

Commercial Banks And Credit Unions

Facts, Fallacies, and Recent Trends

Year-End 2007

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Bankers claim that credit unions are getting too big

- At year-end 2007 banking institutions held nearly seventeen times more assets than credit unions (\$13.0 trillion vs. \$770 billion). Each of the nation's four largest banking entities are larger than the entire credit union movement.
- The average banking institution is over sixteen times larger than the average credit union (\$1.53 billion vs. \$93 million in assets).
- At year-end 2007 one-half of all U.S. credit unions had less than \$13 million in assets. Overall, 1.7% of banking institutions are this small.
- Nearly two-thirds (60%) of banking institutions had \$100 million or more in total assets at year-end 2007. Just 15% of credit unions are this large.

Banking Institution and Credit Union Size Comparisons

Year-End 2007

	Banking Institutions	Credit Unions
Total industry assets Citigroup (largest banking entity)	\$13.0 trillion \$2.2 trillion	\$770 billion
Average asset size	\$1.53 billion	\$93 million
% of institutions with \$13 million or less in assets	1.7%	50%
% of institutions with \$100 million or more in assets	60%	15%

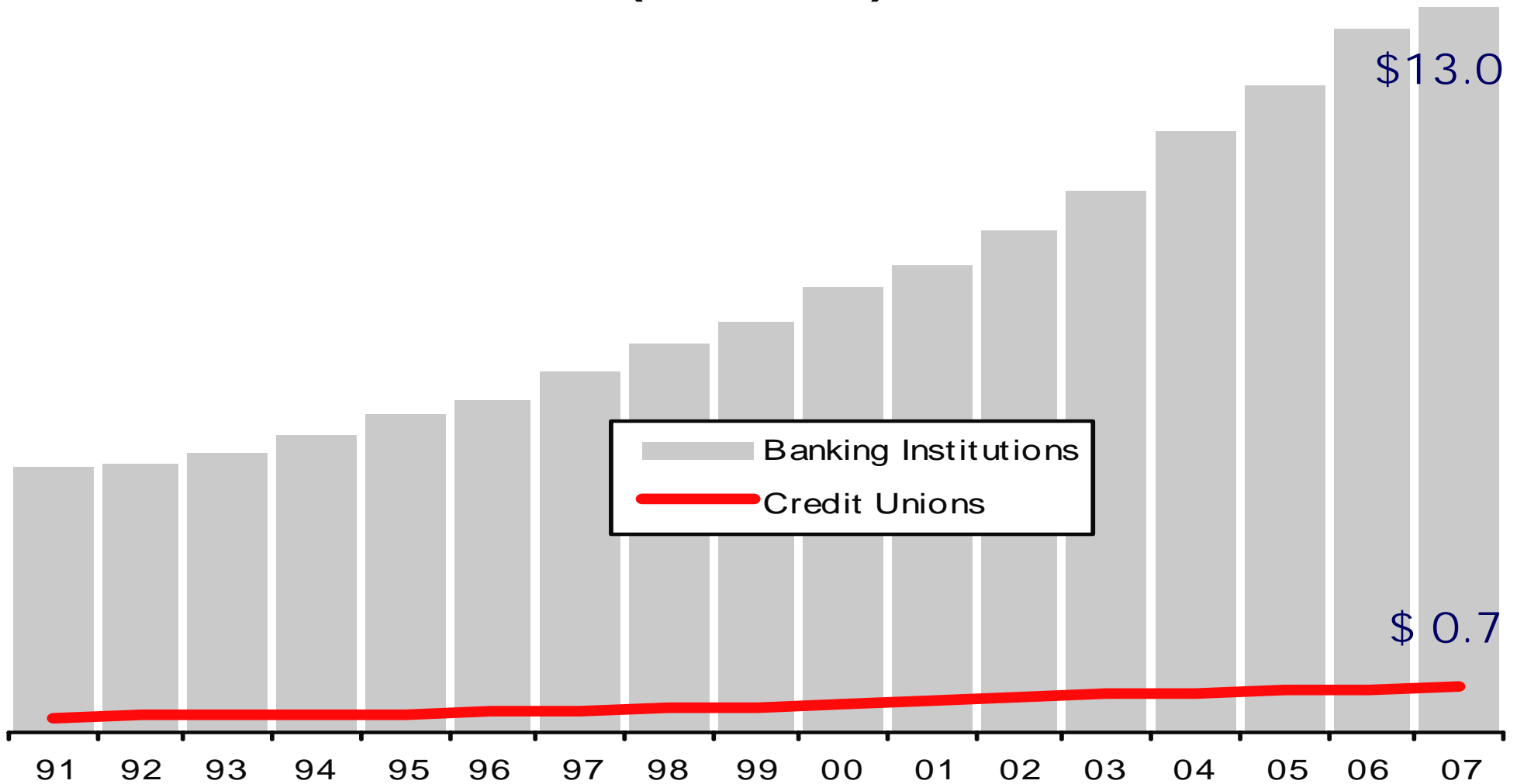
Source: FDIC, NCUA, CUNA.

Bankers claim credit unions are “empire builders”

- The first U.S. CU was established on November 24, 1908.
- Assets in all U.S. CUs grew to \$770 billion by year-end 2007.
- In other words it took 99 years of growth for the credit union movement to grow to \$770 billion in assets. In contrast, U.S. banking institutions grew by \$1.2 TRILLION in 2007 alone!

Total Assets

Credit Union and Banking Institutions (Trillions)

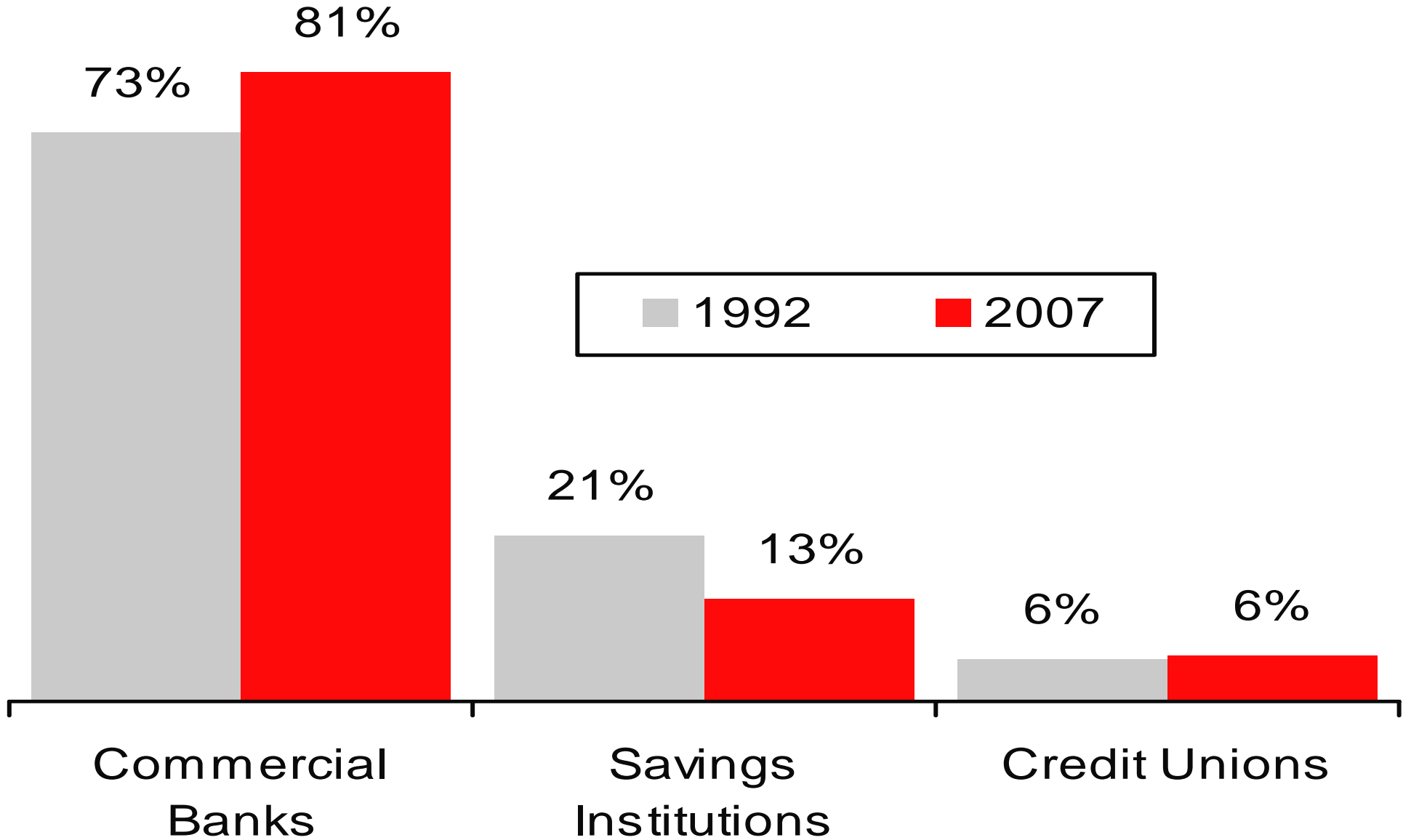


Source: NCUA, FDIC.

