

Credit Unions vs. Banks – Differences, Pros & Cons



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At a time when banks are making record profits and customers are paying higher fees, many people are seeking financial institutions that will help them save money. One such institution could be your local credit union.

Credit unions offer numerous financial products that help people maximize their incomes and increase their savings, often with fewer or lower fees than traditional banks. But these institutions also have disadvantages which may make them unappealing to some banking customers.

What Is a Credit Union?

Credit unions are similar to traditional banks in the sense that both institutions offer financial products to customers. Credit union members, like bank customers, have access to checking and savings accounts, CDs, loan products, and credit cards.

However, credit unions differ from larger banking chains in two distinct ways:

1. One key difference is that a credit union is a not-for-profit institution. Since credit unions operate as nonprofits, they can offer higher interest rates on savings accounts and CDs, and lower interest rates on loan products and credit cards.
2. Another important distinction is that credit unions are member-focused institutions. A credit union is a cooperative, which means it is owned and operated by its members, as opposed to being owned by its stockholders like a bank. Your initial membership deposit makes you a part owner of the credit union and gives you a say in the credit union's decisions.

Because of this ownership structure, potential members have to meet membership requirements that vary depending on the credit union's objective. For example, a corporation's credit union may only accept employees and their immediate family members. A credit union for teachers, on the other hand, may accept any teacher who works for a certain school district. A few credit unions have more relaxed requirements and may simply request that members live in a certain city or area.

The National Credit Union Administration (NCUA) manages a database of credit unions. You can search the [Find a Credit utility](#) on the NCUA's website to see if you qualify for a credit union in your area.

Advantages of a Credit Union

If you pass the membership requirements, credit unions have a lot to offer over a regular bank:

1. Higher Interest Rates

Credit unions offer more bang for your buck over traditional banks. They typically pay higher interest rates on all deposit accounts including savings, [money market](#), and checking accounts. These rates range anywhere from 4 to 10 times the amount in interest you would receive from your local [commercial bank](#). Only [online banks](#) offer rates that are competitive or, in some cases, better than the rates offered by credit unions.

2. Lower Loan & Credit Card Rates

Credit unions offer the same financial products as banks, but they are much cheaper. Most people use their local credit union for car purchases because the rate is normally lower than dealer financing and because commercial banks are normally a percentage point or two higher than credit unions. Credit unions also offer relatively low APRs on mortgages, personal loans, and credit cards.

3. Lower Fees

Credit unions have few fees compared to national banks. In fact, many offer checks, withdrawals, and electronic transactions free of charge. Many also offer checking accounts with no minimum balance and without a monthly account servicing charge. This could save you hundreds of dollars a year. Credit unions do charge bounced check and [overdraft fees](#) like traditional banks, but the amount is typically less. For example, most commercial banks charge \$35, but my local credit union only charges \$24.

4. Customer Focused Banking

With traditional banks, the management and board of directors want to make as large a profit as possible. Unfortunately, this goal often contradicts the goals of its customers, who want to enjoy low rates, fees, and the best customer service possible. In order to provide this level of service, banks must cut into their profits, which they're not inclined to do.

However, due to the unique membership structure of a credit union, all members have an equal vote in any decisions made by the credit union, and they all work to serve one another. In other words, member goals aren't at odds with "management." Therefore, the credit union has more incentive to provide low rates, fees, and great customer service.

5. Better Service

My first checking account was with a credit union. When I visited, I always got help right away and my teller not only remembered my name, but recognized me on sight. At the traditional bank where I also had an account, there was always a line for the ATM and I was hard-pressed to find a teller who even recognized me, let alone remembered my name.

Because credit unions have small branches, they can offer fast and personal service. Many credit unions even assign one person to work with you. If you visit the branch often, you can develop a working relationship and often receive personalized service from the same person – something large banks have a hard time offering.

6. More Flexibility

If you have a blemished credit history or issues with your employment, or lack a large deposit, most banks will deny you a loan or credit card. Since banks process thousands of applications a month, they streamline the process by setting requirements on income, credit scores, and deposits. If you don't meet these requirements, you are simply declined without further consideration since one lost customer means little to a large bank in the long run.

On the other hand, because credit unions are smaller and have a member-focused philosophy, they are more willing to work with you even if you have a troubled financial past. A credit union may also make exceptions for existing members in good standing should any unexpected issues arise with your application for a loan or credit.

7. Fewer Complications

Most credit unions offer checking and savings accounts with simple, easy-to-follow terms. For example, my former credit union offered free checking. Every deposit, debit card purchase, and check withdrawal came free as well. They also offered a free savings account, provided I maintained a minimum balance of \$5.

Many traditional banks also offer free checking and savings accounts, but they come with loads of rules and provisions. For example, I have a “free” checking account with my bank, but in order to keep it free, I need to make at least 12 signature purchases with my debit card each month, write 10 checks, or set up 2 direct deposits into the account. I also have a “free” savings account, but to keep it, I have to make 2 withdrawals of at least \$500 from my checking account into my savings account each month. If I don’t meet that requirement, I earn less interest for the month. It is these kind of restrictions and inconveniences that give a leg up to credit unions.



Disadvantages of a Credit Union

Despite the easy rules and low rates, credit unions have a few drawbacks as well.

1. Fewer Options

Credit unions offer fewer financial products than larger national banks. For example, Bank of America currently offers 5 different types of checking and savings accounts, 29 different credit cards, and a host of loan and investment products. In comparison, the credit union where I live offers only 2 types of checking and savings accounts, 2 credit cards, one mortgage loan, one personal loan, and one auto loan.

With less to choose from, you don’t have as much freedom. By going with a larger bank, you can select the financial products that suit you best, which could mean lower fees or more rewards.

2. Inconvenience with Less Locations

I left my credit union because they only had three physical branches and a sub-par online banking system. Once I moved away from the primary branch, I had no way to visit the bank. I could still mail in the occasional personal check to be deposited, but it just became too much of a hassle.

Credit unions work on a smaller scale than most banks, and that can mean inconvenience. In addition to having a limited number of branches, most credit unions keep shorter business hours than other banks, and offer fewer ATM machines.

3. Poor Online Services

Credit unions don't always keep up with the latest in banking technology. In the past few years, banking has gone almost entirely online. With my national bank, I can view my current balance, transfer funds, apply for credit cards and loans, or pay bills – all in an easy-to-use, online interface. I've also elected to receive my statements electronically and I linked my [Mint.com](#) account to my bank for budgeting purposes.

While my credit union did offer online banking, it was primitive at best. I could log on and see my recent account activity, or transfer funds to another credit union account, but could do little else.

Credit unions often don't have the necessary funding to build a large online presence, so they typically don't offer many web-based features. And because they're smaller than most traditional banks, they don't always work with budgeting software like [Mint.com](#) or [You Need a Budget](#).

Final Word: Who Should Use a Credit Union?

Credit unions offer free or low-fee basic accounts – enough options for basic banking users who simply need to deposit paychecks, pay bills, and make debit card purchases. Many credit union members love the personalized service they get and save hundreds of dollars on fees or from lower interest rates on loans and credit cards.

But credit unions may not work for someone who wants specialized financial products and advanced online services, or who needs their financial institution to have multiple or national locations. If you're looking for a checking account that offers rewards, for example, you may not be happy with a credit union. Or if you're constantly on the road and want access to fee-free ATMs and teller interaction, you may be better off with a national bank.

There's also the corporate structure of a bank to compare against the member-centric structure of a credit union. For some people, this feature alone is enough for them to bank at a credit union in spite of potential inconveniences.

Do you bank with a credit union? Have has your overall experience been like compared to a commercial bank?