International Credit Union Operating Principles

Democratic structure

- open and voluntary membership—any person of good will who falls within the field of membership may join; no one will be forced to join
- democratic control—each member gets one and only one vote
- nondiscrimination—credit unions don't discriminate in relation to race, nationality, sex, religion, or politics

Service to members

- service to members—the purpose is to provide service, not generate profit
- distribution to members—any surplus from operations belongs to and shall benefit members
- financial stability—the board and management must protect members' funds and assure the credit union's ability to serve members in the future

Social goals

- on-going education—to members, volunteers, and staff
- cooperation with other cooperatives—credit unions can help each other survive and thrive by working together, bringing the idea of working together full circle
- social responsibility—improving members' lives and bringing about social justice requires involvement with individuals and the larger community in which they work and reside

Approved by the World Council of Credit Unions, August 1984.

Two men led the way. Hermann Schulze-Delitzsch, a representative to the German parliament, was an early enthusiast of the self-help cooperative idea. In 1850, he founded the first "people's bank." Working in the cities, he developed the first reliable model for self-sustaining, self-help financial services.

Friedrich Raiffeisen, working in rural areas, expanded the concept to include social improvement. Credit unions grew slowly at first, then more rapidly. By the end of the 1800s, they were established in other European countries.

The first credit union in North America was formed in Canada in 1901. As in Germany a half-century earlier, people's desperate need for credit left them open to abuse by the few available lenders. Alphonse Desjardins, a reporter from Quebec, learned about the dreadful effects of usury from listening to public debates. Through his work, he had learned about the European cooperative credit movement. To assist the poor, he helped organize a people's bank, called *caisse populaire* in French. Like all credit unions, these allowed average citizens to get loans with fair terms and affordable interest rates.

Good ideas travel fast; the idea soon crossed the border. With Desjardins' help, the parishioners of St. Mary's Church in Manchester, New Hampshire organized the first credit union in the United States in 1909. This credit union, now called St. Mary's Bank, continues to operate to this day.

Credit unions reached the U.S. at a critical time. Demand for credit was increasing as technology and mass manufacturing made a whole range of consumer goods available for the first time—cars, radios, washing machines, and more. Credit unions helped those wishing to purchase such conveniences gain access to credit.

Credit unions were formed all over the country during the 1920s with the support of Boston merchant and philanthropist Edward Filene, Massachusetts attorney Roy Bergengren, and the network of volunteers they organized. Credit unions continued to grow throughout the Great Depression, while many other financial service providers failed or discontinued consumer lending. Except during World War II, credit unions have continued to grow in assets and number of members.

Demand for credit evolved again during the 1960s after the introduction of credit cards. Convenience was a new reason to borrow. During the 1970s, credit unions used new technology and new legal powers to transform themselves into full-service financial institutions. As in the past, credit unions will continue to grow and change in response to changing member needs.

... PART OF A WORLDWIDE MOVEMENT

Credit unions can be found in all sizes. They are part of a worldwide movement to help people take control of and improve their lives. The services they provide are diverse—from savings accounts to online financial services, from signature loans to home mortgages. Each credit union begins by helping meet members' needs. When credit unions work together, to bring these people's institutions to new areas of the world or to develop new services, they are part of changing the world.

Here are some interesting facts about the credit union movement. Did you know that:

- ❑ Credit unions vary considerably in size. Many have less than one-half million dollars in assets and some have fewer than one hundred members. At the other end of the spectrum, some institutions have billions of dollars in assets and serve thousands of members.
- ❑ Credit unions provide financial services to many people who could not otherwise obtain or afford them.
- ❑ To help their members make wiser financial services decisions, credit unions educate them about issues affecting their financial well-being.
- ❑ Credit unions have formed an international network that provides support and assistance to financial cooperatives in more than 87 countries around the globe. (See appendix C for a complete description of the affiliated *credit union system*, both national and international.)
- ❑ Money is safe in credit unions. Historically, the credit union movement has been financially sound, and the credit union system is stronger now than ever. Most deposits are insured up to \$100,000.
- ❑ All credit unions are checked for safe and sound operation by state or federal examiners. (Government supervision is the subject of appendix D.)
- ❑ Many businesses consider the availability of credit union services an attractive employee benefit. Some provide space or other assistance to the credit union.
- ❑ To meet the financial needs of special groups, the credit union movement sponsors programs for older and younger Americans, and charters student and low-income credit unions.
- ❑ Credit unions provide consumer financial services as diverse and modern as those offered by other financial institutions, but often with better rates, terms, and fees. Figure 1.3 shows common credit union services.

