Which one is better, Banks or Credit Unions?

By Tim C. Lee

From the outside looking in, banks and credit unions can seem to be very similar. They both offer checking, money market, and savings accounts, certificates of deposits (CDs), debit and credit cards, automobile and personal loans, and mortgages. The two even have the convenience of automated teller machines (ATMs) and drive-through teller windows. Despite the fact that banks and credit unions have so much in common in regards to products and services, they are different in many ways.

1) Business Structure. Banks are for-profit institutions that are owned by shareholders who expect a rate of return on their investment. A credit union, on the other hand, is a not-for-profit cooperative that is owned by its customers; which are called members. Generally, anyone can join a bank by making a deposit, but a person has to meet membership requirements to become a member of a credit union. For example, an individual might have to be an employee of a specific company, a family member of an existing member, or of a specific professional organization to be a part of a credit union. In a credit union, your initial deposit makes you part owner and you have a say in the credit union's decision making process. With a bank, you do not.

2) Accessibility. Banks definitely have more ATMs and branch locations than credit unions. This alone can deter someone from joining a credit union. In addition to having fewer locations, credit unions tend to keep shorter business hours and are usually closed on weekends. In an effort to be more accessible to its members, credit unions have joined forces to have a shared branch alliance. Basically, a member of one credit union can conduct their transactions at another credit union's ATM and/or branch location for no service fee.

3) Customer Service. Even though both institutions focus on providing excellent customer service, credit unions usually receive a more favorable response from consumers. Critics claim because banks are for-profit entities, they focus more on making a profit than assuring they are providing good, quality customer service.

4) Deposit Insurance. There are two different agencies that provide deposit insurance to secure your money. The Federal Deposit Insurance Corporation (FDIC) insures deposits at banks and the National Credit Union Administration (NCUA) insures deposits at credit unions. Both agencies insure your deposits up to $250,000.

5) Fees. Credit unions typically have fewer and lower fees than banks when it pertains to ATMs, electronic transactions, overdrafts, and service charges.

6) Interest Rates. Normally, credit union's financing options are less expensive. The annual percentage rate (APR) on credit cards are typically less than a bank, and the interest rates they offer on automobile, mortgage, and personal loans are usually also lower.

7) Rates of Return. On average, credit unions will pay higher rates of return than banks on CDs, checking, money market, and, savings accounts.

8) Technology. Banks tend to be more up-to-date in regards to the latest technology. When it comes to mobile apps, online banking, remote check deposits, etc., credit unions do not compare.

Now that you know the similarities and differences of banks and credit unions, choose the one that is right for you. If you have the ability, do what I did and open an account with both institutions. In my opinion, there are definitely benefits in the two types of organizations. When it pertains to accessibility and technology, you might want to choose a bank, but when it pertains to loan products, always choose credit unions due to the lower interest rates they offer.

Tim C. Lee is the CEO and Founder of TCL Financial & Tax Services and the host of "The TCL Show" that airs every Monday from 6:00 p.m. to 7:00 p.m. CST on WMPR 90.1 FM in Jackson, MS. This is a show that is about "You, Life, and Money". E-mail Tim at timclee@TCLFinancialTaxServices.com.