Commercial Banks And Credit Unions

Facts, Fallacies, and Recent Trends

Year-End 2012

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Bankers claim that credit unions are getting too big

As of year-end 2012 banking institutions held over fourteen times more assets than credit unions ($14.45 trillion vs. $1.03 trillion). ***Each*** of the nation's four largest banking entities are larger than the ***entire*** credit union movement.

The average banking institution is over fourteen times larger than the average credit union ($2.04 billion vs. $148.8 million in assets).

At year-end 2012, one-half of all U.S. credit unions had less than $21 million in assets. Overall, less than 2% of banking institutions are this small.

Overall, 67% of banking institutions had $100 million or more in total assets at year-end 2012. Only 20% of credit unions are this large.

Banking Institution and Credit Union Size Comparisons

Year-End 2012

	Banking Institutions	Credit Unions
Total industry assets J.P. Morgan Chase (largest banking entity)	$14.45 trillion $1.9 trillion	$1.03 trillion
Average institution asset size Median institution asset size	$2.04 billion $168 million	$148.8 million $21 million
% of institutions with $20 million or less in assets	2%	49%
% of institutions with $100 million+ in assets	69%	21%

Source: FDIC, NCUA, CUNA.

Bankers claim credit unions are "empire builders"

The first U.S. CU was established on November 24, 1908.

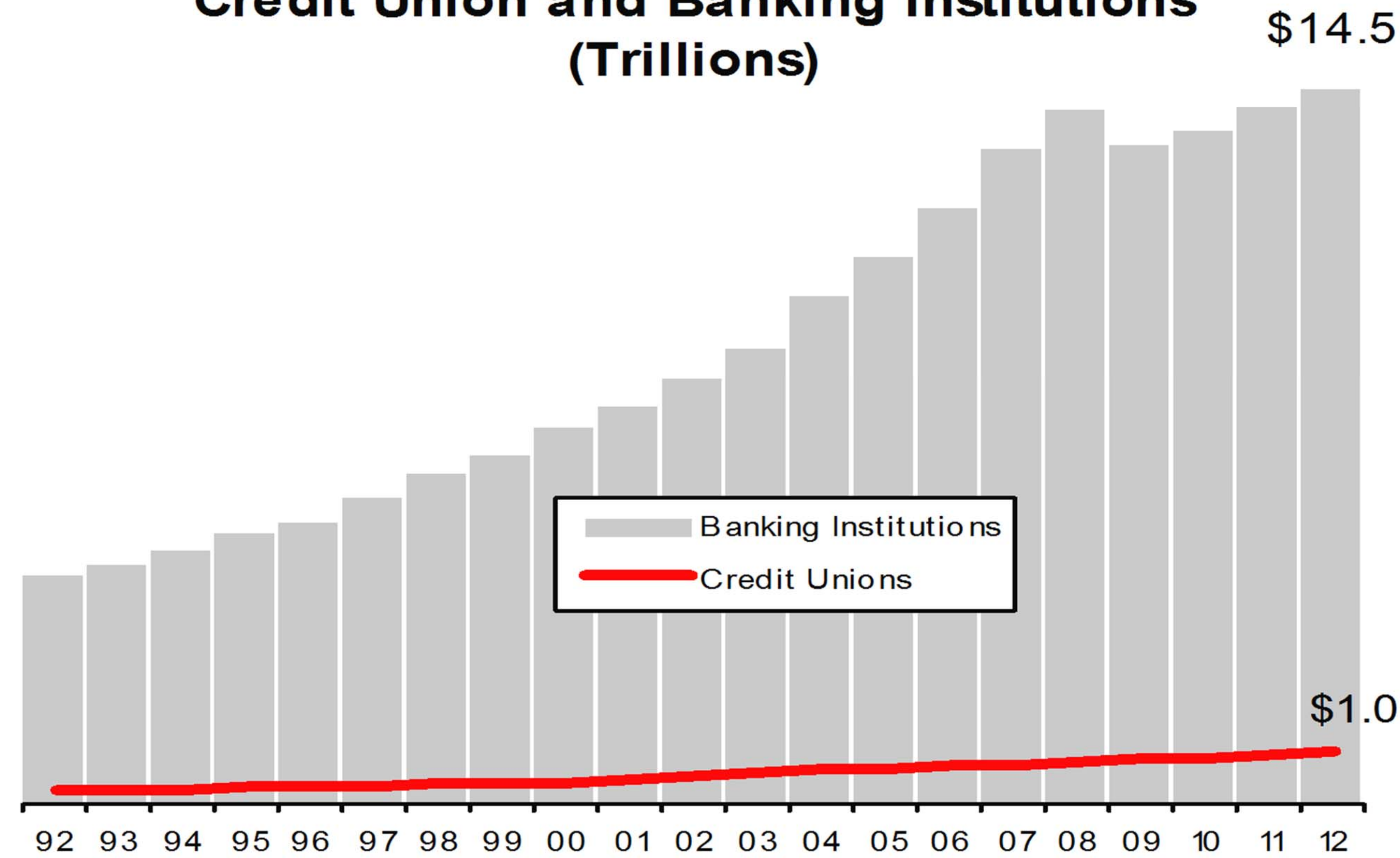
Assets in U.S. CUs grew to $1.03 trillion by year-end 2012.

In other words it took 104 years for credit unions to grow to a total of $1.03 trillion in assets. In contrast, U.S. banking institution assets grew by over half this much - $559 billion - in the past year alone.

Overall, four banking institutions (J.P. Morgan Chase, Bank of America, Citibank and Wells Fargo) are larger than the entire credit union industry. Each of these banking behemoths controls total assets exceeding $1.25 trillion

Total Assets

Credit Union and Banking Institutions (Trillions)



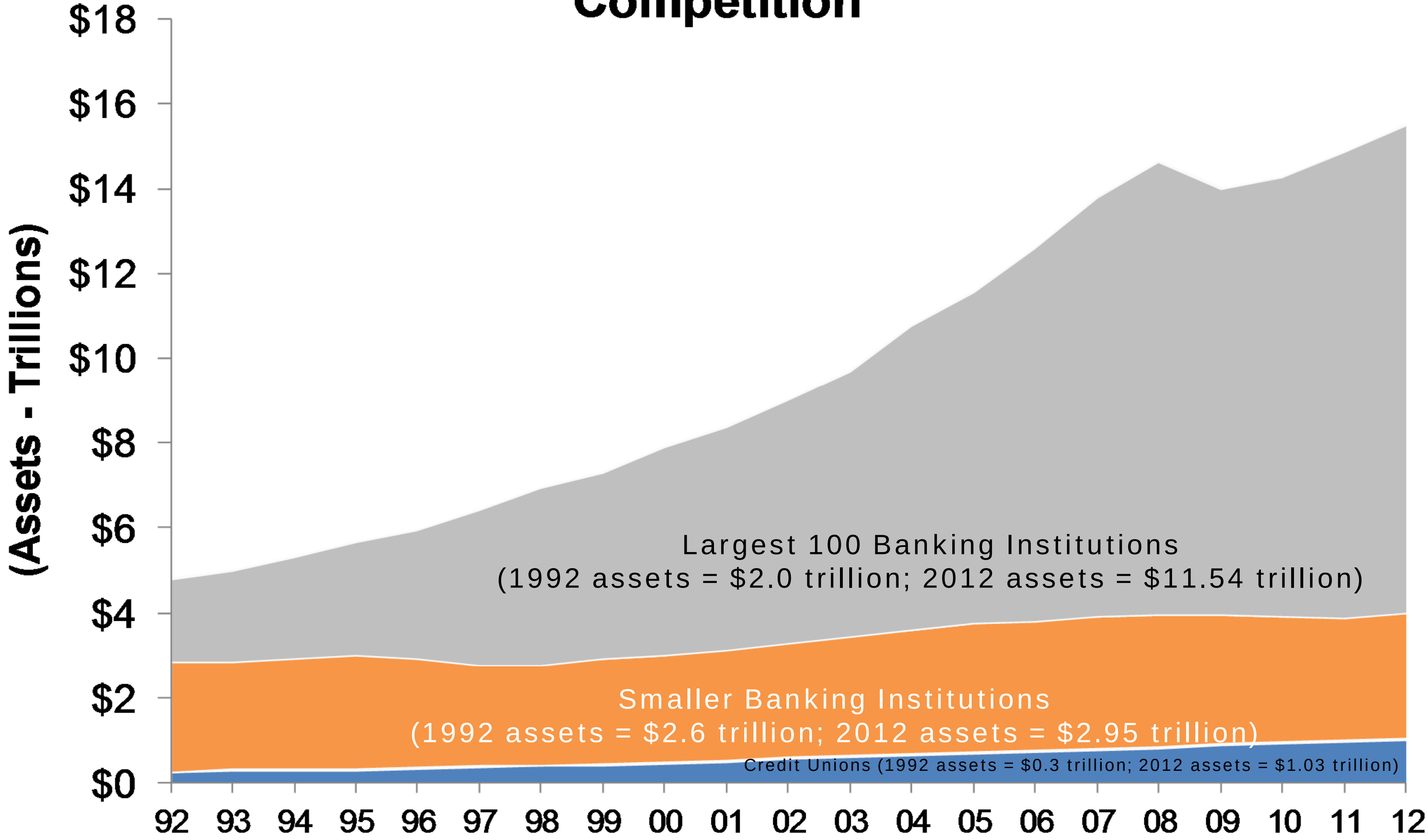
Sour ce: NCUA, FDIC. September 2008.

Bankers claim credit unions are making big market share gains

Credit union market share of financial institution assets has not changed significantly in nearly twenty years: Credit union market share was 5.6% in 1992 and was 6.7% at the end of 2012.

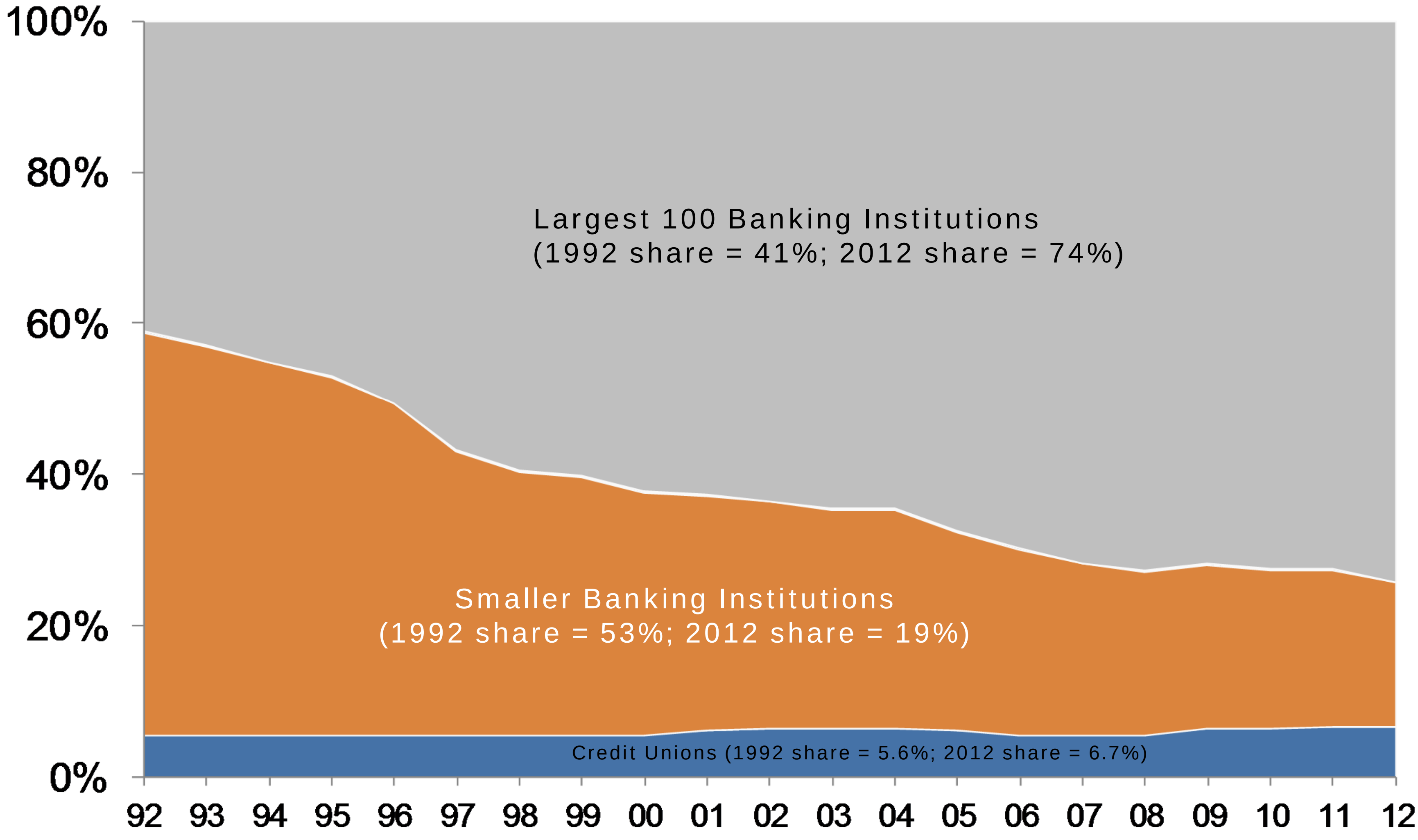
Multi-state, mega-banks are the true empire builders in the depository arena. As noted in the *Economist* (12/23/06): “America’s small, local banks are unlikely to die out, but their life has become a lot less cosy”. Are credit unions to blame? Absolutely not. According to the *Economist* article: **“The effect of this consolidation on America’s local banks may seem clear: they are squeezed by the big boys, just as retailers are when Wal-Mart or Toys “R” Us comes to town.”**