Figure 1.3 A Sample of Credit Union Services

Each credit union determines what services it will offer based on its members' needs and the resources it has available. The services below are provided by many, though not all, credit unions.

<p>Savings</p> <ul style="list-style-type: none"> <input type="checkbox"/> share accounts <input type="checkbox"/> share drafts <input type="checkbox"/> share or deposit certificates (CDs) <input type="checkbox"/> money market accounts <input type="checkbox"/> kids accounts <input type="checkbox"/> individual retirement accounts (IRAs) <input type="checkbox"/> Roth IRAs <input type="checkbox"/> Christmas clubs <input type="checkbox"/> vacation clubs 	<p>Convenience Services</p> <ul style="list-style-type: none"> <input type="checkbox"/> direct deposit <input type="checkbox"/> payroll deduction <input type="checkbox"/> automatic teller machines (ATMs) <input type="checkbox"/> telephone transfers, inquiries <input type="checkbox"/> automated lending <input type="checkbox"/> pay-by-phone service <input type="checkbox"/> drive-through teller stations <input type="checkbox"/> night depositories <input type="checkbox"/> computer-based financial services <input type="checkbox"/> bill payment <input type="checkbox"/> Automated Clearing House (ACH)
<p>Loans</p> <ul style="list-style-type: none"> <input type="checkbox"/> personal loans <input type="checkbox"/> vehicle loans (direct and indirect) <input type="checkbox"/> credit cards <input type="checkbox"/> mortgages <input type="checkbox"/> home equity loans <input type="checkbox"/> home improvement loans <input type="checkbox"/> lines of credit <input type="checkbox"/> overdraft protection loans <input type="checkbox"/> business loans <input type="checkbox"/> student loans 	<p>Other Services</p> <ul style="list-style-type: none"> <input type="checkbox"/> debit cards <input type="checkbox"/> traveler's checks <input type="checkbox"/> money orders <input type="checkbox"/> wire transfers <input type="checkbox"/> safe deposit boxes <input type="checkbox"/> auto quote or buying service <input type="checkbox"/> financial counseling and planning <input type="checkbox"/> insurance services <input type="checkbox"/> trust services <input type="checkbox"/> foreign currency exchange

QUICK CHECKUP

Use this assessment to evaluate your knowledge of each topic area. Circle the number that most closely describes your understanding or familiarity with each of these areas listed on a scale of 1 to 5, with 1 meaning “strongly disagree” and 5 meaning “strongly agree.”

When you’re finished, review this list. Notice any items that you marked 1 or 2. These are areas where you may wish to pursue further training or learning. In appendix E, you’ll be able to use your answers to set and prioritize personal training goals and deadlines.

I understand and am familiar with the following:	Disagree/Agree				
1. The purpose and philosophy of credit unions	1	2	3	4	5
2. Cooperative characteristics (member ownership, not-for-profit status, volunteer participation)	1	2	3	4	5
3. Unique credit union terminology (shares, share drafts, and so on)	1	2	3	4	5
4. How credit unions compare with other financial institutions	1	2	3	4	5
5. Guiding principles (open membership, neutrality, financial stability, education, social responsibility, cooperation)	1	2	3	4	5
6. History of the credit union movement	1	2	3	4	5
7. History and culture of my credit union	1	2	3	4	5
8. Typical credit union services	1	2	3	4	5
9. The services offered by my credit union	1	2	3	4	5

