PEOPLE OVER PROFITS

NEW POLL CONFIRMS MEANINGFUL, MEASURABLE "CREDIT UNION DIFFERENCE"

BY MIKE SCHENK

The nation's 5,000 credit unions serve over 130 million members, making the U.S. credit union system the largest and most important network of financial cooperatives in the world. >>

Wakota Federal Credit Union offered Mariana and her family a lower rate on her car loan through an innovative lending approach, ensuring reliable transportation and reducing the likelihood of income disruptions. Photo: Romulo Ueda/Filene

Affordable home loans like the one Illiana Credit Union offered Samuel provide the opportunity to work toward financial security and build intergenerational wealth. Photo: Romulo Ueda/Filene

As not-for-profit, member-owned and democratically controlled depository institutions, credit unions deliver big financial and nonfinancial benefits. Unlike banks, credit unions have no stockholders, which means they return profits directly to consumers—not to outside investors. Credit union management is firmly focused on maximizing service to members. Credit unions are smaller, have a more local presence, and provide a more personal approach to consumer service. These unique characteristics produce significant pro-consumer outcomes for credit union members—and for society at large.

The Credit Union National Association (CUNA)'s 2022 National Voter Poll reflects the beneficial effects of these outcomes. The poll includes questions about financial institutions and their effectiveness in improving consumer financial well-being and in advancing the communities they serve. The online panel survey, conducted by Frederick Polls in January 2022, is based on a nationally representative sample of 2,500 voters (with a margin of error equal to + 2 percent). Questions center on financial behaviors and outcomes, trustworthiness and connections to the local community.

Survey results unambiguously reveal that credit union members view their credit unions much more favorably than non-members view their banks and/or other service providers across every performance metric evaluated. The differences we find appear to stem from credit unions' more consultative approach, more consumer-friendly pricing, thoughtful products and services, and an overall sense of trust these institutions foster.

Weathering times of crisis

The financial and economic effects of the COVID-19 pandemic are persistent and profound. Many consumers' financial well-being has declined markedly.

Clues to these challenges can be found in the Financial Health Network's Financial Health Pulse 2021 U.S. Trends report. The 2021 Trends report shows aggregate financial health improved modestly during the pandemic, with trillions of dollars of government aid and economic support modestly boosting the aggregate readings.

The report, however, emphasizes most people in the U.S. continue to struggle with their financial health. Long-standing disparities in financial health by race, ethnicity, gender and income remain large, with some continuing to grow. For example, men have seen their financial security increase while in many cases women haven't, according to the Financial Health Network. Economists and demographers have long recognized growing income and wealth disparities in the U.S.—with increasing financial vulnerabilities that make it more challenging to weather economic downturns.

The Pew Research Center's 2020 report on economic inequality, for example, uses Census Bureau data and analysis to study growing gaps in both income and wealth over a half-century. Between 1970 and 2018, lower- and middle-income household share of aggregate U.S. income fell 20 percentage points (from 72 to 52 percent of aggregate income). Over the same time period, lower- and middle-income household share of aggregate U.S. wealth fell 18 percentage points (from 39 to 21 percent of total aggregate wealth). CUNA's 2022 National Voter Poll confirms these broad dislocations and uncovers significant challenges and concerns around consumer financial well-being.

Advancing financial well-being

Credit unions exist to improve financial well-being for all. The specific wording varies, but the essence of this commitment is codified in each credit union's bylaws.

Credit unions have delivered on that promise since their start in the U.S. in the early 1900s. Their unique not-for-profit, member-ownership structure produces obvious favorable outcomes—especially in times of crisis. And CUNA's 2022 National Voter Poll uncovers a meaningful, measurable "credit union difference" around financial resilience and financial well-being today.