Small Banks Have More to Fear From Fast-Growing Mega-Banks Than From Credit Union Competition



Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.
"Smaller Banking Institutions" are defined as all banking institutions smaller than the Largest 100.

Increasing Dominance of Multi-State Mega-Banks



Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.
"Smaller Banking institutions" are defined as all banking institutions smaller than the Largest 100.

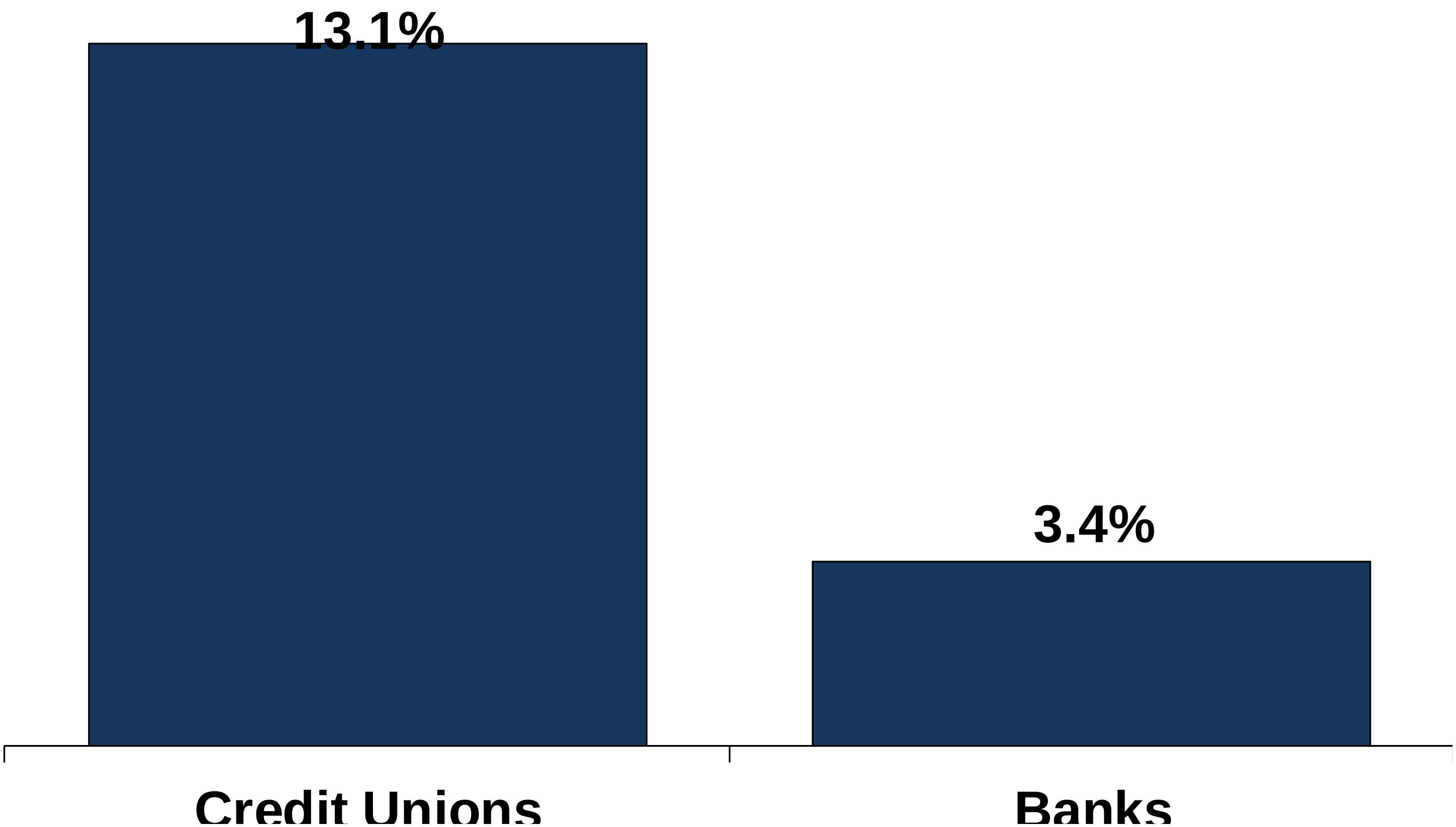
Bankers claim credit unions don’t benefit members

But credit unions are lending as banking institutions pull back. Consumers and business claim that they are unable to obtain loans from their banks but credit unions are filling this void. Overall, credit union loans grew by over 13% between the start of the financial crisis and year-end 2012. In contrast, bank loan portfolios increased by only 3% during this same five year period *and* the banking increase arose due primarily to an accounting change that caused reporting of some securitized assets to be shifted from off-balance sheet to on-balance sheet.

Credit unions have been able to “stay in the game” and continue to keep “stepping to the plate” because their asset quality and capital has remained high in the face of challenges arising from the financial system crisis. Banking institution asset quality has declined much more markedly because banking institutions and their subsidiaries were largely responsible for the financial crisis. In the absence of massive federal capital infusions into banks, the sector would have been decimated. Unlike banks, credit unions are portfolio lenders and the mortgage loans they originated were generally traditional, conforming loans: because credit unions are owned by their borrowers, these institutions originated very few sub-prime loans, liar loans, or other so-called toxic mortgages.

Credit Unions Served Borrowers As Other Lenders Pulled Back

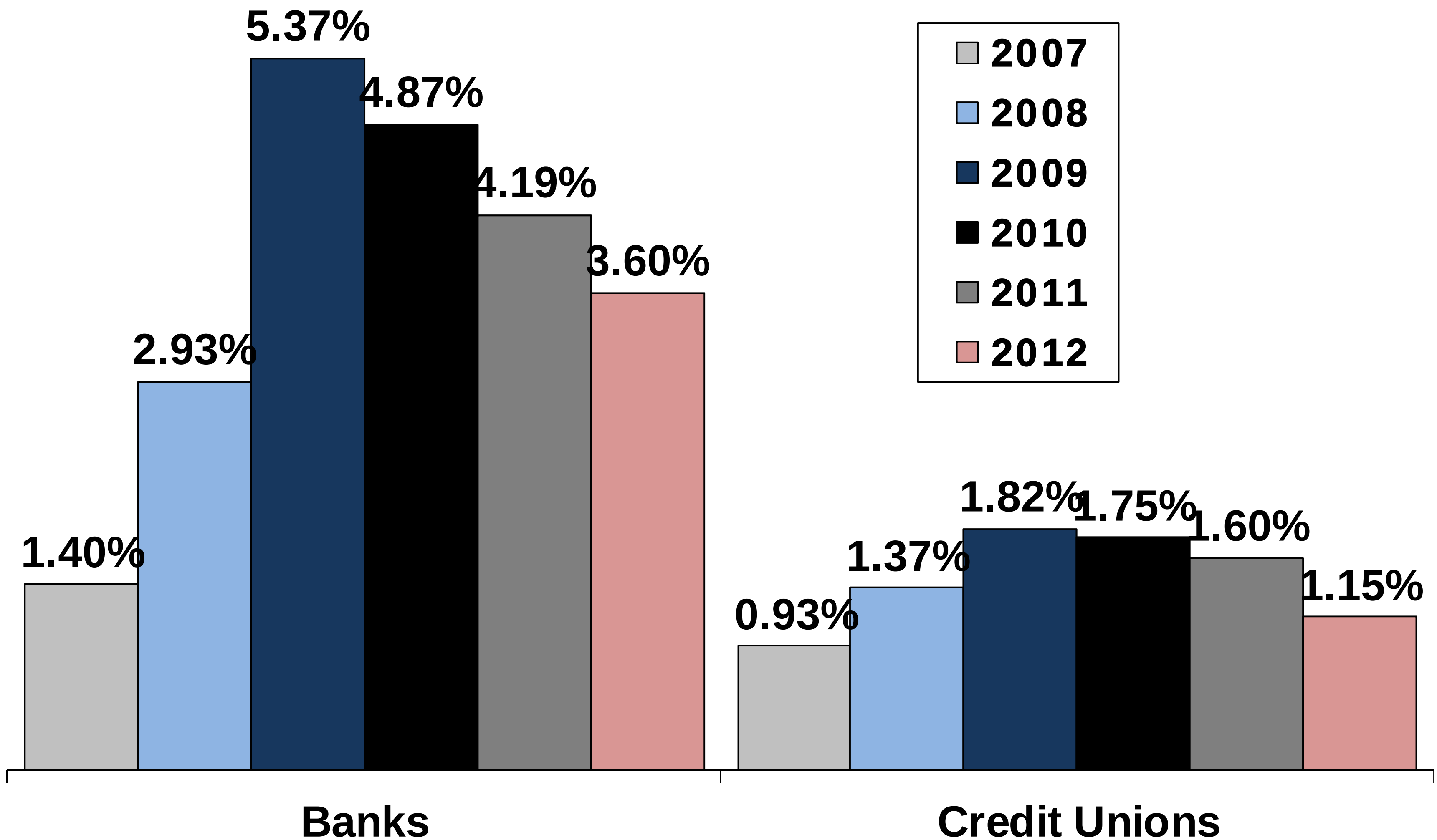
Growth Since Beginning of Recession: 12/07 to 12/12



Source: FDIC, NCUA & CUNA Policy Analysis.

