

Sentinel & Enterprise

Wednesday, March 8, 2023

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MILLENNIAL MONEY

The great value of credit unions

By **Melissa Lambarena**

NerdWallet

In the past year, the Federal Reserve has employed several interest rate hikes in an effort to stabilize the U.S. economy. Depending on your situation and financial institution, your debt may have gotten more expensive or your savings might have grown. As rates continue to change, it's worth exploring whether you're still getting the best offer around.

Compared with big banks, a credit union can offer decent rates for stashing your cash or borrowing money, especially during these economic times.

"For folks who are looking for loans, they can often find a credit union with lower rates because credit unions are willing to spend some of their would-be profits on lower rates," says Andrew Lev-entis, chief economist at the National Credit Union Administration, or NCUA. "That's one way, traditionally, credit unions have helped out their members, particularly in times when you have rising rates and there's more of an urgency to getting the best deal."

Here's what you should know about these not-for-profit cooperative financial institutions and their potential to offer big savings.

How credit unions work

Unlike banks that have shareholders to consider, credit unions return their profits to members like you.

They offer many of the same

products and services that banks do, but those might go by different names. For instance, a checking account may be referred to as a "share draft account." Credit unions may also belong to an ATM network that allows you to perform transactions beyond a specific branch.

Generally, credit unions allow you to join based on where you live, work or worship. Other avenues may include joining through a family member or making a small donation to a charitable partner organization.

"We're required to have a field of membership, so the member coming in to open an account has to provide proof of that affiliation," says Jim Norris, president and CEO of SkyPoint Federal Credit Union, an institution that serves counties in Maryland, Washington, D.C., and Virginia.

There's typically a one-time membership fee to join a credit union, sometimes as low as \$5, which may be used to open a savings account.

How credit union rates compare

Profits at credit unions are returned to members in the form of low fees, better rates on loans and higher rates on savings.

The rates for specific products will vary by credit union. For instance, in the last quarter of 2022, the national average rate for a "classic" credit card was 11.96% at credit unions and 13.34% at banks, according to

data extracted by the NCUA from S&P Global Market Intelligence databases, a provider of financial information services.

And while rates may be lower at credit unions, they can still rise when the Fed makes increases. At SkyPoint Federal Credit Union, rates are automatically adjusted within a month based on Fed rates, Norris says, but there's a limit.

Federal law caps the interest rate on most loans and credit cards at federally chartered credit unions at 15%, although the NCUA can raise that limit temporarily "if interest-rate levels could threaten safety and soundness of individual credit unions," according to an NCUA bulletin. For several years, the NCUA has maintained an 18% cap, extending it through Sept. 10, 2024, this year.

The cap is not affected by the Fed's interest rate hikes, so the limit can be helpful for borrowers with variable interest rates that might exceed that amount. If you tend to carry a balance, it's one way a credit union credit card can lower costs.

Credit unions may also offer higher savings rates than big banks, depending on the account. For instance, in the last quarter of 2022, the national average rate for a five-year certificate of deposit was 2.33%, compared with 1.58% at banks, according to that same data set extracted by the NCUA. You're likely to find higher savings rates at an online bank, but credit union rates make it easy to house accounts under one roof, if that's your preference.

Other credit union perks

Profits are also returned to members through educational programs. SkyPoint Federal Credit Union, for example, works with a credit counseling agency to help members struggling to pay off debts. SkyPoint also offers Banzai, a financial education program for students.

Jayah Kai-samba, a credit union member based in Texas, has also seen many programs offered at his institution.

"They do a good job of educating their consumers, so they are always offering webinars or in-person sessions to do trainings on financial education," he says.

Credit unions may also offer more options to save. SkyPoint Federal Credit Union, for instance, offers savings accounts for different goals including holidays and special occasions.

Kai-samba uses similar options at his credit union to save for specific goals like vacations, home expenses or holidays. He has automatic payments set up to each account from every paycheck.

"I can have it split up separately, and it clearly shows how I'm progressing in each one of those distinct accounts," Kai-samba says.

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