

The Credit Union Difference

Let's listen in on a conversation between Cady and Bill. Cady is a teller, soon to be promoted to member service representative, at ABC Educators Credit Union. She encounters Bill, the branch manager, in the photo gallery of their office. She's examining a photo that shows thousands of people at a rally in Washington, D.C.

Bill: Hi, Cady.

Cady: Hi, Bill. Say . . . Can you tell me about this photo?

Bill: Sure. (Initially joking) I usually tell people that's the best photo ever taken of me. (Points to tiny face in background) That's me.

Cady: Well, I guess you're the right person to ask. What was going on?

Bill: (Serious) That's one of my proudest moments. I was one of thousands of supporters who rallied so Congress would pass an essential law for credit union members. I'd be happy to tell you more about it.

Cady: Thanks. Since I've been promoted from teller to member service

Objectives

Upon completion of this chapter, you will be able to:

- 1.** Discuss why the credit union difference is important to consumers;
- 2.** Describe how membership distinguishes credit unions from all other financial institutions;
- 3.** Identify how credit unions originated as cooperatives;
- 4.** Name the characteristics that make credit unions unique among financial service providers; and
- 5.** Explain why and how credit unions were first organized in the United States.

rep, I'm trying to learn more about credit unions. I know members have questions when they join, and I know credit unions are different, but I don't really know why.

Bill: I can help clear up your confusion. We could meet for coffee during your afternoon break, if that works for you?

What's the Difference?

Bill and Cady are talking about an event that was important to credit unions across the country. It started in the 1990s, when the banking industry tried to restrict the public's access to credit unions. (We'll look in depth at credit union history later in this chapter.) First, let's consider Cady's other



The goal of credit unions is to help people of all income levels manage their money effectively—through education, personal service, and low-cost financial services.

question about what sets credit unions apart from banks and other financial institutions.

You may have heard comments from friends and family members like this one: “So, you work at a credit union. That’s kind of like a bank, right?” The first U.S. credit union was formed a century ago, but many people don’t understand what a credit union is. Today, when many credit unions offer the same wide range of financial products and services as a bank, it can be hard to tell the two types of financial institutions apart. But some important differences exist.

The credit union pledge is “Not for profit, not for charity, but for service.” Credit unions provide quality services, fair rates and fees, dependable advice, and information. Competition from credit unions helps keep prices lower among other financial service providers. These are the foundations of “the credit union difference.”

People Helping People

That difference is what makes credit unions one-of-a-kind financial service providers. Credit unions provide a level of service that consumers can’t find anywhere else. Only credit unions are organized entirely for service—not for profit.

The core value of credit unions is expressed in the motto “People helping people.” Along with this motto goes a commitment to serving consumers who are ignored by other financial institutions, because they aren’t considered to be high-profit customers.

The goal of credit unions is to help people of all income levels manage

their money effectively—through education, personal service, and low-cost financial services. The credit union provides lifeline services that other financial institutions simply won’t.

Let’s listen in as Ben, a teller, interacts with a member, Mr. Covey.

Ben: Good morning. May I help you?

Mr. Covey: Yes. My wife just opened an account here. Hey, this is a great little bank! Have you been open long?

What is Ben’s best response to Mr. Covey’s question?

A. “We’ve been open for over five years. May I take your deposit now?”

B. “I’m not sure. I’ve only been working here a few months.”

C. “We’ve been open for over five years. But we’re not exactly a bank. Since you and your wife are members, let me tell you a little about the credit union.”

If you picked C, you’re on the right track. Now consider how Ben can explain the value of being a credit union member to Mr. Covey.

Showing Members the Difference

The most fundamental difference between credit unions and banks is that **credit unions** are not-for-profit and are member-owned. By comparison, banks are owned by shareholders and their primary goal is to return profits to shareholders.

Credit unions exist to serve their members. A **member** is a person who holds at least one credit union account, typically a share savings account (more on credit union products and services in chapter 3). As a member, he or she can receive other credit union services. As owners,

members who meet age requirements also have the right to participate in the election of the credit union’s board of directors.