Credit Unions are Careful Lenders

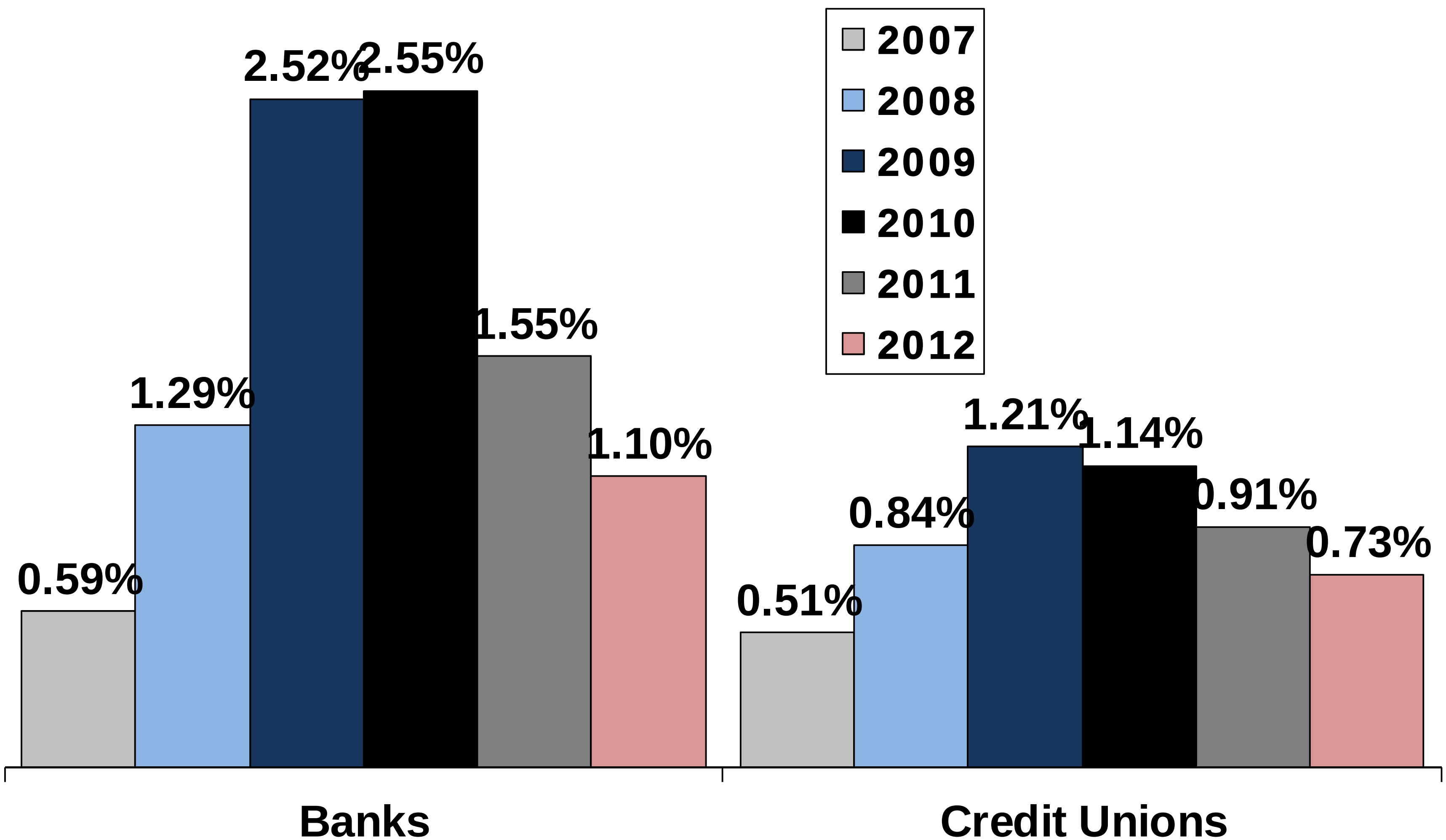
Total Loan Delinquencies as a Percent of Loans Outstanding



Source: FDIC, NCUA and CUNA Policy Analysis . Banks delinquency is 90+ day, CU delinquency is 60+day.

Credit Unions are Careful Lenders

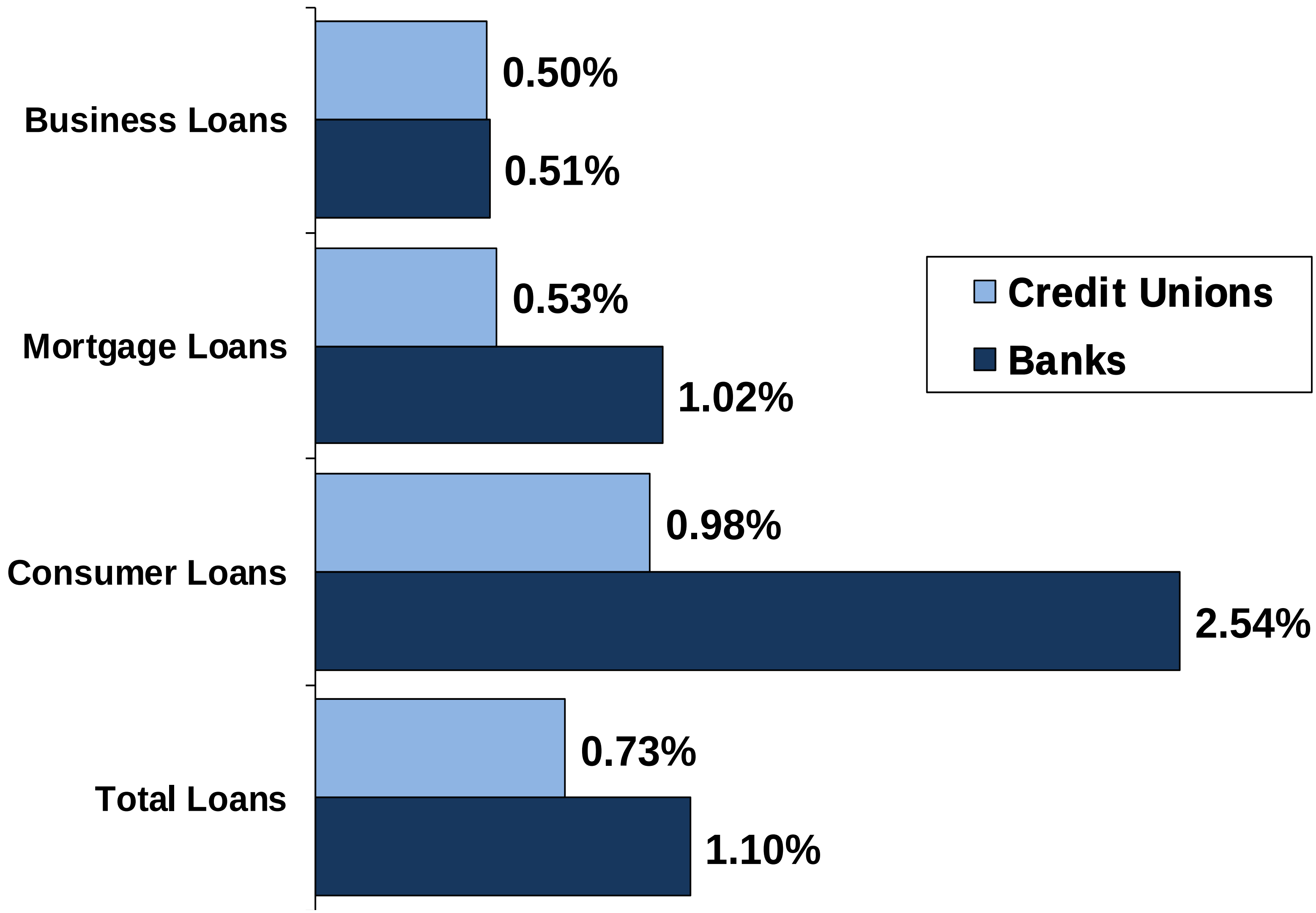
Total Net Charge-offs as a Percent of Average Loans Outstanding



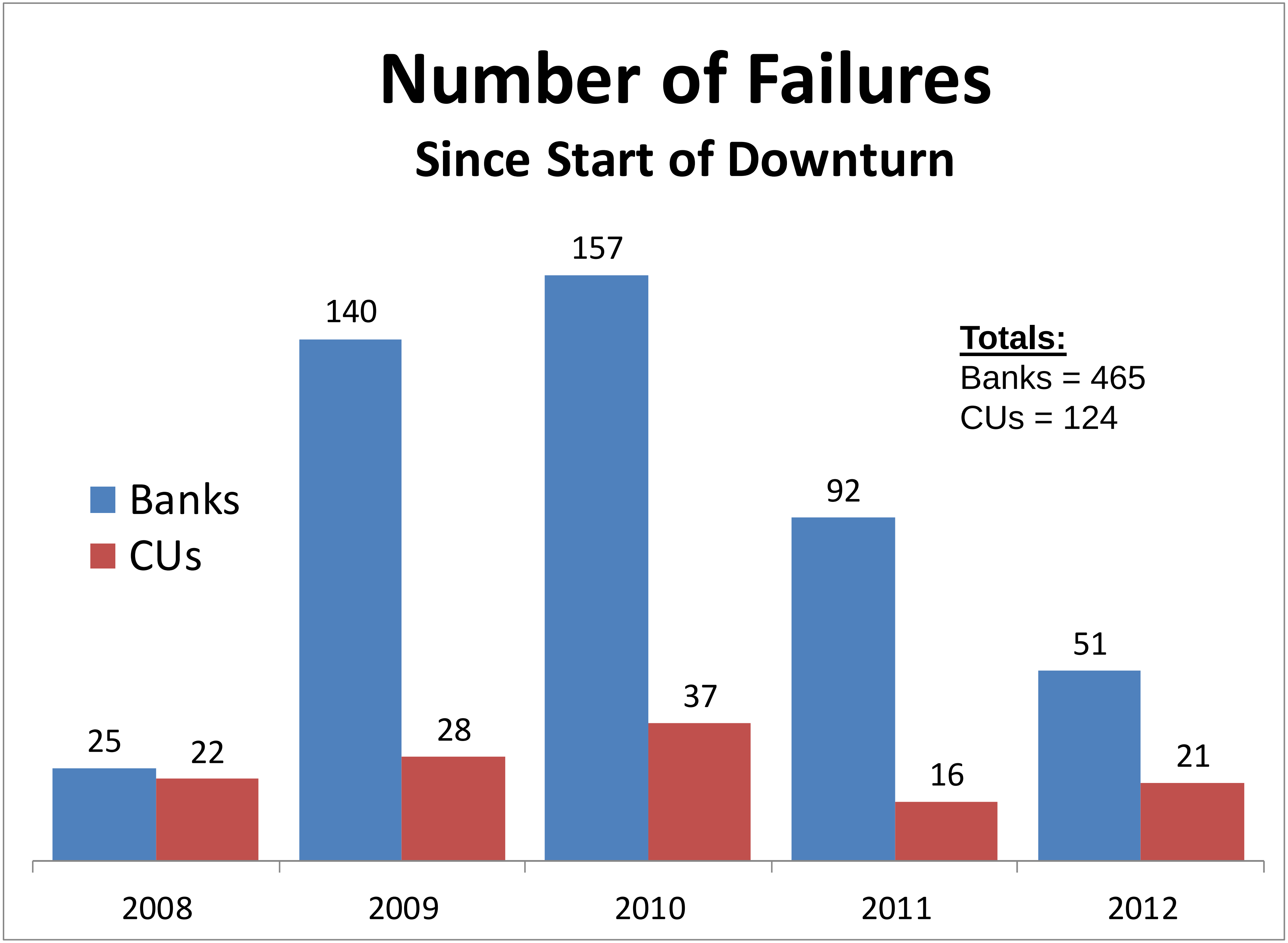
Source: FDIC, NCUA and CUNA Policy Analysis .

