

The Financial Benefits of Credit Union Membership to Members of the State Employees' Credit Union of North Carolina

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Introduction

Biography of Author: Dr. William E. Jackson, III Financial Economist and Associate Policy Advisor

Dr. William E. Jackson III is a financial economist and associate policy advisor in the Research Department at the Federal Reserve Bank of Atlanta. At the Atlanta Fed, Dr. Jackson conducts original research on financial markets and financial institutions. He is also an advisor to the Bank on the making of monetary policy in the US. Before joining the



Research Department at the Federal Reserve Bank of Atlanta, Dr. Jackson was an associate professor of finance at the Kenan-Flagler Business School of the University of North Carolina at Chapel Hill. His academic areas of expertise are financial intermediation and industrial economics. Dr. Jackson's research centers on the role financial markets and financial institutions play in making the modern economy more efficient and productive.

Specific areas of research include corporate governance, small firm finance, monetary policy and macroeconomics, industrial economics, financial markets and institutions, corporate finance, financial literacy, and public policy.

Dr. Jackson earned his BA in economics and applied mathematics at Centre College, his MBA in finance at Stanford University, and his Ph.D. in economics at the University of Chicago.

Dr. Jackson's research has been published in the leading academic journals in the areas of empirical economics, management, and financial institutions and markets. His articles have appeared in such journals as, the *Journal of Money Credit and Banking*, the *Review of Industrial Organization*, the *Journal of Banking and Finance*, *Management Science*, and the *Review of Economics and Statistics*. Dr. Jackson is currently on the Editorial Advisory Board of one of the premier small firm research journals, the *Journal of Small Business Management*. And, his monograph on "The Future of Credit Unions: Public Policy Issues," was published by *The Filene Research Institute* in 2004.

In July 2004, Dr. Jackson provided expert testimony before the U.S. House of Representatives on the deregulation of credit unions. And, in 2005 he is serving as editor of a special issue of the *Journal of Small Business Management* on "Small Firm Finance, Governance, and Imperfect Capital Markets".

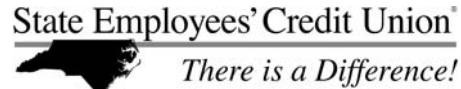
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State Employees' Credit Union

At the end of 2003, the State Employees Credit Union of North Carolina (SECU) had about one million members. This membership represented over 10% of the total population in the state of North Carolina. Or, stated differently, more than one out of ten Tar Heels was a member of the SECU, and enjoyed the full range of benefits that accompanied SECU membership at year-end 2003.

In this report, I provide an estimate of the financial benefits provided by the State Employees Credit Union of North Carolina to its members. And, I also provide a brief discussion of the financial benefits that the SECU provides to all citizens of North Carolina, regardless of whether they are members of the SECU or any other credit union. These financial benefits provided to non-members by the SECU are very substantial.

The State Employees Credit Union of North Carolina provides financial benefits to its members in at least one of three ways. These are: (1) lower rates on loans (relative to available loan rates at other types of financial institutions), (2) higher rates on deposits, or (3) lower fees on specific financial products and services. Of course, most SECU members will actually receive benefits from more than one of these sources exclusively.



I estimate that the lower rates on loans at the SECU resulted in a direct financial benefit of about \$48,821,650 to its members in 2003. Rates on used car loans provided about 62% of this benefit (\$30,114,822). The details for this estimate are presented in table 1.

My estimate of the financial benefit for SECU members associated with higher rates on deposits (shares) in 2003 is \$55,649,954. About 58% of this benefit was directly related to higher rates on money-market deposit accounts (\$32,094,924). My estimates of the benefits associated with higher deposit rates are presented in table 2.

Of the three ways that North Carolina credit unions provided financial benefits to their members, the one with the largest impact in 2003 was lower fees. During 2003, members of the State Employees Credit Union of North Carolina received a financial benefit of at least \$57,791,286 as a result of the lower fees charged by the SECU for the same types of financial products and services provided by other financial institutions. Lower fees on checking accounts (\$38,310,266) represented about 66% of this benefit. The estimates for these financial benefits are presented in table 3.