Another difference: credit unions serve members who share a **common bond**. Some credit unions are open to employees of a certain company or industry, while others serve specified communities or counties. Credit unions must obtain approval from a state or federal regulatory agency to serve a specific field of membership, and consumers must fit within that field to become members.

Another major difference is that credit unions are volunteer-driven. They’re governed by a board of directors elected by members to represent their interests. The vast majority of credit unions do not pay directors and other members who agree to serve on special committees.

Finally, credit unions serve a social purpose in providing financial services to members other financial institutions

may dismiss as not worth the investment. Credit unions also provide money management information and education to help members achieve their financial goals. Credit union employees are encouraged to become involved in activities that support the member community. Because of their not-for-profit status and social purpose, credit unions are exempt from paying federal income taxes.

We examine these differences in more detail in the rest of this chapter. Before we move on, complete Activity 1.1 to highlight these important issues.

Membership Matters

Just as credit unions and banks are not the same, there’s a big difference in being a credit union member and a bank customer. For example:

- A deposit at a bank brings no ownership rights.
- A bank pays interest to depositors and dividends to stockholders.
- A credit union’s members “own”

Activity 1.1

The Credit Union Difference in Action



Match the unique differences of credit unions from the column on the left to the examples on the right by inserting the corresponding letter in the middle column.

Credit Union Differences

- a. Not-for-profit _____
- b. Member ownership _____
- c. Volunteer driven _____
- d. Membership eligibility _____
- e. Financial education _____
- f. Taxation _____
- g. Social purpose _____

Examples

1. Matt works at ABC Company so he can join the credit union.
2. Julio is a board member at the credit union and receives no pay for this.
3. Rayleen, a teller, is gathering pledges for the heart association walk-a-thon.
4. George, a member, always votes at the membership meeting.
5. XYZ Credit Union pays payroll, sales, and property taxes, but no federal income tax.
6. XYZ Credit Union is a financial cooperative that operates for the benefit of members.
7. Stan, a member, attends a credit union seminar on budgeting.

(Check your answers in appendix A.)

the credit union and have the right to deposit funds in the credit union and receive loans.

Member-Owners

The credit union difference is apparent in the first contact a prospective member has with the credit union. That first contact is the place to start building the member’s commitment to your credit union.

When people join a credit union, they become members. They’re not simply customers who decide to use the services. The member is the center of the credit union relationship. Members own their credit union, while the vast majority of depositors at a bank are not owners.

New members may not know much about credit unions. Staff people who open accounts can explain the credit union difference. New members should walk away from that encounter understanding what it means to belong to a credit union, and how it

differs from other financial institutions. If people are aware of credit unions’ unique service orientation, they’ll likely become dedicated and responsible credit union members.

Field of Membership, Common Bond, and Eligibility

Membership in a credit union is open to everyone in the credit union’s defined common bond. A common bond might be working at the same company, living in a specific community, or belonging to a particular religious organization.

That common bond determines the credit union’s **field of membership**. When taking a membership application, you must make sure new members belong to the credit union’s field of membership. Here are some examples of common fields of membership:

- Employees of a company, such as a manufacturing plant or health care facility
- Students, teachers or professors,

Activity 1.2

Are These People Eligible?



ABC Educators Credit Union’s common bond is the ABC School District. Its field of membership includes all school district employees. Which of these individuals are eligible to be a member of the credit union? Place a checkmark in the Yes or No column.

| | Yes | No |
|---|-----|----|
| Jay Lin is a teacher in the ABC School District but lives in XYZ City. | | |
| Marcus Anderson works at Beautiful Construction Co., located across the street from ABC High School. | | |
| Betty Smith is the principal of XYZ Elementary School, in a district next to the ABC School District. | | |
| Tom Santoro is the night custodial supervisor for the ABC School District. | | |
| Maria Sanchez and her husband have been members of ABC Educators Credit Union for 25 years, but Maria retired last year from her job as a teacher’s aide. | | |

(Check your answers in appendix A.)

