



MARCH 15, 2009

Safe Havens: Credit Unions Earn Some Interest

By [JONNELLE MARTE](#)

Cash isn't exactly flowing like it used to. The stock market can't find a bottom. Big banks have become wards of the government while smaller banks are failing at a rate of about one a week. Savers worry about the institutions where their cash is parked, while people who need to borrow scramble to find willing lenders.

Buffeted in every direction by the continuing financial Katrina, more and more savers and borrowers are finding a safe harbor in the sleepest, most unexciting corner of the financial world: credit unions. Often, it's right in their office, maybe a couple of floors down or at the end of the hall.

Long a haven for cash-strapped workers, car buyers and Christmas-club savers, the nation's 8,000 credit unions are gaining new stature as reliable sources of lending in the tempest-tossed credit market.

Seeking Savers and Borrowers

They've also wooed consumers by offering a win-win combination of generally higher interest rates for savings accounts and lower rates for loans, when compared to most banks.

Typical spreads: Right now, a one-year certificate of deposit at a credit union pays about 2.29% versus 1.74% at a commercial bank, according to Datatrac, a financial research firm that analyzes interest rates for banks and credit unions. A home-equity line of credit at a credit union charges an average of 4.41% compared to 4.77% for banks -- but banks charge slightly less for a 30-year fixed-rate mortgage with a 5.33% rate, compared with the 5.39% charged by credit unions.

Membership in credit unions rose to almost 90 million in 2008, from 85 million in 2004. And the loans on their books topped \$575 billion in 2008, up from \$539 billion in 2007. By comparison, 8,300 U.S. banks saw loans outstanding decrease \$31 billion last year, to \$7.876 trillion from \$7.907 trillion in 2007.

Stephen Birkelbach joined the Community First Credit Union in Jacksonville, Fla., three years ago when he was shopping for a car. "Community First not only had the best rate," says Mr. Birkelbach, who at the time transferred over the accounts of his local carpet-cleaning business. "I was so impressed with the customer service and the up-front attitude I moved everything over to them."

Mr. Birkelbach financed a truck with the credit union a year later. Then he refinanced his mortgage in January. He says he couldn't find another financial institution that would match the 4.25% interest rate he got at his credit union.

Like the rest of the financial universe, credit unions can't help feeling pinched, but they've maintained stability and -- so far -- aren't being propped up with federal money. (Although there is a plan to support 28 special "corporate" or "wholesale" credit unions that provide financing and other services to smaller "retail" credit unions.)

Only two retail credit unions have closed so far this year. Of the 15 credit unions that were liquidated in 2008, nine were due to real-estate problems, according to the National Credit Union Administration, the government agency that regulates federally insured credit unions.

"At this point the [credit union] industry is solid," says Karen Dorway, president and director of research for BauerFinancial, a firm that analyzes banks and credit unions.

Credit unions have largely avoided the banking world's turmoil by sticking to their plain-vanilla business model: taking in deposits from owner-members and lending the money back out to them. And they're writing more loan checks than they have in years -- still mainly for home and auto loans, but for more business loans, too.

"Credit unions have not changed their standards so if you could get a loan five years ago, you can get a similar loan today," says Daniel Penrod, industry analyst for the California and Nevada Credit Union Leagues.

Loan Activity on the Rise

Loan growth has been robust -- especially with first mortgages and used-auto loans. Last year's 7% growth in loans at credit unions was higher than the 2% growth seen in previous recessions, says Mike Schenk, senior economist for the Credit Union National Association, the industry trade association.

"We've been able to stay in the game," he says.

But that doesn't mean credit unions are immune to the troubled economy. Loan delinquencies are up -- especially in housing-bust areas of Nevada, California, Arizona and Florida -- but they are still far from the levels seen at most banks.

Nationwide, loan delinquencies for credit unions hit an estimated 1.45% in January, double the 0.68% rate from 2006, but less than half the 2.93% national delinquency rate for banks.

Here are few more things you may want to know:

Joining: Credit unions require members to have something in common, such as a neighborhood, school, workplace or church. Larger credit unions offer a full menu of banking services, from checking accounts to mortgages. Smaller credit unions may have more limited services. Most credit unions will let you open a savings account with just \$25; but only members can take out loans. **Use the online finder at www.FindaCreditUnion.com.**

Deposit Insurance: The National Credit Union Administration is the federal agency that regulates federally insured credit unions, which include all federal credit unions and most state credit unions. The federal insurance is through the National Credit Union Share Insurance Fund and the insurance limits are the same as at banks. As at banks, coverage is higher if the money is in different types of accounts, such as a regular share account and an individual retirement account.

Do some research: Compare credit unions and banks in your area by reviewing ratings at Bankrate.com/brm/safesound/ss_home.asp and Bauerfinancial.com/btc_ratings.asp. BankRate's reports are free but Bauer charges, with prices starting at \$10. Both rate banks and credit unions by looking at qualities like capital ratio, loan delinquency and liquidity.