Credit Unions are Careful Lenders

2012 Net Loan Charge-offs by Loan Type

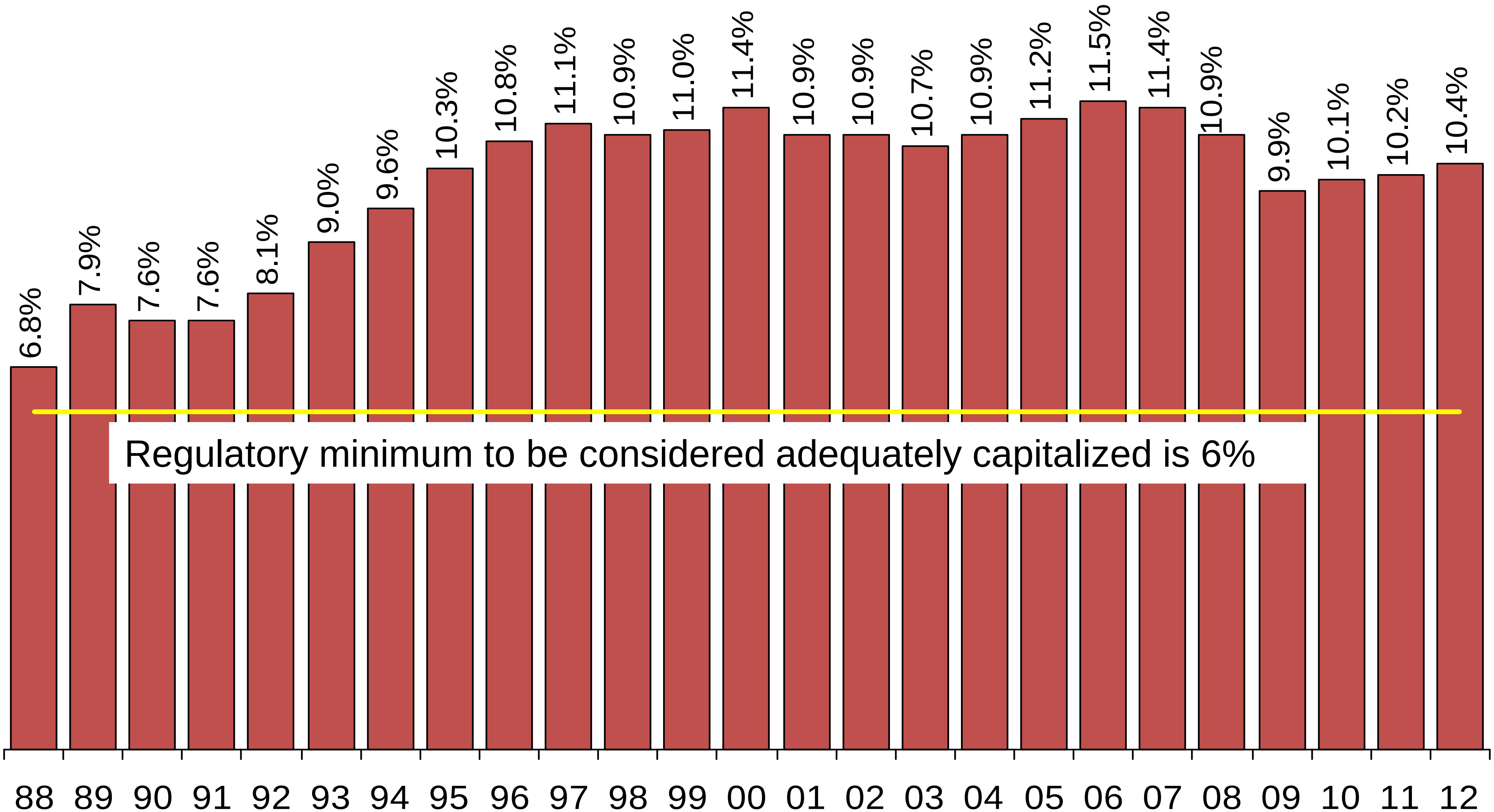


Source: FDIC, NCUA & CUNA Policy Analysis.


Number of Failures
Since Start of Downturn
Totals:
Banks = 465
CUs = 124
Banks
CUs
25
22
140
28
157
37
92
16
51
21
2008
2009
2010
2011
2012

Credit Union Capital Ratios

Remain Near Record Levels



Source: NCUA & CUNA E&S.

Bankers claim credit unions don't benefit members

But credit unions generally offer higher yields on savings accounts and lower interest rates on loans compared to banking institutions. Credit unions also are less likely to charge fees for services and when they do so, credit union fees tend to be lower than banking institution fees. The Government Accountability Office report GAO-07-29 confirms that credit union pricing is (with few exceptions) more favorable than bank pricing. The GAO report reveals this is true across institution size & over many years.

The combination of higher yields on savings, lower loan interest rates and lower fees translates into big financial benefits for credit union members. CUNA estimates that the benefits credit unions provide members totaled $5.8 billion or $118 per member household in the year ending 2012. Loyal, high use households save even more. In addition, credit union presence in the marketplace makes bank pricing more consumer-friendly than it otherwise would be. The benefit this moderating influence has on bank customer pricing is estimated by CUNA to total $2.3 billion in the year.

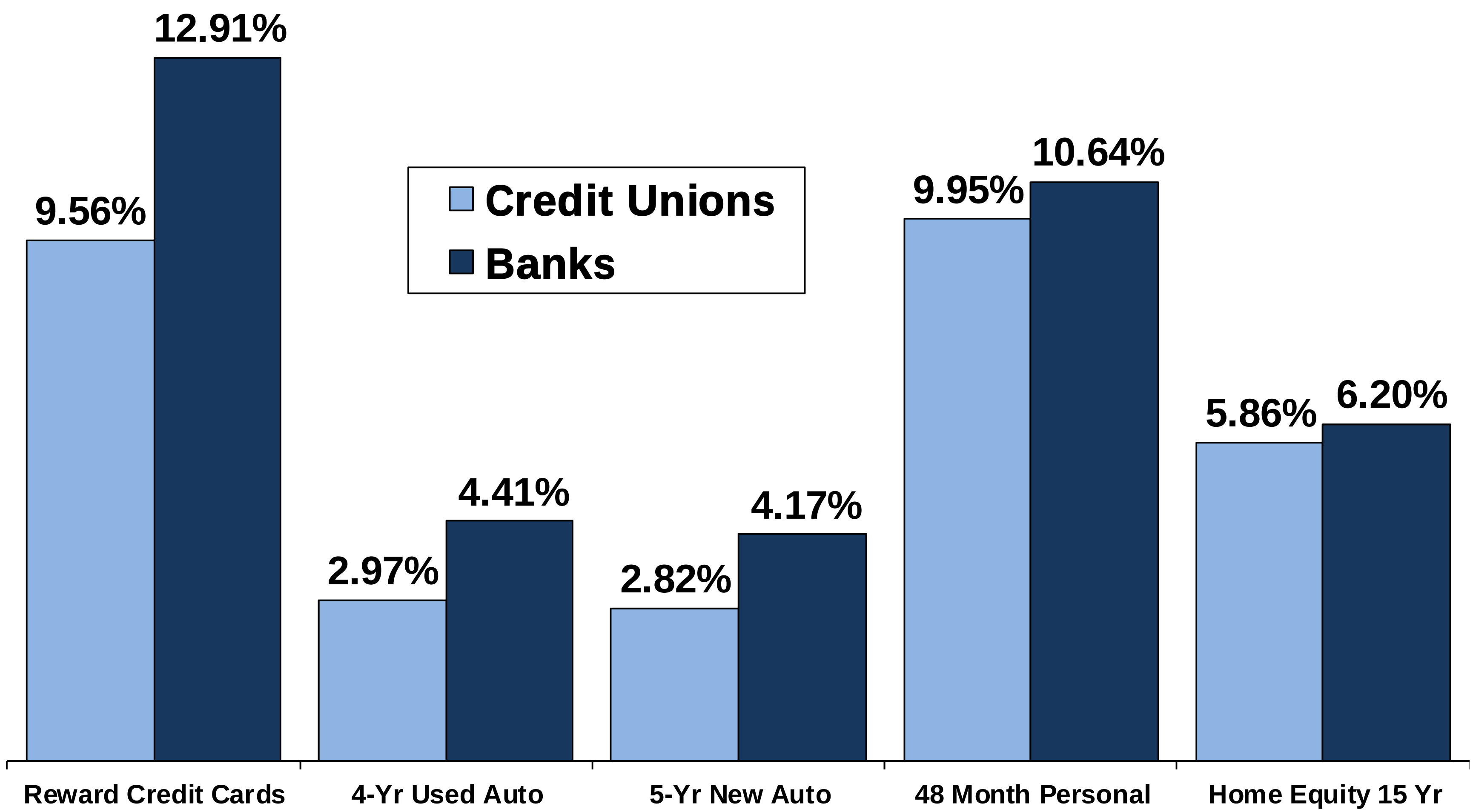
Note: Because market interest rates have compressed near zero these total benefits are low by historical standards. As market interest rates rise, the aggregate benefits undoubtedly also will increase toward historical norms.

Details of these estimates are available on the CUNA web site here:

http://cuna.org/initiatives/bank_attack/district_benefits.html
http://cuna.org/initiatives/bank_attack/state_benefits.html

Credit Unions: Consumer Friendly Pricing

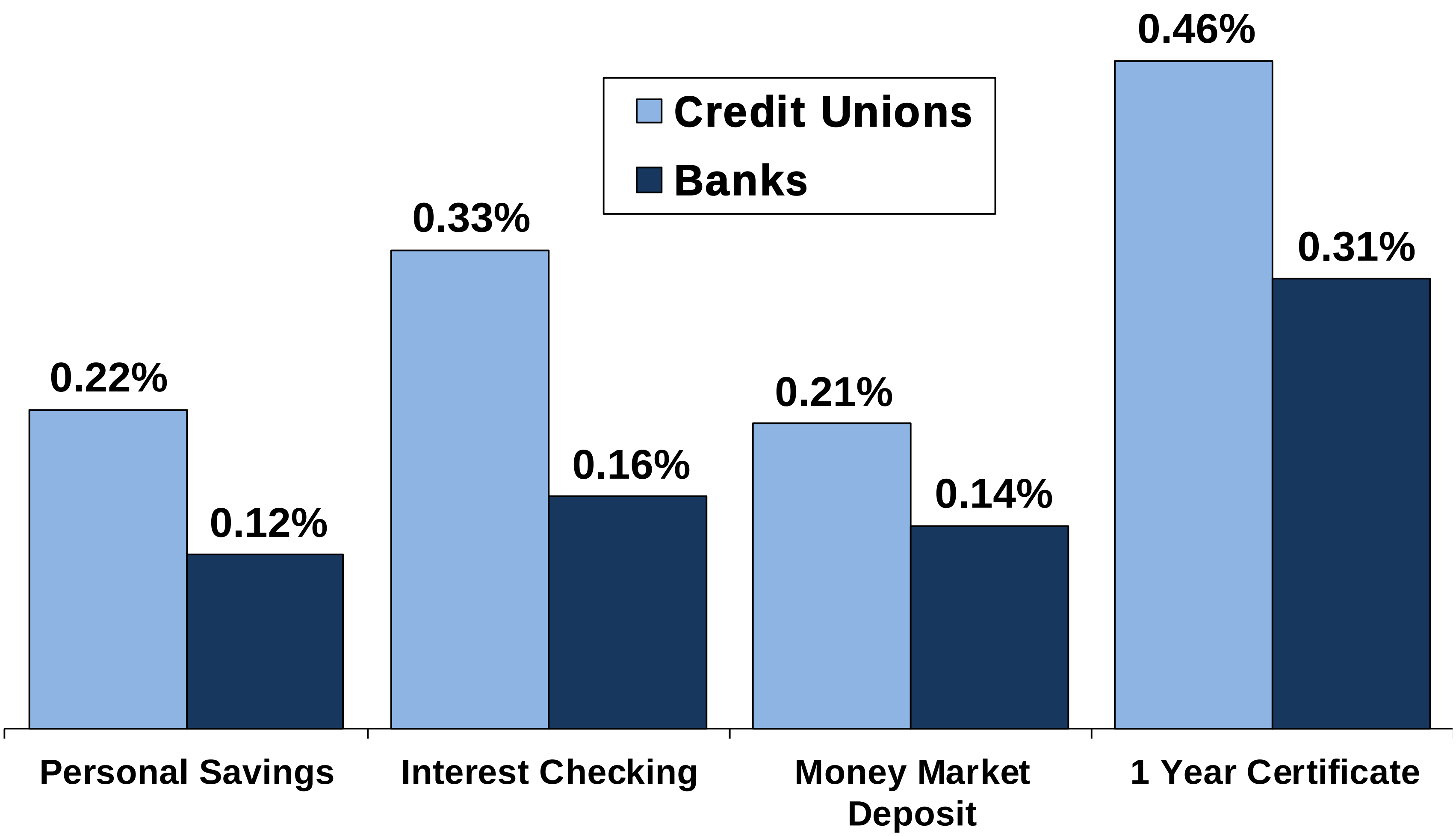
Loan Interest Rate Averages



Source: Informa Research Services. Data as of March 12, 2013..