The total dollar amount of financial benefits provided by the State Employees Credit Union of North Carolina to its members during 2003 is estimated to be about \$162,262,890. This represents a financial benefit of approximately \$162 per credit union member, or about \$324 per member household (assuming two members per household).

Lower Rates on Loans

From table 1, we observe that my estimate of **the financial benefit in 2003 to State Employees Credit Union of North Carolina members based on lower (than bank) rates on loans is approximately \$48,821,650**. This amount is based on lower rates on five types of loans. Obviously, the SECU offers more than five types of loans. Thus, the calculation developed here is a very conservative estimate of the total benefits SECU members received from lower loan rates in 2003.



Table 1: Benefits to State Employees Credit Union Members from Lower Loan Rates in 2003

Loan Type	Rate Differential	Average Balance	Benefits
Credit Cards	0.0139	\$130,817,064	\$1,818,357
Personal Unsecured	0.0238	\$314,809,870	\$7,492,475
New Car - 60 months	0.0253	\$344,806,203	\$8,723,597
Used Car – 36 months	0.0308	\$977,753,937	\$30,114,822
Home Equity	0.0009	\$747,110,489	\$672,399
Total Loan Related Benefits			\$48,821,650

Sources: The rate differentials are from Jackson (2005). The averages balances are calculated using data from the yearend 2002 and 2003 NCUA call reports. Benefit equals rate differential times average balance.

Higher Rates on Deposits

Credit unions typically pay higher rates on member shares (deposits) than commercial banks pay their deposit customers. This was the case for the SECU of North Carolina during 2003. For example, in table 2, I report that the **SECU paid its members over \$55 million more than they would have received if they had maintained their funds in a similar type of deposit account with a typical commercial bank in North Carolina.**

In table 2, I calculate the benefits from higher deposit rates for four categories of deposits. These four deposit categories are: (1) regular savings, (2) interest checking, (3) money market, and (4) certificates of deposits (CDs). As in table 1, the information is taken from NCUA yearend (Call) reports and Jackson (2005). The differentials are calculated by subtracting the average bank deposit rate from the average credit union rate. Notice that the differentials range from 34 basis points (0.34%) for interest checking to 79 basis points (0.79%) for money market deposits.



From table 2, we observe that **the estimated benefit to SECU members from higher rates (yields) on deposits is \$55,649,954**. Again, I consider this a conservative estimate because certain deposit categories at the SECU (e.g., IRA and Keogh accounts) are not included in my calculations.

Table 2: Benefits to State Employees Credit Union Members from Higher Deposit Rates in 2003

Deposit Type	Rate Differential	Average Balance	Benefits
Regular Savings	0.0052	\$1,087,405,350	\$5,654,507
Interest Checking	0.0034	\$1,102,186,106	\$3,747,433
Money Market	0.0079	\$4,062,648,688	\$32,094,924
CDs	0.0063	\$2,246,522,302	\$14,153,090
Total Deposit Related Benefits			\$55,649,954

Sources: The rate differentials are from Jackson (2005). The averages balances are calculated using data from the yearend 2002 and 2003 NCUA call reports. Benefit equals rate differential times average balance.

Lower Fees

The area where SECU members benefited most in 2003 was lower fees for products and services. According to a recent CUNA study (2003), **the main areas producing these benefits from lower fees are checking accounts and credit cards**. I focus my analysis on lower fees for checking accounts. I also include lower mortgage closing costs in my analysis. However, my estimate of lower fees is probably very conservative because I do not include lower credit card fees in my analysis.



Table 3: Benefits to State Employees Credit Union Members from Lower Fees in 2003

Fee Type	Fee Differential	Number in 2003	Benefits
Checking Accounts	\$71.16	538,368	\$38,310,266
First Mortgage Closing Costs	\$806.00	24,170	\$19,481,020
Total Fee Related Benefits			\$57,791,286

Sources: The fee differentials are from Jackson (2005). The number of average checking accounts and the number of first mortgage closing transactions are taken from the yearend 2002 and/or 2003 NCUA call reports. Benefit equals fee differential times average number.

