

My View

BY MARK MEYER

DOES CAPITALISM NEED COOPERATION?

Millions of lives have been dramatically changed by the economic storm of 2008, the worst financial disaster to hit the United States since the Great Depression. Former Federal Reserve Chairman Alan Greenspan called it a “once in a century tsunami” that left him in a “state of shock in disbelief.”

Families have lost their homes in droves, with over 10.5 million homes in foreclosure this August. Dozens of financial institutions have failed or merged, and in the first nine months of the year, 760,000 Americans lost their jobs. Several complex factors aligned to create this perfect storm, including financial deregulation, new, untested ways of investing money, overly optimistic consumers and the failed predictions of financial institutions.

America is hurting. Consumers and businesses need access to credit, though now it's much tougher to come by. Who in this difficult time is still lending? A particular group of financial institutions—credit unions.

For 100 years, credit unions have operated under the ethos of thrift, service and cooperation. Their share of the finance market—below 10 percent—is relatively low. But that's because consumers have generally been unaware of credit unions' advantageous services, and were swayed by commercial banks' scale and marketing power. While large banks continue their domino-like collapse, the time has arrived for these

cooperatives to step out of the dark and meet the needs of today's consumers.

Self-Sufficiency and Simplicity

Investor-owned financial institutions left the broken economy to the U.S. Treasury Department, who will decide its fate over the coming months. Credit unions act differently. Whereas investor-owned banks brought us into a recession, credit unions keep the economic engine of America moving. They do this by serving their customers' needs, not those of investors.

Credit unions have three principle advantages over investor-owned institutions. Each of the three shows how credit unions can resuscitate our economy.

First, credit unions are simple. While many banks and finance companies gorged on exotic mortgages and NINJA (No Income, No Job, no Assets) loans, credit unions wrote loans that consumers could actually afford. They then kept most of the loans on their own books.

The commercial banking sector is abuzz with worry about home foreclosures and mortgage write-offs. Yet, credit unions experienced low levels of delinquent mortgage payments. As of June 2008, these delinquencies hovered at 0.78 percent, compared to banks' 2.7 percent. Spokane Teachers Credit Union in Washington State recently wrote a note to their members that, in light of the media's apocalyptic howling,



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sounds almost farcical:

“In the interest of full disclosure, STCU would like to announce that, in the midst of the national mortgage crisis, your credit union has had one bad home loan.... [the crisis] was all over in less than an hour.”

Such light-heartedness would be unthinkable in the daily groans and teeth-gnashing of Wall Street.

Many consumers are now discovering that exotic financial products are about as useful to their fiscal lives as Hummers are for their daily commutes. While credit unions won't turn any heads, they are safe and sound institutions that promote consumer thrift.

Main Street's Business

The second credit union advantage is that Main Street runs the business, not Wall Street. Stockholders in investor-owned companies have a simple desire: to maximize their profits. On the surface, this seems fair. That is, until you consider what it means to be a bank customer who receives “profit-maximizing fees” or adjustable-rate mortgages. As the current bailout illustrates, the Wall Street directive for profit-at-any-price can singe not just companies, but the core of the global economy.

Credit union members, in contrast, own the institution they use, and are entitled to vote in board elections. That gives the customers—the people for whom the credit unions actually matter—a say in how business is run.

Those on Wall Street may find this approach bewildering, but those on Main Street regard it as a delight. William Jackson, a fellow at the Filene Research Institute and a finance professor at the University of Alabama, found that credit unions offer better pricing and fees than banks do, across the entire portfolio of consumer financial products. They always have. Further, Jackson estimates that, on the whole, credit union members benefit \$11 billion more than customers with banks.

And it's not just the savings that attract people to credit unions. Credit unions are more trustworthy, often ranking first above other financial institutions. Their service-over-profit mentality caters to “unprofitable”

consumers like new Americans, the working poor and young adults.


Built for Crises

Credit unions' third advantage is that they were chartered specifically for this type of historical moment. While credit unions operated on a state-by-state basis in the early 1900s, they did not receive full federal authority to operate until 1934. That was during the most challenging moment in our nation's financial history—the Great Depression. President Roosevelt signed the Federal Credit Union Act to ensure credit unions made credit available to “people of small means.” This act, ultimately, was meant to stabilize an imbalanced global financial system.

The original conditions in which credit unions were chartered are eerily similar to those of today. The banking industry's lending is down, as credit remains unthawed. Yet, most of the nation's 8,100 credit unions are replete with reserves, ready to lend responsibly, and provide affordable products.

The numbers don't lie. Bill Hampel, chief economist of Credit Union National Association, said that credit union business lending was up 36 percent in the first six months of 2008. Pat Smith, CEO of Unitus Community Credit Union in Portland, Ore. said student loans are up 37 percent this year.

Mark Twain once said, “A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain.” His quote resonates with today's financial crisis. We've lost our trust in banks, and need financial institutions we know are looking out for the interests of the consumer, who won't cower or run when times are bad.

Credit unions can't solve all financial problems, but they are certainly a better shelter for battered consumers. 

Mark Meyer is the executive director of the Filene Institute, a non-profit think tank in Madison, Wis. that researches credit unions. George Hofheimer, Filene's chief researcher, contributed to this article. Visit them on the Web at www.filene.org.



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