Credit Unions: Consumer Friendly Pricing

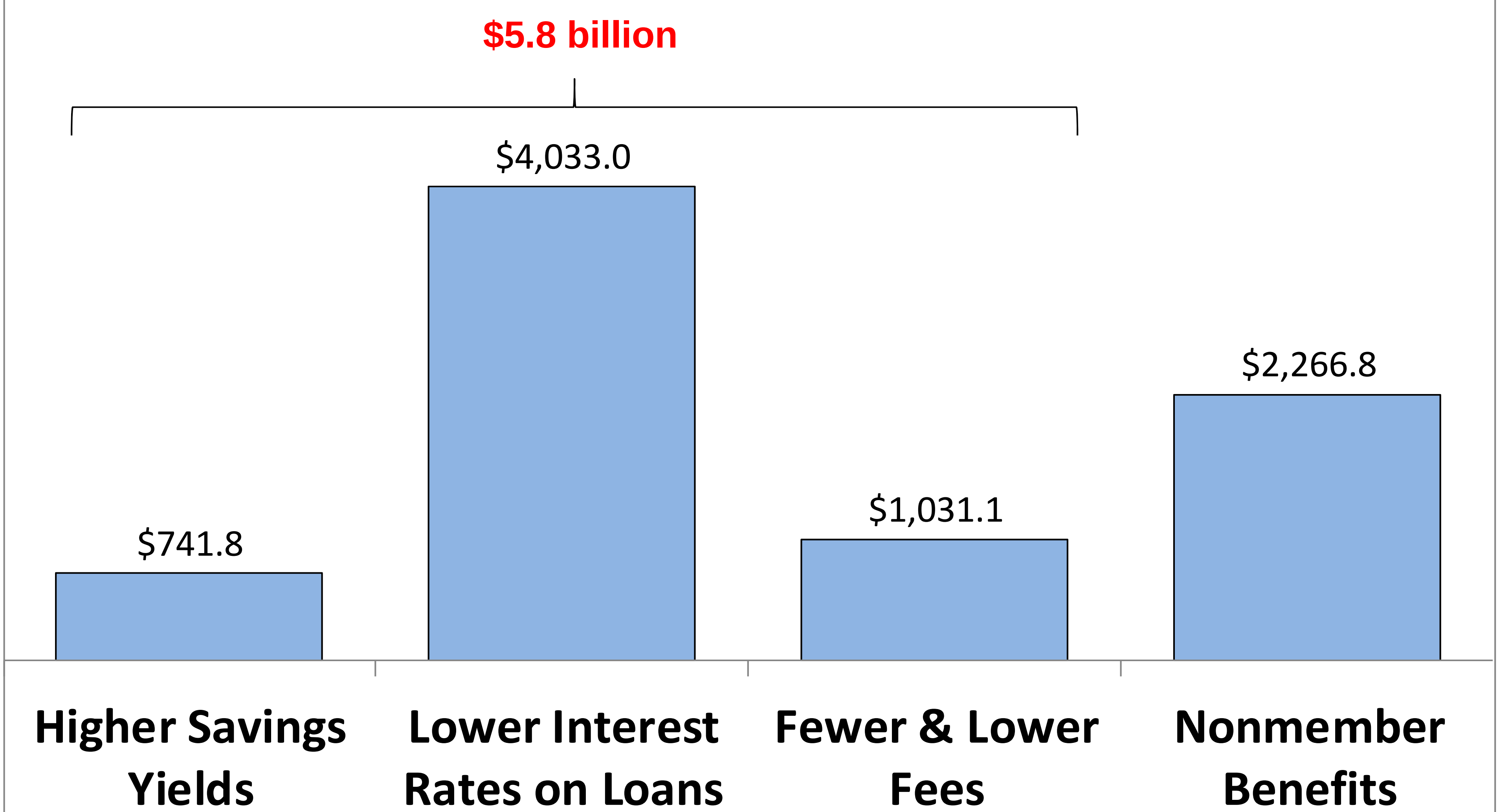
Savings Account Interest Rate Averages



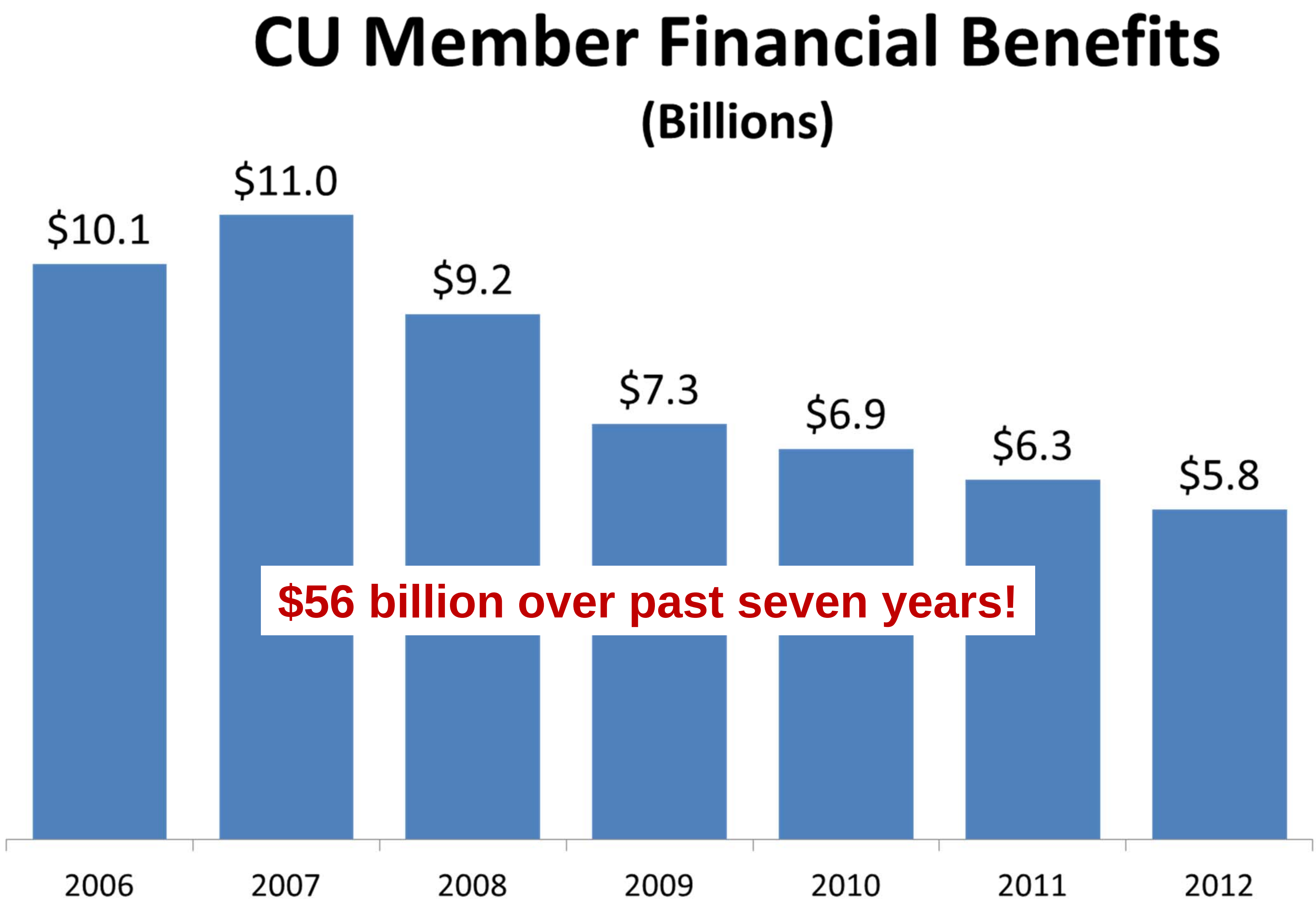
Source: Informa Research Services. Data as of March 12, 2013.

Credit Union Financial Benefits

(Full-Year 2012 Estimate* - Billions)



* Year ending September 2012. Source: CUNA Policy Analysis.



CU Member Financial Benefits
(Billions)
$10.1
$11.0
$9.2
$7.3
$6.9
$6.3
$5.8
$56 billion over past seven years!
2006
2007
2008
2009
2010
2011
2012

Credit unions deliver superior service

A variety of surveys consistently show that credit unions deliver superior member service. For example:

- The Financial Trust Index from the Chicago Booth/Kellogg School reported that trust in national banks fell to 28% at year-end 2012. In contrast, trust in local banks stood at 56% and trust in credit unions was highest—at 62%.

- The American Customer Satisfaction Index reported consumer satisfaction with credit unions broke all records for 2011 and remained well above the bank average in 2012. Credit unions' score in 2012 was 82 (on a scale of 0 to 100), while banks scored 77.

- For 21 years in a row, the American Banker newspaper did a consumer satisfaction survey of banks, thrifts and credit unions. Credit unions came in first every year. In 2005, American Banker stopped doing the survey—you can see why.

Bankers claim credit unions make it difficult for them to compete

But in **"The Economic Performance of Small Banks, 1985-2000"** (November 2001 Federal Reserve Bulletin) William F. Bassett and Thomas F. Brady conclude that "…small banks have thrived over the past decade and a half despite what might be seen as a variety of adverse circumstances, including extensive bank consolidation, a solid improvement in the balance sheet health of large banks, rapid growth in mutual funds and other elements of a 'parallel' banking system, and a steady decline in the real value of deposit insurance. Despite these circumstances and abstracting from the effects of mergers and acquisitions, small banks have grown considerably more rapidly than large banks and have tended to meet or exceed them in some measures of profitability….The robust growth and high profitability we find at small banks apparently have not gone unnoticed by the investors that have formed significant numbers of new banks in recent years."

In a more recent publication, **"What Drives the Persistent Competitiveness of Small Banks"** (A Federal Reserve Economic Discussion Series paper published in May, 2002) Bassett and Brady further reveal that increased deposit account interest costs at small banks primarily reflect the higher rate of return that small banks earn on their assets. So it's not the credit unions that are driving them up.

Bankers claim credit unions make it difficult for them to compete

Banking industry publications consistently contradict the idea that credit unions are hurting small banks. Publications like the *American Banker, ABA Banking Journal* and *Independent Banker* are replete with stories about how community bankers (individually and collectively) are making high profits and growing quickly. For example, ***U.S. Banker*** magazine recently boasted that community banks make up one-third of the fastest growing small companies in America. The majority of the successful banks these publications highlight face credit union competition on a daily basis.

While it is possible to find small banks that have poor financial or operational performance, credit union competition is at or near the bottom of the list of causes. The contributors to poor bank performance seem to be (in no particular order) fraud, mismanagement, nepotism, overly aggressive expansion, too many big branches, bad pricing decisions (on either side of the balance sheet), too much credit risk (i.e., overly-aggressive lending decisions), weak ALM, misguided investment decisions, bad service, and lack of synergy in mergers. This, as most bank consultants will tell you, is not an exhaustive list.

