Prepared for the Babson-Equal Exchange Cooperative Curriculum
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Credit Unions, by Nancy Pierce

Learning Objectives:

- Learn what is a credit union
- Learn why and how credit unions got started in the U.S.
- Learn what the terms "common bond" and "field of membership" means
- Learn how credit unions are different from banks
- Learn how credit unions are regulated and insured
- Learn how to start a credit union

Overview

What is a credit union?

Credit unions are not-for-profit financial cooperatives formed by an organized group of people with a common bond. Credit unions operate under Internal Revenue Code 501(c)(14), and are recognized as exempt from income tax because they operate without profit for the mutual benefit of their members, rather than for stockholders. All credit union earnings are returned to members in the form of reduced fees or loan rates, higher savings rates, or are reinvested back into the credit union in the form of retained earnings.

People who join a credit union are the owners of that cooperative. Member deposits, called shares, represent ownership in the credit union. Therefore, members are also referred to as shareholders. Members of credit unions pool their savings assets to provide loans and other financial services to each other. The interest and fees collected from these loans and services become the means for paying operating expenses and returning dividends back to the shareholders. Because credit unions are owned and operated by their members and do not have stockholders, the members often benefit through lower loan rates and fees and more competitive rates of return on savings.

Credit unions can have either a federal charter or a state charter, giving credit unions the choice to seek the best option for them.

Credit unions support the seven International Cooperative Alliance principles, with a few minor exceptions.

Voluntary and Open Membership: Whereas membership within a credit union is voluntary, credit unions by law must have a defined field of membership based on a common bond, that is explained later.

Democratic Member Control: Each credit union member has equal ownership and one vote – regardless of how much money a member has on deposit. At a credit union, every customer is both a member and an owner with equal opportunity for participation in setting policies and making decisions.

Member Economic Participation: Members elect a volunteer board of directors to represent them in decisions regarding policy, loan and savings rates and the collection of and distribution of capital. The amount of capital that a credit union must maintain is directed by the credit union's insurer of deposits, generally the National Credit Union Administration, but any capital remains the common property of the members as a whole.

Autonomy and Independence: Credit unions were first established in the United States in the early 1900s as self-help organizations with the intent to meet the financial needs of working class families. The primary objective of credit unions is to satisfy the depository and borrowing needs of their members.

Education, Training and Information: Financial education has always been a hallmark of the credit union movement. In 1924, a four-page magazine called *The Bridge* was launched by the Credit Union National Extension Bureau to inform members and credit union leaders about the evolving credit cooperative movement and its purpose of educating people about the management and control of money. Today, *Credit Union Magazine* has replaced *The Bridge*, but it continues to carry forth the same purpose. All credit unions provide financial education to their members in some manner to help them become better-educated consumers of financial services. Credit Union National Association (CUNA), the primary trade association for U.S. credit unions, has partnered with the National Endowment for Financial Education, a not-for-profit foundation, to expand financial education among high school students.

Cooperation among Cooperatives: Credit unions recognize their strength and greatest effectiveness come through working cooperatively with local, state, regional, national, and international organizations. CUNA is a member of the National Cooperative Business Association (NCBA) and in 2010 the two organizations signed a licensing agreement whereby CUNA would provide customized professional development to NCBA members. In particular, the joint effort was to enhance volunteer/board education for cooperative businesses.

In addition, and perhaps more importantly, credit unions cooperate among themselves and have developed cooperative systems to supply necessary services to their industry. For example, CUNA Mutual Group provides insurance services for credit unions, such as fidelity bond and business coverage, and services for members, such as death and disability insurance to cover borrowers. Another example is Credit Union 24, the largest national credit union-owned point-of-sale (POS) network that also offers over 100,000 surcharge-free ATMs to members.

