



BOND President Ruth Artis

A Better Deal

With lower rates and fees, credit unions attract 1 of 5 Georgians and that number's growing

By J. Flintridge Collins

When you enter the 1920s-era building that houses BOND (Bass Organization for Neighborhood Development) Community Credit Union in the Little Five Points neighborhood of Atlanta, you know you're not in a bank. People aren't queued up, apathetically staring at one another's back, waiting to complete their transactions. Instead, account holders here grab a plastic tag with a handwritten number and contentedly wait their turn in one of the available rocking chairs or church pews, often chatting with their neighbors. The mostly youngish tellers, too, are seated, dressed casually, sometimes in a concert T-shirt, sometimes with blue or purple hair.

Wayne Parham Photo

"This is one of the most unique credit unions I have ever seen and I've been in the industry for over 20 years," says BOND President and CEO Ruth Artis.

"The employees love the fact they are seated to work and the members feel the same — they just love it."

Olive Hagemeier has been a BOND member for 18 years and still finds it's a perfect fit. "When I first joined, they served their members from across folding tables. They've grown into a large, community-based business, but it still feels like home."

Although it's more relaxed than most banks and credit unions, BOND's demeanor and actions are representative of the spirit of community that embodies the overall

credit union philosophy. All of BOND's marketing dollars go directly back into the communities within its geographic boundaries, with advertising done through local neighborhood newsletters and papers, and all of its lending is currently done within these boundaries as well.

Banks may dominate overall market share of total assets (79% nationwide as of 2000), but CUs are growing, more than doubling their assets to \$450 billion since 1990. And Georgians are turning to credit unions today more than ever before.

Different From Banks

One in five Georgia citizens—or 1.7 million people—belongs to one of the 224 credit unions in the state, an increase of about 27 percent since 1990.

Probably the overriding reason for this popularity is the lower fees and rates generally offered by credit unions.

"Nationwide studies show that, on average, credit union savings rates are about one-half percent higher than that of the banking community, and consumer loan rates tend to be about one-percent lower than the commercial banking alternative," says Mike Mercer, CEO and chairman of the Georgia Credit Union Affiliates, a trade association that serves Georgia's credit unions. "Plus, consumers don't pay as much for checking and savings accounts."

The reason commercial banks cost more is they're for-profit operations. For financial service businesses, factors of production include depositors, borrowers, and the fee-payers for the transactions. So a for-profit bank is essentially most interested in how much money it can make from its clientele. And that's fine. It's the American way even.

But with a credit union's cooperative form of business, there are no shareholders, thus no concern for turning a profit, thus lower fees and rates for members. Credit unions are

essentially groups of people with something in common, whether it's an employer or a community. They pool their resources and encourage systematic savings in that fashion. Then with the money that's accumulated, they can make loans to that same population.

There are three types of credit unions:

- **Occupational credit unions** serve members employed by a particular company.
- **Associational credit unions** serve members of a particular association or group.
- **Community credit unions** serve residents of a particular area or community.

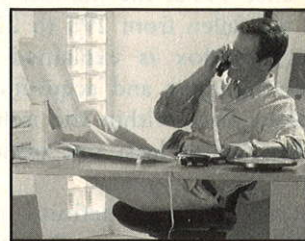
They vary greatly in size, structure and services. Small credit unions may offer basic savings and loans. Larger credit unions may offer checking, credit cards, ATM cards, IRAs and certificates of deposit, and have several branch locations.

Happy Customers

While reduced rates and fees certainly attract membership, it's essential for credit unions to keep their client-base satisfied. After all, would you continue going to a restaurant that sold a \$9.99 filet mignon but required you to tolerate a snooty, inefficient wait staff? Probably not. At CUs, happy customers take their cue from the management. It's a top down proposition.

As credit union boards consist of voluntary positions, the motivation structure is different, says GCUA's Mercer. "If lines are too long or it takes too long to get a loan approved, board members hear about it. So there's a 'make-the-members-happy' motivation that hangs over the decision-making process. For the people at the frontlines, their motivation structure is 'that person standing across from me has to leave this building in a good frame of mind.' So you have conditions that produce happier people."

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Is Bigger Better?

While membership rolls have increased by 27 percent in Georgia since 1990, the number of credit unions has fallen from 295 to 224. This seeming paradox is explained by the numerous mergers and acquisitions that have taken place within the industry—a trend that has at least one person concerned.

“There’s been a definite urge to merge,” says consumer advocate Clark Howard. “What I worry about is that credit unions will become more like banks, and some of the personalized approach and personal touch will disappear.”

