

**Rhetoric and Reality:
An Analysis of Mainstream Credit Unions' Record of
Serving Low-Income People**

**By
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Executive Summary

This report examines the reality of credit unions' claim that they honor the mission stated in the Federal Credit Union Act to meet the savings and credit needs of "persons of modest means." The report also discusses why it is so important that credit unions fulfill this statutory responsibility and how they might do so more effectively in the future.

Access to checking and savings accounts and consumer or other small loans is taken for granted by most households in the U.S. However, a significant minority of households lacks these basic financial tools, and in some communities as much as half of the population lacks any retail banking accounts. Where these services are absent, families rely on expensive and often exploitative alternative services. Unbanked families face many obstacles that inhibit savings. The absence of regular retail bank accounts adds to low-income families' household costs. Checking accounts enable consumers to avoid high-cost fees for money orders, check cashing privileges, or money transfers at expensive "fringe banking" outlets. Lower-income households are much more likely to save if they have easy access to savings vehicles.

Credit unions came into existence in the United States in the early 1900s. The historic mission of credit unions that calls for serving people of modest means is reinforced by statutory intent and by the fact that credit unions are exempt from all federal and most state and local taxes. The federal tax exemption is significant and is estimated by the U.S. Office of Management and Budget to reach \$6 billion by 2003. Because of the tax break, credit unions are able to charge lower fees for basic services and offer higher interest rates on savings or share accounts.

The main issue that this report addresses is the degree to which credit unions provide these benefits to persons of modest means. The report analyzes data from surveys of roughly 3,000 respondents in the Chicago six-county metropolitan area. These data are the only detailed publicly available demographic data on credit union membership.

Major Findings

1. Credit unions in the six-county Chicago region serve much lower percentages of lower-income households than they do middle- and upper-income households.
2. Both banks and credit unions are much less likely to serve lower-income households with basic banking services than other income groups when other variables are controlled.

3. Similar percentages of African-Americans and whites are credit union members. After controlling for income, age, and education level, being African-American more than doubles the odds of a person having a credit union account. It also reduces his or her odds of having a bank account by more than one-half. The credit union finding is partly explained by the fact that African-Americans are “over-represented” in public sector jobs or other highly-unionized industries.
4. Belonging to a labor union almost doubles the odds of belonging to a credit union.
5. The larger the firm a person works in, the greater that person’s chance of being a credit union member.
6. Working in the retail sector greatly reduces the odds of being a credit union member.

Implications for Public Policy

This analysis indicates that low-income people are not adequately served by credit unions. Moreover, the National Credit Union Administration (NCUA) and the Credit Union National Association (CUNA) have recently made statements calling for credit unions to abandon their special mission of serving people of modest means. These trends are direct challenges to the historic notion that credit unions have a responsibility to reach out to lower-income people. (Some individual mainstream credit unions may reach out to low-income people. The data to describe those credit unions’ records are not yet available.) The current aggregate pattern of membership as detailed in this report and the recent statements by credit union leadership point to an abandonment of the potential for a unique institution to help meet the financial needs of people disconnected from the financial mainstream. These trends should not stand unchallenged.

Credit union members receive significant benefits in the form of higher interest payments for share accounts, lower rates on loans, and less expensive basic financial services. Those benefits are directly subsidized by federal and state tax exemptions. Restoring credit unions’ focus on their mission to serve lower-income people will not be easy, given the opinions of current credit union leadership and the fact that the movement has always been able to galvanize its membership to petition Congress around its agenda. The following recommendations are designed to begin to redress the balance and give credit unions the opportunity to re-think their priorities.

1. Congress should amend the Federal Credit Union Act to insert language that more clearly states credit unions’ mission and responsibility to serve low-income people. That amendment should include mandatory, publicly available data disclosure about whom

credit unions serve by income and race. These data should be broken down by product usage.

2. The National Credit Union Administration (NCUA) should use these data to conduct regular examinations of credit unions for compliance with the mandate to serve low-income people. Examinations should include appropriate incentives and sanctions. The credit union merger and examination processes should include opportunities for public comment about credit unions' record of serving low-income people.
3. The Community Reinvestment Act (CRA) should be amended to include credit unions. Credit unions without a community charter could be examined on how well they serve low-income people who qualify for membership or are potential members.
4. All credit unions that use the 1998 NCUA provision that permits healthy credit unions to expand into low-income communities should be regularly examined to determine how many low-income people they serve in those communities. A credit union's ability to continue to use this provision should depend on a clear record of actually serving low-income members.
5. All credit unions should develop and aggressively market products and services that are affordable and accessible to low-income people.
6. NCUA should carefully check the status of low-income designated credit unions (LICUs) to determine whether they are continuously fulfilling the criteria for low-income membership and service.
7. Large mainstream credit unions should support LICUs through investments or other means.
8. LICUs and mainstream credit unions should increase their efforts to enroll firms and associations with low-wage employees. The retail sector appears to offer a special opportunity for credit unions to recruit new members. Credit unions could also attract other low-income households by offering services such as affordable retail accounts, additional branches in low-income areas, direct deposit of Social Security and other transfer payments, and creative savings vehicles such as individual development accounts (IDAs).
9. Those mainstream credit unions whose active membership includes significant percentages of low-income people should encourage the rest of the industry to follow their example by publicizing their record and their strategies.
10. Community development organizations should develop relationships with credit unions that are similar to those that they have with banks in order to encourage credit unions to adopt more responsible and creative practices to serve low-income people.

Introduction

This report examines the reality of credit unions' claim to honor the mission in the Federal Credit Union Act that credit unions "make available to people of small means credit for provident purposes."¹ The report also discusses why it is important that credit unions fulfill this statutory responsibility and how they might do so more effectively in the future.

Americans are becoming increasingly responsible for their own personal financial futures as traditional financial supports undergo dramatic transformations or weaken. The change from defined benefit to defined contribution pension plans makes individuals increasingly responsible for their retirement. The end of permanent welfare guarantees and the historic decline in the percentage of unemployed workers who receive unemployment benefits also increase individuals' responsibility in moments of financial crisis.²

Low-income people are especially at risk from these trends as they have little or no financial cushion in hard times. And while in the several years prior to the current recession low-income people's wages were beginning to rise in real dollars, their real wages have been stagnant or declining from an historical perspective. Between the late-1970s and the mid-1990s, the real incomes of the poorest fifth of American families fell by 9 percent while the incomes of the top fifth rose 43 percent. Moreover, in that time period, the income gap between the wealthiest families and the poorest grew significantly in two-thirds of the states.³

There are many reasons for the precarious economic status of low-income people. By the same token, various strategies are needed to improve their economic condition. The primary issue, of course, is the level of income and benefits—particularly health and retirement benefits—that lower-income people receive. In addition, what lower-income people are able to do with their limited incomes and the financial tools that they have at their disposal will shape their financial futures.

The basic financial tools that households need are retail banking services. Access to checking and savings accounts and consumer or other small loans is taken for granted by many households in the U.S. However, a significant minority of households lacks even those basic tools, and in some communities as much as half of the population lacks any retail banking accounts. Where these services are absent, families rely on expensive and often exploitative alternative services such as check cashing outlets and payday loan stores where annual interest rates can exceed 500 percent.⁴

¹Federal Credit Union Act. June 26, 1934, 48 Stat. 1216 s.1751, as amended.

²McMurrer, D. and Chasanov, A. 1995. "Trends in Unemployment Insurance Benefits," *Monthly Labor Review*. September. pp. 31-32.

³Shapiro, I. and Greenstein, R. 1999. *The Widening Income Gulf*. Washington, DC: Center on Budget and Policy Priorities. p. 1. Also see Bernstien, J., McNichol, E., Mishel, L., and Zahradnik, R. 2000. *Pulling Apart: A State-by-State Analysis of Income Trends*. Washington, DC: Center on Budget and Policy Priorities. p. vii-ix.

⁴See Mullen, E., Bush, M., and Weinstein, S. 1997. *Reinvestment Alert 10: Currency Exchanges Add to Poverty Surcharge for Low-Income Residents*. Chicago, IL: Woodstock Institute. Also see Wiles, M. and Immergluck, D. 2000. *Reinvestment Alert 14: Unregulated*

Credit unions were first developed in Germany in the 1840s as cooperative associations that made loans to members. Credit unions came into existence in the United States in the early 1900s. They were partly modeled on credit unions in Quebec, called Caisses Populaires Desjardins. Alphonse Desjardins founded the first of these Canadian credit unions in 1900.⁵ Credit unions in the U.S. were initially chartered by the states, and in 1934, the Federal Credit Union Act (FCUA) was passed. The FCUA provided for both federally chartered and state chartered credit unions. The federal examination of credit unions began in 1934 and in 1970 federal responsibility for credit unions passed to the newly formed National Credit Union Administration (NCUA). About 42 percent of all credit unions in the country are state chartered, but more than 90 percent of them have federal deposit insurance from NCUA.⁶

The historic mission of credit unions that calls for serving people of modest means is reinforced by statutory intent and by the fact that credit unions are exempt from all federal and most state and local taxes. The federal objective described in the long title to the 1934 Act quoted above was reinforced in the 1998 amendment to the FCUA (HR 1151), which expanded field of membership rules for credit unions and expanded their ability to recruit new members. Section 2 of HR 1151 states:

*Credit unions, unlike many other participants in the financial services market, are exempt from federal and most state taxes because they 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** (authors' emphasis).⁷*

This federal tax exemption is significant. In 1997, it was estimated to be worth about \$1 billion, and the Office of Management and Budget expects that exemption to grow to almost \$6 billion by the year 2003.⁸ Because of the tax break, credit unions are generally able to charge lower fees for basic services and offer higher interest rates on savings or share accounts. They are also more likely than banks to give members informal financial advice. The main issue that this report addresses is the degree to which credit unions provide these benefits to *persons of*

Payday Lending Pulls Vulnerable Consumers Into Spiraling Debt. Chicago, IL: Woodstock Institute. Note that in 19 states, payday loans are illegal. Several states currently regulate the industry as well.