Credit unions also support financially, through dues, a system of state trade associations and CUNA to represent them in their state and national advocacy efforts to protect and further legislation for the benefit of their members and consumers in general. A final example of cooperation among cooperatives is the World Council of Credit Unions (WOCCU), the international trade association and development agency for credit unions worldwide. Through WOCCU, there are 48,000 credit unions in 97 countries representing 184 million members.

Concern for Community: Credit unions have a social purpose stated as: "*People helping people.*" Rather than a focus on making money for stockholders, credit unions exist to help people. As such, they help their communities. But beyond that, the credit union people-first philosophy causes credit unions and their employees to get involved in charitable activities and worthwhile causes.

Why and how did credit unions get started in the U.S.?

To really understand credit unions, one needs to know a little of the history of the industry, often referred to as a social movement to bring affordable credit to low- and middle-income households. The credit union concept crossed the Atlantic from Germany to Quebec in 1900 when Alphonse Desjardins, a court reporter, became outraged at the interest being charged by loan sharks in his community. He organized the first credit society in North America, *LaCaisse Populaire*, to provide relief to the working class in Levis, Quebec. In 1909, Desjardins helped a group of Franco-American Catholics in Manchester, New Hampshire organize St. Mary's Cooperative Credit Association – the first credit union in the United States. Anyone wishing to join the first credit union had to meet the following requirements: "The following qualification shall be required for membership, that the applicant shall be honest, willing to meet his dues, sober, orderly in his habits and industrious" (Credit Union Journal, January 12, 2009).

That same year in Massachusetts, spurred by the efforts of Edward Filene, merchant and philanthropist, and Pierre Jay, the Massachusetts Banking Commissioner, the Massachusetts Credit Union Act became law. It defined a credit union as "a cooperative association formed for the purpose of promoting thrift among its members" (Moody & Fite, 1971, p. 36). This law served as the basis for subsequent state credit union laws and the Federal Credit Union Act.

In the 1920s the U.S. economy was in an upswing. People had more money to save and wanted to purchase such things as automobiles and washing machines. However, they needed access to inexpensive credit. Commercial banks and savings institutions were generally not interested in providing consumer credit. An early credit union leader, Roy F. Bergengren, saw credit unions as "agencies to help forestall radical change by making each person's lot in society better and more secure" (Moody & Fite, 1971, p. 110).

The credit union movement began to grow and thrive. The term "movement" likely evolved from the determined efforts of early credit union pioneers to organize as many credit unions as possible across the nation to bring affordable credit to small consumers. The term continues to be used today to denote the fact that credit unions remain committed to the philosophy of people-first, not money. In fact, credit unions often use the tagline, "Where People are Worth More than Money."

The Credit Union National Extension Bureau (CUNEB) was organized and financed by Filene to promote credit unions throughout the country and to help states pass credit union legislation. In 1934 the Federal Credit Union Act was passed and signed by President Roosevelt, forming a national system to charter and supervise federal credit unions. The legislation enabled credit unions to incorporate under either state or federal law, a system of dual chartering that continues today. The Act specifically stated that the purpose of credit unions was "to make more available to people of small means credit for provident purposes" (Jackson, 2003).

The end of WWII brought renewed growth to the credit union industry. By 1969 the U.S. movement reached its peak of 23,876 credit unions. Since then credit unions have merged together to create larger, and in most cases, more efficient operations, but the number of members have continued to grow. As of 2010, there were under 7,700 federally insured credit unions serving almost 90 million members with $910 billion in assets. In comparison, at mid-year 2010, FDIC reported 7,830 insured banks and savings institutions holding $13,221 billion in assets.

Approximately 35% of the U.S. population belongs to a credit union. However, only about 20% do most of their financial business with credit unions (Lee, 2007). Credit unions hold less than seven percent of total assets of depository institutions. Despite the fact that credit union members continue to report high satisfaction levels with their respective credit unions (Hofheimer, 2008), membership growth has been hovering around 1.4% per year. That means an aging membership (the average age of a credit union member is 48). An aging membership means less need for credit products which means less income and a downward pressure on credit unions' balance sheets.