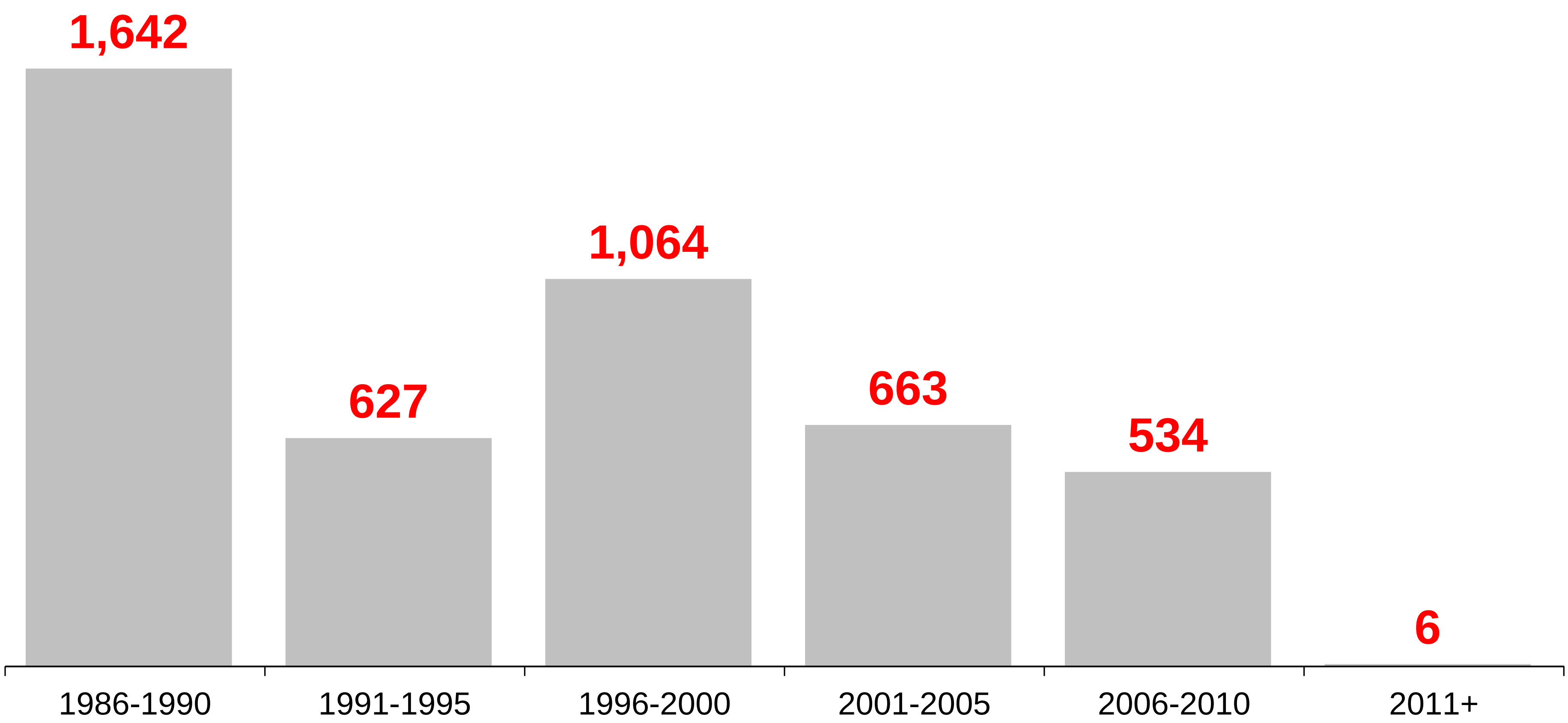
Bankers claim credit unions make it difficult for them to compete

A total of 4,536 new banking institutions have been chartered since 1986 and 540 new institutions were chartered since the beginning of 2006. Bankers simply wouldn't be chartering new institutions if credit union competition was as stifling as bank trade groups claim.

If bankers really believed that credit unions had unfair competitive advantages they would convert their institutions to credit union charters. None do this however because doing so would expose them to democratic ownership and control, would likely cause banker salaries to decline dramatically, and would force these institutions to adhere to a more restrictive regulatory regime, including higher capital standards.

New Bank/Thrift Charters

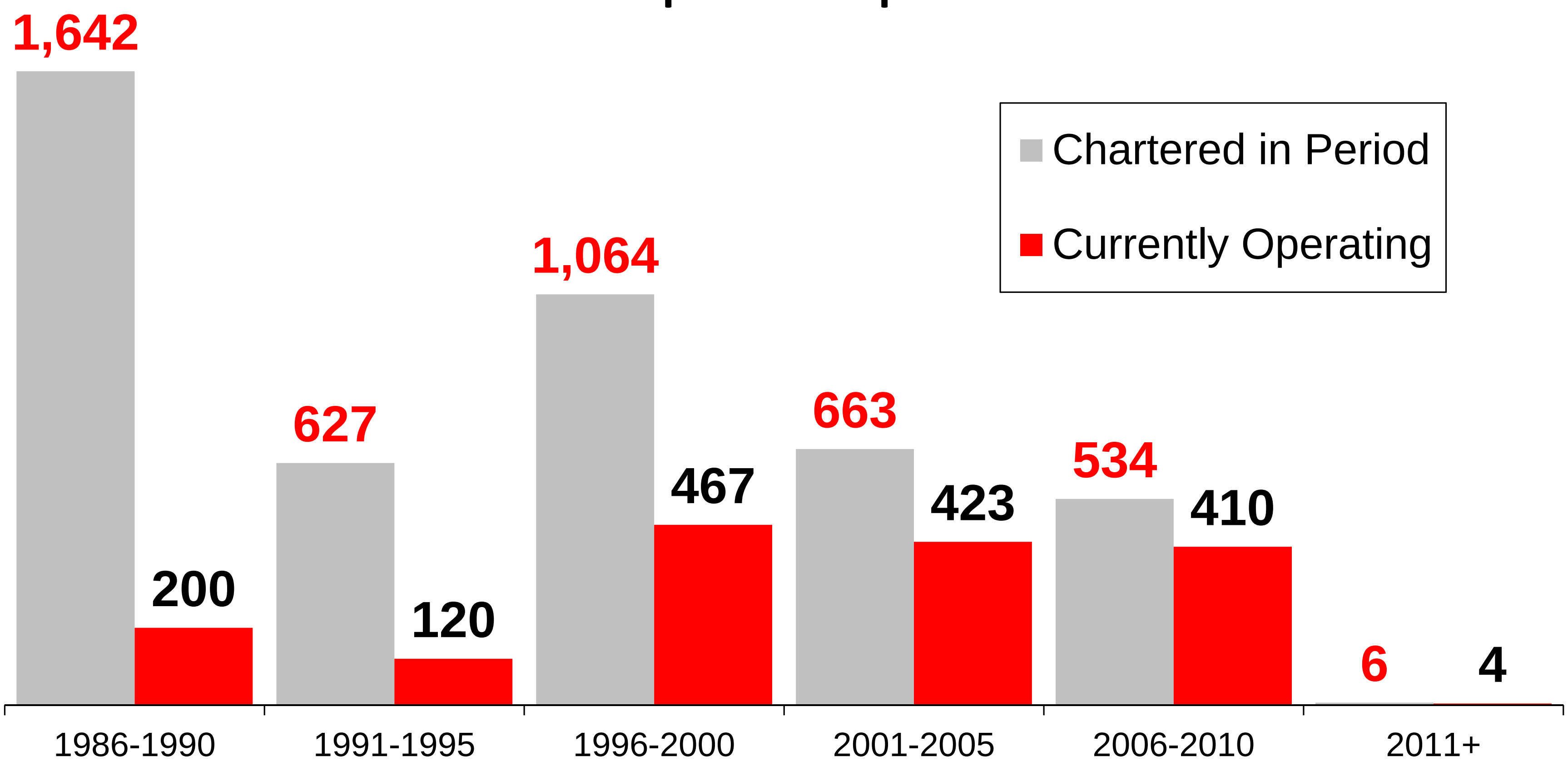
Five-Year Periods



Source: FDIC.

Newly Chartered Banks are Frequently Sold to Highest Bidders

Only 36% of those chartered since 1986 remain independent opearators

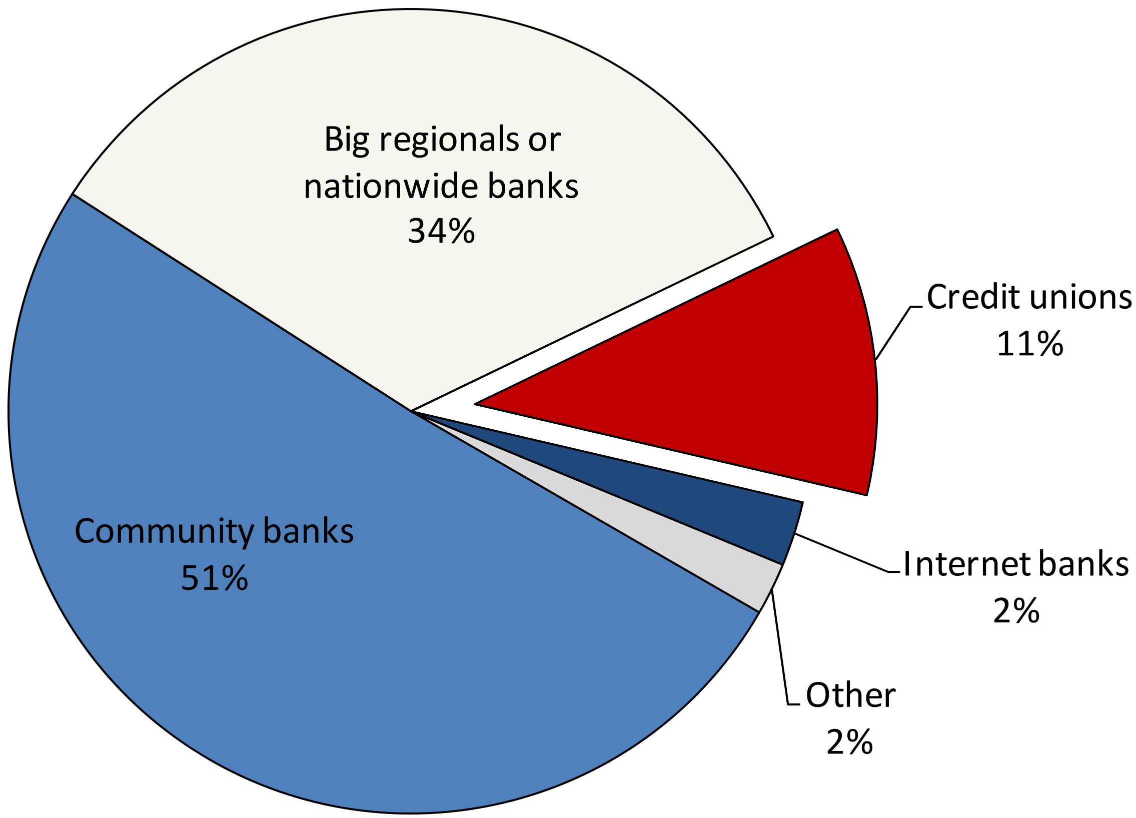


Source: FDIC.

Banker Disconnect

Do Credit Unions Make it Difficult for Banks to Compete?
Bank Trade Groups Tell Policymakers “YES!” – but Their Members Seem to Think Otherwise: When asked: "In general, who is your leading deposit competition?" banks say:

Source: ABA Banking Journal – February 2010



Bankers claim credit unions don't serve the "right" members

Bank trade groups also like to point out that credit unions don't serve all members, often accusing them of "cherry picking" the best customers and ignoring lower-income individuals. However, the record exposes banker rhetoric for what it is. For example, historical HMDA statistics provide good clues about credit union commitment to lower-income consumers. This data consistently shows that lower income and minority borrowers in the market for a mortgage are substantially more likely to be approved for a loan at a credit union.

HMDA data also shows that compared to other lenders, a greater percentage of total credit union home loans are granted to low/moderate income consumers.

Oddly bank trade groups don't discuss the bank record. For example, a recently-released study of bank branching concludes: "NCRC finds that most of the largest metropolitan areas of the United States have markedly lower numbers of bank branches in working class and minority communities than in the upper class and white neighborhoods."

- "Are Banks on The Map? An Analysis of Bank Branch Location in Working Class Neighborhoods" National Community Reinvestment Coalition. March 2007.

Bank trade groups have filed numerous lawsuits to prevent credit union service expansion into underserved areas.