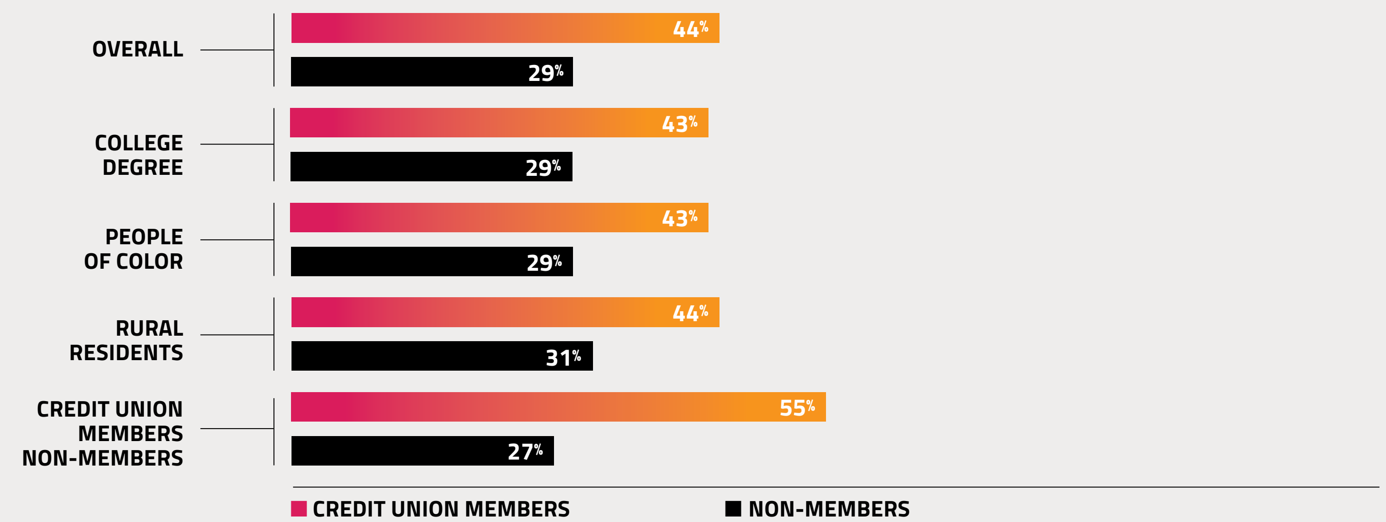
Indeed, 88 percent of credit union members say that their credit union cares about their financial well-being. Credit union members are 1.5 times more likely than nonmembers (by a 42 to 29 percent margin) to respond very positively to this idea.

Polling shows that this feeling credit union members enjoy—of being cared for and looked after by trusted advisers—is rooted in members' economic outcomes. A sizable percentage of members—88 percent—say that their credit union has improved their financial well-being.

Credit union members are 1.5 times more likely than nonmembers (by a 44 to 29 percent margin) to be passionate about this, saying that they feel

MY FINANCIAL INSTITUTION "HAS IMPROVED MY FINANCIAL WELL-BEING"

% "VERY POSITIVE" BY CREDIT UNION MEMBERSHIP STATUS



"very positive" about the ways their institution has improved their financial well-being. In addition, the percentage of credit union members who feel "very positive" about impacts to personal financial well-being is quite high—even within demographic segments that endured high financial stress during the pandemic.

These key differences between members and non-members aren't terribly surprising. Financial well-being has an obvious connection to financial education and financial literacy—and credit unions excel on this front. National Credit Union

Even within demographic segments that endured high financial stress during the pandemic, a high percentage of credit union members feel "very positive" about their financial well-being.

Administration (NCUA) Profile Report data shows that 86 percent of credit union members have access to financial education/literacy programs at their credit union.

It's also true, however, that financial health and financial well-being depend on much more than education and literacy.

According to the Consumer Financial Protection Bureau (CFPB), financial well-being includes both what people do with their money and how they feel about their money. CFPB's formal definition of financial well-being is "a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life." This definition encompasses the idea of security and choice, both in a consumer's current situation and in the future.