⁵For a description of Caisses Populaires Desjardins, see Bush, M. 2000. "The Regulation and Monitoring of Community Development Financial Institutions in North America," in *Regulating Micro-Finance: A Global Perspective*. Fisher, T., Bush, M. and Guene, C., eds. London: New Economics Foundation in conjunction with the International Association of Investors in the Social Economy (NAISE) and the Woodstock Institute.

⁶ www.ncua.gov.

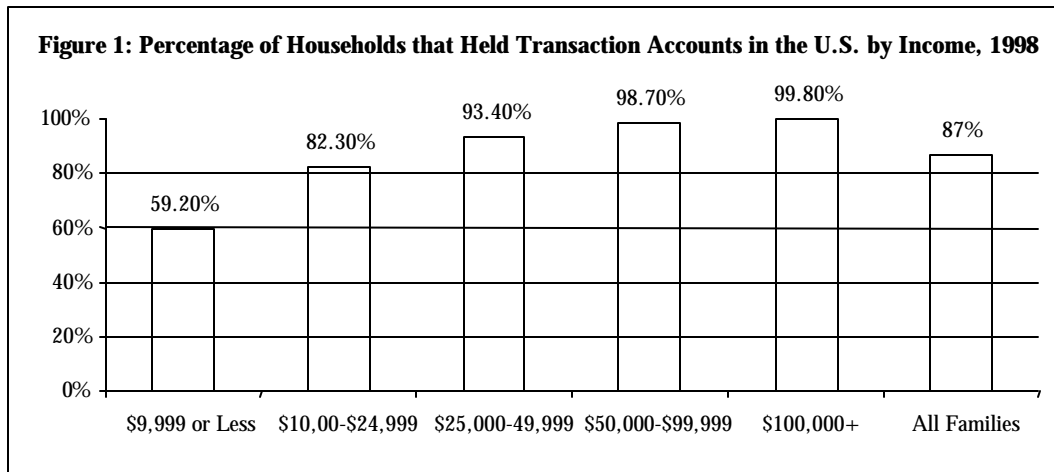
⁷Caskey, J. 1999. *Credit Unions and Asset Accumulation by Lower-Income Households*. Madison, WI: Filene Research Institute and the Center for Credit Union Research. p. 10.

⁸Congressional Budget Office. 1997. *Reducing the Deficit: Spending and Revenue Options*. Section 23, Washington, D.C. p. 1. Also, Testimony of Jeffery Plagge, President and CEO of First National Bank, Waverly, IA. 1998. *Hearing before the Committee on Banking and Financial Services, US House of Representatives, 105th Congress, 2nd Session: The Supreme Court's February 25, 1998 Decision Regarding the Credit Union Common Bond*. March 11. Serial No. 105-49. p. 78.

modest means. The report analyzes data from recent surveys of approximately 3,000 respondents in the six-county Chicago metropolitan area. These data offer the only publicly available demographic data on credit union members.

How Many Households are Unbanked and Who are They?

While the vast majority of U.S. households have savings and checking accounts, a significant minority do not. These unbanked households are concentrated in particular racial, ethnic, and income groups. According to the 1998 Federal Reserve Survey of Consumer Finances (SCF), almost 90 percent of households in the country maintained a checking or savings account at a financial institution that year.⁹ Figure 1 shows that lower-income Americans are much more likely than other households to be unbanked.



Source: Federal Reserve Board Survey of Consumer Finances 1998

These data are promising because they show that many Americans are regularly accessing financial services through mainstream financial institutions. However, significant and costly gaps remain. About 10 percent of American households lack access to basic financial tools such as savings and checking accounts. Research shows that in 1998, unbanked families were disproportionately likely to have low incomes; to be renters; to be in the bottom quarter of the distribution of net worth; to be headed by a person younger than 35 or older than 75; to be headed by a person neither working nor retired; and to be nonwhite or Hispanic.¹⁰

⁹Kennickel, A., Starr-McCluer, M., and Surette, B. 2000. "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*. January. p. 11. These estimates of unbanked households may be considered conservative. Other research utilizing different data indicates that as many as 19 percent of American families and 45 percent of African American households may be unbanked. See Carney, S. and Gale, W. 2001. "Asset Accumulation Among Low-Income Households," in *Assets for the Poor: The Benefits of Spreading Asset Ownership*. Shapiro, T. and Wolff, E. eds. New York, NY: Russell Sage Foundation. pp. 176, 180.

¹⁰Kennickel et al. p. 8.

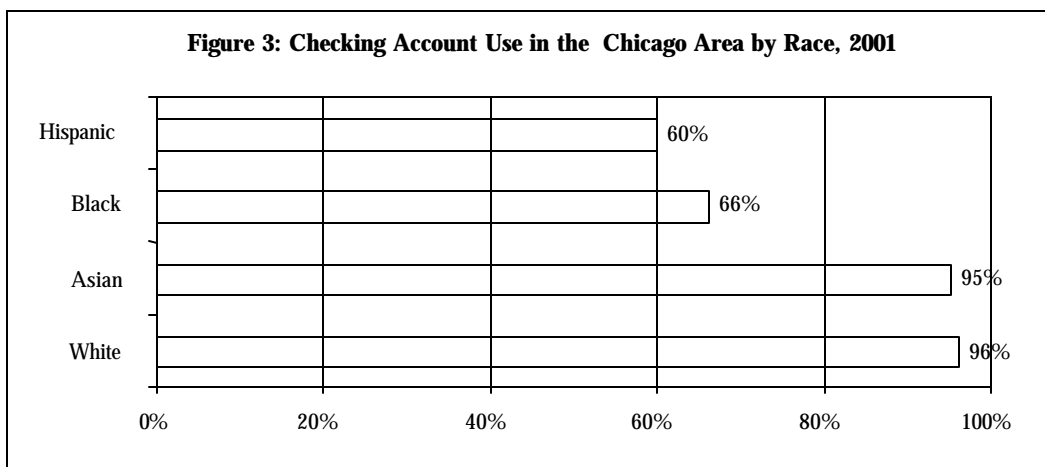
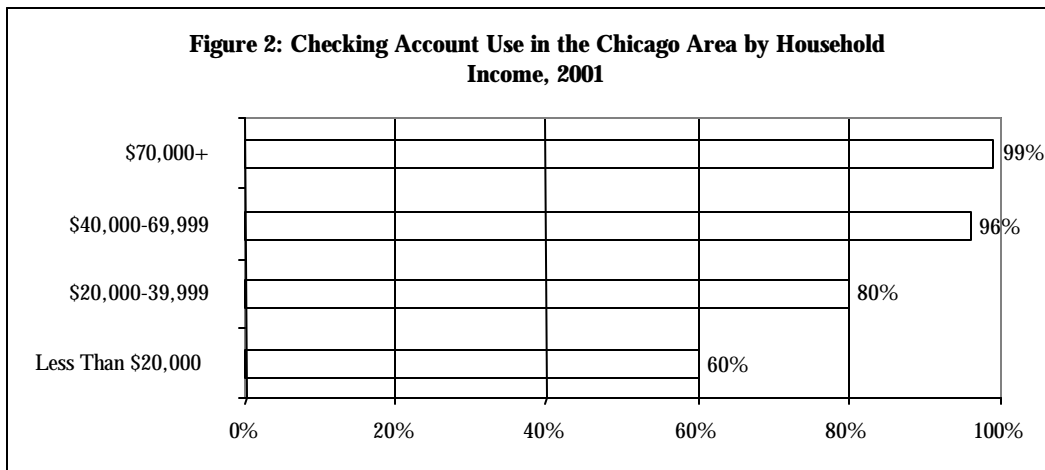
Furthermore, the SCF describes the 13.2 percent of U.S. households without a checking account as lower-income (approximately 83 percent had incomes below \$25,000, and almost 45 percent had incomes below \$10,000) and disproportionately nonwhite or Hispanic (over 57 percent). Almost 30 percent of those with incomes below \$10,000 had no transaction account in 1998, along with almost 14 percent of households that made between \$10,000-25,000. On the other hand, virtually 100 percent of households earning over \$50,000 held such accounts. Also, a quarter (24.2 percent) of nonwhite and Hispanic households lacked transaction accounts, compared to only about 5 percent of whites.¹¹

In the year 2001, 12 percent of households did not have a checking account and 18 percent did not have a savings account in the six-county Chicago region. Figures 2 and 3 show that African-Americans, Hispanics, and low-income people are much less likely to have transaction accounts than others.¹² Opinions about the adequacy of financial services correspond to problems regarding access to such services. According to the *2001 Metro Survey*, 32 percent of African-Americans, 22 percent of Chicago residents, 39 percent of people living in low-income census tracts and 20 percent of people living in moderate-income census tracts described their quality of access to financial services as “needs to improve or failing.” This compares with only 5 percent of whites, 5 percent of those living in the “collar counties” surrounding Chicago, 8 percent of those living in middle-income tracts, and 5 percent of upper-income tract residents who are dissatisfied with their access to financial services.¹³ These demographic trends show that, in general, financial institutions are not serving certain segments of the population. Low-income and minority residents are significantly more likely to be unbanked and face added cost burdens in the bifurcated financial service industries of many metropolitan areas.

¹¹Kennickel et al. p. 11.

¹²These aggregate numbers conceal even greater local disparities. In some Chicago neighborhoods, more than 50 percent of residents lack bank accounts. See Mullen et al for more information.

¹³Metro Chicago Information Center. 2001. *2001 Metro Survey*. Chicago, IL: MCIC.



Source: 2001 Metro Survey

The Costs of Being “Unbanked”

It is well known that U.S. households have low personal savings rates compared to households in other industrialized countries, and the savings rate is understandably even lower for poorer, unbanked families that have difficulties making ends meet.¹⁴ The extent to which unbanked households are disadvantaged when it comes to saving is dramatic. Research shows that over three-quarters of banked households held savings in 1999, compared to less than one-third of unbanked people. Moreover, of those with incomes between \$15,000 and \$30,000, 41 percent of banked families save regularly, compared to just 13 percent of unbanked families.¹⁵ These savings trends are not just a function of income, but are also a function of opportunity.

¹⁴See Beverly, S. 1997. *How Can the Poor Save? Theory and Evidence on Savings in Lower-Income Households*. Center for Social Development at Washington University. Working Paper 97-3.