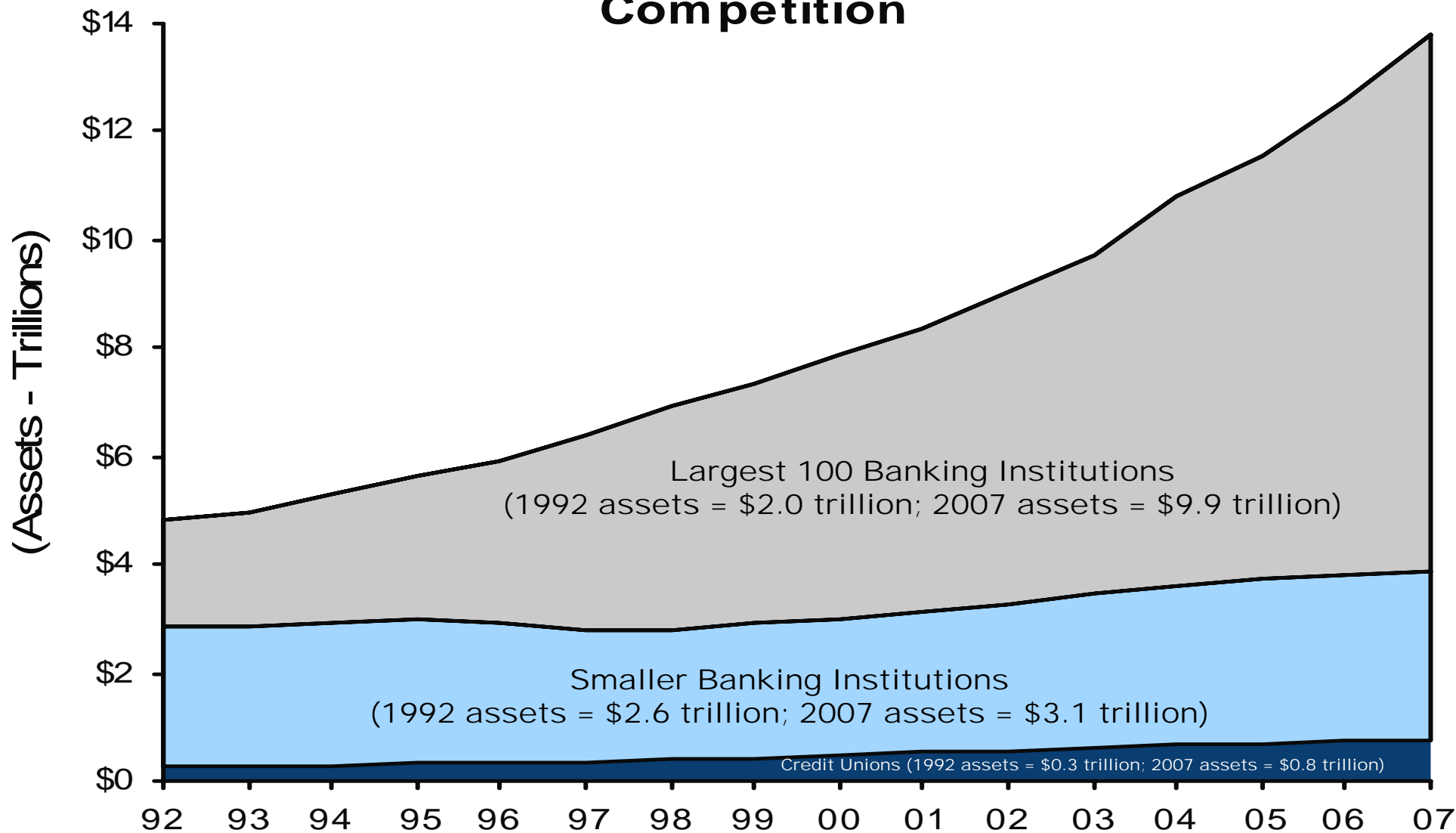
Bankers claim credit unions are making “huge” market share gains

- Credit union market share of financial institution assets has not changed in 15 years. Credit union market share was 6% in 1992 and remained 6% at year-end 2007.
- In contrast, commercial bank market share started 1992 at 73% but now stands at 81% of total financial institution assets.
- In other words, as the S&L industry shrank, bank market share increased by six percentage points whereas credit union share was unchanged.
- 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.”

U.S. Depository Market Shares (Percent of Total Assets)



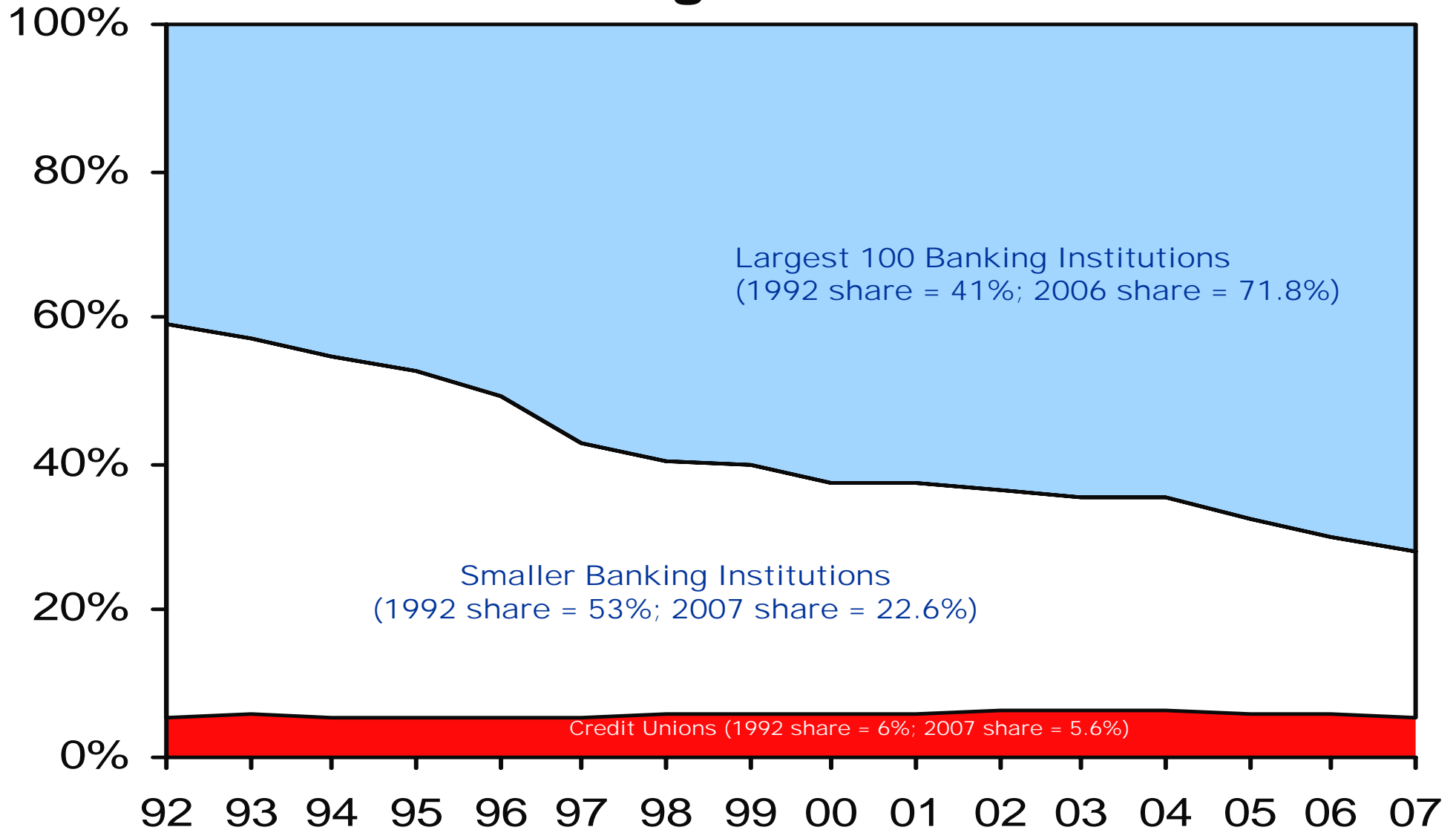
Small Banks Have More to Fear From Fast-Growing Mega-Banks Than From Credit Union Competition



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.

The Increasing Dominance of Multi-State Mega-Banks



Sources: FDIC, NCUA, CUNA E&S. "Banking Institutions" include commercial banks and savings & loans.

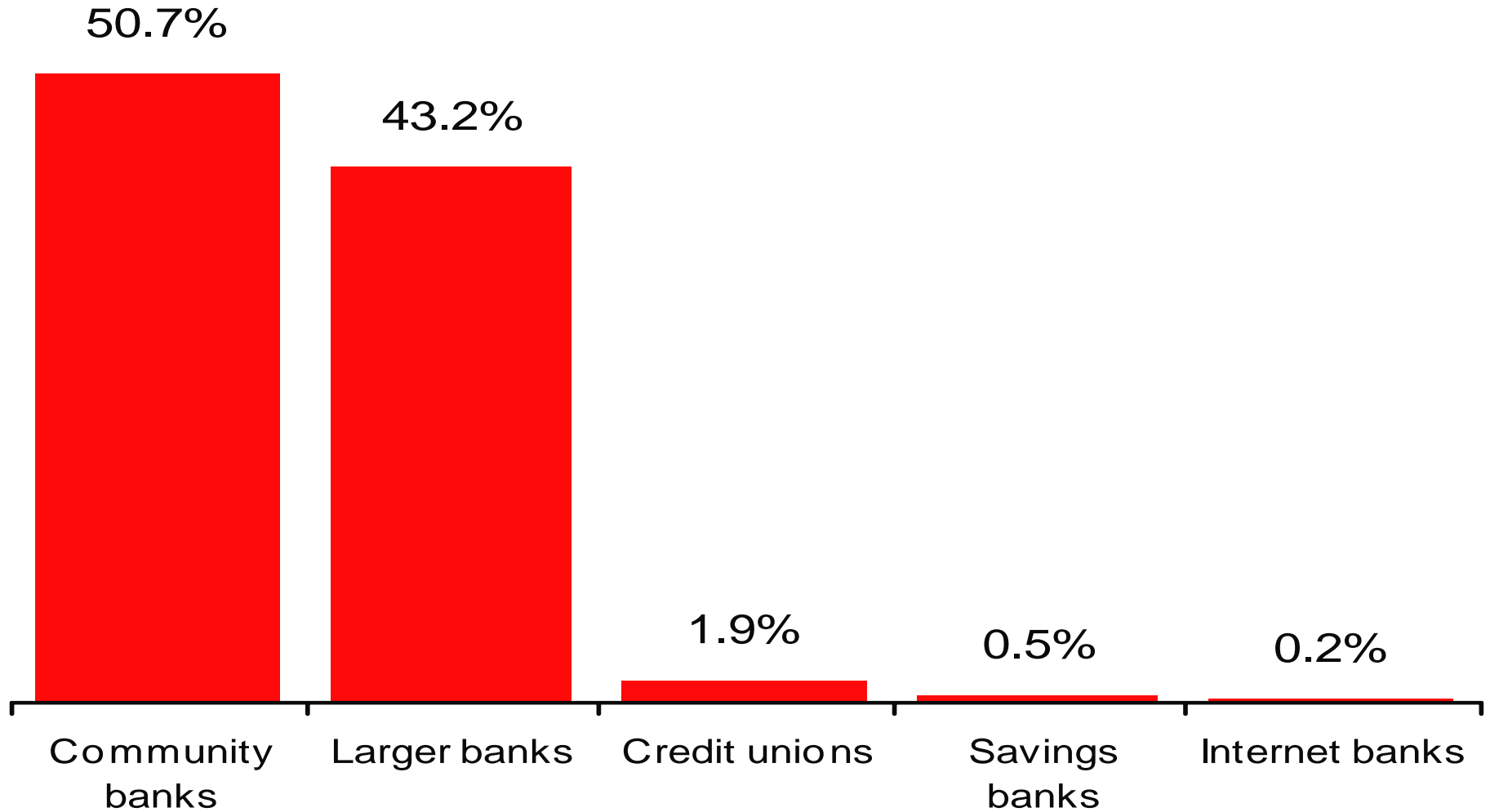
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Bankers claim that credit union member business lending is “exploding”