Credit unions are organized as cooperatives, an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs.

and other employees of a school district or university

- Employees of a municipal, county, or state government or a federal government agency
- Current and former enlisted personnel and officers in a military branch
- Anyone who lives, works, or worships in a specified city, county or group of counties

The credit union establishes its field of membership by obtaining a legal charter from a state or federal regulatory agency. In many cases, the charter states that the person with the common bond and their family members qualify for membership.

Some charters permit credit unions to serve the employees of several companies, or **select employee groups (SEGs)**. And a credit union may obtain permission from regulators to expand its charter to serve a wider field of membership. For example, the charter of ABC Educators Credit Union is to serve teachers, principals, and other employees of the ABC School District. It may also decide to apply for a change in its charter to serve anyone living or working in the county where the school district is located.

A final key concept about membership is that of “once a member, always a member.” For example, when teachers move, retire from the ABC School District, or take a job at a different school, they and their family members can continue to be members of ABC Educators Credit Union.

Test your understanding by completing Activity 1.2.

Ultimate Aim: Member Service

The most important difference for credit union employees to keep in mind is the emphasis on high-quality member service. Credit unions offer financial products and services not to make a profit, but to serve members’ needs. Among those needs is consistently excellent service from employees who understand and can explain the credit union’s mission, products, and services to members.

Remember our teller Ben’s conversation earlier with Mr. Covey about what sets credit unions apart from banks? Here’s how Ben can sum up those differences and explain the value of membership:

Ben: Mr. Covey, you and your wife are eligible to be members of ABC Educators Credit Union because Mrs. Covey is an employee of the school district. As members, you are among the owners of this not-for-profit financial cooperative. Instead of raising our rates to turn a profit for shareholders, we keep our loan rates as low as possible and our savings dividends as high as possible to benefit members. And we offer some services, like educational seminars, that banks don’t.

Cooperative Principles in Practice

The concept of “membership” is sometimes imitated by competitors, but true membership in a financial cooperative is found only at a credit union.

What Is a Cooperative?

A **credit union** is an association of people who manage their own financial affairs—a cooperative, or co-op.

Cooperation has been a part of community life throughout human history. Cooperatives exist to provide service, and most are not-for-profit.

Credit unions are organized as **cooperatives**—a form of business that originated long ago. A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

The earliest “cooperatives” were found informally in many communities. For example, neighboring farmers would band together for a barn raising and to exchange labor for planting or harvest. Later, formal cooperatives organized around one central purpose: to provide service to members through a jointly owned, democratically-controlled enterprise.

Even today, just about everyone in the United States probably has some interaction with one or more business cooperatives. Cooperatives are found in consumer, producer, and worker-owned organizations. Many different types of businesses can be organized as cooperatives:

- Consumer cooperatives include food cooperatives, utility cooperatives meeting rural electricity needs, and credit unions.
- Producer cooperatives, such as agriculture or dairy cooperatives, meet farmers’ needs for purchasing and marketing services.
- Worker cooperatives, such as some cab companies, give workers both employment and ownership in the business.

Health maintenance organizations (HMOs) and food-buying clubs are other examples. Even the Associated Press (AP) news organization has its roots in the cooperative movement.

In surveys, co-ops score higher than investor-owned companies on ratings of value, quality, price, and commitment to their communities. For example, a 2003 survey by the Consumer Federation of America found that two thirds of consumers believe businesses that are owned and governed by their customers are more trustworthy than those that are not. More than 70 percent of those surveyed said they would be more likely to do business with a credit union if they knew it was a cooperative.

Surveys like these remind us to continually educate members about the cooperative credit union difference. Let’s listen in on the continuing conversation between Ben, the teller, and the new member, Mr. Covey.

Mr. Covey: What’s a financial cooperative, anyway?

Ben: You might know the term co-op? It’s a group of people who unite voluntarily to meet their common economic, social, and cultural needs.

People form cooperatives when the marketplace fails to provide essential services at affordable prices.

Cooperatives are jointly owned and democratically controlled.

Mr. Covey: You mean like the health food co-op in our neighborhood?

Ben: Yes, but instead of health foods, we offer financial services. And as member/owners, you and your wife can sign on for all the services we offer, and you can vote for the members who serve on our board of directors. If you'd like more information on credit unions and cooperatives, I can provide a couple of brochures and refer you to some Web sites.