Bankers claim the credit union tax exemption hurts government budgets

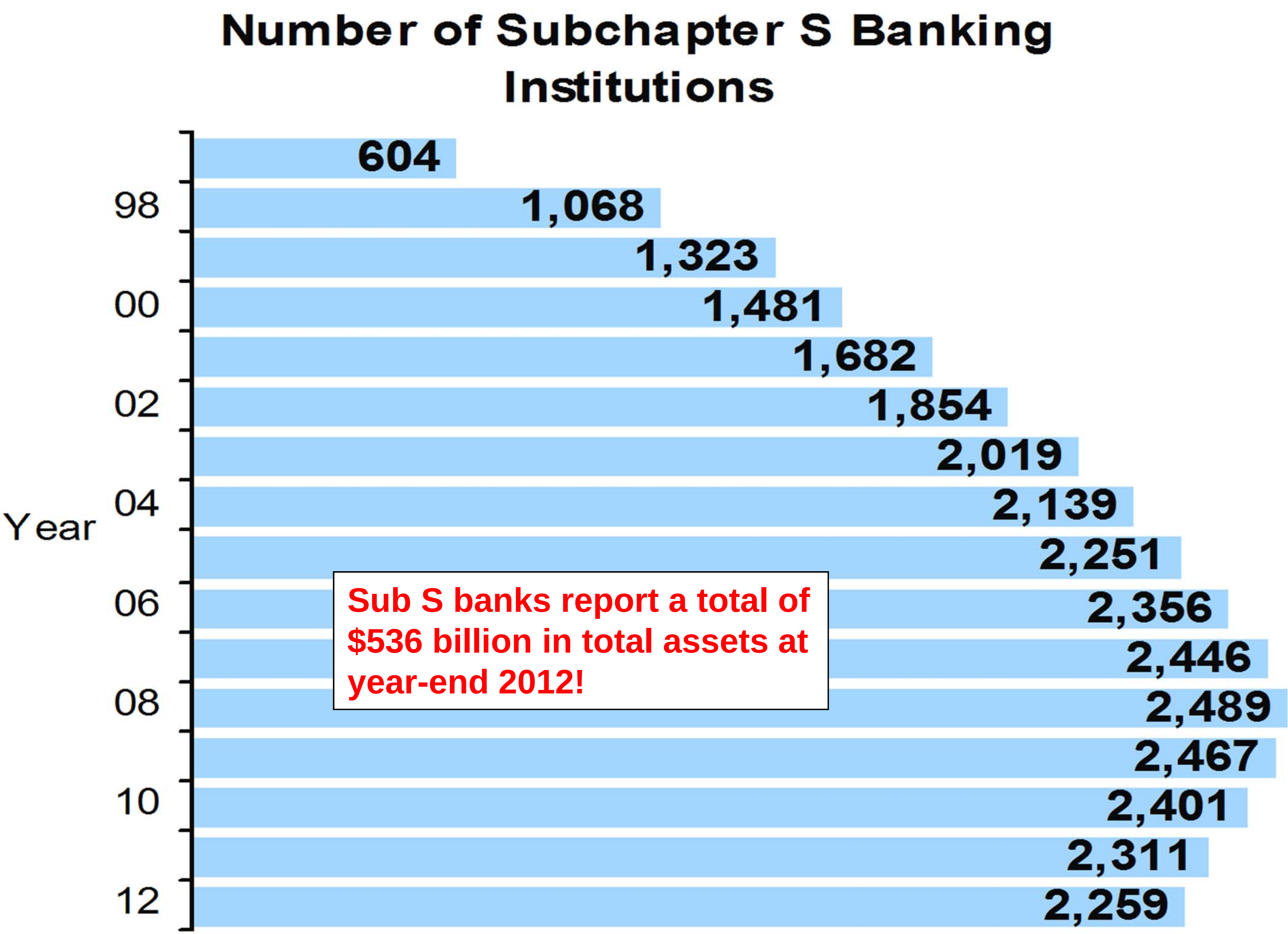
If bankers really cared about government budgets they wouldn’t be chartering so many SubS institutions. In fact, there are now over 2,200 of these institutions operating in the U.S. And bankers have attempted to expand SubS eligibility and/or eliminate all taxation of dividends on numerous occassions.

SubS status, intended to benefit small businesses, is now being used by 71 banks which individually have $1 billion or more in assets. At year-end 2012, the largest SubS bank reported $16.8 billion in total assets.

While SubS status is not the same as a tax exemption, it results in significant loss of government revenue. For example, the direct cost to the federal government from banking institution SubS elections is estimated to be $9.2 billion in lost revenue since 1997.

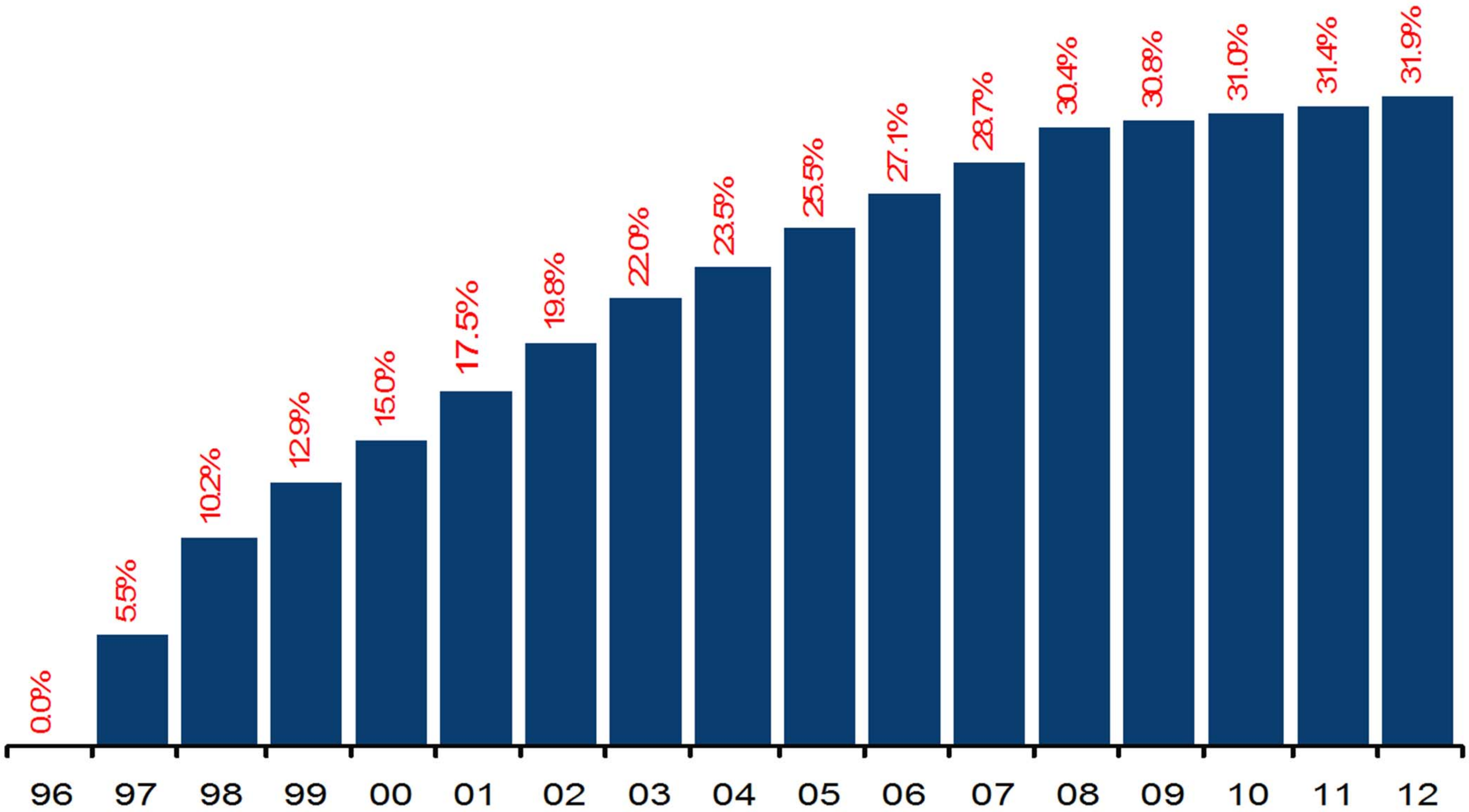
Bankers neglect to discuss the revenue implications of their repeated (and successful) efforts to expand SubS status.

Bankers want state policymakers to believe that taxing state chartered credit unions raises state revenue. In fact recent experience shows it simply encourages state chartered credit unions to convert to federal charters. It also results in revenue losses because these converted institutions no longer pay state supervision fees.


Number of Subchapter S Banking Institutions
Year
98
00
02
04
06
08
10
12
604
1,068
1,323
1,481
1,682
1,854
2,019
2,139
2,251
2,356
2,446
2,489
2,467
2,401
2,311
2,259
Sub S banks report a total of $536 billion in total assets at year-end 2012!

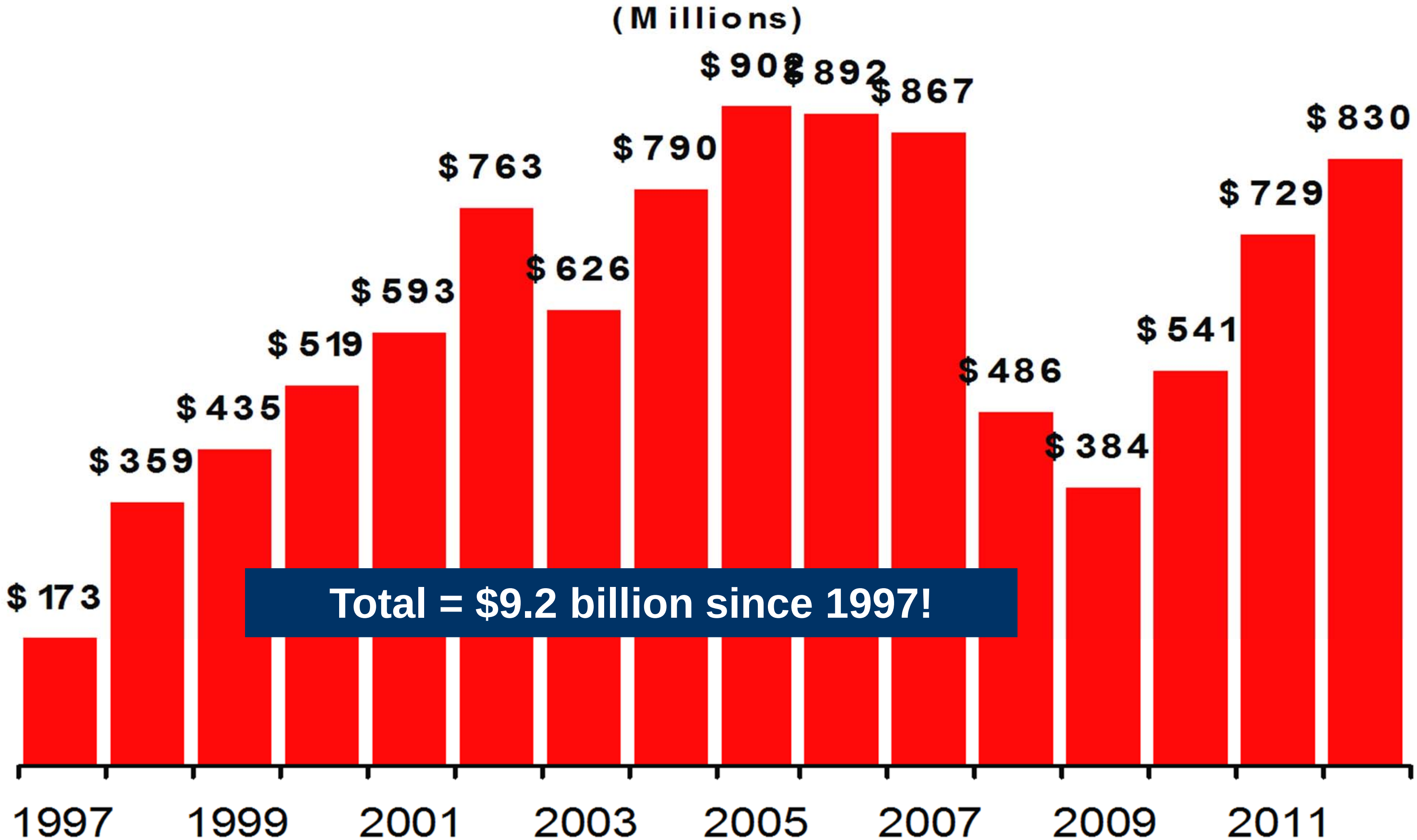
Source: FDIC.

Percent of U.S. Banking Institutions with SubS Status



Sour ce: FDIC.

Federal Tax Revenue Losses Due to Banking SubS Election



Source: FDIC & CUNA E&S.

Bankers claim credit union member business lending is “exploding”

But the 11th annual ABA Competitiveness Survey revealed that only 1.9% of bankers view credit unions as chief competitors in business lending (March 2007 *ABA Banking Journal*).