¹⁵Dunham, C. 2001. “The Role of Banks and Nonbanks in Serving Low- and Moderate-Income Communities,” in *Changing Financial Markets and Community Development: A Federal Reserve System Community Affairs Research Conference*. April 5-6. Proceedings. Washington, D.C. p. 40, 55. See also Carney and Gale.

Unbanked families face many obstacles that inhibit savings.¹⁶ But lack of easy access to financial institutions is also a key factor.

Many households are also dealing with overwhelming debt burdens. In 1998, approximately one third of households earning under \$10,000 a year had debt ratios of 0.40 or higher, meaning they had debts that accounted for over 40 percent of their annual incomes; about one-fifth of families earning \$10,000-\$24,999 had debt-to-income ratios of over 0.40.¹⁷ In the late 1990s, almost a quarter of all families earning between 100-150 percent of the poverty level had debt-to-income ratios over 1.0, which means that they owed more than they earned that year.¹⁸ Such a lack of savings and increase in debt places a huge burden on society's most financially vulnerable people.

The absence of regular retail bank accounts adds to low-income families' household costs. Checking accounts enable consumers to avoid high-cost fees for money orders, check cashing privileges, or money transfers at expensive "fringe banking" outlets. Check cashers in Illinois (where check cashing fees are regulated) charge up to three times as much as banks and credit unions for basic financial services such as check-cashing. In the states where check cashers are not regulated, fees are much higher. Moreover, such firms, which are disproportionately used by low-income people and racial minorities, do not provide any saving or credit-building vehicles for consumers.¹⁹ This means that the many low-income people who can manage money very effectively on a tight budget and pay all of their bills on time may still not have anything to "show for it." Fringe banking institutions offer no official record of consumers' diligent financial habits, which can severely reduce opportunities for many individuals who wish to rent an apartment, obtain a job, or buy a car.

Many check-cashing outlets also offer predatory financial services such as payday loans that carry excessive fees and can lead borrowers into downward spirals of debt. While payday loans are limited to those who have proof of income and checking accounts, these products point to a segment of the population that is severely "underbanked"—they are in need of products, such as short-term, small emergency loans, that are not readily available from other sources.²⁰ A few low-income credit unions have figured out how to offer reasonably priced and safe emergency consumer loans, although this is not happening on a wide scale on the national level.²¹

¹⁶See Jacob, K., Hudson, S., and Bush, M. 2000. *Tools for Survival: An Analysis of Financial Literacy Programs for Lower-Income Families*. Chicago, IL: Woodstock Institute.

¹⁷Kennickel et. al. p. 25.

¹⁸Bird, E., Hagstrom, P., and Wild, R. 1999. "Credit Card Debts of the Poor: High and Rising," *Journal of Policy Management*. Vol 18, Winter. p. 130.

¹⁹Mullen et. al.

²⁰Wiles and Immergluck. 2000. p. 6.

²¹Williams, M. and Smolik, K. 2001. *Reinvestment Alert 16: Affordable Alternatives to Payday Loans: Examples from Community Development Credit Unions*. Chicago, IL: Woodstock Institute.

Beyond the basic cost-savings and credit-building features of transaction accounts at banks and credit unions, building a relationship with a financial institution is vital for asset-building strategies such as homeownership. Although the overall homeownership rate stands at an unprecedented 67.4 percent, or two-thirds of the general population, there are significant race and income gaps. Over 73 percent of white households own their primary residences, compared to about 48 percent of racial minorities.²²

Homeownership is a crucial step towards building wealth. The homeownership gap between African American and white households helps to explain the significant difference in wealth between such households, regardless of income level. Moreover, minority, low-income and elderly people are disproportionately affected by the disastrous and abusive practices of predatory mortgage lenders. For example, in the Chicago area between 1993 and 1998, foreclosures on high-cost or subprime loans (subprime lending is the portion of the market where most predatory lending occurs) increased by over 500 percent, leading to abandonment and blight in many Chicago-area neighborhoods.²³ Research shows that the majority of the growth of the predatory lending problem has occurred in minority and low-income neighborhoods, further disadvantaging such areas.²⁴

The trends described here demonstrate the demographic characteristics of the unbanked and underbanked populations and point to the high costs and other disadvantages experienced by these groups. A fundamental justification for the existence of credit unions is to serve people of modest means and thereby alleviate the disadvantages faced by unbanked and underbanked households. The question this report addresses is, do credit unions really play that role?

Whom do Credit Unions Serve?

According to the National Credit Union Administration, in 2000 there were 77.6 million credit union members, comprising over 25 percent of the total U.S. population and over 35 percent

²²Joint Center for Housing Studies of Harvard University. 2001. *The State of the Nation's Housing*. Cambridge, MA: Harvard University. p. 1.

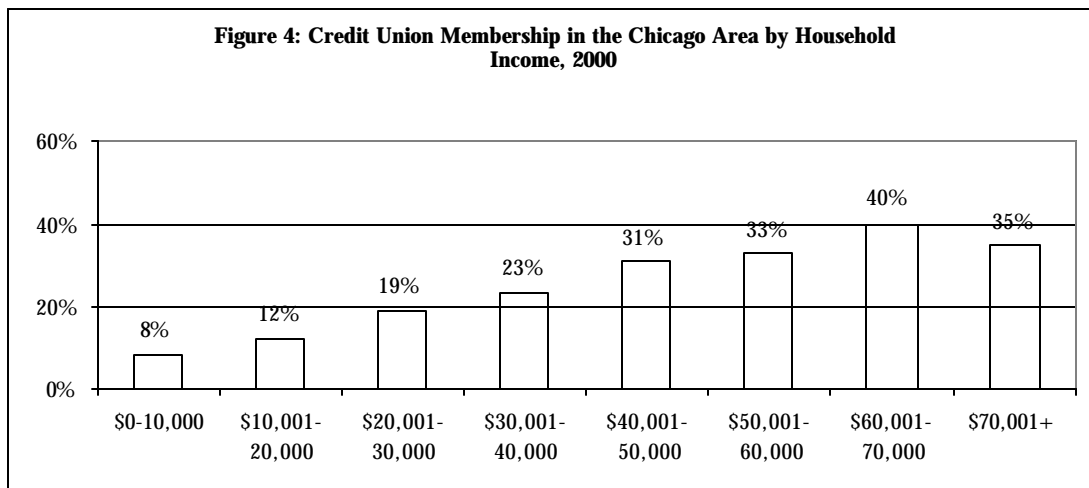
²³See National Training and Information Center. 1999. *Preying on Neighborhoods: Subprime Mortgage Lenders and Chicagoland Foreclosures*. Chicago, IL: NTIC.

²⁴For more information on the growth in predatory lending, see Immergluck, D. and Wiles, M. 1999. *Two Steps Back: The Dual Mortgage Market, Predatory Lending, and the Undoing of Community Development*. Chicago, IL: Woodstock Institute.

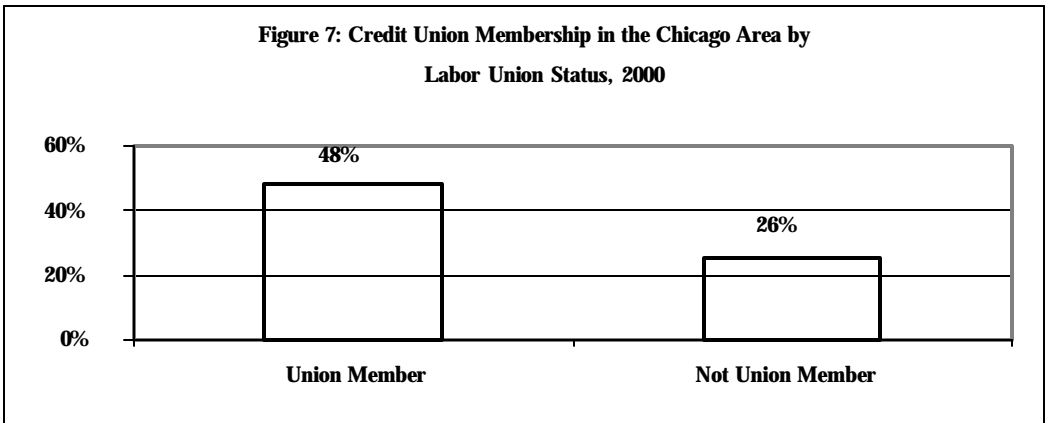
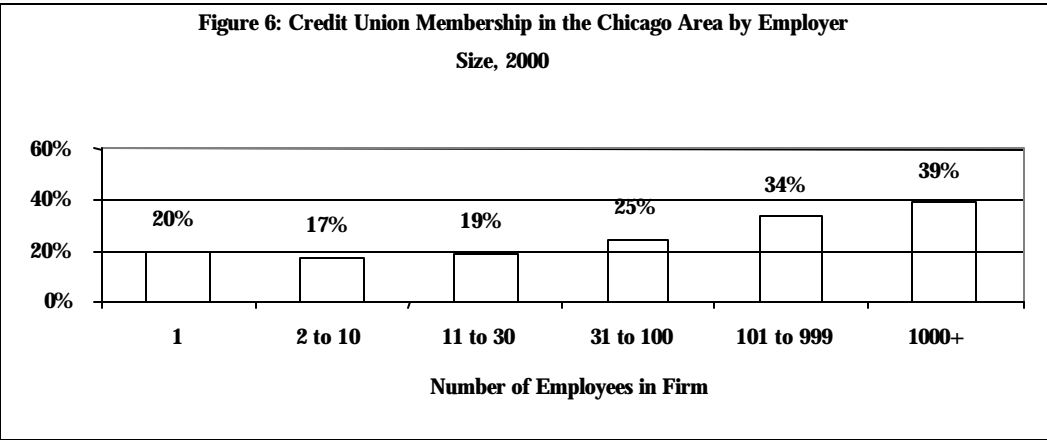
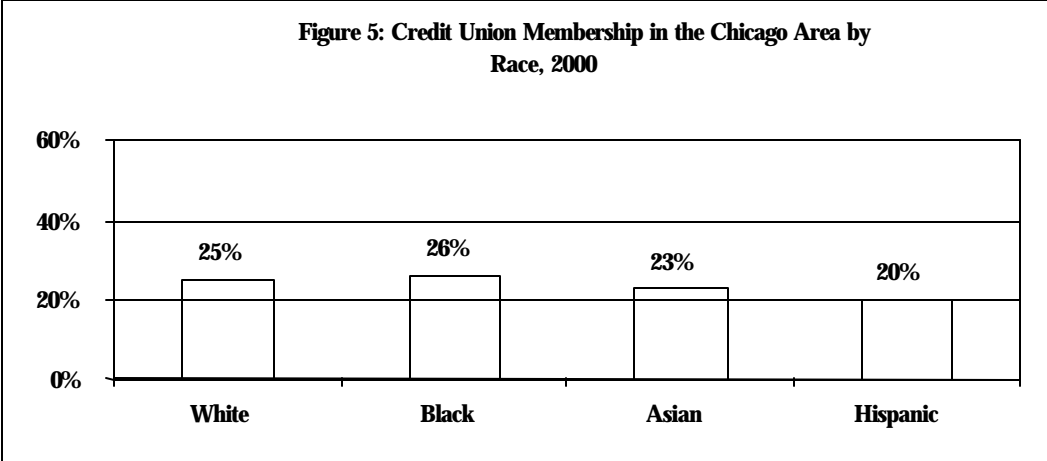
of the adult population. Nationally, there were 10,316 credit unions in existence that year.²⁵ Credit unions, then, serve a significant minority of the population.