If you'd like more information about cooperatives, for your own information and to share with members, check out the Web site of the National Cooperative Business Association (www.ncba.org). And take the time now to review the information your credit union offers in lobby displays and brochures and on your Web site about the credit union difference.

Since cooperatives first formally organized, they have operated under a set of principles that govern how they do business. Those original cooperative principles were adopted and modified by credit unions. Today, the credit union operating principles are the basis for member-centered operations.

Credit Union Principles

Not-for-Profit. Credit unions operate for the benefit of members rather than to make a profit. This does not mean credit unions are charities. Credit unions operate as businesses, earning income to meet expenses and maintain reserves for financial stability and to protect members' savings.

Membership Equals Ownership.

Credit unions are economic democracies—each member has equal ownership and one vote. Every customer is both a member and an owner. Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, earnings are returned to members by way of lower loan rates, higher interest on deposits, and lower fees.

Volunteer-Driven. Each credit union is governed by a board of directors, elected by and from the membership, to work in members' best interests. Board members serve voluntarily and without pay. Nationwide, nearly 200,000 unpaid volunteers serve on credit unions' boards and committees.

Financial Education. Credit unions assist members and others in the community to become better-educated consumers of financial services. Credit unions have a strong commitment to expanding financial literacy among young people. They also help members and the public understand what credit unions are, how they are different from other financial institutions, and how they help consumers.

Social Purpose. Credit unions exist to help people and to build strong communities. The goal is to serve all members well, including those of modest means. Credit unions are there for members in bad times as well as good. The "people first" philosophy also means that credit unions and employees get involved in community charitable activities and worthwhile causes.

For more information about the credit union philosophy, CUNA offers an overview at its Web site (www.credit

union.coop/history/cu_philosophy.html). To review these key principles, complete Activity 1.3.

Let's move on and examine how credit unions got their start in the United States. The history of the movement shows how far credit unions have come in a century—and how important the credit union difference is today for Americans.

History of the U.S. Credit Union Movement

In the early 1900s, people were looking for cooperative ways to meet their essential financial needs. For decades, lack of affordable credit kept many people in poverty and desperation. Gradually, a movement formed to create a path for ordinary people to achieve financial independence.

People form cooperatives when the marketplace fails to provide essential services at affordable prices. This was true in the United States at the beginning of the twentieth century. People struggled to find alternatives to **loan sharks**. This term refers to people who loan money at such high rates that borrowers often end up making interest payments several times the principal amount before they can repay the loan. Loan sharks have been with us ever since people began lending money and charging interest. Wage earners, farmers, and small business owners all fall victim to loan sharks when they have no other source of credit.

Inspired by Canadian and European models, a coalition of U.S. activists, entrepreneurs, and public servants set out to create a source of fairly-priced

Activity 1.3

Operating Principles Word Search



Find the words listed below in this word search puzzle to reinforce the most important principles of the credit union movement.

V Z P H Z K L I O X M Y S T S
 E O V L T W C C N U E T N I O
 P Q L R E J N B E J M I A F C
 E S U U E H Y F V W B N E O I
 O N E A N V F B O J E U M R A
 P H E R L T I L T T R M T P L
 L Q S J V O E T E Y O M S R P
 E B Q B T I W E A S W O E O U
 F H T U O Y C N R R N C D F R
 I C L H D Q T E E D E P O T P
 R A U T O N O M Y R R P M O O
 S S W V O R S F T J S I O N S
 T D T X R E W F A O H H V O E
 C I T A R C O M E D I V I E C
 D E O P B Y T S R L P P O P N

AUTONOMY
 PEOPLE FIRST
 DEMOCRATIC
 SOCIAL PURPOSE
 MODEST MEANS

ONE VOTE
 COOPERATIVE
 SERVICE
 MEMBER OWNERSHIP
 YOUTH

COMMUNITY
 SELF-HELP
 EQUAL OWNERSHIP
 VOLUNTEER DRIVEN
 NOT-FOR-PROFIT

credit for Americans in middle and lower income classes. The first U.S. financial cooperative opened in New Hampshire in 1908, and the following year Massachusetts adopted the Massachusetts Credit Union Act.

