

Credit union

A **credit union** is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members.^{[1][2][3]} Many credit unions also provide services intended to support community development or sustainable international development on a local level.^[5]

Worldwide, credit union systems vary significantly in terms of total system assets and average institution asset size,^[6] ranging from volunteer operations with a handful of members to institutions with assets worth several billion US dollars and hundreds of thousands of members.^[7] Credit unions operate alongside other mutual and/or co-operative organizations engaging in cooperative banking, such as building societies.

Differences from other financial institutions

Credit unions differ from banks and other financial institutions in that those who have accounts in the credit union are its members and owners,^[8] and they elect their board of directors in a one-person-one-vote system regardless of their amount invested.^[9] Credit unions see themselves as different from mainstream banks, with a mission to be "community-oriented" and "serve people, not profit".^{[10][11][12][13][14][15]}

Credit unions offer many of the same financial services as banks, but often using a different terminology; common services include share accounts (savings accounts), share draft accounts (checking accounts), credit cards, share term certificates (certificates of deposit), and online banking.^[2] Normally, only a member of a credit union may deposit or borrow money.^[2] Surveys of customers at banks and credit unions have consistently shown a significantly higher customer satisfaction rate with the quality of service at credit unions.^{[16][17]} Credit unions have historically claimed to provide superior member service and to be committed to helping members improve their financial situation. In the context of financial inclusion credit unions claim to provide a broader range of loan and savings products at a much cheaper cost to their members than do most microfinance institutions.^[18]

Not-for-profit status

In the credit union context, "not-for-profit" is not the same as for a "non-profit" charity or similar organization.^[19] Credit unions are "not-for-profit" because their purpose is to serve their members rather than to maximize profits.^{[20][21][22]} But, unlike charities and the like, credit unions do not rely on donations, and are financial institutions that must perforce make what is, in economic terms, a small profit (i.e., in non-profit accounting terms, a "surplus") to remain in existence.^{[23][24]} According to the World Council of Credit Unions (WOCCU), a credit union's revenues (from loans and investments) must exceed its operating expenses and dividends (interest paid on deposits) in order to maintain capital and solvency^[25] and "credit unions use excess earnings to offer members more affordable loans, a higher return on savings, lower fees

or new products and services". WOCCU's position is deeply rooted in global credit union history. F.W. Raiffeisen, the founder of the global movement, wrote in 1870 that credit unions "are, according to paragraph eleven of the German law of cooperatives, 'merchants' as defined by the common code of commerce. They accordingly form a sort of commercial business enterprise of which the owners are the Credit Unions' members".^[26]

Global presence

Based on data from the World Council, at the end of 2010 there were 52,945 credit unions in 100 countries around the world. Collectively they served 188 million members and oversaw US\$1.5 trillion in assets.^[27] The World Council does not include data from co-operative banks, so, for example, some countries generally seen as the pioneers of credit unionism, such as Germany, France, the Netherlands and Italy, are not included in their data. The European Association of Co-operative Banks reported 38 million members in those four countries at the end of 2010.^[28]

The countries with the most credit union activity are highly diverse. According to the World Council, the countries with the greatest number of credit union members were the United States (92 million), India (20 million), Canada (11 million), South Korea (5.6 million), Kenya and Brazil (3.9 million each), Thailand (3.6 million), Australia 3.4 million, Ireland (3.0 million), and Mexico (2.6 million).^[27]

The countries with the highest percentage of credit union members in the economically active population were Ireland (75%),^[29] Barbados (72%), St. Lucia (67%), Belize (65%), Grenada (59%), Trinidad & Tobago and Jamaica (54% each), Canada (46%), Antigua & Barbuda (45%), and the United States (44%). Several African and Latin American countries also had high credit union membership rates, as did Australia. The average percentage for all countries considered in the report was 7.5%.^[27]

Credit unions were launched in Poland in 1992; as of 2012 there were 2,000 credit union branches there with 2.2 million members.^[30]

History

Modern credit union history dates from 1852, when Franz Hermann Schulze-Delitzsch consolidated the learning from two pilot projects, one in Eilenburg and the other in Delitzsch in the Kingdom of Saxony into what are generally recognized as the first credit unions in the world. He went on to develop a highly successful urban credit union system.^[31] In 1864 Friedrich Wilhelm Raiffeisen founded the first rural credit union in Heddesdorf (now part of Neuwied) in Germany.^[32] By the time of Raiffeisen's death in 1888, credit unions had spread to Italy, France, the Netherlands, England, Austria, and other nations.