- But the 11th annual ABA Competitiveness Survey reveals that only 1.9% of bankers view credit unions as chief competitors in business lending (March 2007 *ABA Banking Journal*).
- In all, less than one-in-five credit unions offer business loans and business loans account for just 5% of total credit union loans – even though credit unions have been making business loans since their inception in 1908.
- According to the NCUA the average size of credit union member business loans at year-end 2007 was roughly \$200,000. 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 union market share of depository institution commercial loans remains at less than 1% at year-end 2007.

Banker "Leading Business Lending Competition"

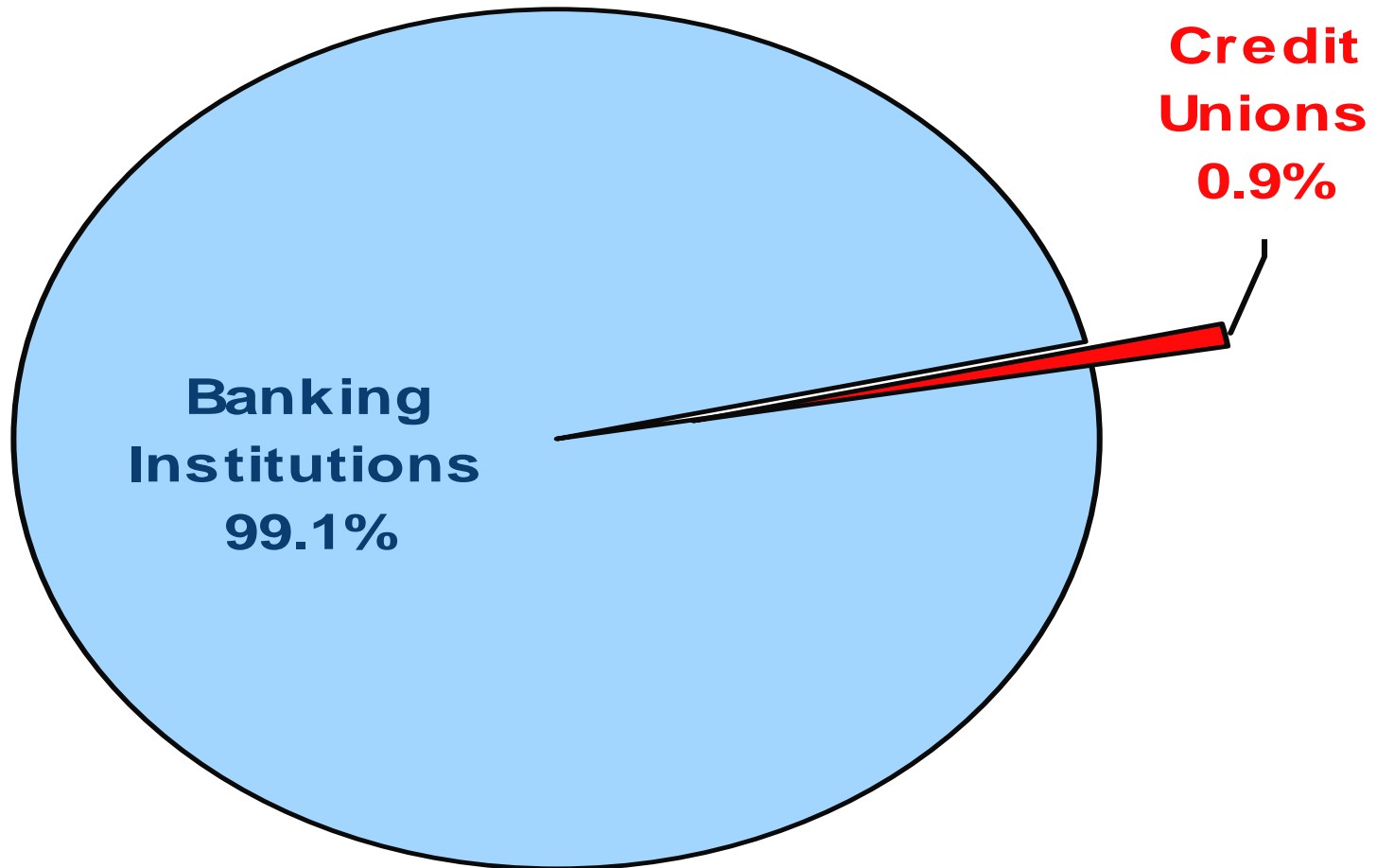
(Source: ABA Banking Journal 2007 Competitiveness Survey)



Commercial Loan Market Share

At U.S. Depositories

Year-End 2007



Bankers claim credit unions make it difficult for them to compete

But most observers don't believe banker rhetoric - and rightly so:

“This decade has been the best in living memory for America’s commercial banks...banks have been growing fast around the world...but nowhere does the industry seem more triumphant than in the United States. Last year American banks declared a fifth straight year of record earnings. Their return on equity has been at a 60-year high. No bank has failed for almost two years, an all-time record.”

The Economist. Vol. 379 no. 8478. May 20th 2006. America’s Banking Boom.

Bankers claim credit unions make it difficult for them to compete

- The dollar amount of bank profits have increased in sixteen of the past eighteen years.
- Commercial bank profits as a percent of average assets (ROA) have been above 1% in fourteen of the past sixteen years. The 0.95% level of ROA commercial banks recorded in 2007 remains high despite the losses recorded from bank participation in the sub-prime loan mess.
- Small commercial banks (those with less than \$100 million in assets) recorded a healthy ROA of 0.82% in 2007. This is a bit lower than the earnings rate recorded by larger banks, but higher than 0.75% credit union earnings rate in 2007.

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.”

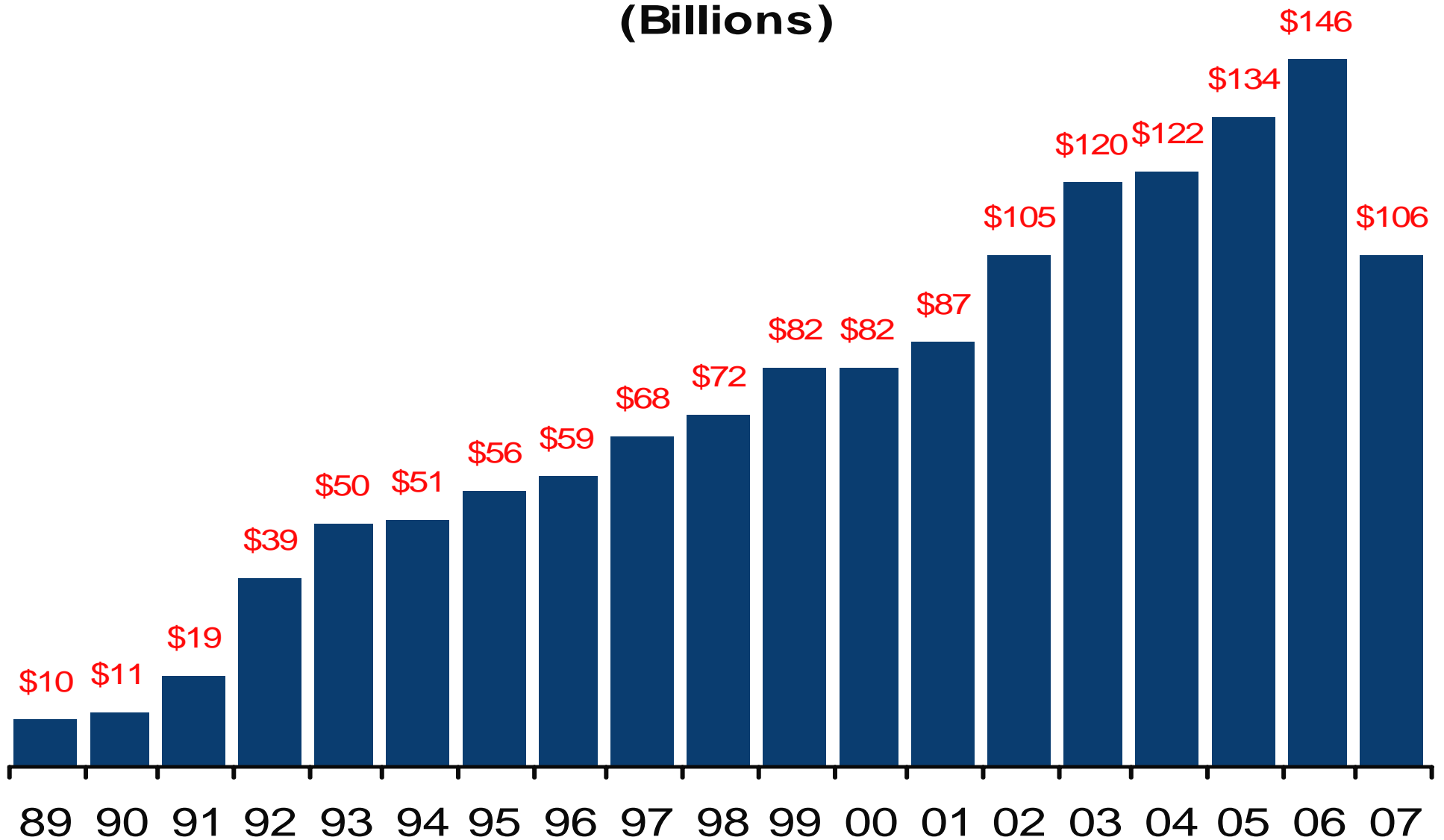
- In a more recent publication, “**What Drives the Persistent Competitiveness of Small Banks**” (A Federal Reserve Economic Discussion Series paper published in May, 2002) Bassett and Brady further reveal that increased deposit account interest costs at small banks primarily reflect the higher rate of 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 bumper 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.

