

# Banks, credit unions find room to grow in Rochester

Still, these institutions compete for market share, customers

By MIKE COSTANZA

**B**anks and credit unions continue to vie for customers on a playing field that bankers say is tilted in favor of credit unions. Still, the Rochester market is big enough for everyone, these financial services providers agree.

“We have seen no reason to believe that the presence of credit unions is a bad thing whatsoever,” says Frank Hamlin III, president and CEO of Canandaigua National Bank & Trust Co.

Credit unions have continued to strengthen their presence in the market.

“You’ve seen most of the credit unions grow at a decent rate here in Rochester, and remain relatively strong,” says Jeff Bocach, president and CEO of Advantage Federal Credit Union.

Certainly, data from such institutions supports the idea that there has been room for growth in recent years. CNB has \$2.1 billion in total assets—up from \$1.5 billion in 2009. Advantage FCU’s assets have tripled in size over the past 10 years, to about \$220 million.

“The credit unions enjoy a lot of privileges, such as tax-exempt status, because of how they were chartered and set up,” says John Hall, a spokesperson for the American Bankers Association.

Like non-profits, credit unions do not have to pay federal or New York State taxes. The financial cooperatives were originally created by those who could not obtain loans and other financial services from banks—shopkeepers, farmers, urban workers and the like. In essence, their members pooled their savings and made the funds available to each other for loans or other purposes. Nowadays, the institutions provide most of the financial services that are available from banks.

Roger Haskins, marketing manager for Family First Federal Credit Union, says his institution offers some similar products and



Photo by Kimberly McKinzie

**“You’ve seen most of the credit unions grow at a decent rate here in Rochester, and remain relatively strong,” says Jeff Bocach, president and CEO of Advantage Federal Credit Union.**

services as banks, including checking and savings accounts, mortgage, student and auto loans and credit cards.

There are several important differences, however. Unlike a bank, a credit union must be chartered to serve a specific group—such as the employees of a firm, those working in a given occupation, or the people who live in a defined geographic area. Advantage’s members, for example, include those employed by some of the area’s health care systems and educational organizations.

“The largest are the (Rochester) City School District, the University of Rochester—which includes the medical center—RIT, Highland Hospital,” Bocach says.

Advantage also serves those who live, work, worship or attend school in a geographic area that encompasses most of Rochester, but lacks all of the financial services that the people living there need. Family First’s charter, on the other hand,

does not limit its coverage to specific companies or organizations.

“Our eligibility for membership is anyone that lives, works, shops, goes to school or worships east of the Genesee in Monroe County and (on) the west side of Wayne County,” Haskins says.

Those joining credit unions tend to have less in the way of financial resources. More than half of credit union members who rely on the institutions for financial services have incomes between \$25,000 and \$75,000, according to Ron McLean, a senior vice president at the Credit Union Association of New York.

The institutions also handle their profits differently than banks.

“A key distinguishing characteristic between credit unions and banks is that the beneficiaries of credit unions are the members that they serve, while the beneficiaries of banks are their shareholders,” McLean says.

“Any excess profits they earn are redirected back to all members in the form of lower loan interest rates and higher savings yields.”

The institutions pay dividends to their members as well, according to Haskins, while offering what is considered to be a more community-centered approach to financial dealings.

“In a culture where buying local, shopping local is increasingly important, this is just another example of that,” Haskins asserts. “People can do their banking locally and keep those funds reinvested in their neighborhood.”

While such differences might affect the competition between banks and credit unions, bankers focus on the latter’s tax-exempt status in particular.

“They are not playing on the same field,” Hamlin says. “Last year, Canandaigua (National Bank) paid about \$9 million in taxes—state and federal.”

Though local bankers say credit union’s tax statuses do not pose serious threats to their own institutions’ bottom lines, they admit that it has helped their competitors in some ways, like in the mortgage field.

“When I have to compete with mortgages ... I price against Pittsford Federal Credit Union, I price against ESL (Federal Credit Union),” says Fairport Savings Bank president and CEO Dana Gavenda.

In addition to giving credit unions a tactical advantage, the tax exemption costs the community, according to Hamlin.

“That’s taxes that everyone else has to pay on their behalf,” he says.

Perhaps most rankling for local bankers, the tax exemption no longer appears warranted—at least in their eyes. For starters, local community banks serve the same types of populations as credit unions were originally created to serve.

“Community banks serve a greater number of low-income individuals, a greater number of middle-income individuals, and a smaller amount of high-wealth individuals,” Hamlin asserts.

Bankers insist that credit unions offer their services at rates comparable to those of their institutions—despite having to pay less in taxes.

“I will challenge you ... to go out and do a rate survey and see that the credit unions are providing the highest rates on deposits and the lowest rates on loans,” Gavenda says. “They’re not.”

Finally, local banks can provide the per-



Photo by Kimberly McKinzie

**“When I have to compete with mortgages ... I price against Pittsford Federal Credit Union, I price against ESL (Federal Credit Union),” says Fairport Savings Bank president and CEO Dana Gavenda.**

sonal and community-oriented touches that credit unions purport to offer to their customers.

“I’m still focused mostly on doing business with people,” Gavenda says.

In sum, though credit unions present themselves to their customers as different from banks, local bankers claim they really are not—and should be taxed accordingly.

“If it walks like a bank, it talks like a bank, it should be taxed like a bank,” Hamlin says.

Those running local credit unions dispute bankers’ assertions regarding their businesses and the tax exemptions. Credit unions do pay some types of taxes.

“We do not pay state or federal income tax, but we do pay property and payroll taxes,” Bocach says. “All paid staff pay regular state and federal income taxes.”

In addition, the tax exemption might not confer as much of an advantage as local bankers think. While Haskins says Family First has experienced a steady growth trajectory in recent years, he does not ascribe that growth to just one factor.

“I wouldn’t look at all of the success we’ve been having, and attribute it solely to a tax exemption,” he says.

Credit unions sometimes can be at a disadvantage in comparison to banks. While they can serve large geographic areas, they are still much more limited than banks in terms of the people they can accept as customers.

“When somebody comes in here, we have to figure out how they qualify,” Haskins says. “Or maybe they don’t qualify, and we turn them away.”

Credit unions are also restricted in terms of the loans they can make, and the other ways they can make money. Business lending is capped at 12.25 percent of total assets, and the institutions cannot raise money by selling stock. At the same time, credit unions make what their officers consider to be a more beneficial use of their institutions’ profits than banks.

“Instead of paying dividends back to corporate shareholders—which could be anywhere—we are investing back in the people that own us, which are our neighbors, our community members,” Haskins explains.

Finally, leaders at credit unions say that the public—not the banks with which they compete—is the final judge of how well they are doing their jobs.

“We certainly feel like we are doing things well enough to provide a viable option,” Haskins says.

Bocach, when asked about bankers’ assertions that credit unions have an unfair competitive advantage, adopts a slightly challenging tone.

“My initial response is: Then why aren’t those banks applying for credit union charters?” he says.

*Mike Costanza is a Rochester-area freelance writer.*