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February 26, 2012 8:00 PM

Taking it to the banks

Credit unions grow amid industry ad campaign, shift in public attitude

By Marti Benedetti



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President and CEO Hank Hubbard says business has been stronger than expected at Communicating Arts Credit Union's newest branch, at Mack Avenue and Alter Road in Detroit.

Widespread consumer dissatisfaction with large banks and a stepped-up advertising campaign by Michigan credit unions have helped put the industry in the spotlight and led to robust growth.

The **Credit Union National Association** estimates that from Sept. 29 to Oct. 29, Michigan credit unions gained 27,900 members, far above typical monthly numbers. It is closer to what the Washington, D.C.-based organization estimates credit unions in the state would ordinarily gain in an entire year.

Michigan has 4.5 million credit union members.

The 2009 and 2010 credit crisis, scrutiny of loan customers by banks and increasing bank fees helped credit unions gain business, said David Adams, CEO of the Lansing-based **Michigan Credit Union League**.

Some of the ire against banks -- a primary target was **Bank of America** and its proposal to levy a \$5 fee on debit card transactions -- coalesced into the Occupy Wall Street movement's nationwide "Bank Transfer Day" on Nov. 5. It encouraged people and small businesses to move their accounts from banks to credit unions.

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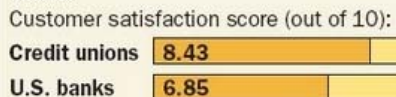
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Just how much the OWS anti-bank effort drove Michigan's credit union growth is debatable. Some credit unions say it had no effect, while others say it was instrumental. Others aren't sure.

SATISFIED CUSTOMERS

Michigan's 319 credit unions have 4.5 million members, for a 45 percent market share — the highest among the 10 largest states — according to the **Michigan Credit Union League**. A Gallup study commissioned by *American Banker* magazine found greater average customer satisfaction with credit unions than with banks.



Source: Michigan Credit Union League

Hank Hubbard, president and CEO of **Communicating Arts Credit Union** in Detroit, said OWS's impact on consumer behavior is hard to gauge since he watched membership climb long before the movement started. In the past year, the credit union has gained about 200 members each month.

He said his credit union's niche is low-income Detroiters, who are underserved by traditional financial institutions.

"We are trying to provide credible financial services to people who have been forgotten by the banks," Hubbard said. "When we create products, we

consider whether it will serve our low-income population."

Formerly the Detroit Newspaper Industrial Credit Union, Communicating Arts began shifting its focus in 2005, responding to a drop in membership from media. Its newest branch opened in January in a shopping center at Mack Avenue and Alter Road on Detroit's east side.

"We expected a flood of new members, but it hasn't died down yet," Hubbard said. "Most of our members are joining for the reasons Occupy Wall Street people talk about. The unbanked people are unbanked because the banks won't give them bank accounts."

Lisa Burroughs, COO of the **Michigan School and Government Credit Union** in Clinton Township, said she saw notable growth starting in late October.

"I think that was a result of publicity for Bank Transfer Day that started in mid-October," she said. "Bank Transfer Day was awesome for us. When we opened our offices on that Saturday, there was a line of people outside waiting."

She said as a result of that experience, all of the credit union's branches will be open on Saturdays from 9 a.m. to 1 p.m. beginning April 7.

Burroughs said that from late October until now, the Michigan School and Government Credit Union averaged 650 new members a month. It opened a branch in Warren in mid-January that brought in 90 new members in two weeks and resulted in having to hire 25 employees.

Others say Bank Transfer Day did little or nothing to help their credit union business.

"We saw no increase in membership," said Gary Moody, president and CEO of Ferndale-based **Credit Union One**. "We've had steady growth as usual."

Moody added that the Occupy Detroit movement got less press than some cities' organized efforts, so Bank Transfer Day was a nonevent for most Detroit area residents.

MEASURING UP

Here's a look at performance by a sampling of large credit unions in Michigan from December 2009 to December 2011:

Credit union	Change in deposits	Change in loans	Change in membership	Total new members
Community Alliance	5.1%	38.6%	13.4%	953
Community Financial	11.4%	9.0%	12.3%	5,384
Michigan First	14.5%	-0.7%	9.0%	6,929
Public Service	16.8%	6.2%	13.3%	2,918
Total	13.0%	7.6%	12.8%	16,184

The statewide jump in memberships actually occurred before Bank Transfer Day, and "was during the height of the on-again, off-again Bank of America debit card fee debacle," Adams said.

Credit unions in Michigan had a healthy fourth quarter, and "the credit unions are continuing to

see really nice growth in membership and checking accounts," he said.

Meanwhile, Michigan credit unions' cooperative broadcast and print advertising exposed more people to the purported benefits of credit unions. The MCUL is spending more than \$3 million a year on advertising, compared with the \$400,000 it spent eight years ago. The organization also provides state credit unions with legislative, regulatory and media advocacy services, along with news and education and training programs.

Obtaining a loan is the primary reason consumers use credit unions. Frequently, loans are available at a

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lower interest rate. But customers also benefit from higher interest rates on savings and checking accounts, and no fees on transactions.

Unlike banks, credit unions are tax-exempt not-for-profit financial institutions, Adams said. This reduces their costs considerably, and because net earnings are not taxed, they have a further pricing advantage. This structure allows credit unions to lend to consumers and small businesses even in a tough economic climate.

Rob Farr is president and CEO of the **Bank of Birmingham**. Like other bankers, he says credit unions enjoy an unfair advantage in the competition for customers because, unlike banks, they don't pay federal income taxes.

But unlike many other bankers, his philosophy has been if you can't beat them, join them.

Credit unions band together in something called credit union service organizations to provide larger commercial loans together than they could individually.

Farr's bank has been a partner on several loans with the **Commercial Alliance** service organization in Troy, which has a membership of 13 state credit unions and a loan portfolio of \$150 million.

"It's been a great relationship," said Farr. "Both credit unions and community banks have benefited from what's going on with the national banks and customer dissatisfaction.

"Credit unions and community banks have a lot in common, but we are at a competitive disadvantage because we do pay taxes."

Patrick McQueen -- the former state banking commissioner who works with both banks and credit unions as a managing director of the banking practice at Southfield-based consulting firm of **BBK Ltd.** and with his son Charles' firm, **McQueen Financial Advisors** of Royal Oak -- said taxation is a bigger issue for outstate community banks, where local credit unions are the biggest competitors.

"There is an uneven impact," he said.

McQueen said bank lobbyists have argued in Washington for years against the credit union exemption.

"Banks are up in arms over this, but credit unions have an effective lobby. Their ability to lobby Washington is second to none. And as soon as legislators are sworn in, they automatically become members of the **Congressional Federal Credit Union**," he said.

Adams said any bank could convert to a credit union charter and have the tax benefits, but they would lose the ability to raise capital by issuing stocks and bonds, and the ability to compensate a board of directors and allow officers to own stock and stock options.

"What continues to drive people to explore credit unions was never about one bank, one fee or one day," Adams said. "It's a bigger-picture issue of consumers looking for the best deal around."

Tom Henderson contributed to this story.

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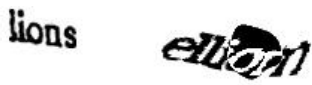
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