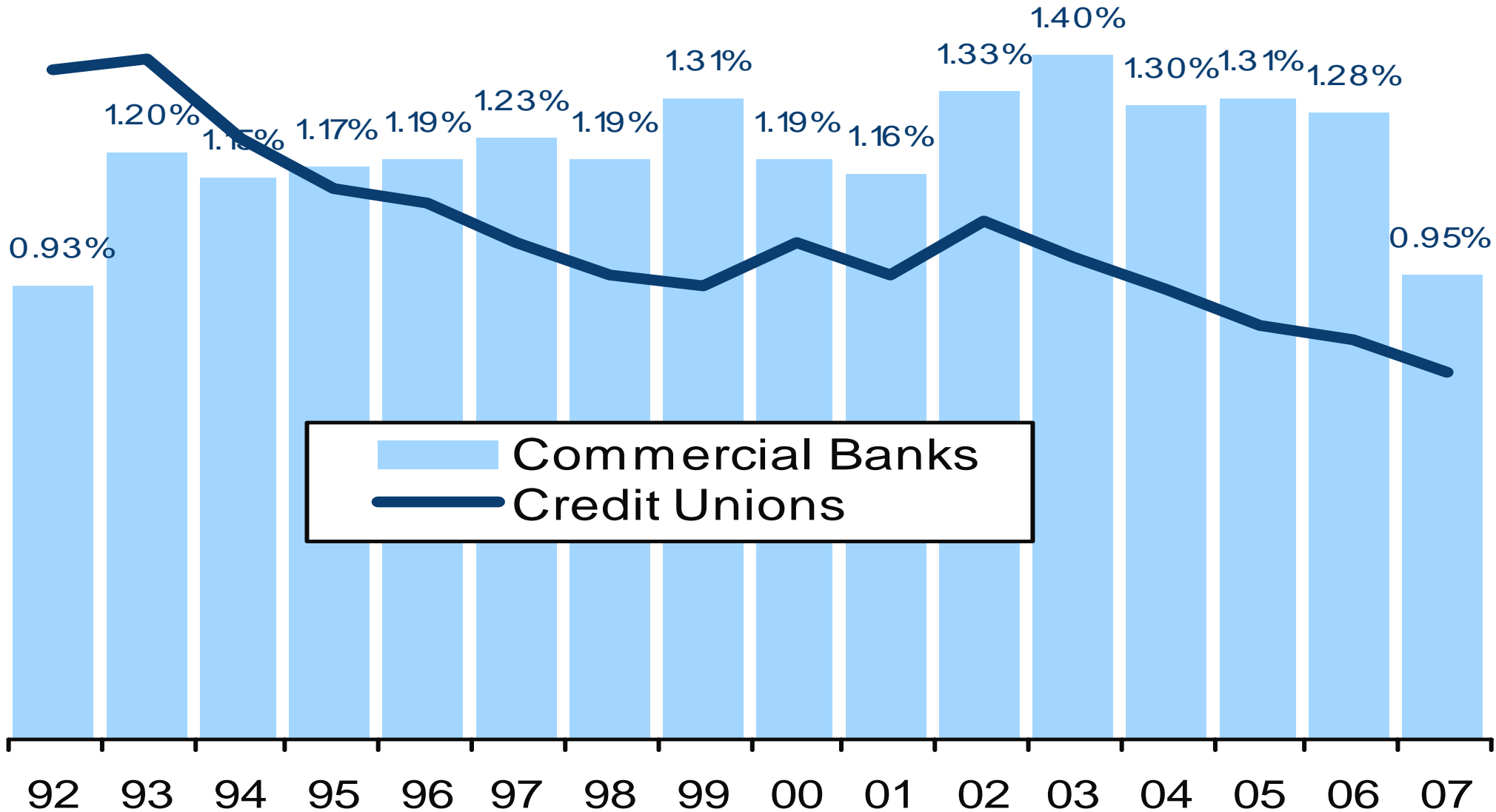
Banking Institution Profits

A Decline in '07 Due to Sub-Prime Losses
(Billions)



Commercial Bank High Profits

(Net Income as a % of Average Assets)

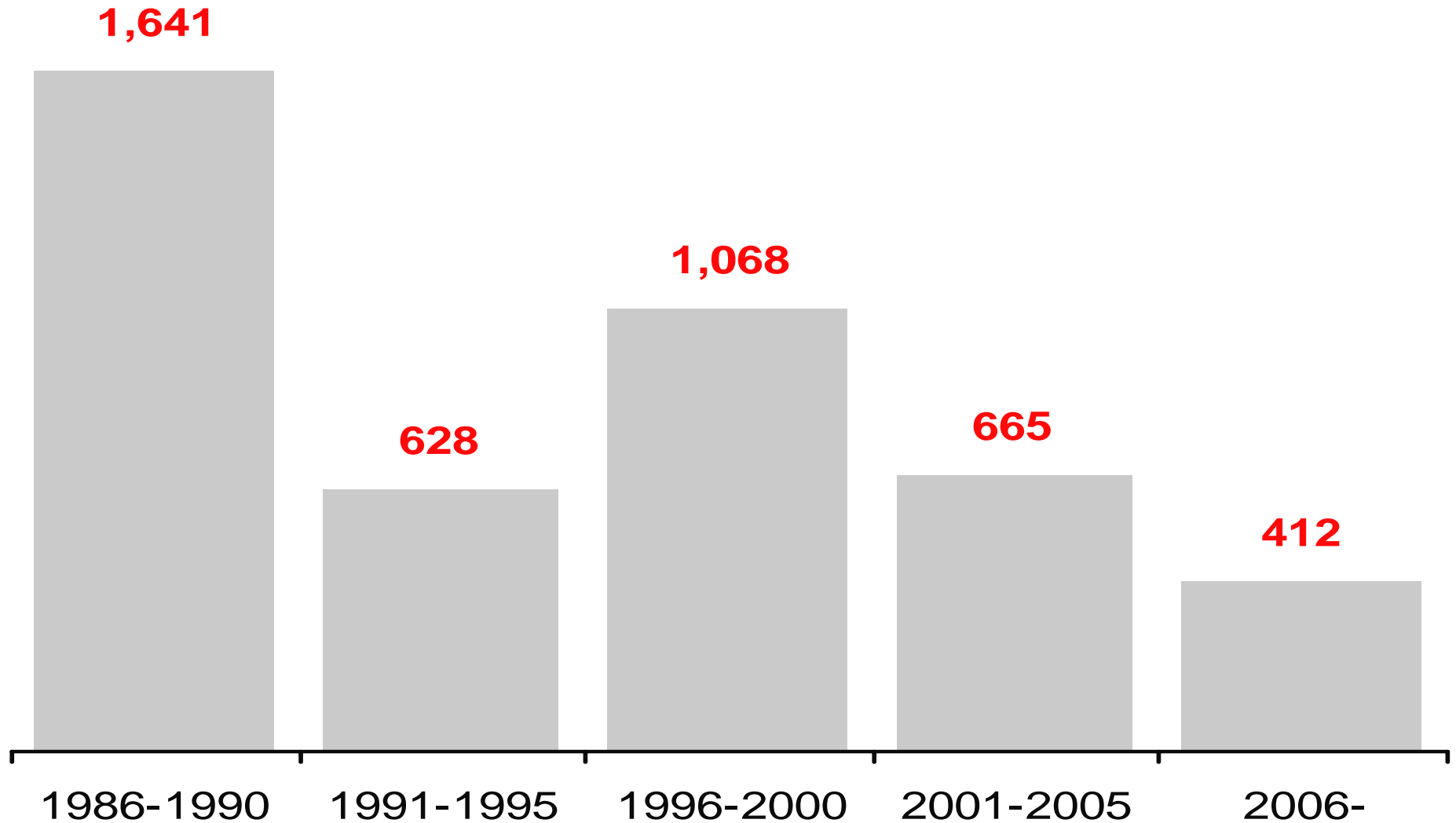


Bankers claim credit unions make it difficult for them to compete

- Since 1986, 4,414 new banking institutions have been chartered and 412 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 Banks/Thrift Charters

