POLICE FEDERAL CREDIT UNION OMAHA

3 Major Differences Between Banks & Credit Unions

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If you've ever wondered about the difference between a credit union and a bank, then rest assured that you're in good company. Because these two types of financial services companies do largely the same things - take deposits and make loans - their differences aren't immediately apparent. However, banks and credit unions **ARE** very different in some key ways.

Below are 3 distinguishing characteristics between the two:

1) Ownership

Banks are corporations owned by shareholders, who, in turn, have voting rights based on the number and type of shares they own. Credit unions are owned by their customers - or "members." Each member, regardless of how much money he or she has on deposit, gets one vote in electing board members. While board members of banks are typically paid for their service, people on a credit union's board volunteer their time.

2) Profits

Banks and credit unions view their ultimate business objectives differently. Banks are in business to make money for their shareholders. They do so by taking a small sliver of capital, leveraging it up by a factor of roughly 10 to 1 or more, and then using the net proceeds from their assets to cover expenses, pay taxes and distribute to shareholders via dividends and share buybacks.

Credit unions are not-for-profit entities. Yes, they borrow money from depositors, and then invest the funds into loans and other types of income-generating assets. However, instead of distributing the net proceeds to their owners, they use the earnings to increase interest rates on members' deposits, and decrease rates on loans made to members.

3) Regulation

Banks are regulated by an alphabet soup of federal and state agencies. There's the Federal Reserve, which is responsible for bank holding companies and banks that want access to its discount window. There's the Federal Deposit Insurance Corporation (FDIC), which overseas banks with federally insured deposits. There's also the Office of the Comptroller of the Currency, which is the primary regulator for nationally chartered banks. In addition to a number of interagency regulatory bodies, there are state banking regulators that oversee state-chartered banks.

Credit unions are regulated by the National Credit Union Administration (NCUA) on the federal level and state agencies on the state level. The NCUA is tasked with operating and managing the National Credit Union Share Insurance Fund, which insures the deposits of more than 98 million account holders in all federal credit unions and the overwhelming majority of state-chartered credit unions.

Source: www.fool.com

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