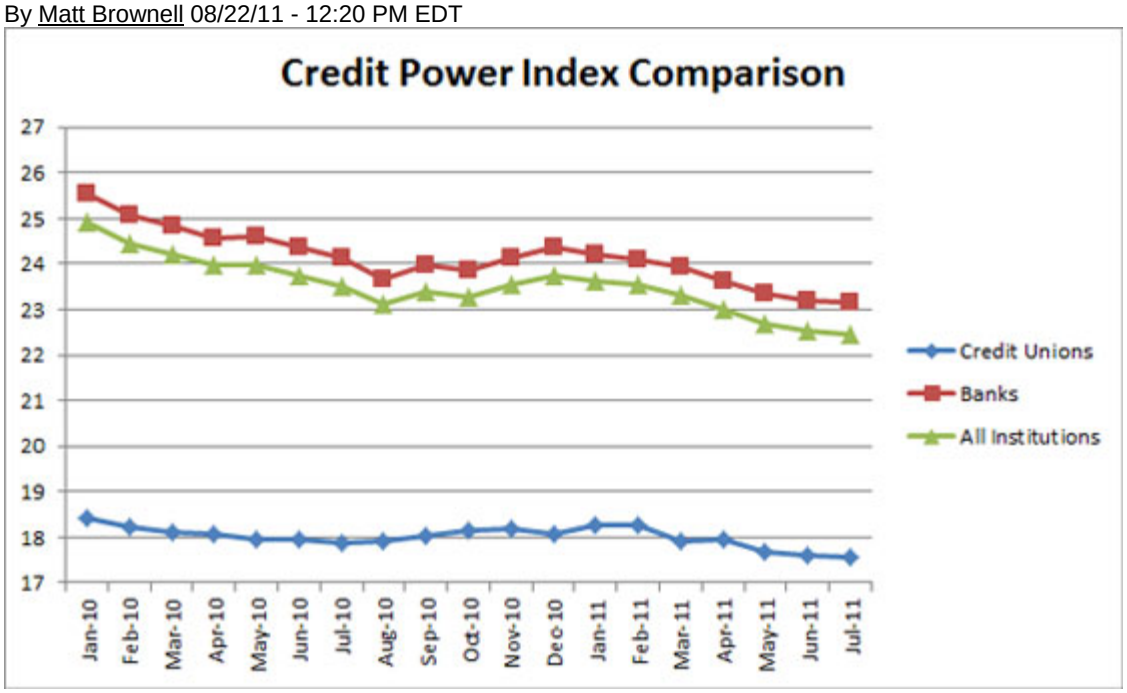
The Street

RateWatch

Consumers Squeezed Less at Credit Unions

By Matt Brownell 08/22/11 - 12:20 PM EDT



NEW YORK (MainStreet) -- The Great Recession hasn't made things easy for bank customers. Across the street at the credit union, it's a bit more comfortable.

Federal Reserve policy drove down loan rates in the recession to spur investment and consumer spending. But deposit rates plummeted even more quickly, resulting in a net deterioration of the interest rate climate for consumers. In the years since the height of the recession, the rate climate -- as measured by our Credit Power Index -- has improved in fits and starts, but has yet to recover to pre-recession levels.

If you look only at credit unions, though, the numbers tell a different story. Our Credit Power Index figure for credit unions at the end of July was just 17.55, nearly five points lower than the national average and more than five and a half points better for consumers than the interest rate climate found at banks. It's no wonder these nonprofit institutions have seen their numbers swell since the recession as Americans seek out better rates.

While credit unions have not been immune from a falling interest rate climate, their members are getting much better rates than bank customers are. For instance, the average interest rate on the 12-month certificate of deposit declined from 4% in January 2007 to just 0.47% at

the end of July. While the subset of banks are in line with that national average, the same product at a credit union offers a 0.73% return -- nothing mind-blowing, but still more than 55% higher than the national average for banks. Indeed, credit unions beat banks on deposit rates across the board.

Banks actually have an advantage when it comes to mortgage rates, charging a 3.32% APR on 60-month adjustable rate mortgages to the credit unions' 3.77%. (When we compared the two institution types on fixed mortgages in December we found a statistical dead heat, though some experts argued that credit unions have an advantage in that they tend to charge lower fees.) But credit unions won on the other loan rates used in calculating the Credit Power Index, including personal unsecured loans (charging 10.49%, to 12.54% at banks), 36-month home equity loans (5.61% at credit unions, 6.75% at banks) and 48-month new auto loans (3.68% at credit unions, 4.72% at banks).

The Credit Power Index measures the spread between the cost of borrowing and the benefits of saving by looking at the difference between CD rates at four terms and the rates of four popular loan products at the same terms; the higher the index, the worse things are for consumers. The index peaked at 25.46 in May 2009, and while plummeting loan rates have precipitated some recovery, rock-bottom deposit rates have prevented a full rebound to pre-recession levels. As of the end of July, the index stood at 22.44, a small improvement from 22.51 the preceding month.
As with other economic indicators, things have gotten better, but we're not quite where we were before the economy turned sour.

While credit union members are enjoying the benefits of superior rates, the overall interest rate climate slowed its overall improvement. The national index improved just seven basis points during the preceding month -- a step in the right direction to be sure, but not as significant as the leaps and bounds we've seen in previous months.

"The decline is leveling off," RateWatch general manager Rachelle Zorn says. "During June it dropped by seven basis points, slowing for the second straight month."

As in recent months, deposit rates continued to creep slowly downward, but loan rates saw only modest improvement, with home equity loans staying put and interest rates on auto loans dropping a mere two basis points. Only ARMs saw an appreciable improvement, dropping seven points to settle at 3.34%.

Bank rate watchers may have thought that loan rates hit rock bottom, but the impact of the Fed's recent commitment to keep interest rates low could make rates fall even further, which is good news for anyone needing to borrow a little cash but perhaps not-so-good news for anyone looking to make money on their savings.