The Financial Health Network identifies four key components of "financial health." These include spending, saving, borrowing and planning.

CUNA's 2022 National Voter Poll draws on both concepts, exploring how consumers feel about their finances and how they behave. Survey results show that—across the board—credit union members fare better than non-members.

Spending

A significant percentage of U.S. households report difficulty paying bills for basic living expenses. Many consumers say they live paycheck-to-paycheck, and substantial proportions routinely spend more than they earn. A wide variety of recent reports confirm these outcomes.[1]

Ninety percent of all credit union members say their institution makes it easy for them to manage their finances. Further, credit union members are 1.2 times more likely than non-members (by a 49 to 40 percent margin) to have strong feelings on this issue—responding "very positively" to the idea that their financial institution makes it easy to manage their finances.

In addition, more than half (54 percent) of credit union PFI members say this is the case, making them 1.4 times more likely than non-members to report that they feel strongly about the difference their institution makes in reducing financial friction and spending money wisely.

Saving

Nearly one-third of consumers, and 30 percent of those surveyed in the National Voter Poll, say they don't have at least $500 cash or equivalent to meet unexpected expenses such as a medical bill or car repairs.

This overall lack of access to funds approximates, but is modestly lower than, results reported in the most recent Federal Reserve Survey of Household Economics and Decision-making (SHED).[2]

Consumers who don't use credit unions are nearly two times more likely than their counterparts who are credit union members to say they don't have ready access to $500 for an emergency expense.

Survey results show that 38 percent of non-members but only 22 percent of credit union members don't have such funds available. Similar large differences are seen across every demographic group studied. The differences are important because maintaining a modest emergency cash fund or savings account is widely recognized as a key contributor to financial resilience.

Research from the CFPB clearly shows that small, unexpected expenses—such as a car repair or a modest medical bill—can be a hardship for many families. According to the CFPB, disparities in financial well-being are greatest between subgroups that have different levels of liquid savings. CFPB research shows that the average financial well-being score for adults with the lowest level of savings (less than $250) is 41, which is roughly 40 percent lower than the average score of 68 for adults with the highest level of savings ($75,000 or more).[3]

Research from the Financial Health Network similarly reveals that among people who faced major medical expenses, those without emergency savings were 1.5 times more likely to face hardship than those who had started to save for emergencies. The benefits of establishing and maintaining rainy day funds can be felt relatively quickly. People who start saving for emergencies experience measurable benefits both in how they think about planning for emergencies and in how they manage their finances within 12 months according to the Financial Health Network. [4]

Borrowing

Having access to credit is critical to financial well-being and resilience. Affordable credit can help consumers make key purchases. Affordable automobile loans, for example, help ensure access to reliable transportation to work and to reduce the likelihood of income disruptions. Similarly, affordable home loans give many the opportunity to work toward financial security and to build intergenerational wealth.

Consumers with access only to lower-quality, higher-cost credit sources are likely to experience lower levels of financial health. Small-dollar credit and other responsible lending products and services help millions of households to better manage budget volatility, cover unexpected expenses, and reach financial goals.

CUNA's 2022 National Voter Poll results reveal credit unions excel in providing access to consumer-friendly, affordable credit. In total, 86 percent of credit union members say that their institution makes it easy for them to get loans. And credit union members are two times more likely than non-members (by a 44-to-22 percent margin) to have strong feelings on this issue—responding "very positively" to the idea that their financial institution makes it easy to get loans.

Importantly, credit union members are likely to say it is both relatively easy to get a loan at their credit union and to say they can obtain an affordable loan from the credit union. Overall, nearly half (49 percent) of credit union members say their institution provides low-cost loans—a far higher percentage than seen among non-members. Just over 23 percent of non-members say they can get a low-cost loan at their institution.