The Pioneers

Interest in credit unions grew slowly in the United States, and the movement might have faded away but for the efforts of a group of dedicated advocates. As we meet these pioneers, you will see the history of credit unions unfold.

Edward Filene. An American businessman and world traveler, Edward Filene discovered credit unions in a village in India in 1907. He became interested in how financial cooperatives might make the American economic system more democratic. Filene was already known as a creative and caring employer who offered profit sharing and fringe benefits to employees, allowed his workers to engage in collective bargaining, and established minimum wages for female workers. Those employee rights and benefits are more common today, but at the turn of the century, they were considered revolutionary.

Filene was one of the primary backers of the Massachusetts Credit Union Act, and after it passed, he began to work toward national acceptance of credit unions. In 1921, he created the Credit Union National Extension

Bureau and hired Massachusetts attorney Roy Bergengren to take charge of efforts to organize credit unions and to build support for effective state and federal credit union laws.

Roy Bergengren. Bergengren managed the Bureau from 1921 to 1934, then became the first managing director of the Credit Union National



Association (CUNA) in 1935. He traveled across the country meeting with people who wanted to form credit unions, and helped other organizers write and lobby for

state and federal credit union laws. He worked hard to put an end to loan-sharking and countered the efforts of bankers who wanted to eliminate the growing credit union movement. Bergengren met with federal lawmakers to share petitions and other evidence that voters in their home states supported the Federal Credit Union Act, which became law in 1934.

Thomas Doig. Doig worked as a stenographer for the Minneapolis postmaster when he became treasurer



of Minneapolis Postal Employees Credit Union in the early 1920s. He worked to organize other credit unions in Minnesota until he joined the national move-

“Now to my way of thinking, this credit union is one of the most helpful and hopeful things in our American life.”

—Edward A. Filene

ment in 1930. Doig was first an organizer for CUNA, and then its assistant managing director. He later succeeded Bergengren as managing director of CUNA and its affiliated organizations.

Louise Herring. Some credit union historians call Louise McCarren Herring the “mother of credit unions.” She



cofounded and was the first paid executive secretary of the Ohio Credit Union League. She is credited with helping to establish 500 credit unions. She was also an advocate

for a share insurance system to help protect members’ savings. The Ohio Credit Union System, the successor to the organization she cofounded, awards the Louise McCarren Herring Lifetime Achievement Award to individuals who have demonstrated a lifetime dedication to the advancement of

the credit union movement in that state.

These are just a few of the credit union activists whose dedication led to the creation of a nationwide movement of financial cooperatives to provide loans and other financial services to citizens whose credit needs were ignored by banks. Across the country, a group of teachers here, a dozen factory workers there, and a church council elsewhere formed their own credit unions. By 1925, 15 states had passed credit union laws, and 419 credit unions served 108,000 members.

Federal Credit Union Act

The movement gained support in the 1930s. The number of credit unions actually grew during the Great Depression, when people were losing jobs and banks were closing. People looked for help in the stability offered by credit unions.

Activity 1.4

Who Am I?



Review your knowledge of credit union history by entering the names of these leaders in the blanks next to the actions they took to make the credit union movement the strong industry it is today:

- | | |
|----------------|--------------------|
| Bill Clinton | Roy Bergengren |
| Louise Herring | Franklin Roosevelt |
| Edward Filene | |

- _____ 1. I helped establish 500 credit unions and supported the creation of an insurance system to protect members’ savings.
- _____ 2. I signed into law the Credit Union Membership Access Act in 1998.
- _____ 3. I traveled around the country in the 1920s and 30s, promoting credit unions and lobbying for passage of state and federal credit union laws.
- _____ 4. I signed the Federal Credit Union Act in 1934.
- _____ 5. I first saw a credit union in action in India in 1907 and played a central role in launching the American financial cooperative movement.

(Check your answers in appendix A.)

By 1934, credit unions and state leagues recognized the need for a national organization. At a meeting at Estes Park, Colorado, CUNA was formed as a confederation of state leagues. That same year, congressional leaders and President Franklin Roosevelt felt so strongly about credit unions that lawmakers passed, and the president signed, the **Federal Credit Union Act** into law. Along with state laws, the United States now had a national system of cooperative credit.

