Challenges of Growth in the US Credit Union Movement

Paul Thompson

The US credit union movement has undergone a transformation over the past four decades, from a multiplicity of small, largely volunteer-run organisations offering limited services, to a smaller number of larger full-service financial institutions staffed by salaried professionals. This article looks at some of the challenges posed by growth and consolidation: the cultural shift, governance issues, and the effects on board responsibilities. The US experience has implications for movements still in the early stages of their development.

Introduction

The credit union was brought to the United States in 1908 with the establishment of St Mary's Bank in Manchester, New Hampshire, a parish credit union serving immigrant textile workers and their families. St Mary's Bank is still in operation. The building where it first began now houses America's Credit Union Museum. Early US credit unions were small, offered limited services, and were largely run by unpaid volunteers fired by missionary zeal. The volunteers were "rank financial amateurs" who "learned the hard way" how to operate a financial institution (Dorfman, 1984).

By 1969, sixty years on, the US credit union movement had grown to 23,866 credit unions with 21.6 million members and $15.9 billion in assets. But it was little changed in structure and services from the early days. Most had fewer than a thousand members and less that $1 million in assets. The major change was in the economic status of its membership. Though most members of the early movement were employed, they lived on the economic margins, where one misfortune could knock them into poverty. Economic growth led to higher wages and many, perhaps most, credit union members moved into the middle class. The US movement in 1970 entered a period of rapid change. It began to consolidate through liquidations and through mergers of less successful small credit unions with more robust ones. The most agile credit unions evolved into professionally-run, full service financial institutions.

Factors behind this evolution included:

- **Passage of federal deposit insurance for credit union accounts in 1970.** Insurance requirements forced the closure or merger of the weakest credit unions. Chartering requirements were raised so it was harder to form new credit unions.

- **Enactment of laws and regulations that loosened the common bond requirements so credit unions could add groups to their base membership, as long as each group had its own common bond.**

- **Computerisation of accounts and other financial data that enabled credit unions to handle larger numbers of members.** In addition, the rise of national credit bureaus made it easier to judge the creditworthiness of members without having to have personal acquaintance with them.

- **Removal of Depression-era legal restrictions.** This empowered credit unions to add services like checking and mortgages. Broader offerings attracted more members.

- **Competitive pressures in the new financial marketplace and a growing regulatory burden.** Middle- and large-sized credit unions could better afford automation, new products and services, and the staff to ensure compliance to regulations. Their size also

> helped lower costs per member, reflected in better pricing. Their smaller counterparts struggled to keep up.

An example of a mid-sized credit union that has grown by accretion is Steel Valley Federal Credit Union in Cleveland, Ohio. It was chartered in 1966 to serve Steelworkers Local 185 working for J&L Steel. In the early 1980s, steel and other industries were hit hard by recession and foreign competition. To help their credit unions survive, the federal regulator permitted credit unions to add additional groups to their fields of membership.

Steel Valley began growing by adding groups and absorbing other credit unions. Today, it serves more than 80 employee groups, and its most recent merger was with failing $11 million GIC Federal Credit Union. Steel Valley has some 35 employees, nearly 9,000 members, and assets close to $50 million. However, growth has not allowed it to rest on its achievements. Its capital base has fallen behind its asset growth. It is planning to cut costs by closing four of its seven branches and relying more on internet technology.

Small credit unions often have a family feel larger credit unions might envy.

> The sad thing is losing the mom-and-pop credit unions. It's sad because it's the small credit unions that know you personally. You know the member, you know their family. You're not just a number. You're someone

notes Steel Valley's CEO David K Lawhun (Lazette, 2012). The flip side of this, however, is that members of small credit unions enjoy better service after merger, according to three economists who studied nearly 300 merger participants during the 1988-1995 period (Fried et al, 1999).

Today, the number of US credit unions has shrunk by more than two thirds, and consolidation is continuing with the number of credit unions decreasing by some 4 per cent each year. Most of this decline is due to mergers of struggling small credit unions with larger ones. Growth is concentrated among the larger credit unions. While the *number* of credit unions has shrunk, membership has grown to some 97 million members and the movement now has a trillion dollars in assets. The average credit union in 2013 had around 14,000 members and $159 million in assets but growth is concentrated in the bigger credit unions. In 2013, the 1,491 largest credit unions — with $100 million in assets and above — held 83 per cent of the movement's assets and 89 per cent of the members.

