Credit Unions vs. Banks:
Are Credit Unions Better Than Banks?

Although credit unions and traditional banks are financial institutions that offer similar products and services (e.g., loans, checking accounts, etc.), there are still plenty of differences between credit unions and banks. For starters, it is crucial to understand that banks operate for profit, and anyone can conduct business with them. Credit unions, on the other hand, are nonprofit and offer their services only to their member-owners, so their operational model is totally different.

Credit Unions

The primary reason that many consumers feel that credit unions are better than banks is that credit unions are not for profit institutions that pay higher rates on savings accounts and charge lower rates on loans. Fees are generally lower in credit unions as well.

While some credit unions serve only certain groups – such as teachers, union workers or employees of a certain company, other credit unions have much broader criteria for new members.
People often ask, are credit unions safer than banks?

Deposits at both banks and credit unions are insured by the federal government up to $250,000. Whereas banks are protected by the FDIC (Federal Deposit Insurance Corp), credit union deposits are protected by the NCUA (National Credit Union Administrations). Each depositor is covered for up to $250,000.

Banks

When comparing credit unions vs. banks, it's helpful to learn a bit about the history and purpose of banks, including the fact that they were started by merchants to hand out loans in the form of grain to traders and farmers. The current Bank of New York came into being in 1784.

Banks are almost always for-profit institutions, and while they tend to offer competitive, low-interest rates for loans, they almost always have higher fees than credit unions.

Perhaps the biggest difference between banks and credit unions is that there is usually no restriction on who can get services from a bank, whereas most credit unions have membership requirements to join.

Which brings us back to the question — are credit unions safer than banks? They are both safe, because deposits at both institutions are federally insured.

Differences Between Credit Unions & Banks

So what is the difference between a bank and a credit union?

People who are allowed to open an account at credit unions are referred to as members, whereas bank account holders are called customers.

Since credit unions are member-driven and not for profit, members receive higher interest rates on savings, lower rates on loans and lower fees.

On the other hand, profits made by banks are only distributed among their shareholders, meaning that the money banks make isn't returned to the people they make it from.

This tends to make credit unions more attractive than banks, on the whole, as loans cost less, and savings accounts earn more, but the catch to credit unions is that you must satisfy their membership eligibility requirements to become a member.

Finally, to date, no credit union has ever needed to be bailed out using taxpayer money. In contrast, plenty of banks in the history of the United States have failed and required FDIC oversight.

Similarities Between Credit Unions & Banks

Despite the many apparent differences, there is also a multitude of similarities between banks and credit unions.

For starters, both institutions offer savings accounts, personal loans, auto loans, mortgages and checking accounts.

Both institutions provide services for individuals, and many provide businesses banking as well.

And above all, no matter where your money lies, you have insurance coverage for up to $250,000 by the federal government.

Both banks and credit unions are also subjected to similar laws and agencies regarding mortgages, loans, and safety. Ultimately, the customer experience they offer can be very different.