The credit union industry as a whole realizes that these trends do not bode well for its future. However, credit unions individually have difficulty knowing how to respond to this dilemma and are slow to change their practices and operations. CUNA and other industry organizations are trying to help. For example, the Filene Research Institute (www.filene.org) which is the research arm for the industry, has produced a number of reports and briefs providing information about attracting and serving youth and young adults. It uses a volunteer work group of young adult (under 30 years of age) credit union employees, called I^3 (Ideas, Innovation, Implementation) to develop and incubate new products and services for credit unions.

Additionally, the National Credit Union Foundation (NCUF) has as its signature project, REAL Solutions (www.realsolutions.coop), to support credit union's efforts to reach low-wealth markets, such as immigrants, the unbanked or under-banked, low- to moderate-income households, and youth and young adults. REAL Solutions offers to credit unions best practice examples and implementation toolkits.

What is meant by "common bond" and "field of membership?"

By current federal statute, credit unions cannot serve the general public. Originally, credit unions were not restricted by statute as to whom they may take in as members. However, those who were invited to join were generally restricted "to those of whom personal knowledge is possessed because personal knowledge of the character of the members is essential" (Moody & Fite, 1971, p. 39). Since the purpose of credit unions was to make small loans to their members, honesty and employment were important criteria. Later through his experience in organizing credit unions, Bergengren believed the best potential for successful credit unions was organizing them as a "group with a common bond" (Moody & Fite, 1971, p. 95). This then became part of the organizational procedures that hence was incorporated into state credit union statutes and later the Federal Credit Union Act.

Thus, credit unions, as part of their organizational charters, have a stated "field of membership" that spells out who is eligible to join the credit union. Generally membership fields are occupational or employer-based, organizational affiliations like churches or social groups, or a community charter. Closely linked to field of membership is the concept of "common bond." It refers to the relationship shared by members of a group served by a credit union.

A credit union's common bond, or commonality of interest, was the glue that held a credit union together in the early years and gave it economic feasibility. Common bond became the foundation for bringing groups of individuals together to form new credit unions. The common bond was an economical way of delivering specific services, primarily small loans to a specified market. Within a community or work place people generally knew each other, providing a low-cost knowledge of a person's income, character, and job stability. Peer pressure reduced default rates. Boards of directors understood local economic conditions. These close ties between lenders and borrowers made it economically feasible to provide small loans based on character to individuals who otherwise would not have had access to financial markets.

Whereas credit unions continue to be organized around fields of memberships with common bonds, the concept has changed over the years as social and economic conditions changed. As technology for delivering financial services improved, it became economically possible to serve larger geographic areas and to offer the benefits of membership to a broader group of individuals. Plant closings in the industrial sector in the 1980s brought hardship to credit unions with tight common bonds and narrow fields of membership. People were losing their jobs and their credit unions at a time when they needed the more "personal" approach credit unions provided when it came to working out loan difficulties. Adapting to the economic changes was critical to both growth and survival.

In the early 1980s the number of failed credit unions rose dramatically. In response, many credit unions changed their fields of membership to community-based charters in order to serve larger groups of people. Other credit unions began adding more employer groups to their fields of membership.

In 1990 five North Carolina banks and the American Bankers Association (ABA) filed a lawsuit against the National Credit Union Administration (NCUA) arguing that AT&T Family Federal Credit Union in North Carolina should not have been allowed to take in small employee groups not related to the telephone industry and challenged NCUA's interpretation of "common bond" as defined by the 1934 FCU Act. The Act specified that credit union membership is limited to "groups," each of which shares a common bond of occupation, association, or is located in a well-defined neighborhood, community or rural district (Burger & Dacin, 1992). The issue revolved around the term "groups." Did all the groups have to share the same common bond, e.g., the telephone industry, or could each group have its own unique common bond? The lawsuit eventually found its way to the U.S. Supreme Court which in a five-to-four vote in February 1998, decided in favor of the banks. The future of the credit union system was in jeopardy. At risk were about 34 million members of the then 74 million members who had been able to join a credit union through NCUA's interpretation that credit unions could serve multiple groups, as long as each group had a common bond.