Challenge 1 — Fostering "Credit Union Philosophy"

The volunteer-centered culture of the early movement has been characterised as "populist" by historian Ian MacPherson (1999). Today, while still governed by volunteer boards, most credit unions have come to rely on paid staff with specialised knowledge. MacPherson called this the "managerial culture."

From the beginning, this evolution has created controversy and rifts within the US credit union movement. Some credit unionists bewail the loss of "credit union philosophy" and warn that credit unions are becoming indistinguishable from for-profit banks. Others argue that credit unions remain devoted to their creed of "not for profit, not for charity, but for service." It is probably true that many credit union employees see their work more as a job than a vocation. But that does not mean that they do not believe in and savour the ideals of the movement. Those who have worked in a bank or savings and loan often remark that the credit union attitude is very different from the profit-oriented mentality of their former employers.

Just as an individual should have a 'moral compass' that steers him or her in an ethical manner, I would suggest that credit unions need a 'philosophical compass' that keeps them on the right path. This compass would point to the pole of honest, reliable service to members and community and away from staff convenience, profit-maximisation, and self-aggrandisement. There is considerable evidence that many, even most, credit unions possess such a compass. Credit union web sites feature frequent references to the co-operative nature of credit unions and the goal of serving members. The trade associations on the state and national level have attempted to preserve the movement's dedication to service through education, various programmes honouring philosophy in action, and encouraging community service by credit unions. One programme initiated by the Credit Union National Association has credit unions subscribing to a Statement of Commitment to Members. It has been adopted by hundreds of credit unions, many of them large ones.

Another programme that has trained hundreds of US credit unionists in the ideals and purposes of the movement is the Credit Union Development Education (CUDE) programme of the National Credit Union Foundation — the author is a CUDE graduate. This programme has become the model for similar programmes elsewhere, such as the United Kingdom, the Caribbean, and the Philippines.

An ongoing debate concerns what credit unions, whose membership, as I have noted, has become largely middle-class, should be doing on behalf of low-income Americans, those on the economic margins. Critics complain that mainline credit unions ignore those most in need of their services. However, many mainline credit unions do have low-wage members and have extended their service areas to include low-income communities.

More than 1,800 credit unions, most small but some quite large, have made helping poorer groups their particular mission. They are classified by regulators as "low-income credit unions". They are often organised by churches or by social reformers. Many low-income credit unions have taken the label of "community development credit unions". They have their own association, the Federation of Community Development Credit Unions, that has helped to give low-income credit unions influence in the movement and in government that they otherwise would not have.

The low-income credit unions have sometimes come under criticism by the mainline movement as following a path that is not economically sustainable. "Poverty makes a poor common bond", the criticism goes.

The two camps have much to learn from each other. The mutual recriminations are not particularly helpful. Each credit union has its own role to play in meeting the needs of poorer Americans. Simply by providing lower- and middle-income members with honest, reasonably priced financial services, credit unions are saving them billions of dollars each year and in their modest way ameliorating the growing "wealth gap" in the nation. Many provide other services to help struggling members, such as loan consolidations, loan modifications, and financial counselling, as well as contributing to charities such as children's hospitals and the National Credit Union Foundation. Larger credit unions can often do much because they have the resources.

Challenge 2 — Maintaining Credit Union Democracy

When credit unions were small and membership confined to one group, the idea of credit union democracy — one member, one vote — had tangible reality. The annual meeting, at which board elections were held, could attract a large share, even a majority, of members. They often personally knew the directors and candidates. Each member could feel that his or her vote had real weight. A candidate for office could solicit support by walking around the shop floor or telephoning members. The cost of elections was minimal.

Today, when a credit union has tens or hundreds of thousands of members or even more, preserving democracy is a real challenge. Many members have at most a casual attachment to the credit union and have no knowledge of or interest in the board members. The annual meeting attracts but a fraction of the membership, sometimes mainly employees of the credit union. Only a minority of members bothers to vote. In short, the movement has largely evolved from direct democracy to representative democracy in which positions are filled by votes of those who for one reason or another like to take part in elections. It has also become difficult for challengers to board policies to make their case to a large membership that may be scattered across a city or a state.