Summary of Financial Benefits to SECU Members

Table 4 provides a summary of the estimated financial benefits provided by the State Employees Credit Union of North Carolina to its members in the year 2003.

In one year (2003), the SECU provided its membership with financial benefits totaling at least \$162,262,890. This amounts to about \$162 on average for every State Employees Credit Union member during 2003, or about \$324 per member household [given that there are approximately two credit union members per member household (CUNA, 2003)].



Table 4: Summary of Estimated Financial Benefits to State Employees Credit Union Members in 2003

Benefit Type	Amount	% of Total
Lower Loan Rates	\$48,821,650	30.09
Higher Deposit Rates	\$55,649,954	34.30
Lower Fees	\$57,791,286	35.61
Total	\$162,262,890	100.00

Estimated Financial Benefits Per SECU Member on average in 2003 equaled \$162.26.... [\$162,262,890 / 1,000,000]

Source: Tables 1, 2, and 3.

Discussion of the financial benefits provided by the State Employees Credit Union to all citizens of North Carolina

As I mentioned in the introduction to this report, **the financial benefits provided to non-members by the SECU are very substantial. These benefits are available to all citizens of the state of North Carolina**, regardless of whether they are members of the SECU or any other credit union. For this report, I will focus on the sources of three of these benefits. **These benefits are derived from: (1) Cashpoints, (2) competitive pressures on other financial institutions, and (3) The SECU Foundation.** A brief discussion of each of these sources of benefits is provided below.

Cashpoints

The SECU operates a proprietary ATM system called "Cashpoints". There are over 900 *Cashpoints* ATM locations in the state of North Carolina. **The SECU remains one of the few major ATM network operators which will not charge an ATM surcharge fee for usage by non-SECU members.** ATM surcharges in North Carolina currently average a little more than \$2.00 per transaction. With over two million non-SECU member transactions per month on the *Cashpoints* network; **North Carolina financial services consumers save over \$4 million in monthly (\$48 million annually) ATM transaction fees** (SECU 2006).



Competitive pressure

Two recent studies by Feinberg (1998 and 2001) suggest that there is a competitive relationship between commercial banks and credit unions in local consumer lending markets. In these studies strong evidence was found that the **competitive pressures imposed by the presence of credit unions in local markets reduced the rates banks charged on consumer loans.** In general, this reduction in bank loan rates was estimated to be about 10 basis points across all consumer loans. **This is a significant financial benefit for bank customers generated by the presence of credit unions.**

The competitive pressures exerted by the SECU likely result in millions of dollars of financial benefits to the customers of commercial banks in the state of North Carolina (Jackson 2005).

SECU Foundation

The State Employees Credit Union of North Carolina established a 501(c) (3) charitable foundation in 2004. **This Foundation is funded by SECU members through the contribution of \$1.00 per month from SECU members that have checking accounts.** Contributions are voluntary

SECU
FOUNDATION

and over 99% of SECU checking account holders are currently contributing to the SECU Foundation (SECU 2006). **Annual**

contributions exceed \$6 million per year. In its first year of operations, the **SECU Foundation funded a \$10,000 college scholarship at each public high school in North Carolina** (a commitment of over \$3.5 million) **and two \$5,000 scholarships at each of the 58 community colleges in North Carolina** (a commitment of over \$500,000). Additionally, **the SECU Foundation made a \$2 million challenge grant to the Family House at UNC Hospitals in Chapel Hill** to help jumpstart the construction of the respite care facility for families of patients at UNC Hospitals. **Charitable commitments by SECU members to North Carolina projects will exceed \$60 million over the next decade.**

Conclusions

In this report, I provided an estimate of the financial benefits provided by the State Employees Credit Union of North Carolina to its members. And, I also provided a brief discussion of the financial benefits that the SECU provides to all citizens of North Carolina, regardless of whether they are members of the SECU or any other credit union. These **financial benefits provided by the SECU to members, and to non-members, are very substantial. A conservative estimate of these benefits would total over \$200 million annually.**



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