To determine whether credit unions serve low-income people, we analyze data from the 1999 and 2000 *Metro Surveys* conducted by the Metro Chicago Information Center (MCIC). MCIC is an independent nonprofit research organization that for the last decade has conducted annual surveys of approximately 3,000 respondents from across the Chicago region. In the annual survey, MCIC asks a group of questions that focus on respondents' experiences with financial institutions of various types. In 2000, 25 percent of survey respondents or their spouses were credit union members. The survey asked a number of questions about the respondents, permitting a detailed analysis of the characteristics of people who were and who were not credit union members.

Despite the facts that credit unions have a broad membership base and a mission to serve "people of modest means," the MCIC survey data show that credit unions in the Chicago six-county region serve much lower percentages of lower-income households than they do middle- and upper-income households. Figure 4 shows that while 40 percent of surveyed households with incomes between \$60,000-\$70,000 held credit union membership, only 23 percent of households earning between \$30,000-\$40,000 contained a credit union member. The percentage of credit union membership fell to just 12 percent for families earning between \$10,000-\$20,000. Figure 5 shows that African-Americans are slightly more likely to be credit union members than others, and Figures 6-7 demonstrate that those working for larger firms and those who are union members are significantly more likely to be credit union members.



²⁵National Credit Union Administration. 2001. *2000 Yearend Statistics for Federally Insured Credit Unions*. Arlington, VA. pp. 35-36. Also see www.census.gov.



Source: 2000 Metro Survey

It turns out that there are several important variables that help to determine credit union membership, including race, union status, and size of employer. But the basic fact that mainstream credit unions have not been very successful at serving low-income people holds up throughout the following analysis. (There is a small group of credit unions that are chartered as low-income credit unions, and these institutions do serve low-income people and communities. However, in 1999 there were only about 600 such credit unions serving approximately two million members.)²⁶

In considering how well credit unions serve low-income people, it is first useful to compare them to banks and thrifts. Banks and thrifts (hereafter, banks) in general serve more people than credit unions, but the comparison between the two types of financial institutions is important because of credit unions' special mission to serve people of modest means. Banks have a mandate under the Community Reinvestment Act (CRA) to provide for the credit needs of low-income communities and are examined by their regulators on whether or not they fulfill that mandate. Credit unions, on the other hand, are not examined by NCUA to see whether or not they serve low-income people.

To compare bank versus credit union provision of basic checking and savings accounts, we analyze data from the *1999 Metro Survey*.²⁷ To separate the effects of the different factors affecting whether individuals have credit union or bank accounts, we use a multivariate analysis technique known as logistic regression.²⁸ We run these regressions on the 1999 data because the 2000 data do not identify whether the respondent has an account at a bank and/or a credit union. Table 1 presents the results of two logistic regressions on employed households in the *1999 Metro Survey*.²⁹ If banks and credit unions are equally accessible to various populations, we should see similar results in the two regressions. If credit unions are substantially more or less accessible, then we should see significantly different coefficients and/or significances in the results.

²⁶To qualify as a low-income credit union (LICU), more than 50 percent of a credit union's current members must live in a low-income zip code, more than 50 percent of members with loans outstanding must be low-income, or a simple majority of members must be low-income. There is also a group of credit unions known as community development credit unions (CDCUs). CDCUs are members of the National Federation of Community Development Credit Unions and are committed to community development in low-income areas. For more information see Williams, M. 1998. *On the Move: An Analysis of Low-Income Credit Unions 1990-1996*. Chicago, IL: Woodstock Institute.

²⁷We used the 1999 survey to compare bank and thrift account usage to that of credit unions because it was the most recent survey that asked about the location of savings and checking accounts. The 1999 data do not contain information on the industry in which the respondent is employed, the size of his or her employer, or union membership. However, the 1999 data do contain data on age, income, race/ethnicity, and education.

²⁸Traditional multiple, or ordinary least squares, regression is not appropriate when the dependent variable (the variable of interest) is a qualitative categorical variable. In this case, the two dependent variables are whether the respondent has a credit union account and whether the respondent has a bank or thrift account. These are yes/no or dichotomous variables, and logistic regression is the appropriate method for estimating the relationship between them and various independent variables or factors.

²⁹Nonworking respondents were omitted.

Table 1 shows that there are both similarities and differences in which variables are significant, their signs (whether they positively or negatively effect the odds of having an account), and the magnitudes of the relationships.³⁰ In terms of significant factors, being African-American positively affects the odds of having a credit union account but negatively affects the odds of having a bank account. Being Hispanic negatively affects the odds of having both a credit union and bank account. Being Asian negatively affects the odds of having a credit union account but has no significant effect on the odds of having a bank account.

The magnitude of the race and ethnicity effects are quite strong. Being African-American more than doubles the odds of a respondent having a credit union account, and reduces his or her odds of having a bank account by more than one-half (52 percent), other things being equal. Being Hispanic reduces the odds of having a credit union account by 35 percent, and reduces the odds of having a bank account by 55 percent. Being Asian reduces the odds of having a credit union account by 59 percent, but has no statistically significant affect on the odds of having a bank account.

Age has some affect on the odds of having both credit union and bank accounts. For credit unions, consumers being between the ages of 30 and 59 significantly increases the likelihood of having an account. Those in the 30 to 44 range have 54 percent greater odds of having a credit union account, other things being equal, while those in the 45 to 59 age range have 78 percent greater odds of having a credit union account. For banks, the results are significant only for the 45 to 59 group, who have more than double (118 percent) the odds of having a bank account compared to other age groups, again with other variables held constant.

Education has strong effects on the odds of having both a credit union and bank account, although the effects are stronger for bank account status. For credit union accounts, having some college has the strongest positive effect on the odds of having an account. Educational increases above that (college degree, graduate work) actually reduce the odds of having a credit union account (compared to having only some college). However, all post-secondary education has a positive effect on credit union access compared to having a high school diploma or less.

³⁰The coefficients of the logistic regression are somewhat difficult to interpret by themselves. An easier approach is to take the antilog of each coefficient. The antilog of the coefficient is the effect of the variable on the odds of an individual having a (bank or credit union) account, holding other independent variables constant. The effects are multiplicative, not additive as in ordinary least squares.

Table 1: Regression Results for Accounts Held at Banks and Savings and Loans Versus Credit Unions, Chicago Area, 1999

Variable	BANKS/S&Ls			CREDIT UNIONS		
	Coefficient	Standard Error	Anti-log of Coefficient	Coefficient	Standard Error	Anti-Log of Coefficient
African-American	<u>-0.7348</u>	<u>0.2105</u>	<u>0.4796</u>	<u>0.7227</u>	<u>0.1647</u>	<u>2.0601</u>
Hispanic	<u>-0.7948</u>	<u>0.2221</u>	<u>0.4517</u>	<u>-0.4298</u>	<u>0.2409</u>	<u>0.6507</u>
Asian	<u>0.0247</u>	<u>0.5730</u>	<u>1.0250</u>	<u>-0.8960</u>	<u>0.5055</u>	<u>0.4082</u>
Income \$0-10,000	<u>-1.7829</u>	<u>0.4442</u>	<u>0.1682</u>	<u>-1.2772</u>	<u>0.6581</u>	<u>0.2788</u>
Income \$10,001-20,000	<u>-1.1840</u>	<u>0.3062</u>	<u>0.3061</u>	<u>-1.6900</u>	<u>0.5007</u>	<u>0.1845</u>
Income \$20,001-30,000	<u>-0.5257</u>	<u>0.2762</u>	<u>0.5911</u>	<u>-0.6091</u>	<u>0.2489</u>	<u>0.5438</u>
Income \$30,001-40,000	<u>-0.4668</u>	<u>0.2604</u>	<u>0.6270</u>	<u>-0.2000</u>	<u>0.1921</u>	<u>0.8188</u>
Income \$40,001-50,000	<u>-0.3858</u>	<u>0.2314</u>	<u>0.6799</u>	<u>-0.0426</u>	<u>0.1505</u>	<u>0.9583</u>
Income \$50,001-60,000	<u>-0.3129</u>	<u>0.2771</u>	<u>0.7313</u>	<u>-0.0396</u>	<u>0.1817</u>	<u>0.9612</u>
Age: 30-44	<u>0.0715</u>	<u>0.1746</u>	<u>1.0741</u>	<u>0.4292</u>	<u>0.1432</u>	<u>1.5360</u>
Age: 45-59	<u>0.7784</u>	<u>0.2460</u>	<u>2.1779</u>	<u>0.5763</u>	<u>0.1652</u>	<u>1.7794</u>
Age 60-74	<u>0.5725</u>	<u>0.4137</u>	<u>1.7727</u>	<u>0.0602</u>	<u>0.3276</u>	<u>1.0620</u>
Age: 75+	<u>4.7738</u>	<u>7.3534</u>	<u>118.3683</u>	<u>-4.2471</u>	<u>7.2531</u>	<u>0.0143</u>
Education: High School/Trade	<u>0.8789</u>	<u>0.2695</u>	<u>2.4082</u>	<u>0.4852</u>	<u>0.3732</u>	<u>1.6246</u>
Education: Some College	<u>1.1461</u>	<u>0.2761</u>	<u>3.1460</u>	<u>1.0317</u>	<u>0.3647</u>	<u>2.8058</u>
Education: College Graduate	<u>1.5713</u>	<u>0.3125</u>	<u>4.8131</u>	<u>0.6220</u>	<u>0.3727</u>	<u>1.8627</u>
Education: Any Graduate School	<u>0.8343</u>	<u>0.3095</u>	<u>2.3031</u>	<u>0.6889</u>	<u>0.3770</u>	<u>1.9916</u>
Constant	<u>1.4602</u>	<u>0.3225</u>		<u>-2.1122</u>	<u>0.3843</u>	
Nagelkerke- R Squared		<u>0.1560</u>			<u>0.0930</u>	
N		<u>1939</u>			<u>1939</u>	

Source: MCIC Data collected from the 1999 Metro Survey

Key: **Bold and Underlined:** Significant at the .01 level. **Bold:** Significant at the .05 level. Underlined: Significant at the .10 level.