Howard himself belongs to a credit union that went through a merger. “Just like when two banks get together,” he recalls, “they really messed it up at first. They seem to have it together now, but it’s not as homey and personal as it felt before, because they’ve become a pretty high transaction place.”

Mercer admits this is a concern but sees it as unavoidable in today’s business climate.

“Everything is relative,” he says. “While credit unions are merging and getting bigger, banks are merging and getting huger. The thing I’m counting on is that while your big credit union with telephone and Internet access isn’t as warm and fuzzy as the credit union that was down the hall at the personnel department, compared to the alternatives that exist in the for-profit world, the credit unions are still going to look relatively attractive.”

But as a credit union becomes larger, will it benefit its members, i.e., the reason CUs were established in the first place?

Mercer believes it will, as an increased membership should make it possible for credit unions to spread their infrastructure cost across a larger base, as well as make it possible to afford the new technologies that are imminent.

Banks for Mortgages

Although credit unions generally offer lower rates for items such as car loans, credit cards and signature loans, when it comes to buying a house, they just can’t stack up against the big banks. Unlike banks, credit unions don’t hold their loans in portfolios and re-sell

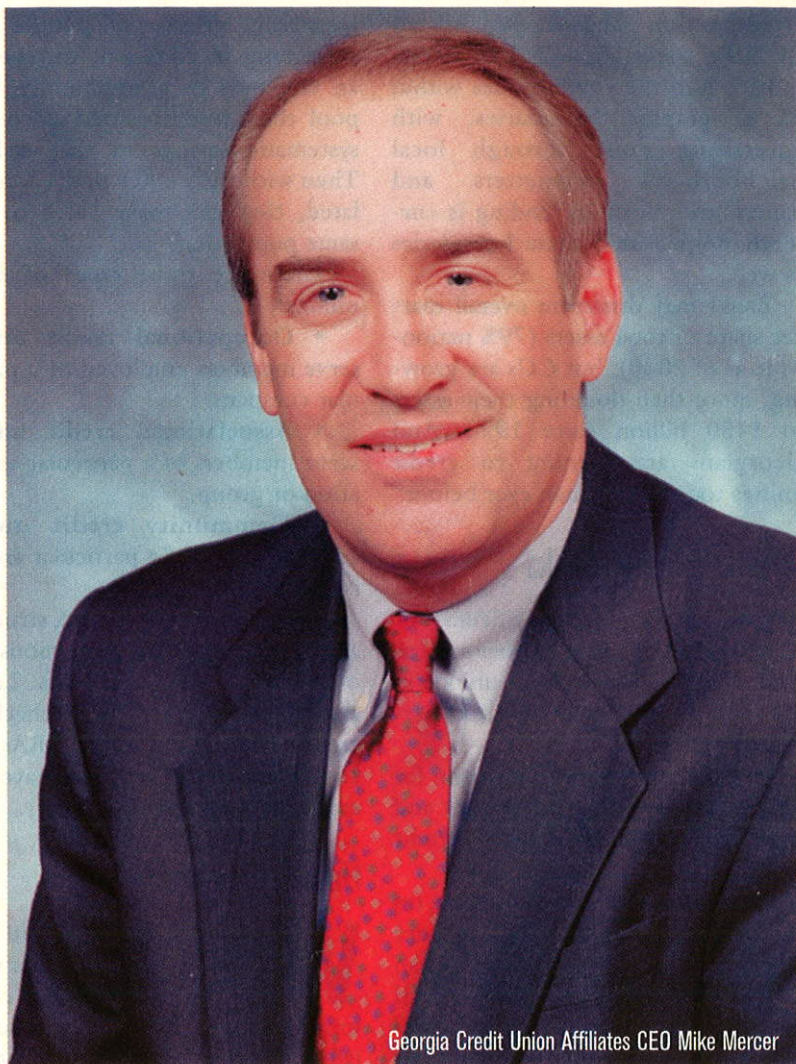
them, so they can’t really give people a better deal on mortgages.

“There’s just no advantage to a banker, a credit union or anybody who doesn’t portfolio mortgage loans,” says Mercer. “And in today’s rate environment when long-term rates are pretty low, it would be a long-term recipe for disaster to put a lot of those kinds of loans on the books of credit unions.”

“If rates were to go back up, they would have the yields on their loans fixed and the cost of funds would go rising up.”

One thing to keep in mind is that a credit union can be easier to work with during harder economic times. “One of the things credit unions are likely to do is to find a way to stretch someone’s payment out,” says Cindy Connelly, GCUA senior vice president of advocacy. “They can work with them to make sure they meet their debts, without getting into more financial difficulty.”

They’re very willing to work with their membership to do what’s best for them.”