Credit unions responded with a massive campaign to get a bill passed to amend the Federal Credit Union Act, called the "Credit Union Membership Access Act," or CUMAA. The bill passed Congress in 1998, but not without a long and tumultuous battle with the ABA. The bill ensured a future for credit unions, but it included some field of membership restrictions regarding size of groups, along with restrictions on member business lending and increased safety and soundness requirements.

Today many credit unions have overlapping fields of members so that they are competing with each other as well as banks. While these overlapping fields of membership are of concern to some, for the most part consumers benefit from having more options available to them. It is not uncommon for a person to belong to more than one credit union, using some of the electronic services provided by a larger credit union but perhaps preferring the more familiar atmosphere of the smaller credit union for other services. More options also mean more convenient locations for consumers. Finally, competition among credit unions can mean a greater focus on service to members at the lowest cost possible so that members are receiving the best rates possible.

How are credit unions different from banks?

Some of the differences include:

- A cooperative ownership structure
- The one-member, one-vote governance structure
- A volunteer board of directors

- An operating philosophy of "Not-for-profit, not for charity, but for service"
- The distinction of having members, not customers
- A not-for-profit structure that provides credit unions with some tax exemptions
- Capital formation limited to retained earnings

Most of these differences have already been discussed. However, tax exemptions and capital formation need further examination.

Credit unions do pay taxes – payroll taxes, sales and property taxes. They are exempt from federal and most state income taxes. The exemption was first established in 1937, as an amendment to the 1934 Federal Credit Union Act and was more recently re-affirmed in 1998 in CUMAA which states:

"Credit unions, unlike many other participants in the financial service market, are exempt from Federal and most State taxes because credit unions are member-owned, democratically operated, not-for-profit organizations generally managed by volunteer boards of directors and because they have the specified mission of meeting the credit and savings needs of consumers, especially persons of modest means" (CUNA).

The primary difference between credit unions and for-profit financial institutions is ownership. Banks are run by investors (stockholders) who seek a profit for their investments. As not-for-profit institutions, credit unions return any profits back to their members in the form of lower loan rates and fees or higher returns on savings. Many credit unions pay a year-end cash dividend to their members.

Credit union tax exemption has been the source of many disputes between the banking and credit union industries. The trade associations for the banking industry have tried numerous times to have the tax exemption eliminated or to use the tax exemption as a reason to limit credit union activity.

As part of CUMAA of 1998, member business loans cannot exceed 12.25% of a credit union's total assets or 1.75 times net worth, whichever is less. Credit unions and CUNA have been trying to get this limit increased, particularly in the recent economy when loans to small businesses have been curtailed by banks because of capital impairment and a general aversion to any risk. Many credit union members own small businesses that could grow and benefit from more credit union business lending.

Also, as part of CUMAA, capital requirements were increased for credit unions. Capital is defined as net worth or what the credit union holds in retained earnings or undivided dividends. A credit union is characterized as well capitalized at 7% net worth, adequately capitalized at 6%, and undercapitalized at less than 6%. These percentages are two percentage points higher than those required for banks. The rationale for setting higher capital requirements for credit unions was based on the inability of credit unions to quickly raise capital by issuing securities, as banks are able to do.

Whereas banks can increase capital levels by selling common or preferred stock, credit unions are not owned by stockholders and therefore cannot sell stock. Their only source of capital is retained earnings that are collectively owned by member depositors. This can create growth challenges for credit unions. As assets increase, capital levels need to keep pace. A credit union that is 7% capitalized, but experiences a 10% growth in assets can suddenly find itself with a capital ratio that is under 6.5%, bordering on being classified as undercapitalized.