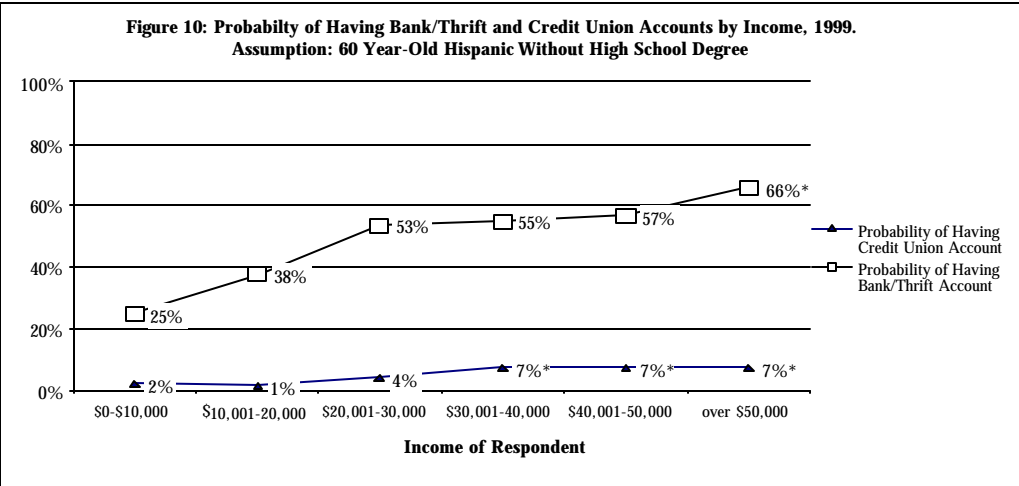
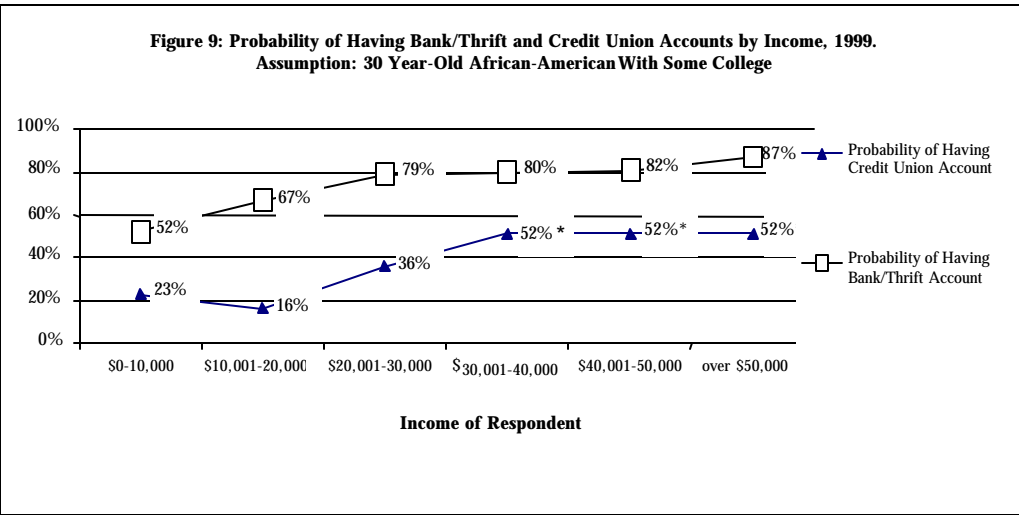
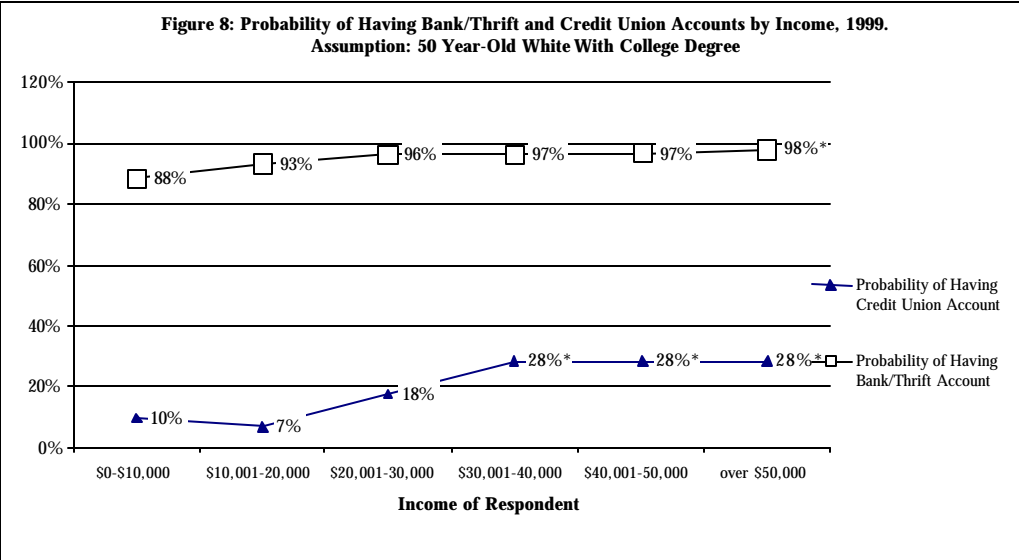
For bank accounts, education has a steadily increasing positive effect on the likelihood of having an account until the graduate level is reached. That is, having a high school education improves the odds of having a bank account, having some college improves it even more, and having a college degree yields the best odds, other things being equal, of having a bank account. However, a person with a graduate degree is less likely to have a bank account than someone with only some college.

While many of these effects are significant in terms of odds ratios, the effect of a change in odds on the probability of having a bank or credit union account may or may not be very large. This depends, in large part, on the base odds ratio (as revealed by the intercept coefficient), or the odds of having an account when all independent variables are equal to zero. When the odds of having a certain type of account are very high on average, a substantial reduction in odds (say by 50 percent, from 80 to 1 to 40 to 1) does not result in a very large reduction in the probability of having the account (in this case, from 98.8 percent to 97.6 percent). However, when odds are generally low and are reduced substantially (say by 50 percent, from 0.2 to 1 to 0.1 to 1), the probability of having an account decreases more substantially (in this case, from 16 percent to 9 percent).³¹

The estimated effect of a change in income on the probability of having a credit union or bank account depends on the initial level of the odds ratios, or probabilities. Therefore, we present three scenarios of types of individuals (by race, education, and age) to illustrate the effects of changes in income. Figures 8, 9, and 10 illustrate the effects of varying income on three hypothetical individuals. Figure 8 shows the effects for an individual who is 50 years old, has a college degree, and is white. Here the probability of bank account access is very high for all income groups. It does decline as income declines, but not by a great deal—about 10 percent. However, the effect of income on the probability of having a credit union account is larger, dropping by more than 20 percentage points (and by approximately three-quarters) as income goes from the \$30,001-40,000 range to the \$10,001-20,000 range.

Figure 9 shows that, for an African-American individual with only some college, the probability of having a bank account begins at a lower level and declines more significantly as income declines. The probability of having a credit union account begins at a much higher level, compared to the white college educated individual. However, it still declines substantially as income declines. Importantly, the rate of decline is faster than for the bank account probability. Figure 10 shows that for a Hispanic 60 year old with no high school degree, the probability of having a bank account declines rapidly at lower income levels.

³¹The formula for connecting the odds ratio to probability is $x/(x+1)$, where x is the odds ratio expressed as x^1 .



*For bank accounts, no significant income effects above \$50,000; for credit unions, no significant effects above \$30,000.

Because such individuals are never very likely to have a credit union account, even a very large, 70 percent drop in the probability of having an account (from 7 to 2 percent) does not result in a substantial percentage-point drop in probability (since it was so low in the beginning).

On the whole, the results of these two regressions suggest that, after controlling for education, race, and age, both banks and credit unions are much less likely to provide lower-income households with basic banking services. While credit unions may do somewhat better at serving middle and lower-middle-income households, they still do poorly in the lower-income segment of the population--those with incomes below \$30,000. Credit unions appear to serve African-Americans at substantially higher rates than banks. Hispanics are less likely than whites to have accounts at either credit unions or banks, but they have better access at credit unions than banks. Moreover, as income declines to low levels, the probability of African-Americans having credit union accounts drops dramatically.

Factors Affecting Credit Union Membership

At this point we should note that credit unions are not free to recruit any members they choose. Credit unions may only serve people in their approved field(s) of membership. The restrictions on field of membership rules date to the beginning of the credit union movement in the U.S., and their original purpose was to guarantee close knowledge of the character and antecedents of any given member.³² Where members of an association had a tight "common bond," they could be assumed to know each other well enough to make sound judgments about extending credit to one another. The Federal Credit Union Act was passed in 1934 in the middle of the Great Depression; it tightened existing field of membership practices to avoid future collapses in the financial services industry.