The first credit union in North America, the Caisse Populaire de Lévis in Quebec, Canada, began operations on January 23, 1901 with a 10-cent deposit. Founder Alphonse Desjardins, a reporter in the Canadian parliament, was moved to take up his mission in 1897 when he learned of a Montrealer who had been ordered by the court to pay nearly C\$5,000 in interest on a loan of

\$150 from a moneylender. Drawing extensively on European precedents, Desjardins developed a unique parish-based model for Quebec: the *caisse populaire*.

In the United States, St. Mary's Bank Credit Union of Manchester, New Hampshire was the first credit union. Assisted by a personal visit from Desjardins, St. Mary's was founded by French-speaking immigrants to Manchester from Quebec on November 24, 1908. America's Credit Union Museum now occupies the location of the home from which St. Mary's Bank Credit Union first operated. On November 1910 the Woman's Educational and Industrial Union set up the Industrial Credit Union, modelled on the Desjardins credit unions it was the first non-faith-based community credit union serving all people in the greater Boston area. The oldest state wide credit union in the US was established in 1913. The St. Mary's Credit Union serves any resident of the Commonwealth of Massachusetts.^[33]

After being promoted by the Catholic Church in the 1940s to assist the poor in Latin America, credit unions expanded rapidly during the 1950s and 1960s, especially in Bolivia, Costa Rica, the Dominican Republic, Honduras and Peru. The Regional Confederation of Latin American Credit Unions (COLAC) was formed and with funding by the Inter-American Development Bank credit unions in the regions grew rapidly throughout the 1970s and into the early 1980s. In 1988 COLAC credit unions represented 4 million members across 17 countries with a loan portfolio of circa half a billion US dollars. However, from the late 1970s onwards many Latin American credit unions struggled with inflation, stagnating membership and serious loan recovery problems. In the 1980s donor agencies such as USAID attempted to rehabilitate Latin American credit unions by providing technical assistance and focusing credit unions' efforts on mobilising deposits from the local population. In 1987 the regional financial crisis caused a run on credit unions. Significant withdrawals and high default rates caused liquidity problems for many credit unions in the region.^[34]

Stability and risks

Credit unions must make enough surplus to cover expenses, otherwise, like any other business, they cannot continue. They can and do become insolvent and cease to exist; the effect on those with funds deposited varies between jurisdictions.

Several factors combine to put credit unions at risk of failure. They may not be allowed to lend enough money to enough people who are willing and able to repay because of their rules on responsible lending. When debtors get into trouble, they will often repay liabilities such as payday loans with high interest rates first, leaving the credit unions until last. And in some cases courts may, after ruling against debtors, leniently allow them to pay off their debts with very small payments, sometimes free of interest, over a long period.^[35]

Corporate credit unions

Credit unions as such provide service only to individual consumers. *Corporate credit unions* (also known as *central credit unions* in Canada) provide service to credit unions, with operational support, funds clearing tasks, and product and service delivery.

Leagues and associations

Credit Unions often form cooperatives among themselves to provide services to members. A Credit Union Service Organization (CUSO) is generally a for-profit subsidiary of one or more credit unions formed for this purpose. For example, CO-OP Financial Services, the largest credit union owned interbank network in the US, provides an ATM network and shared branching services to credit unions. Other examples of cooperatives among credit unions include credit counseling services as well as insurance and investment services.

State credit union leagues can partner with outside organizations to promote initiatives for credit unions or customers. For example, the Indiana Credit Union League sponsors an initiative called "Ignite", which is used to encourage innovation in the credit union industry, with the Filene Research Institute.^[36]

The WCCU is both a trade association for credit unions worldwide and a development agency. The WOCCU's mission is to "assist its members and potential members to organize, expand, improve and integrate credit unions and related institutions as effective instruments for the economic and social development of all people".^[37]

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8. 12 U.S.C. § 1757(6), CUNA Model Credit Union Act § 0.70 (2007)^[dead link]
9. 12 U.S.C. § 1760, CUNA Model Credit Union Act § 4.90 (2007)^[dead link]
10. [1] - Lanier Federal Credit Union (typical example of a small credit union), motto: *"Where people are worth more than money."*
11. "The Credit Union Difference" - Credit unions exist to help people, not make a profit. Our goal is to serve all of our members well, including those of modest means - **every member counts...** The same **people-first philosophy** causes credit unions and our employees to **get involved in community charitable activities** and **worthwhile causes...** ...". Credit Union National Association.
12. [2] - *"Credit unions are not-for-profit financial cooperatives. **We exist to serve our members, not to make a profit.** Unlike most other financial institutions, credit unions do not issue stock or pay dividends to outside stockholders. Instead, **earnings are returned** to our members..."*
13. [3] - "The Christian Credit Union" - In our effort to fulfill the vision of making a **positive difference**, Christian Community Credit Union is committed to give you **outstanding member service** through these **higher service standards**: We promise to treat you in a God-honoring way...
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