Credit unions raise income primarily through loans, but also through investments, fees or by reducing expenses. A credit union that receives an influx of deposits that can't immediately be loaned out, and presuming it is operating as efficiently as possible, is faced with the difficult decision to cut its cost of funds - interest or dividend rates - to its members in order to reduce expenses and discourage further deposits. For this reason, most credit unions try to retain capital ratios that are well above the 7% level. The average capital ratio for all federally insured credit unions as of March 2010 was 9.8%.

Another difference affecting federally chartered credit unions is that they are limited as to what rate of interest they can charge a borrower. The cap is 18%, set by NCUA. State chartered credit unions must comply with any state caps that are in effect. Generally, state chartered credit unions and banks operate under similar consumer laws affecting their states.

Banks vs. Credit Unions

In the early formation of credit unions, the banking industry tended to ignore these new entrants of cooperatives. The Federal Credit Union Act of 1934 limited unsecured credit to a maximum of $50. With this constraint, credit unions were little threat to banks. The loan limit steadily increased over the years and was eventually eliminated in 1977. Whereas the tax-exempt status of Savings & Loans and Mutual Savings Banks was revoked in 1951 by Congress, credit unions fought for and retained their tax-exemption.

But as credit unions matured and grew, they caught the attention of the banking industry. An article in the *American Banker* in 1956 emphasized the fast growth of credit unions after 1941. The article stated, "It's better to be swallowed by a whale than nibbled to death by minnows" (Moody & Fite, 1971, p. 347.) The banking industry was willing to ignore credit unions as long as they were small, innocuous organizations. But when they appeared to be competitors to banks, the industry fought the credit union tax exemption and the restriction of new charters. As early as 1960, CUNA countered attacks from the American Bankers Association (ABA) to obtain restrictive legislation to minimize competitive threats from credit unions.

The contentious battles continue today. Whenever credit unions seek additional powers to better serve their members or to eliminate restrictions such as the member business loan cap, the banking industry uses the credit union tax exemption to fight such measures. According to the ABA, if credit unions want to grow and expand services to their members, they should be taxed. Size, community charters, and business lending are the three major arguments the ABA and the Independent Community Bankers of America (ICBA) use to pressure Congressional changes to credit union tax exemption. "It's not your grandfather's credit union," the ICBA stated in testimony to the U.S. House of Representatives' Committee on Ways & Means (Hayes, November 2005).

CUNA and credit unions argue their structure has not changed since the original Federal Credit Union Act was created in 1934. They remain not-for-profit, democratic, financial cooperatives owned by their members. They remain true to their mission of serving people of modest means as part of their member base. Credit union size is immaterial to structure or mission. Expanded community charters enable more consumers to choose between a bank or a credit union. With an average membership growth of only 1.4% per year, one could argue credit unions are not using or promoting their expanded charters to their full potential. Finally, credit unions have always been able to make business loans to their members until the passage of CUMAA in 1998 which imposed the arbitrary cap of 12.25%.

It is the legislators at both the national and state levels who get caught amidst the fighting of the two industries, a position they detest. The trade associations for both industries are measured by their members as to their abilities to stave off the other's efforts to restrict or expand powers. For lawmakers, it is a no-win position.

In 2010, CUNA and credit unions aggressively sought to remove or increase the cap to member business loans. CUNA argued that increasing the limit to 25% would increase business loans by an additional $10 billion to credit union members from its present $30 billion and would create as many as 108,000 new jobs. Banks argued such "expanded powers" should result in credit unions giving up their tax exemption. Credit union leaders surged into Washington, DC for a "hike the hill" event to persuade lawmakers to increase the cap to support added jobs and to help small businesses. They left feeling they had made some headway, only to be followed the next week by the bank lobbyists arguing there was plenty of credit available through community banks and that an increase in the member business lending cap would only allow credit unions to stray from their original mission. Caught in between fire, legislators often choose to do nothing and declare a draw.