That statute allowed for three types of common bond--occupational, associational, and residential. The definition of common bond was loosened first in 1972 and several times thereafter³³ until the banking industry, annoyed at what it considered unfair competition, sued NCUA over its practice of permitting credit unions to add multiple groups to their fields of membership. In February 1998, the Supreme Court ruled in National Credit Union Administration v. First National Bank and Trust Company, et al. that NCUA erred in its interpretation of the FCUA when it allowed multi-occupational group charters. The credit union movement then successfully petitioned Congress to mitigate the Supreme Court decision, and in October 1998, Congress responded by amending the FCUA. The 1998 amendments

³²See Ferguson, C. and McKillop, D. 1997. *The Strategic Development of Credit Unions*. Chichester, UK.

³³Op. cit. p. 49.

grandfathered all existing credit union members, no matter the basis of their membership, and expressly permitted multiple occupational and associational common bonds within certain limits and under certain circumstances. It is therefore reasonable to conclude for the purpose of this analysis that credit unions have considerable latitude to recruit members.

Regarding the characteristics of credit union members in the Chicago area, the *2000 Metro Survey* provides new information on the industry, union status, and employer size of respondents. Unfortunately, no information was gathered on whether respondents held accounts at a bank or credit union. However, the survey did ask respondents whether they were *members* of a credit union. We use the answer to this question to explore additional factors that may affect credit union membership.³⁴

Table 2 gives the results of a logistic regression that includes not only race, income, age, and educational variables, but also industry, union status, and employer size. The aim of this analysis is to identify whether these additional variables may help explain credit union membership.³⁵ These results may also suggest variables omitted in the results in Table 1 that would, if available, add explanatory power to the differences between the propensities for different groups to hold bank versus credit union accounts. Such variables, if added to the previous regressions, could affect the coefficients of the other variables. For example, the increase in probability of having a credit union account for those with some college, as shown in Table 1, could conceivably be related to a correlation between being in the “some college” category and being a labor union member. Also, low levels of education might correlate with industry if, for example, workers in the retail industry are less educated than other workers.

Table 2 indicates that being African-American, even after controlling for industry, union status and employer size, still has an almost doubling effect on the odds of being a credit union member. The variable “Hispanic” no longer has a significant effect on credit union membership. The effect of income, although somewhat smaller in magnitude, is still large and is now significant for the range of incomes from zero to \$40,000. The age results are similar to those in Table 1, with substantial positive effects for the 30 to 44 and 45-59 groups, and with the latter group having the highest odds of credit union membership, other things being equal.

³⁴The 2000 survey did not ask the location of respondents' checking and savings accounts but it did ask information on industry, firm size, union status, and whether the respondent is a member of a credit union. We analyze factors that affect credit union membership, without being able to do a comparison to bank account access with 2000 data.

³⁵Again, with logistic regressions, the coefficient is expressed as a log. The antilog actually indicates the differences in probabilities among variables.

**Table 2: Regression Results for Credit Union Membership
in the Chicago Area, 2000**

<i>Variable</i>	<i>Coefficient</i>	<i>Standard Error</i>	<i>Anti-log of Coefficient</i>
African-American	<u>0.6769</u>	<u>0.1792</u>	<u>1.9678</u>
Hispanic	0.0772	0.2353	1.0802
Asian	-0.0751	0.3990	0.9276
Income \$0-10,000	<u>-0.7920</u>	<u>0.4026</u>	<u>0.4529</u>
Income \$10,001-20,000	<u>-1.1710</u>	<u>0.3634</u>	<u>0.3101</u>
Income \$20,001-30,000	<u>-0.6569</u>	<u>0.2482</u>	<u>0.5184</u>
Income \$30,001-40,000	<u>-0.3703</u>	<u>0.2029</u>	<u>0.6905</u>
Income \$40,001-\$50,000	-0.0518	0.1649	0.9496
Income \$50,001-\$60,000	-0.1208	0.1926	0.8862
Age: 30-44	<u>0.3203</u>	<u>0.1420</u>	<u>1.3776</u>
Age: 45-59	<u>0.6644</u>	<u>0.1660</u>	<u>1.9432</u>
Age 60-74	0.1416	0.3736	1.1521
Age: 75+	-3.7367	8.8536	0.0238
Education: High School/Trade	-0.0729	0.3224	0.9297
Education: Some College	0.1312	0.3131	1.1401
Education: College Graduate	-0.1200	0.3203	0.8869
Education: Any Grad. School	-0.1174	0.3254	0.8892
Firm Size: Self-Employed	<u>-1.1344</u>	<u>0.2889</u>	<u>0.3216</u>
Firm Size: 2-30 Employees	<u>-1.2532</u>	<u>0.2163</u>	<u>0.2856</u>
Firm Size: 31-100 Employees	<u>-0.7799</u>	<u>0.1979</u>	<u>0.4584</u>
Firm Size: 101-999 Employees	<u>-0.3050</u>	<u>0.1481</u>	<u>0.7371</u>
Labor Union Member	<u>0.6608</u>	<u>0.1458</u>	<u>1.9363</u>
Industry: Services	0.1319	0.1291	1.1410
Industry: Manufacturing	0.3218	0.2520	1.3796
Industry: Wholesale Trade	-0.0222	0.5029	0.9780
Industry Retail Trade	<u>-0.4976</u>	<u>0.2789</u>	<u>0.6080</u>
<i>Constant</i>	<u>-0.7424</u>	<u>0.3430</u>	
<i>Nagelkerke-R Squared</i>		<u>0.1530</u>	
<i>N</i>		<u>1637</u>	

Source: MCIC Data collected from the 2000 Metro Survey

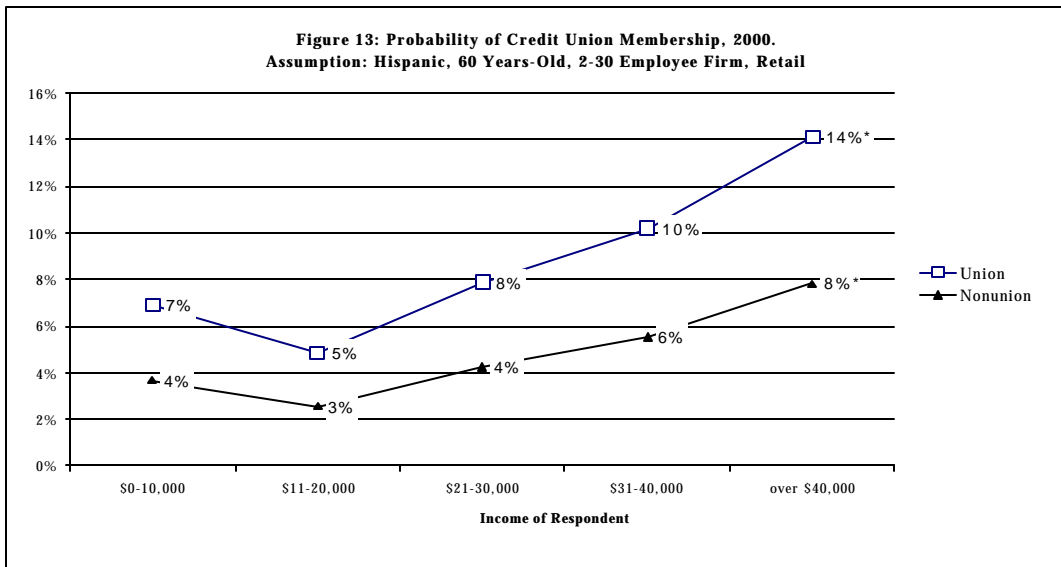
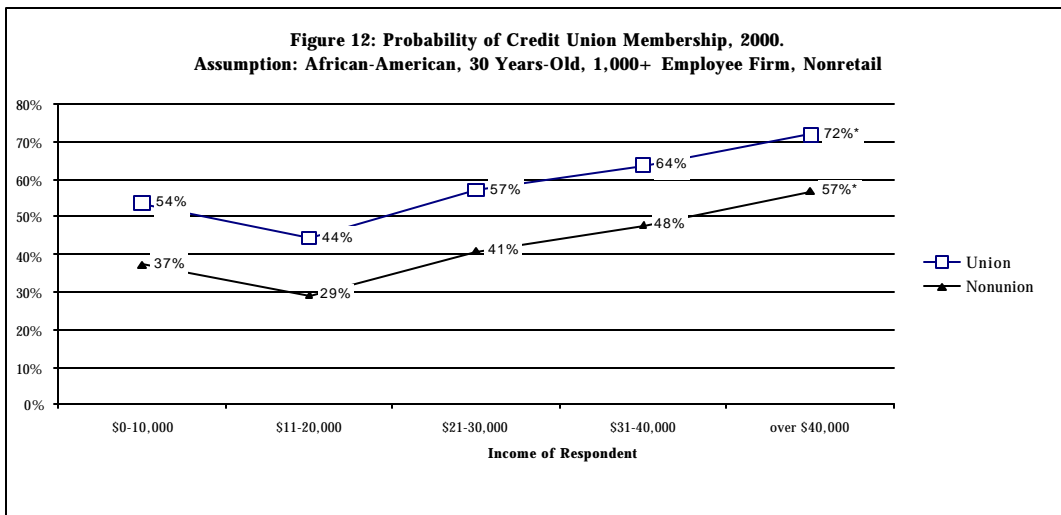
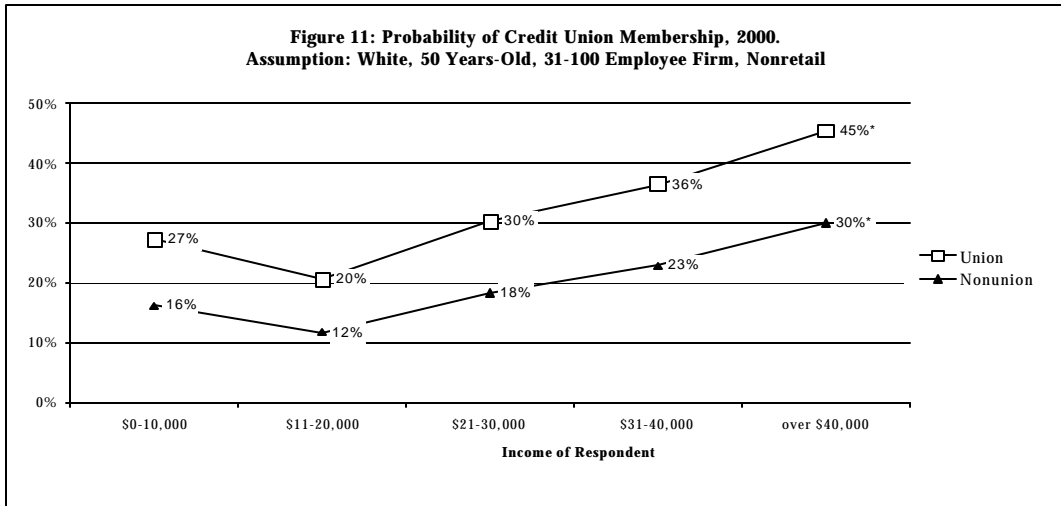
Key: **Bold and Underlined:** Significant at the .01 level. **Bold:** Significant at the .05 level. Underlined: Significant at the .10 level.