Three of the four key demographic groups examined are at least two times more likely than

1 See for example, Lending Club. New Reality Check: https://www.lendingclub.com/asset/ls/cms/media-center/12th-pay-check-to-paycheck-report.pdf?v=7499f609-777c-4fc4-89a8-b50ed1ccb8d2.

2 Federal Reserve Report on the Economic Well-Being of U.S. Households in 2020.

3 Consumer Financial Protection Bureau. "Financial well-being in America." September 2017. P.6.

4 Financial Health Network Emergency Savings Initiative.

their counterparts who don't use credit unions to express very positive views about their ability to obtain low-cost loans.

Planning and counseling

As noted earlier, credit union regulatory filings show that 86 percent of credit union members have access to financial education/literacy programs at their credit union. In addition, those filings reveal that 79 percent of members have access to formal financial counseling services at their credit union.

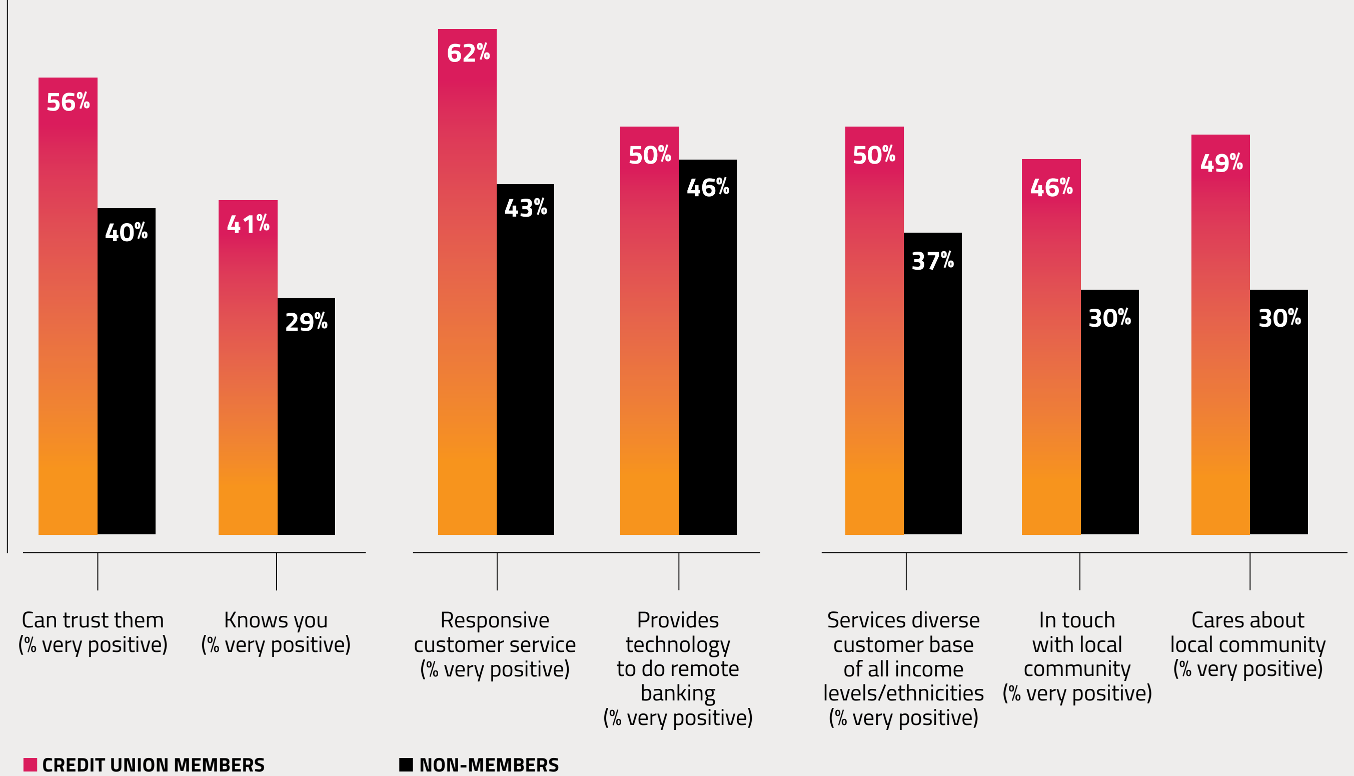
These services help people manage their money and plan for their future. Widespread access to these services is especially important because financial counseling and the associated planning process often leads to greater financial resilience. These services boost confidence and increase adoption of good financial habits like regularly saving money, managing money effectively and reducing debt burdens. CFPB research shows a clear, measurable and meaningful benefit to these outcomes: Higher levels of knowledge, confidence and adoption of positive habits are associated with higher average financial well-being.[1]