CUNA and credit unions use the Little Guy caricature and theme to illustrate and remind lawmakers how credit unions are dwarfed by the banking industry, evoking a David versus Goliath image.

How are credit unions regulated and insured?

Credit unions can operate under a state or federal charter. Federally chartered credit unions must adhere to the rules and regulations set by the National Credit Union Administration (NCUA). State chartered credit unions adhere to any state laws, with oversight usually performed by a department of financial institutions.

Little Guy

Credit unions must comply with any federal regulations affecting financial depositories. One exception is the Community Reinvestment Act of 1977 (CRA) which requires banks to follow government guidelines in lending to "under-served areas." CRA was put into affect to prevent banks from "redlining," that is not lending to certain areas of the community. When first passed, credit unions had very limited fields of membership and redlining would have been nearly impossible. Whereas many credit unions have larger fields of membership today, they have been able to avoid any CRA requirements because there has not been any evidence that they practice redlining.

No credit unions today are insured through the Federal Deposit Insurance Corporation (FDIC), which insures banks and thrifts. With the exception of nine states that allow credit unions to be privately insured, all the remaining states require federal deposit share insurance through NCUA. Less than 200 credit unions within these nine states are privately insured. The remaining credit unions are insured by NCUA under its National Credit Union Share Insurance Fund (NCUSIF). NCUSIF was created by

Congress in 1970 to insure members' deposits in federally insured credit unions. The insurance limit of $250,000 per individual depositor is similar to other federally insured financial institutions.

By law, federally insured credit unions maintain one percent of their deposits in the NCUSIF and the NCUA Board can levy a premium if necessary. Credit unions voluntarily capitalized the fund in 1985 by depositing one percent of their deposits into the NCUSIF. No federal tax dollars have ever been placed in the credit union financial fund.

The fund typically operates between 1.2% and 1.3%. If the fund falls below 1.2%, NCUA must submit a restoration plan to Congress. Credit unions were charged an assessment in 2009 and will likely be charged one again in 2010. The assessment is based on actual losses to the NCUSIF from failed credit unions and anticipated losses through quarterly reports that federally insured credit unions must submit to NCUA with detailed financial information. While the majority of credit unions weathered the Great Recession storm in good shape, NCUA reported 2,100, or about 27% of credit unions at mid-year 2010 that it considered at risk, up 30% from December 2007. However, only 366 of these credit unions fell into the highest risk categories, or about 5%. In contrast, FDIC reported 829 troubled banks at mid-year 2010, or about 11% of its 7,830 insured institutions.

How are credit unions started?

NCUA's "Chartering and Field of Membership" manual describes in just under 200 pages the steps to organizing a federal credit union. Of greatest concern to NCUA is that the credit union will be viable and "have a reasonable opportunity to succeed." Even credit unions organized under a state charter generally must qualify for federal share insurance. Organizers of newly formed credit unions express frustration with the length of time (about 18 to 36 months) and amount of paperwork that is involved in the chartering process. Many groups seeking access to credit union services are persuaded to find an existing credit union they can join or to urge a credit union to expand its field of membership to include the new group.

Most groups or communities that desire credit union services are looking for easier access or more options to credit needs. Newly formed credit unions are challenged with bringing in sufficient deposits to meet capital requirements and credit requests along with developing the capacity to provide a full range of services such as debit and credit cards and ATMs.

What is a Community Development Credit Union?

A community development credit union (CDCU) is a credit union with a special mission of serving low- and moderate-income people and communities. CDCUs specialize in serving populations generally considered the hardest to reach and serve, including low-income wage earners, recent immigrants, and people with disabilities. Most CDCUs have a low-income designation, meaning that at least 51% of its members have median family income that is 80% or less than the median family income for the metropolitan area where they live or the national metropolitan area, whichever is greater. Such designation generally comes from NCUA and gives a credit union certain special powers such as the right to accept non-member deposits and secondary capital.