The new variables are generally highly significant. Employment size has a roughly linear, positive effect on the odds of being a credit union member. There is a slight inverted effect going from self-employed to 2 to 30 employees; the latter are slightly less likely to be credit union members. But in general the employer size effect is strong, with a worker at a 30-employee firm having 71 percent lower odds of belonging to a credit union than a worker at a 1,000-employee firm, other things being equal.

Being a member of a labor union almost doubles the odds of belonging to a credit union. Finally, working in the retail sector decreases the odds of credit union membership by 39 percent. There is no statistical difference between the odds of a government sector worker being a credit union member and those in the service, wholesale or manufacturing sectors. But this categorization may be far from perfect if, for example, health care workers at public or university hospitals are categorized in the service sector even though they are public sector employees. Similarly, teachers may be categorized as service (education) sector workers rather than public sector workers, even if they work for public schools.

Again, the estimated effect of a change in income on the probability of being a credit union member depends on the initial level of the odds ratios. Therefore, we present three scenarios of types of individuals (by race, education, age, firm size, and industrial sector) and illustrate the effects of changes in income and union status on the probability of credit union membership. Figure 11 illustrates the effects of income changes and union status on the probability of credit union membership for a hypothetical 50 year-old white individual working at a modest-sized firm not in the retail industry. It shows that both income and union status have sizeable effects on the probability of credit union membership. While there are no statistically significant income effects in the \$40,001 to \$70,000 and above range, the effects in the low- and moderate-income ranges are considerable. For union members, the probability of membership drops from 45 percent to 20 percent from the above-\$40,000 income range to the \$10,001-20,000 income range. For nonunion members, it drops from 30 percent to 12 percent for the same income change.

Figure 12 illustrates the impacts of changes in income and union status on the probability of credit union membership for a hypothetical 30 year-old African-American individual working at a very large firm not in the retail industry. Here too, income has a substantial effect on the probability of credit union membership. For union members, it declines from 72 percent to 44 percent when income declines from the above \$40,001 income range to the \$10,001-20,000 income range. For nonunion members, it declines from 57 percent to 29 percent for the same income change. Figure 13 shows changes in the probability of membership for a 60 year-old Hispanic individual in a very small retail firm. Again, although the base probabilities are smaller, the changes by income and union status are significant.

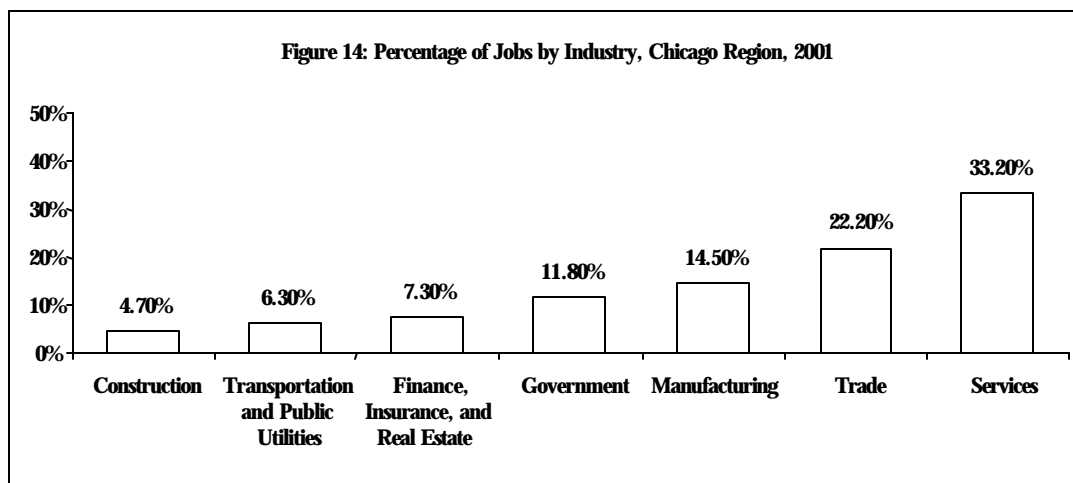


*No significant income effects above \$40,000

General Credit Union Membership Trends

The broad patterns of the data discussed in the previous section are clear, but the interactions between certain key variables and credit union membership are complex. For the purposes of illustration, we can sketch out in more detail some of the background information that is needed to interpret the previously mentioned employment and union variables. Figure 14 demonstrates employment trends for the Chicago area in 2001. This chart shows that over half of the workers in the region are employed in the trade or services industries.

In addition, Department of Labor (DOL) data indicate that in the United States as a whole, 13 percent of the employed are members of labor unions, while in Illinois 18.6 percent are union members. Moreover, DOL figures show that by including workers who are not union members but have jobs that are covered by union contracts, these percentages rise to 14.5 percent of U.S. workers and 19.5 percent of Illinois workers respectively.³⁶ These data show that Illinois has a higher representation of unionized workers than the rest of the country. Unions may provide credit union membership by creating credit unions for members. In addition, labor unions may encourage employers to provide credit union membership as a benefit of employment.



Source: Bureau of Labor Statistics, Chicago Office. Data for May 2001.

It is interesting to compare the percentages of those employed in different industries in the Chicago area to the percentages of credit union members that fall under similar categories. For instance, NCUA maintains several different categories of “manufacturing” credit unions, and the total percentage of credit union members who are members of manufacturing credit unions in the region can be compared to the total percentage of workers in that field in the region.

³⁶Data obtained from the Bureau of Labor Statistics Chicago Office website (www.bls.gov/ro5/home.htm), June 2001. Data is for May 2001.

NCUA data on credit unions in the Chicago area shows that government and military employment accounts for 16.2 percent of all credit union membership in the area--over-representing the percentage of such jobs in the region (11.8 percent). Moreover, manufacturing firms accounted for 20.4 percent of all credit union membership in the region, while only comprising 14.5 percent of the jobs. For categorization purposes, NCUA combines occupational credit unions in the services, trade, transportation, communications, utilities, and FIRE industries.³⁷ Together, these industries account for 69 percent of the Chicago region's jobs, but they only account for 27 percent of the region's credit union membership--a very significant under-representation.³⁸

These data indicate that certain sectors are likely to be "over-represented" in credit union membership. However, these differences might be explained by other factors. For instance, government and manufacturing jobs might be more heavily unionized and/or carry more special benefits, such as credit union membership, than service or retail jobs. The fact that there are many small firms in the service and retail sectors while manufacturing firms tend to be larger might play a role in credit union membership. The higher incidence of African-Americans among credit union members may well be a joint function of their "over-representation" in public sector jobs and other industries that are highly unionized. The *2000 Metro Survey* shows that 17 percent of African-Americans, 15 percent of whites, and 19 percent of Hispanics in the City of Chicago belonged to labor unions. In the suburbs, these percentages increase to 18 percent of whites, 29 percent of African-Americans, and 26 percent of Hispanics. The survey also shows that in both the city and the suburbs, African-Americans are more likely to work in large firms (over 500 employees) than are whites or Hispanics.³⁹

For all of these complexities, the most important finding from the perspective of this report remains the same. Even after controlling for industry, firm size, and union status, the evidence suggests that credit unions are not serving lower-income individuals well compared to higher-income individuals. While it appears that, when compared to banks and thrifts, credit unions may do a better job with middle- and lower-middle-income individuals, as well as African-Americans and Hispanics, their performance among lower-income households does not appear to be significantly better.

³⁷NCUA uses categories such as "Services—Transportation" and "Services—Trade." There is no single "Services" category in the public NCUA data.

³⁸All data compiled by Woodstock Institute and taken from Bureau of Labor Statistics, Chicago Information Office, June 2001, and National Credit Union Administration data for June 2001.

³⁹MCIC 2000. Note that some of these percentages reflect suggestive data of only 50 to 100 responses.

The Theory and Practice of Credit Unions' Response to Lower-Income People

Our analysis of the survey data shows that credit unions have not been especially successful in reaching lower-income people, despite their historic mission to serve such people. The rhetoric of the credit union industry on this issue, however, remains powerful. In testimony before the U.S. House Banking and Financial Services Committee in February, 1998, Norman D'Amours, then-chairman of the NCUA, said, "Credit unions are the only financial institutions chartered with the express social mission of making credit available to people of small means and teaching the benefit of thrift."⁴⁰ D'Amours continued with this affirmative language in his final address to CUNA's Governmental Affairs Conference in 2000 in a section about the effect of predatory lending (high fee, high interest rate loans) on low-income people:

"Credit unions should be the financial lifeline to affordable financial services for low-income consumers," D'Amours said. "Unscrupulous money lenders are putting these people into economic slavery. And like the Federal CU Act of 1934, the CU Membership Access Act of 1998 charges credit unions with reaching out to serve those members," D'Amours said. "Credit unions need to do more to provide low-income consumers fair access to financial services and economic education."⁴¹

D'Amours, a former Congressman and a President Clinton appointment to the NCUA, made efforts during his term to back up his rhetoric with action. As he explained in the 1998 testimony cited above:

NCUA and the credit union system have continually searched for ways to bring credit union services to areas that are not served by depository institutions. The Interpretative Ruling and Policy Statement adopted by the NCUA Board in July, 1994 (IRPS 94-1) was one of the more important initiatives this agency has taken in this regard. This policy allowed larger, healthy credit unions to directly reach out into low-income, inner-city, and rural areas by adding these communities to their field of membership.⁴²

But this 1994 effort--nullified by a District Court injunction in October 1996 but later restored by HR 1151, which was signed into law by President Clinton in August 1998--was to prove the

⁴⁰Hearing Before the Committee on Banking and Financial Services, 1998, U.S. House of Representatives, 105th Congress, 2nd Session. *The Supreme Court's February 25, 1998 Decision Regarding the Credit Union Common Bond Requirement*, p. 31.