Georgia Credit Union Affiliates CEO Mike Mercer

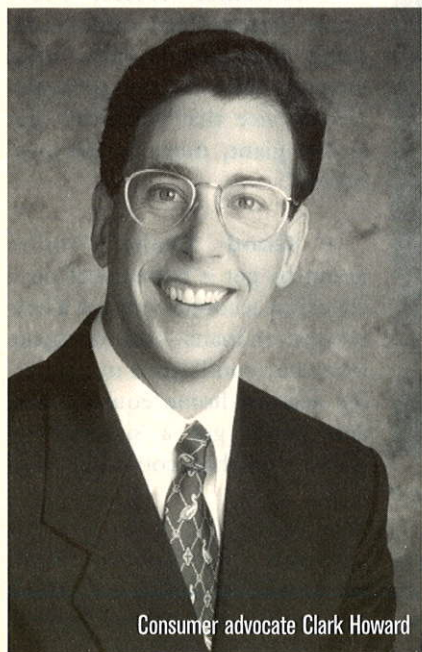
Special Photo

Take Care When Investing

If you have money to invest, there are better places to put it than a credit union's IRA or Money Market account. They may offer better average rates than banks, but consumer watchdog Howard says if you have substantial assets in a credit union environment, you're practically subsidizing the typical member. "If you have a lot of idle cash sitting around, you're better off probably with a stockbroker, putting your money with them in their versions of a checking account. Credit union Money Markets and C.D. rates are just so inferior to what you'd get from a stockbroker."

Mercer confirms this analysis and doesn't see CU rates improving for such accounts. "To be honest with you, credit unions are drowning in deposits right now. And while they're doing their best to pay competitive rates, I think the last thing that's occurring to them now is to bring on more balances."

In fact, with the decline in tech stocks and overall general concerns about investing, credit unions have had a huge growth in deposits, with people electing to put their money back into federally insured accounts until the stock market is more stable.



Consumer advocate Clark Howard

WSB Photo

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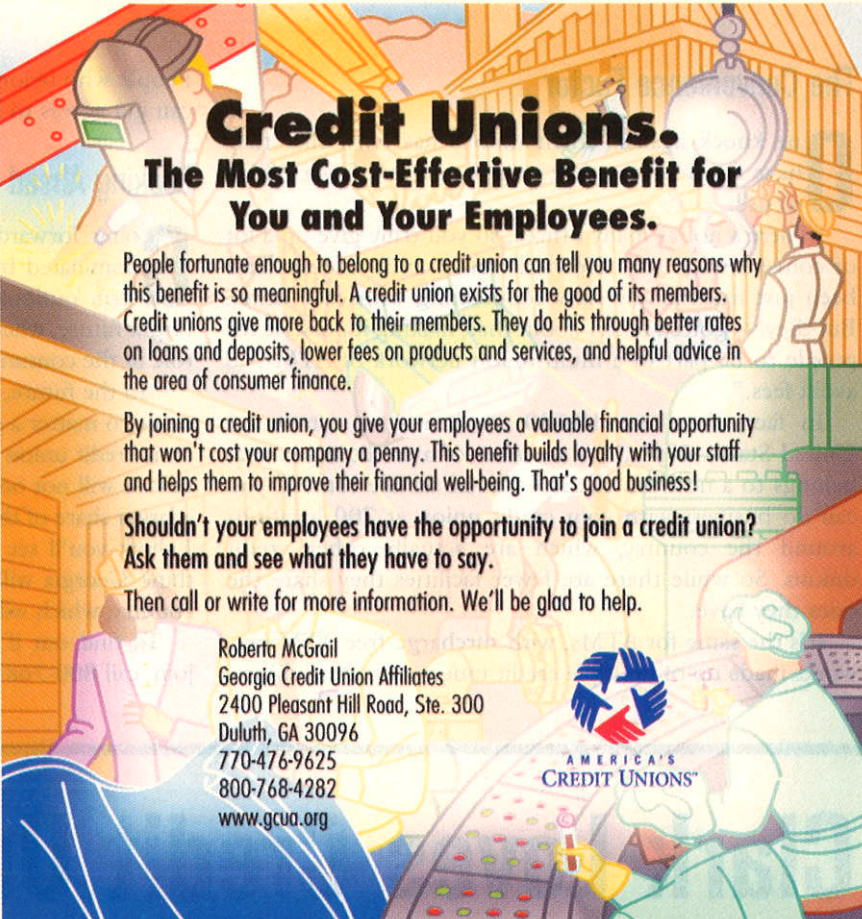

People fortunate enough to belong to a credit union can tell you many reasons why this benefit is so meaningful. A credit union exists for the good of its members. Credit unions give more back to their members. They do this through better rates on loans and deposits, lower fees on products and services, and helpful advice in the area of consumer finance.