A CDCU also has access to a wide range of services and programs offered by the National Federation of Community Development Credit Unions (NFCDCU). NFCDCU was founded in 1974 to help strengthen credit unions serving low-income families in urban and rural areas by providing technical, financial and human resource assistance.

Chapter 8, "Cooperation Works!" by Nadeau and Thompson outlines the work of three CDCUs. Two of those credit unions remain vibrant and successful community development credit unions today. Here is an update as of mid-year 2010:

Santa Cruz Community Credit Union

Santa Cruz Community Credit Union (SCCCU) is $81 million in assets serving almost 10,000 members. Among its community development projects is its "Child Care Revolving Loan Fund" which makes low-interest loans to child care providers serving low-income families. The funds come through grants the credit union is able to receive. Loans are made up to $15,000 for a two-year period and are made available at a low interest rate of 3%. Another program the credit union offers to help create more affordable housing in the community is its "Affordable Accessory Dwelling Unit (ADU) Loan Program." An ADU is an additional dwelling unit that has a kitchen, sleeping, and bathroom facilities and is attached or detached from a primary residence, and is in a single-family lot. The loan program was developed with the city of Santa Cruz to alleviate the city's housing crisis. SCCCU also makes micro-enterprise loans to the clients of its community-based organizations who might not otherwise qualify for a small business loan.

Self-Help Credit Union & Self-Help Federal Credit Union

Self-Help Credit Union (SHCU) operates as a state-chartered credit union in North Carolina and in 2008, it chartered the Self-Help Federal Credit Union (SHFCU) as a federal charter. The federal charter enables the credit union to merge with other community credit unions in other states. Today, SHCU is $512 million in assets serving 36,000 members. SHFCU is $200 million and serves 30,000 members. Both are managed by Martin Eakes.

SHCU and SHFCU offer many community development programs. In partnership with the Golden Leaf Foundation, SHCU offers loans to small businesses in economically distressed, rural, and tobacco-dependent counties in North Carolina. Similar to Santa Cruz Community Credit Union, Self-Help has a “Child Care Revolving Loan Fund” to help start up or expand child care facilities. Through a grant from the U.S. Department of Education, the credit union has committed a pool of funds to help start up charter schools for low-income areas and at-risk students. The grant was used to offset lending risks enabling the credit union to offer more attractive loans for borrowers.

Central Brooklyn Federal Credit Union

Central Brooklyn FCU was liquidated by NCUA in 2002. The small credit union was unable to curtail high operating expenses and its loan portfolio had serious delinquency and charge off losses. The liquidation followed much criticism of the NCUA Board’s handling of the credit union while under conservatorship. The credit union’s board and members tried diligently to keep the credit union in operation because it served people who had very limited financial options. In the end, the NCUA Board felt its obligation was to protect its insurance fund and closed down the credit union.

Background Reading

People, Not Profit: The Story of the Credit Union Movement from www.cuna.org

Required Reading

Nadeau and Thompson, Chapter 8

Optional Reading

People, Not Profit: The Story of the Credit Union Movement

Exercises

For those students who do not belong to a credit union, they should go to www.cuna.org and find a credit union near where they live, work or go to school. They should visit the credit unions' websites or call the credit unions to find out if they are eligible to join. If so, they should go visit the credit union and talk with a credit union representative. Students should learn what is necessary to join the credit union, what savings and loan products the credit union offers, and ask the representative what the difference is between a credit union and a bank. They can also go to www.ncua.gov, click on the "credit union data" tab and obtain financial information about the credit union. Students who already belong to a credit union should obtain similar information from their credit unions.

Have students compare their experiences and the services offered by the credit union. Typically, there should be enough variation in the size of the credit unions that services and experiences can be quite different. Ask the students if they would be interested in joining the credit unions they visited. Students who already belong to a credit union can share how much of their financial business they do with their credit unions versus other financial institutions.

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