⁴¹Credit Union National Association press release. 2000. "D'Amours: Cooperative Foundation is Eroding." February 29.

⁴²Testimony of Norman D'Amours, NCUA Chair. 1998. *Hearing Before the Committee on Banking and Financial Services, US House of Representatives, 105th Congress, 2nd Session: The Supreme Court's February 25, 1998 Decision Regarding the Credit Union Common Bond*. March 11. Serial No. 105-49 p. 296.

only initiative for promoting low-income membership that D'Amours got the NCUA to adopt unscathed.⁴³

Other efforts failed, most notably a 1999 effort by D'Amours to impose very modest mandatory disclosure requirements on credit unions about their level of service to low-income people. This Community Action Plan (CAP) met considerable industry opposition.⁴⁴ After much acrimony, the NCUA Board finally approved a voluntary survey in November, 1999. Chairman D'Amours blasted the watered down version as "a sham that no self-respecting researcher would give credence to."⁴⁵ The survey asked some qualitative questions about the nature of credit union services to low-income people, including questions about products offered. But it contained only one question that directly inquired about the income of members, and that asked for percentages of loans made to members in several broad income categories. Moreover, the NCUA Board insisted that the financial questions on the survey be protected from third party review.

Not even this weak process to encourage low-income membership survived once D'Amours' term expired. On December 13, 2001, the Board repealed the regulation after an official NCUA press release was released with the title "America's Credit Unions are Adopting Undeserved Communities with a Record-Setting 12.5 Million Potential New Members in 2001."⁴⁶ All that title indicated was that credit unions expanded into communities that met the undeserved criteria and that those communities in aggregate had 12.5 million adult residents. The press release said nothing about how many low-income members were actually enrolled in credit unions in those communities because those data are not collected.⁴⁷ The December 13 action ended the collection of data that, however inadequate, might have provided some imperfect estimate of membership by income.

The Community Action Plan has been mockingly referred to as *CRA lite*. The Community Reinvestment Act is implemented, in contrast, through a detailed regulation that mandates the examination of specific aspects of bank activity in a bank's service area (technically called its CRA assessment area), including low- and moderate-income neighborhoods. Moreover, much

⁴³Ibid. Also see Greenhouse, L. 1998. "Supreme Court Rules for Banks in a Fight to Limit Credit Unions," *New York Times*. February 26. pp. A1, C2. The October 1996 injunction was upheld by the Supreme Court in 1998, but that decision was reversed by HR 1151 later that year.

⁴⁴See Barancik, S. 1999. "Credit Union Group Blasts Regulator Planned Survey," *American Banker*. December 28. See also Canning, E. 2000. "Banks Back, Credit Unions Slam 'Community Action' Proposal," *American Banker*. August 17.

⁴⁵Anderson, M. 2000. "Credit Unions Irked by Regulator's Survey," *Sacramento Business Journal*. February 11.

⁴⁶NCUA News Release, 2001. November 30. www.ncua.gov/press_releases/nr_113001.

⁴⁷Not only does this claim of adding 12.5 million potential new members fail to indicate *actual* increases of membership by low-income people, but the field of membership expansion also permits credit unions to expand into new geographic areas without strict regulatory approval.

of the raw data used in CRA examinations is public, as is the regulator's report on the financial institution's examination.

The industry's opposition to the Community Action Plan could be disguised as an expected response to more regulation rather than to the underlying premise of the Plan that credit unions still have a mission to serve underserved people. No such fig leaf, however, can disguise the intent of a major recent industry report on the future of credit unions. In June 2001, the CUNA Renaissance Commission reported to CUNA on ways "to improve the value of federal and state credit union charters." The Commission, appointed by the CUNA chairman, "conducted an extensive dialogue with the credit union movement."⁴⁸ Among the key findings was that the statement in the 1934 Credit Union Act that the purpose of the Federal Credit Union system was to make credit more available to people of small means was anachronistic and should be discarded:

The Commission believes it is time to declare victory in achieving this mission, and to craft a mission that will carry credit unions into the 21st century...Credit unions have been extremely successful in making credit for provident purposes available to people of all means. In the early 1930s the vast bulk of the population were people of "small means." In real dollars, average income per person was one fourth of what it is today...the vast majority of the population is now much better off, although there are still many families of modest means who need financial services.⁴⁹

After a clear statement of the need to maintain credit unions' tax-exempt status, the report concluded with a call to end any and all efforts to monitor credit unions' service to low-income people:

...the community action plan requirements for federal community credit unions are not only unjustified but are against the intent of Congress.

The Commission is of the strong opinion that supervisory authorities must limit their activities to those related to safety and soundness and compliance with applicable laws and regulations. In particular, it is not the responsibility of regulatory authorities to define, direct, or examine the social mission of credit unions. That is the responsibility of each credit union's board of directors.⁵⁰

The leaders of the credit union movement are stepping away from the historic justification to serve people of modest means at the very same time that Congress and NCUA have been

⁴⁸CUNA Renaissance Commission 2001. "Report to the CUNA Board". June.

⁴⁹Op. cit. p. iv.

⁵⁰Op. cit., p. ix.

lifting restrictions on credit union operations.⁵¹ Restrictions on credit unions have been greatly reduced in the last few decades, including the lowering of capital requirements and permitting additional savings and lending products, such as participation loans, lines of credit, loans to other credit unions and share certificates with a variety of maturities and dividend rates.⁵² Moreover, common bond requirements have been relaxed on an ongoing basis since the early 1980s, culminating in the significant expansion of the common bond in 1998. Absent clear instructions that the new powers are granted to enhance credit unions' original mission, the credit union leadership has not only squandered these opportunities, but has formally turned its back on low-income people.

Implications for Public Policy

This analysis indicates that low-income people are not adequately served by credit unions. Moreover, the National Credit Union Administration and the Credit Union National Association have recently made statements calling for credit unions to abandon their special mission of serving people of modest means. These trends are direct challenges to the historic notion that credit unions have a responsibility to reach out to lower-income people. (Some individual mainstream credit unions may reach out to low-income people. The data to describe those credit unions' records are not yet available.) The current aggregate pattern of membership as detailed in this report and the recent leadership statements should challenge the credit union movement to reaffirm the potential of a unique institution to help meet the financial needs of people disconnected from the financial mainstream.

Credit union members receive significant benefits in the form of higher interest payments for share accounts, lower rates on loans, and less expensive basic financial services. Those benefits are directly subsidized by federal and state tax exemptions. Restoring credit unions' focus on their mission to serve low-income people will not be easy, given the opinions of current credit union leadership and the fact that the movement has always been able to galvanize its membership to petition Congress around its agenda.

⁵¹In October 2001, CUNA announced changes to the recommendations by the Renaissance Commission. Apparently, the industry had received significant criticism for omitting the charge to serve people of modest means from its new mission statement. The revised Commission-recommended mission statement contains the phrase "the purpose of credit unions is to promote the economic well-being of all people, including those of modest means." (*Credit Union News Watch*, October 2001). However, the recent trend in the credit union industry of backing away from an ideal of service to low-income people is still apparent.

⁵²Karels, G. and McClatchey, C. 1999. "Deposit Insurance and Risk-Taking Behavior in the Credit Union Industry," *Journal of Banking and Finance*. Vol. 23. p. 112.

Recommendations

The following recommendations are designed to begin to redress the balance and give credit unions the opportunity to re-think their priorities.

1. Congress should amend the Federal Credit Union Act to insert language that more clearly states credit unions' mission and responsibility to serve low-income people. That amendment should include mandatory, publicly available data disclosure about whom credit unions serve by income and race. These data should be broken down by product usage.
2. The National Credit Union Administration (NCUA) should use these data to conduct regular examinations of credit unions for compliance with the mandate to serve low-income people. Examinations should include appropriate incentives and sanctions. The credit union merger and examination processes should include opportunities for public comment about credit unions' record of serving low-income people.
3. The Community Reinvestment Act (CRA) should be amended to include credit unions. Credit unions without a community charter could be examined on how well they serve low-income people who qualify for membership or are potential members.
4. All credit unions that use the 1998 NCUA provision that permits healthy credit unions to expand into low-income communities should be regularly examined to determine how many low-income people they serve in those communities. A credit union's ability to continue to use this provision should depend on a clear record of actually serving low-income members.
5. All credit unions should develop and aggressively market products and services that are affordable and accessible to low-income people.
6. NCUA should carefully check the status of low-income designated credit unions (LICUs) to determine whether they are continuously fulfilling the criteria for low-income membership and service.
7. Large mainstream credit unions should support LICUs through investments or other means.
8. LICUs and mainstream credit unions should increase their efforts to enroll firms and associations with low-wage employees. The retail sector appears to offer a special opportunity for credit unions to recruit new members. Credit unions could also attract other low-income households by offering services such as affordable retail accounts, additional branches in low-income areas, direct deposit of Social Security and other transfer payments, and creative savings vehicles such as individual development accounts (IDAs).

9. Those mainstream credit unions whose active membership includes significant percentages of low-income people should encourage the rest of the industry to follow their example by publicizing their record and their strategies.
10. Community development organizations should develop relationships with credit unions that are similar to those that they have with banks in order to encourage credit unions to adopt more responsible and creative practices to serve low-income people.