It is important to note that not all consumers who use counseling services do so voluntarily. For example, some lenders require counseling for those with marginal credit before they originate a loan. In addition, some borrowers are legally obligated to obtain counseling when they fail to make contractual loan payments or prior to obtaining credit (e.g., student loan borrowers). While CUNA's 2022 National Voter Poll didn't ask respondents what motivated them to use counseling services, their overall experiences seem to encourage them to adopt healthy financial habits, reduce fragility and improve financial well-being.

1 Consumer Financial Protection Bureau. "Financial well-being in America." September 2017. P.8.

FIGURE 2: TRUST, SERVICE AND COMMUNITY FOCUS

% "VERY POSITIVE" BY CREDIT UNION MEMBERSHIP STATUS



In any case, CUNA's 2022 National Voter Poll results reveal that credit union members are twice as likely to use financial education and counseling services. Overall, 44 percent of credit union members take advantage of these services, compared to only 22 percent of non-members.

Credit union members in every demographic group are nearly twice as likely than their nonmember counterparts in the same demographic group to say they use financial education and counseling services.

Trust, service and community focus

In addition to examining issues directly related to financial well-being, CUNA's 2022 National Voter Poll also considers several factors that are indirectly (and perhaps less obviously) connected to the concept.

We see trust, for example, as foundational. In addition, responsiveness is central to effectively delivering on the promise of financial well-being. The COVID-19 pandemic accelerated and magnified the demand for responsiveness from financial institutions. Exponential growth in competition from unregulated fintech looms large. Digitization and the need to reduce friction are the cornerstones of almost any strategic conversation in the financial services arena—nudging consumers at exactly the right moment is critically important to favorable outcomes.

Beyond this, consumers—especially young consumers and people of color—seek relationships with organizations that have an obvious commitment to both "themselves" and their broader community as expressed in corporate mission, values and in daily operations and personal interactions.

The 2022 CUNA National Voter Poll investigates each of these foundational elements because they are associated with building deep, meaningful and long-standing relationships. These elements provide important clues around institutional capability and commitment to improving consumer financial well-being. As shown in Figure 2, credit union members are more likely than non-members to view each of these ancillary measures in a "very positive" way.

Building financial resilience

Many consumers in America are financially unwell. The lack of financial resilience is especially pronounced in key demographic groups and financial disparities have grown in the wake of the COVID-19 pandemic. Much work needs to be done to improve financial health in America.

CUNA's 2022 National Voter Poll suggests financial institutions that prioritize the needs of their members, employees and community usually outperform those that pursue other approaches to creating value.

As not-for-profit, member-owned and democratically controlled depository institutions, credit unions deliver big financial and nonfinancial benefits to their members. Because credit unions have no outside stockholders, they return profits directly to consumers, and their unique structure ensures credit union management stays firmly focused on maximizing service to members.

These characteristics unambiguously translate to greater financial resilience and less financial fragility for credit union members.

Activities that lead to more consumer participation in credit unions, including policies that improve consumer access to credit unions, would clearly help millions of Americans—especially those who reflect low financial resilience, and including those who were hardest hit during the pandemic.

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