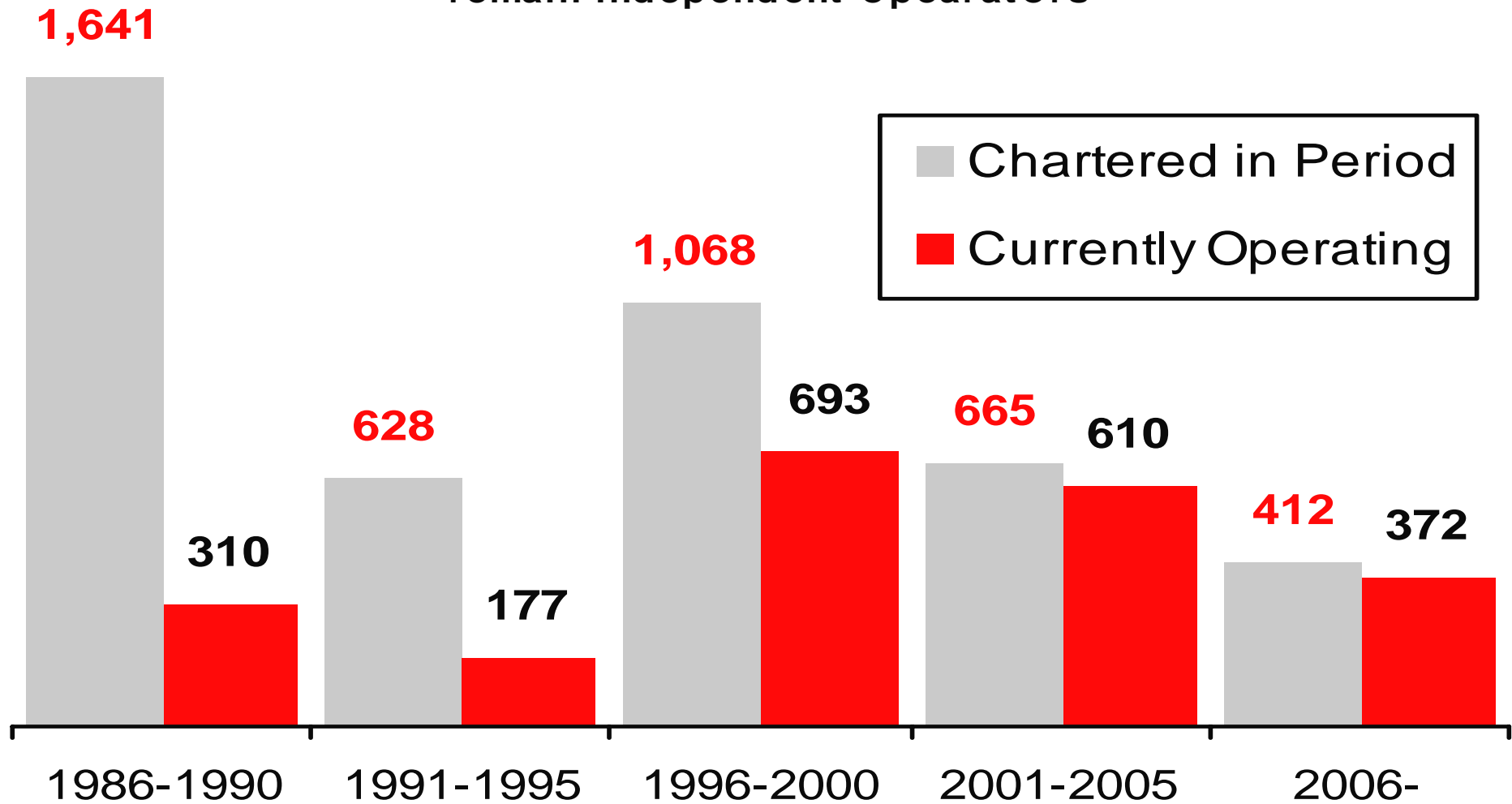
5-Yr Periods



Source: FDIC.

Newly Chartered Banks are Frequently Sold to Highest Bidders

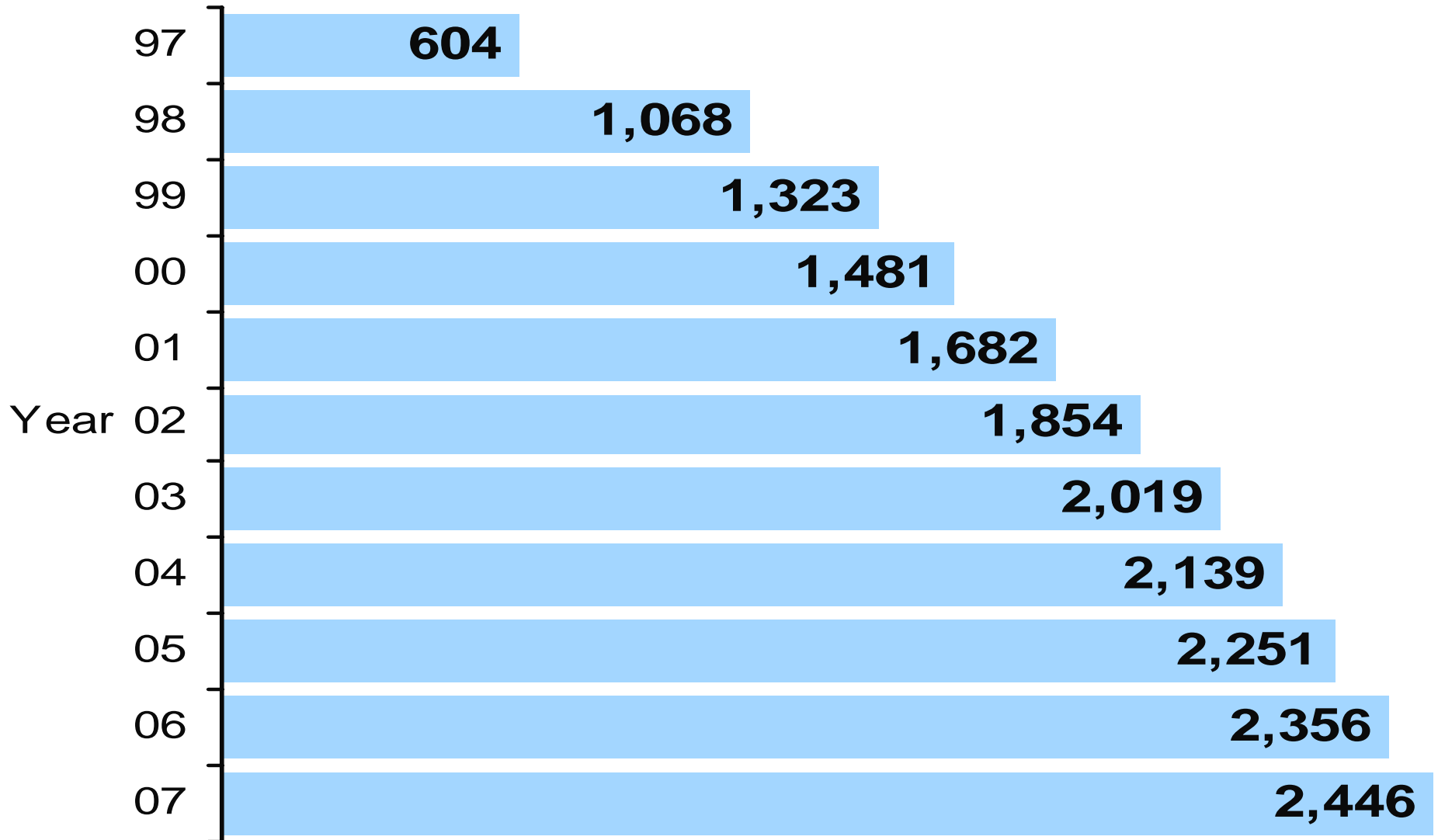
Only one-half of those chartered in the last 20 years remain independent operators



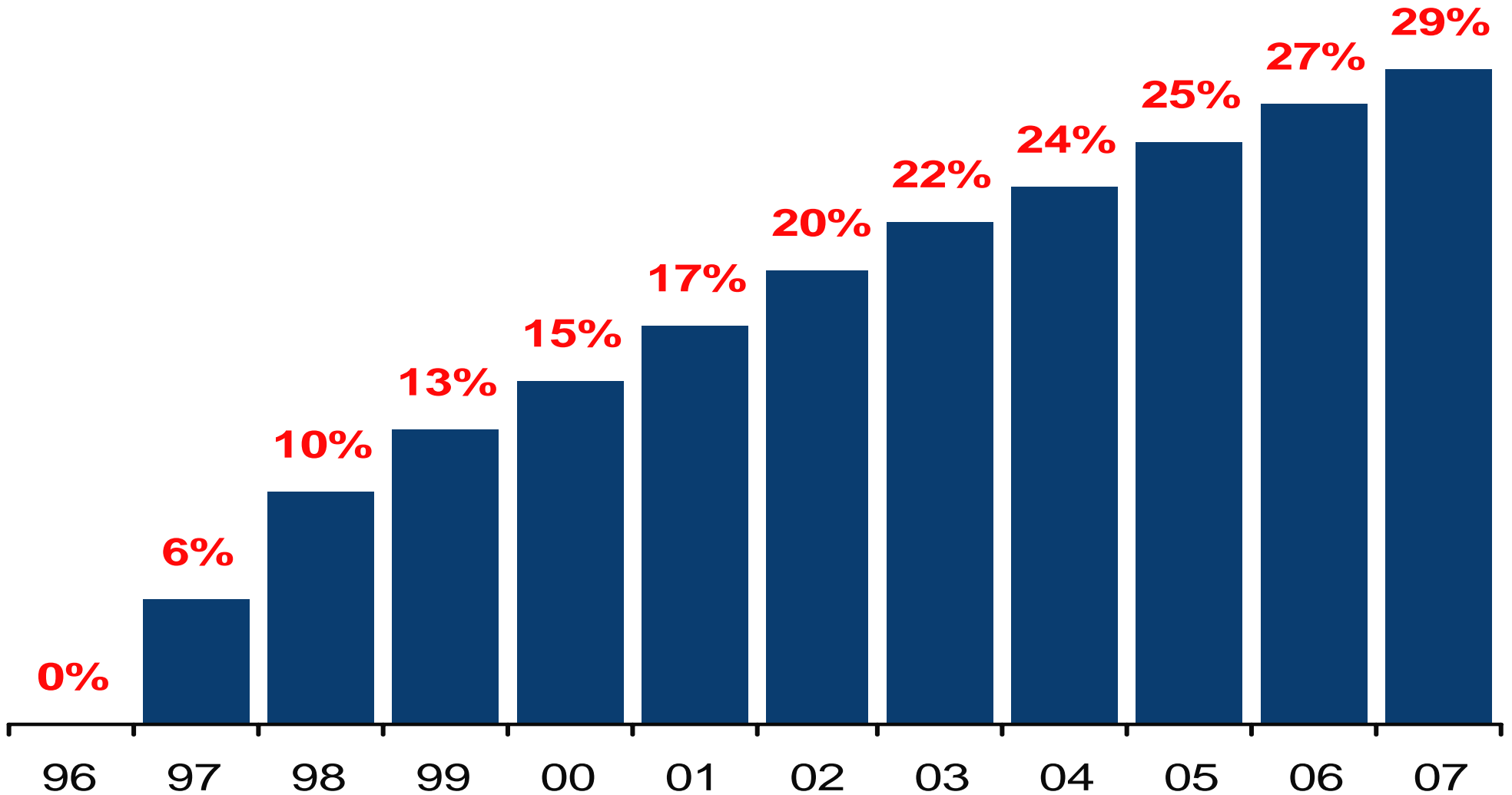
Bankers claim the credit union tax exemption hurts government budgets