By joining a credit union, you give your employees a valuable financial opportunity that won't cost your company a penny. This benefit builds loyalty with your staff and helps them to improve their financial well-being. That's good business!

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The Convenience Factor

One knock against credit unions has been that they have fewer offices than most banks and fewer ATMs to use.

"There's not as many offices, so you truly give up a lot of convenience," says Howard. "And credit unions have been just frustratingly slow cooperating with each other. But they've gotten better about that, making it possible for people to be part of a multi-union network of ATMs, to avoid fees."

In fact, there are 10,000 credit unions across the United States. If you're a member of a credit union that belongs to a network of these shared service centers, you can do business with your credit union at 700 locations around the country, which are actually other credit unions. So while there are fewer facilities they share the ones they have.

It's the same for ATMs, with surcharge-free ATM networks made up of multiple credit union-owned machines.

People who belong to credit unions that have that service can get access to about 200 here in Georgia.

Looking Ahead

Going forward in a faltering economy in an industry dominated by commercial banking, what is the long-term outlook for credit unions? Mike Mercer sees a bright future, where credit unions will come to play a greater role in the consumer finance industry.

"In the future, trust and advice and privacy are going to come to matter a great deal more. People just tend to trust their credit union more than a for-profit institution. Credit unions will not only survive but excel and continue to grab a larger share of the market for consumer financial activities. I think you'll see quite a bit of continued growth. And I think Georgia will do better than the average area in this country, which will be a benefit for the credit unions here."

To find out if there's a credit union you're eligible to join, call 800-768-4282 ext.338.

Clark Loves Credit Unions!



WSB Photo

GCUA's Cindy Connelly says that whenever "Clark Howard mentions credit unions on his radio show, we get swamped with phone calls!" So we decided to ask Georgia's favorite consumer advocate what it is he likes so much about credit unions. Here's what he had to say:

a bank on a car loan."

• **An Egalitarian Approach.** "The business model for credit unions is not set up like the banks are, which is they're really there to service the higher balance account holder. If banks just want to serve people who

• **Customer Service.** "I love credit unions! They offer something that people have been missing, and it's the personalized service that you don't get at the giant, mega, impersonal banks."

• **Good Deals.** "You're going to get a better deal on a checking account, you get a better deal on loans—not mortgage loans but you'll get a much better deal on home equity loans, and you'll get a significantly better deal than you'll get from

have mega-bucks, that's fine, but most people don't have mega-bucks. That's what's so wonderful about the credit unions, is that they're there for people of more modest means."

• **Current Economy.** "The other side of credit unions merging and having multiple-employer groups is that previously many credit unions were dependent on just one employer. If it went through big layoffs, then the credit union ended up with a lot of foreclosures and repossessions, which could undermine their financing. Having the multi-employer credit union system that exists now means they're just going to be a reflection of what the banks go through."

Credit Union Timeline

The first credit unions were founded in Germany in the 1840s to provide savings and borrowing opportunities to working-class people. The guiding principles were simple: Only people who were credit union members could borrow there; loans should be for prudent and productive purposes; a person's desire to repay (character) would be considered as important as a person's ability to

repay (income). These principles still govern most of the credit unions in the world today.

1852 – First true credit union founded in Germany by Victor Aime-Huber as an alternative for destitute people faced with soaring interest rates.

1900 – Alphonse Desjardins organizes first credit union in Quebec. As in Germany 50 years before, the credit union offers poor people a choice. First savings deposit is 10 cents; the first collection from all members totals \$26.

1909 – First U.S. credit union founded in New Hampshire, again by Desjardins.

1921 – With 199 credit unions in U.S., Boston merchant Edward Filene creates the Credit Union National Extension Bureau to seek effective credit union laws in all states.

1925 – 15 states pass CU legislation; 419 CUs with 108,000 members. 1935 – 39 states with credit union laws; 3,372 credit unions serving 641,800 members. 1969 – Number of CUs peak at 23,876; number had declined due to mergers, acquisitions.

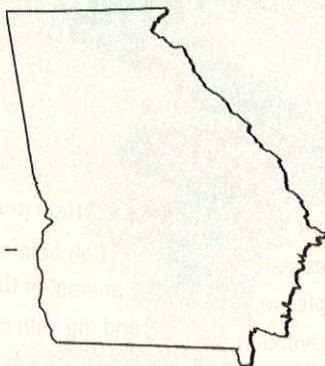
1970s – CU membership nationwide grows to 43 million.

2001 – 72 million CU members in the United States.

Source: *Credit Union National Association*

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