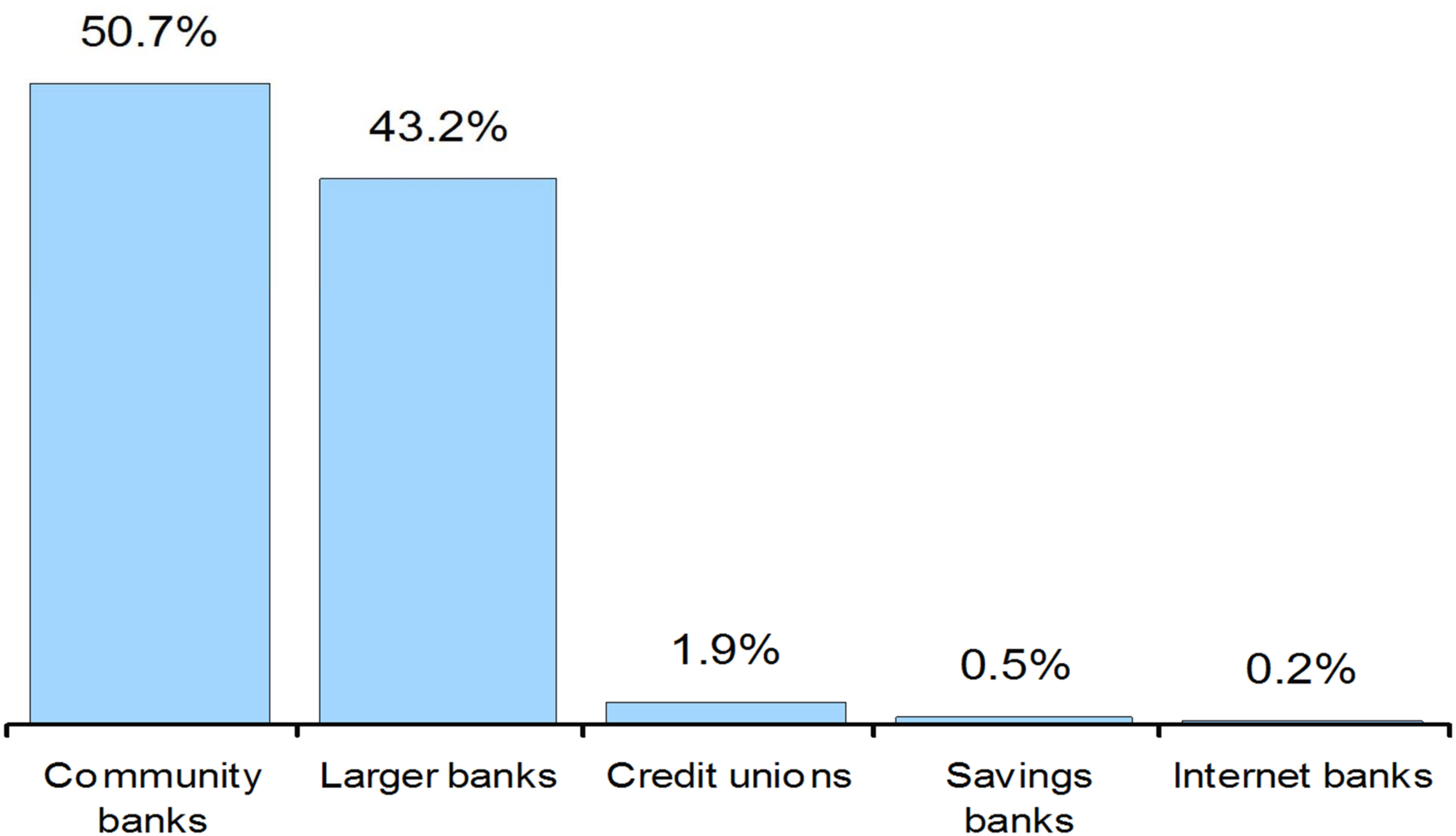
In all, 33% of credit unions offer business loans and business loans account for only 7% of total credit union loans – even though credit unions have been making business loans since their inception in 1908.

The average size of credit union member business loans at year-end 2012 was $219,000. Additionally, the last Treasury Department study of credit union business lending found that 59% of credit union loans made for business purposes were loans of $50,000 or less.

Credit unions control a 1.2% market share of depository institution business loans and a 6.2% market share of depository institution small business loans at the end of 2012.

Banker "Leading Business Lending Competition"

(Source: ABA Banking Journal 2007 Competitiveness Survey)

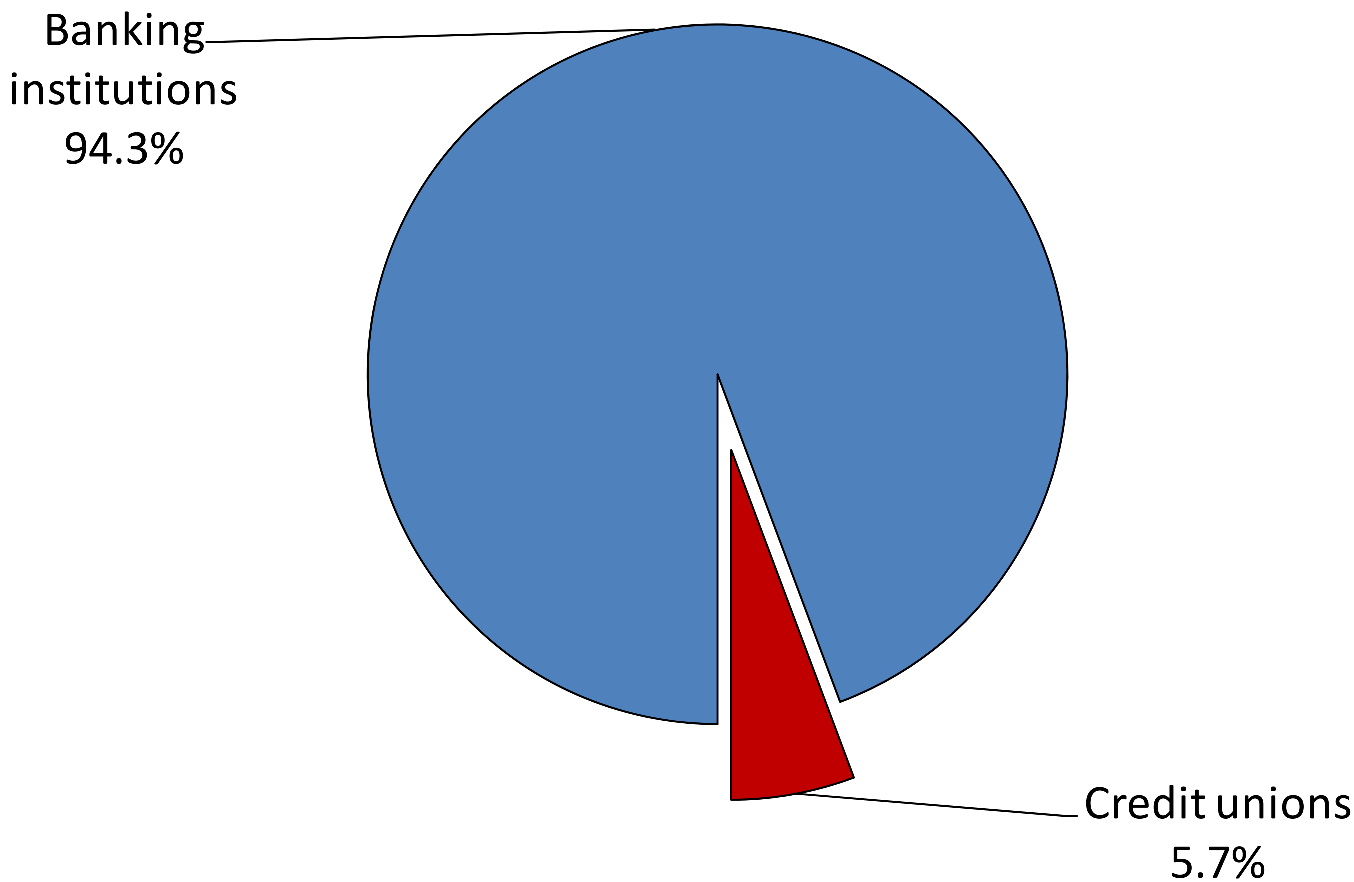


Commercial Bank Market Share of Total Business Loans

Among U.S. Depositories

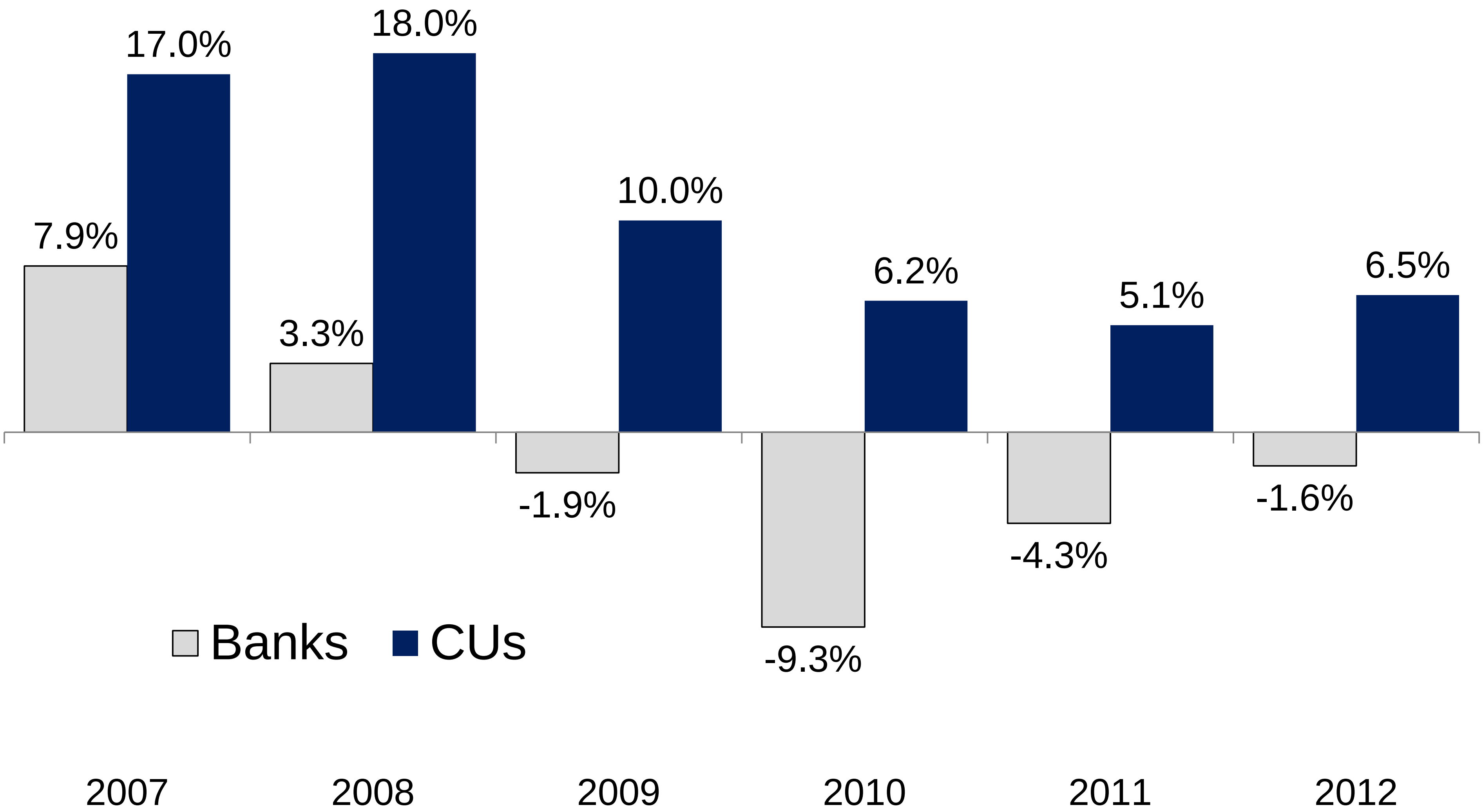
December 2011

Source: FDIC, NCUA, CUNA



Small Business Loan Growth

Since Start of Downturn



Banker Disconnect

Should CUs be Permitted to Expand Small Business Lending? Bank Trade Groups Tell Policymakers “NO!” – but Their Members Seem to Think Otherwise

Source: American Banker website – April 2012