- If bankers really cared about government budgets they wouldn't be chartering so many SubS institutions. In fact, nearly 2,500 of these institutions have been chartered since 1997. And bankers continue to try to expand SubS eligibility and/or eliminate all taxation of dividends.
- SubS status, intended to benefit small businesses, is now being used by 52 banks which individually have \$1 billion or more in assets. At year-end 2007, the largest SubS bank reported \$13 billion in total assets and the second-largest reported \$11 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 \$867 million in lost revenue in 2007 and \$7 billion in lost revenue since 1997.
- Bankers neglect to discuss the revenue implications of their repeated (and successful) efforts to expand SubS status. Those efforts continue to this day.
- 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



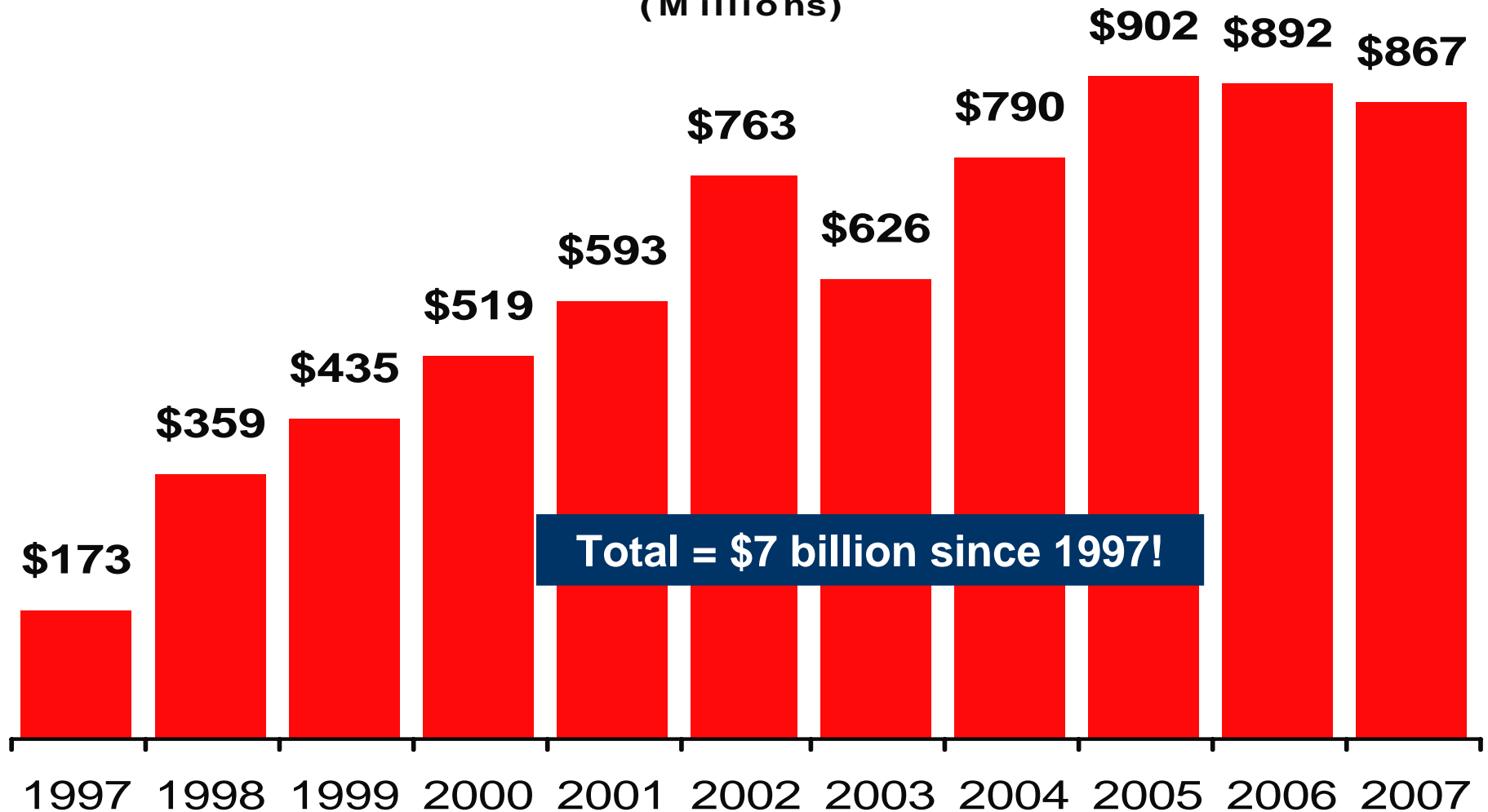
Percent of U.S. Banking Institutions with SubS Status



Source: FDIC.

Federal Tax Revenue Losses Due to Banking SubS Election

(Millions)



Bankers claim the 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 2007 benefit credit unions provide members totaled \$10.9 billion or \$240 per member household.

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 \$6 billion in 2007.

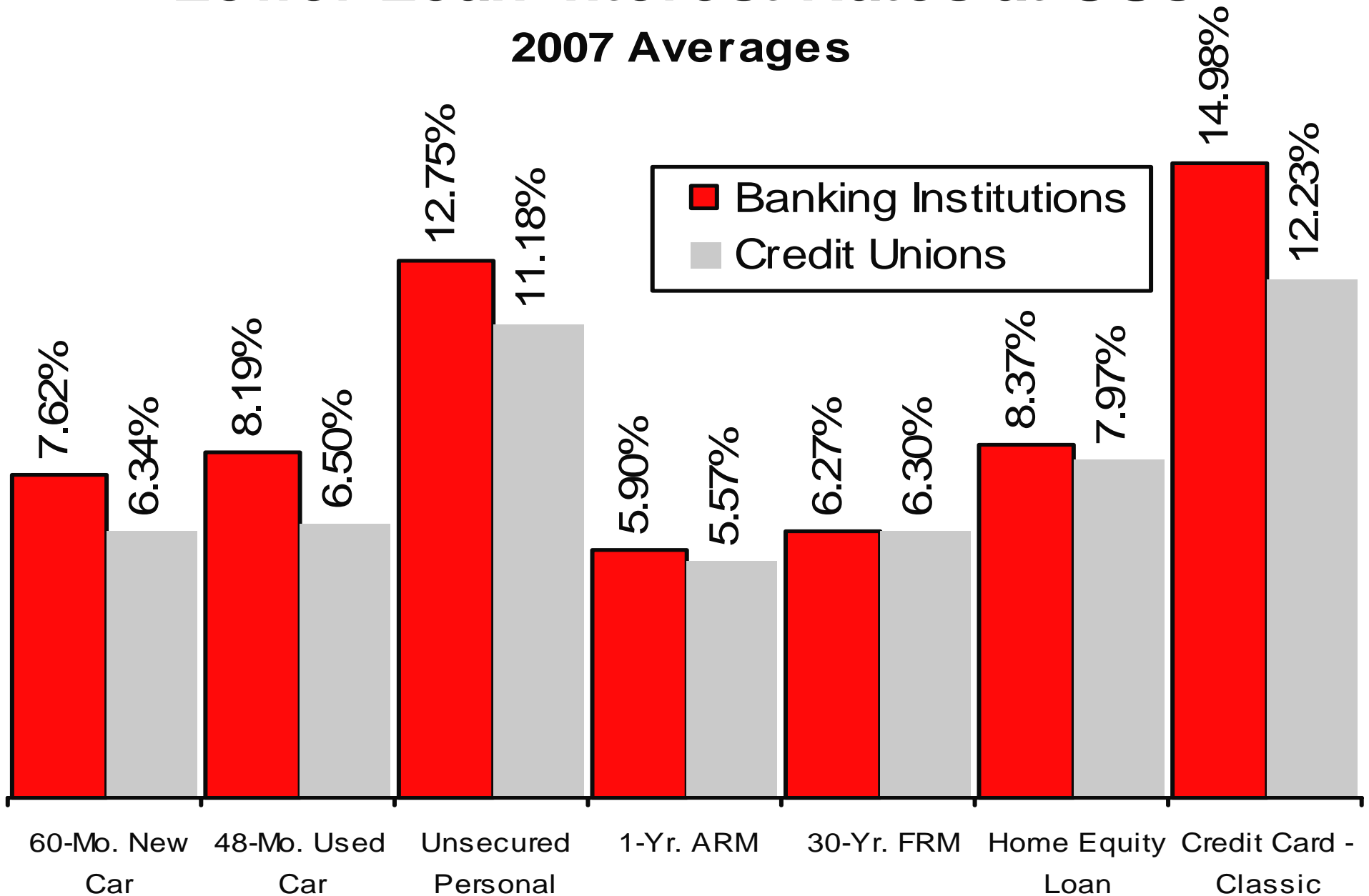
Details of these estimates are available on the CUNA web site here:

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

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

Lower Loan Interest Rates at CUs

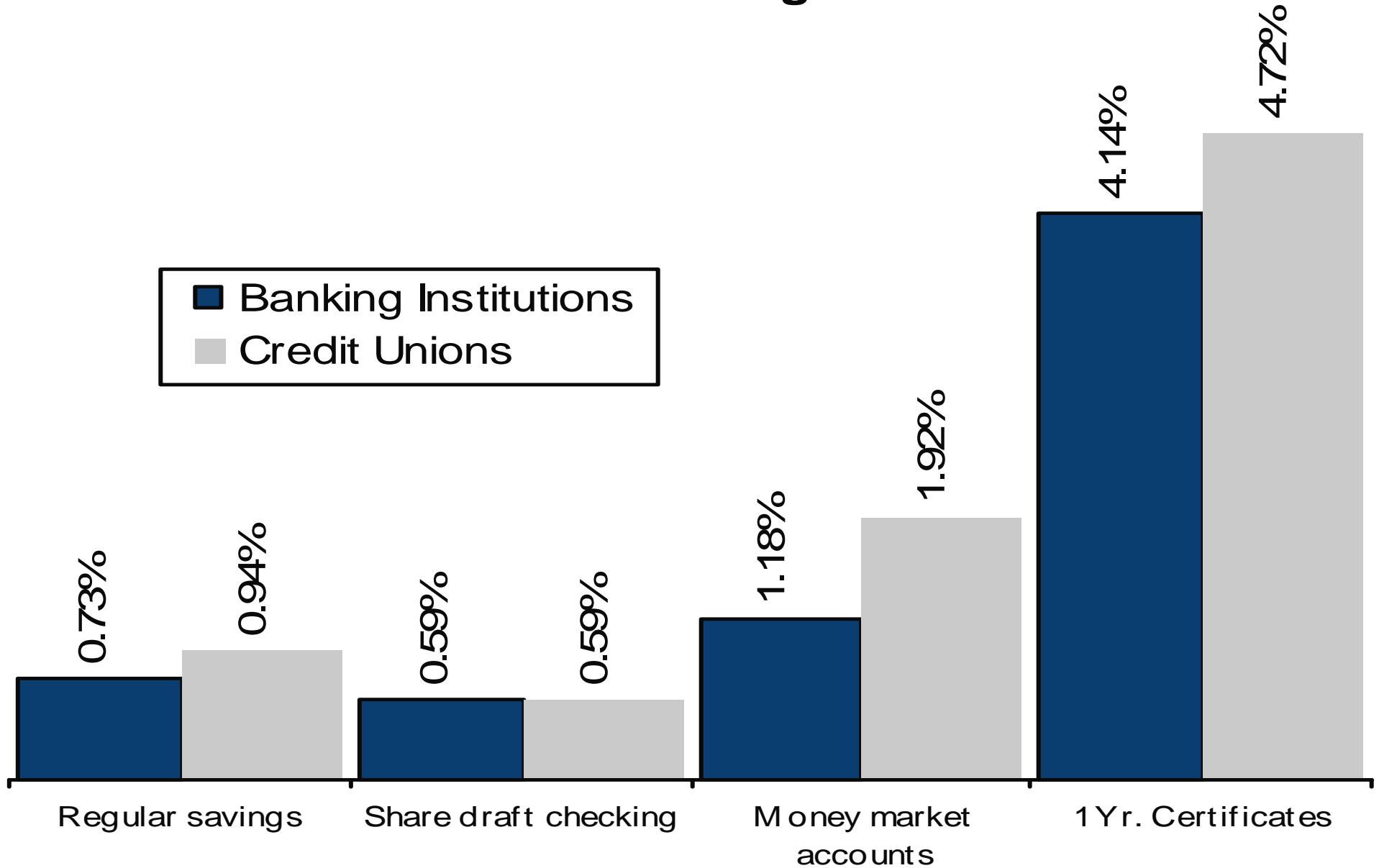
2007 Averages



Source: DataTrac

Higher CU Savings Account Yields

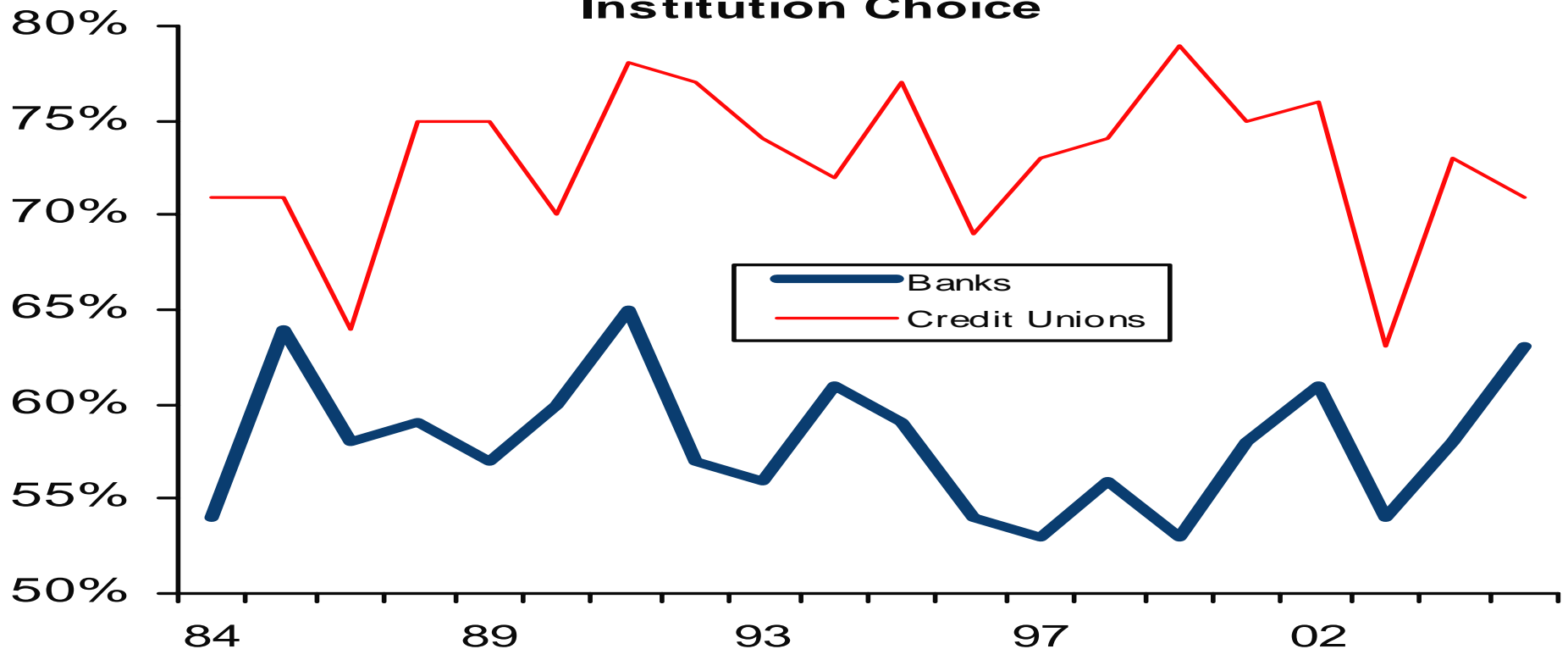
2007 Averages



Bankers claim the credit unions don't benefit their members

Credit union members believe that credit unions do a great job of providing the products and services they need. Indeed, credit unions have outpaced other financial institutions by a wide margin in every American Banker customer satisfaction survey since 1984.

CUs "Beat" Banks in Every Survey Since 1984!
Percentage of Customers "Very Satisfied" By Institution Choice