US credit unions have responded by creating techniques to attract members to the annual meeting, increase voting, measure member satisfaction with services, and sound out the membership on important issues. Voting usually no longer takes place at the annual meeting but is done by mail ballot, with members informed of the qualifications of each candidate for the board. The ballots are usually mailed out with members' monthly account statements and may be handed to the member at the teller window. Results are announced at the annual meeting.

Credit unions communicate with their members with newsletters, often distributed with statements and available on the credit union's website. The best newsletters do more than push product. They educate members about credit union philosophy, offer financial advice, and report on board decisions. The credit union's annual report also conveys important information. Many credit unions periodically survey their membership as to their satisfaction with the credit union's service. And, like bank customers, members can vote with their feet, simply taking their business elsewhere. Staff and board know this, and this encourages them to stick closely to their task of satisfying members.

Challenge 3 — Improving Board Operations

During the past 40 years, boards of directors have been playing catch-up in terms of understanding their credit union's business.

> With the increasing complexity of credit union operations and expansion of technologically driven products and services, the qualities and responsibilities of board members have increased in scale and scope,

according to Raymond H Lopez (Lopez, 2001). In 2010, the National Credit Union Administration required federal credit union board members to be financially literate within six months of their election or appointment, that is, able to understand a balance or income sheet and important ratios, ask intelligent questions, etc.

The competitive pace is particularly challenging for directors of smaller credit unions, who may be resistant to change.

> Many institutions are managed and led by groups of sincerely good people who love their credit union but have no idea that they are killing it, by trying to keep the status quo

a small credit union consultant with regulatory experience confided to the author.

> So they do nothing, hoping against hope they can amble along until their manager is ready to retire and they can quietly fold themselves into a larger credit union, where maybe they'll get a board seat or two (Anonymous, 2014).

One challenge for any credit union is recruiting qualified candidates. Credit unions responding to this challenge often:

- Have job descriptions for volunteers, spelling out duties and responsibilities and the amount of time the post requires.

- Actively seek out top-notch candidates through a nominating committee that recruits candidates they consider most qualified to be on the slate that is presented to the membership.

- Seek candidates reflective of the membership in terms of race, gender, ethnicity, age, etc.

- Try to have more than one candidate for each open position.

- Balance experience with new faces by having term limits for directors.

Once elected, boards need to focus on what's important. Much research has been done on this area, especially by the Filene Institute, the movement's 'think tank'. Research indicates that boards need to:

- Focus less on month to month financial aspects of the credit union and more on long-term strategies for the credit union.

- Actively direct management — that is, work with the CEO to set reasonable goals and then evaluate progress toward those goals. CEOs and boards should have a trusting and honest relationship.

Fortunately, movement organisations offer numerous training opportunities for directors, and credit unions that want to survive offer their directors continual education.

All in all, the US credit union movement appears to be in good shape, but it will need to face these challenges if it is to remain viable and true to its mission.

The Author

Paul Thompson of Credit Union Development Education is author of Development of the Modern US Credit Union Movement 1970-2010.

References

Anonymous (2014) Email to author.

Dorfman, Mark H (1984) *But for Service: A History of the Pennsylvania Credit Union League*. Pacul Services, Inc.

Fried, Harold O, Lovell, C A Knox and Yaisawarng, Suthathip (1999) "The Impact of Mergers on Credit Union Service Provision." *Journal of Banking and Finance*, 23 (2-4) :367-386.

Lazette, Michelle Park (2012) "Merger Opportunities Grow for Credit Unions." *Crains Cleveland Business* 19 March 2012.

Lopez, Raymond H (2001) *Credit Union Boards of Directors for the New Millennium*. Faculty Working Papers, Lubin School of Business, Pace University)

MacPherson, Ian (1999) *Hands Around the Globe: A History of the International Credit Union Movement*. World Council of Credit Unions.

How to cite this article

Thompson, P. (2013). Challenges of growth in the US credit union movement. J*ournal of Co-operative Studies, 46*(3), 38-42.