The Federal Credit Union Act has been revised several times in the decades since it became law, but it remains the guiding set of rules for federal credit unions. You can see it for yourself online at www.ncua.gov/RegulationsOpinionsLaws/fcu_act/fcu_act.pdf

The establishment of new credit unions continued through the 1940s, 1950s, and into the 1960s, largely because of the commitment of credit

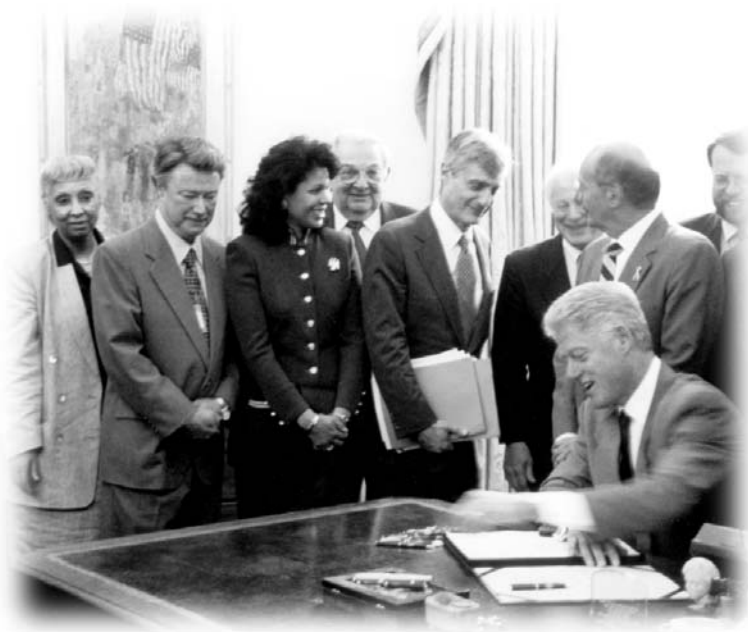
union movement leaders and the support of U.S. presidents and lawmakers. The number of credit unions peaked in 1969, with 23,876 organizations. Since then, the number has dropped to fewer than 10,000, but in number of members and total assets, credit unions remain a strong, competitive, “members first” alternative to banks.

HR 1151 and Beyond

In the 1990s, bankers brought a series of lawsuits that tried to prevent credit unions from adding groups to their fields of membership. These court cases went all the way to the U.S. Supreme Court, which eventually ruled against credit unions’ field-of-membership expansion.

To counter the bankers’ attacks, credit unions launched the Campaign for Consumer Choice. Thousands of credit union supporters across the country—people like Bill in the dialog that opens this chapter—wrote to their congressional representatives and participated in rallies for a change in federal laws that would allow financial cooperatives to continue to grow and serve new members.

In 1998, just months after the Supreme Court decision, this grass-roots campaign led to Congressional action on a bill called the **Credit Union Membership Access Act** (known by its identifying number in the House of Representatives as HR 1151). This legislation preserved credit unions’ rights to seek regulatory approval to expand their fields of membership and offer services to additional consumers. Congress passed HR 1151, and President Bill Clinton



signed it into law. Test your knowledge by completing Activity 1.4.

Thanks to HR 1151, Americans have a choice about where they conduct their financial business. While banker attacks continue, today credit unions meet member needs in ways that go beyond what other financial institutions provide. The most consistent evidence of this high-quality

service is found in an annual survey by a bankers' association. In every year since it started in 1983, the American Banker/Gallup Customer Satisfaction Survey shows that credit unions have the highest rating of "very satisfied" customers. Chapter 2 takes a closer look at how and why credit unions deliver that high-quality member service.

PLAY PAGE



VISIT AN INTERACTIVE TIMELINE OF THE CREDIT UNION MOVEMENT

Reminder:

To access the Play Page, go to <http://training.cuna.org/playpage/index.html> or go to www.cuna.org and type "Play Page" into the Search Box. Select the title of this module, and then the chapter you want to review.