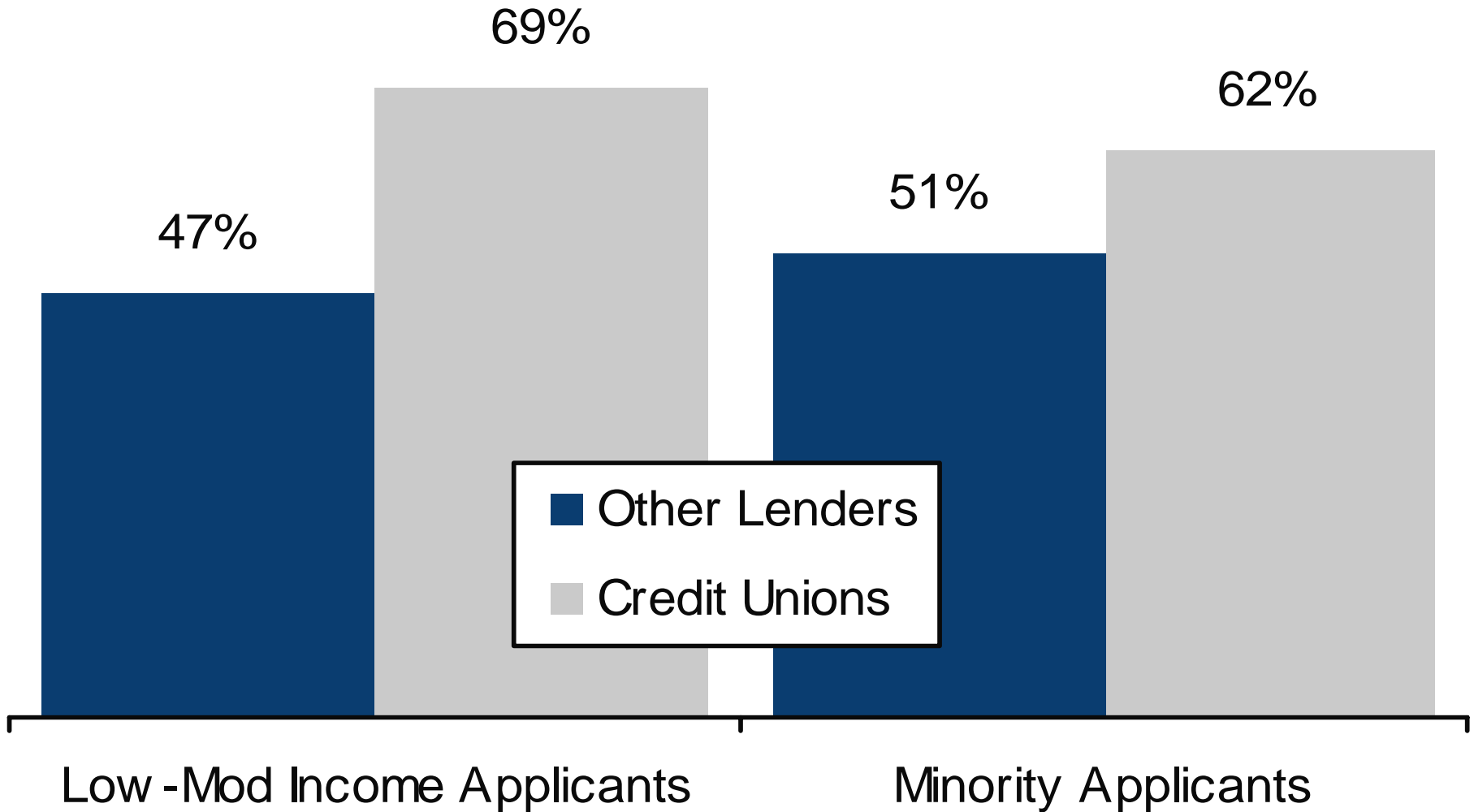


Bankers claim credit unions don't serve the "right" members

- 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.

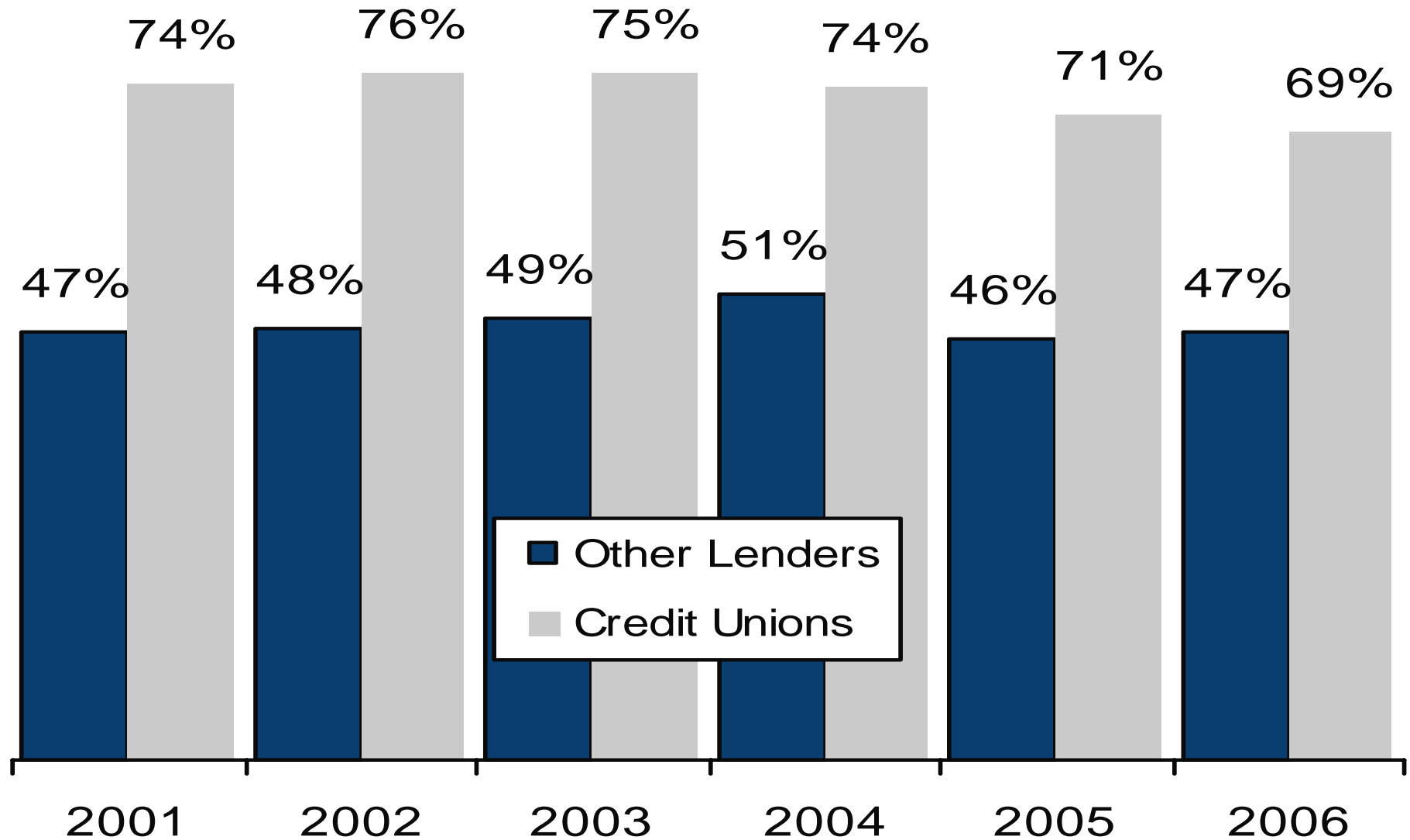
2006 Mortgage Approval Rates

(From HMDA Data)



Low/Mod-Income Mortgage Approval Rates

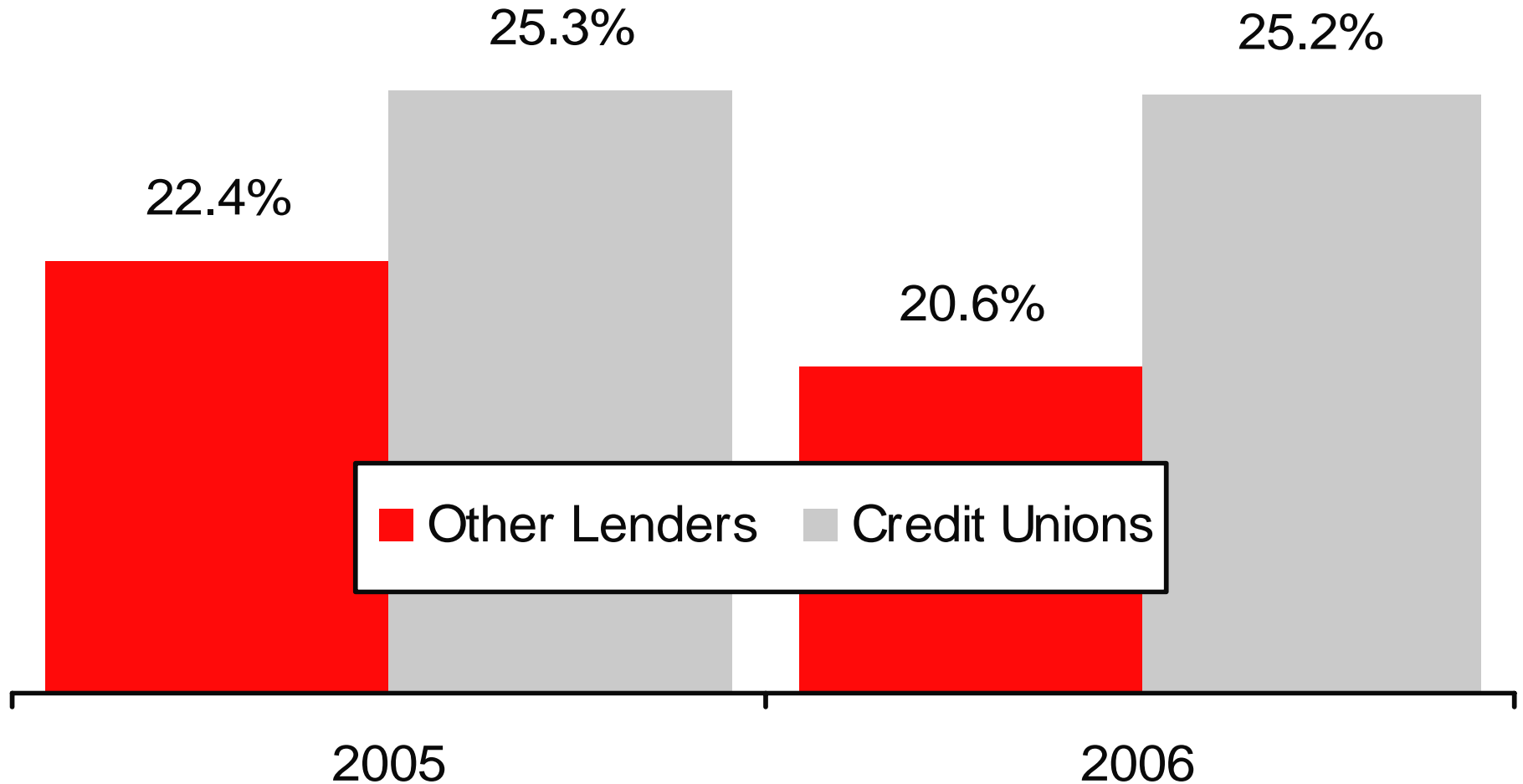
(From HMDA Data)



Source: FFIEC and CUNA.

Low-Mod Income Originations As a % of Total Originations

(From HMDA Data)



Source: FFIEC and CUNA.